YY SPORTS 胜道

Annual Report 2010 年報

POU SHENG INTERNATIONAL (HOLDINGS) LIMITED

寶勝國際（控股）有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code：3813)

OUR MISSION

Short Term

Transforming from an acceptable player to a competitive winner

Long Term

To be the STRONGEST and most INNOVATIVE multi-channel national retailer in sports inspired / lifestyle industry – the customers' No 1 choice and the brand's best partner in China

CONTENTS

CORPORATE OVERVIEW

THE GROUP'S FINANCIAL HIGHLIGHTS

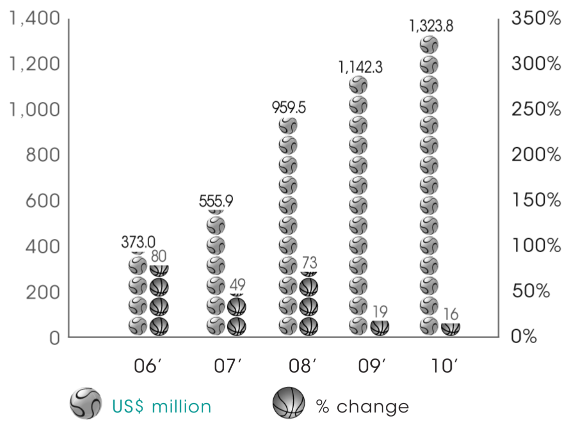
	For the year ended September 30, 2010	2009	Percentage increase
Revenue *(US$'000)*	1,323,845	1,142,293	15.9%
Operating profit (loss) *(US$'000)*	43,528	(8,046)	–
Profit (loss) attributable to owners of the Company *(US$'000)*	21,287	(3,696)	–
Basic earnings (loss) per share *(US Cent)*	0.5	(0.1)	–

KEY SHAREHOLDER VALUE INDICES

Revenue

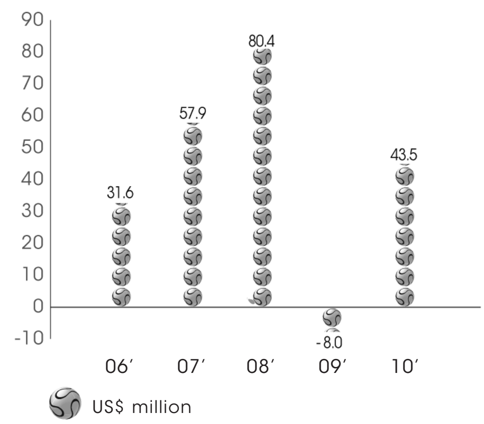
US$ million

% change



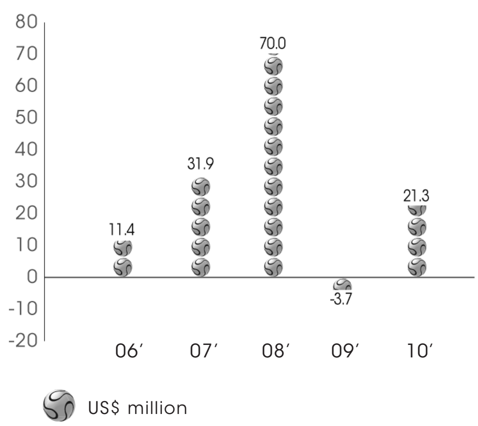
Operating Profit (Loss)

US$ million



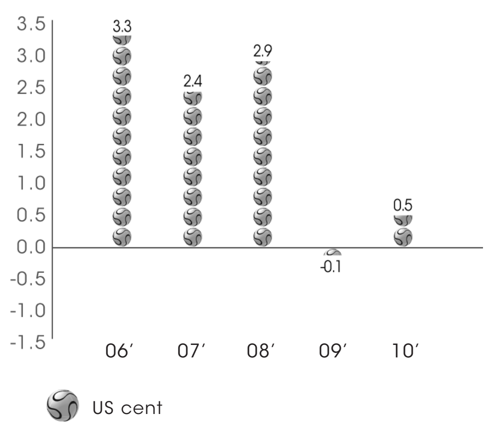
Profit (Loss) Attributable to Owners of the Company

US$ million



Basic Earnings (Loss) Per Share

US cent



CORPORATE INFORMATION

DIRECTORS

Non-Executive Directors
Tsai David, Nai Fung *(Chairman)*
Tsai Patty, Pei Chun[1]
Kuo, Li-Lien[3]

Executive Director
Chang Karen Yi-Fen *(Chief Executive Officer)*

Independent Non-Executive Directors
Chen Huan-Chung[3]
Hu Sheng-Yih[3, 4]
Mak Kin Kwong[1, 2]
Cheng Ming Fun Paul[1]

Notes:
1 Member of Audit Committee
2 Chairman of Audit Committee
3 Member of Remuneration Committee
4 Chairman of Remuneration Committee

COMPANY SECRETARY

Ng Lok Ming

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

Suites 3106-09, 31/F., Tower 6
The Gateway, 9 Canton Road
Tsim Sha Tsui, Kowloon
Hong Kong

STOCK CODE

3813 HK

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

SOLICITOR

Reed Smith Richards Butler

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
CITIC Bank International Limited
First Sino Bank
Hang Seng Bank Limited

WEBSITE ADDRESS

www.pousheng.com

CHAIRMAN'S STATEMENT

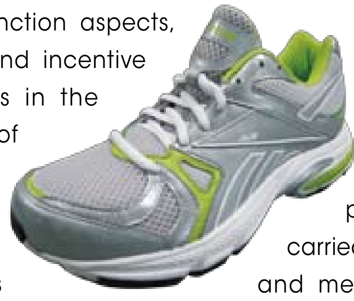
On behalf of the board (the "Board") of directors (the "Directors") of Pou Sheng International (Holdings) Limited (the "Company" or "Pou Sheng"), I hereby present the audited annual results for the year ended September 30, 2010 (the "Year under Review") to the shareholders of the Company.

Having experienced the financial tsunami, governments of the world implemented stimulus measures, thus, the global condition and trend gradually recovered. The overall economic performance of Mainland China was outstanding, with a comparable growth of 10.6% during the first three quarters in 2010 as shown in the information provided by National Bureau of Statistics of China, which encouraged the household consumption expenditure and confidence to increase and was favorable for the development of the sportswear retailing industry. During the year, with the industry condition getting back on the right track and the adjustment on the nature of the Group's operation, Pou Sheng made an improvement from last year in its performance, which recorded revenue of US$1,323.8 million, representing an increase of 15.9% as compared with last year, while an operating profit of US$43.5 million in the current year from an operating loss of US$8.0 million. Given the continuous enhancement and improvement in the nature of our operation, we turned from loss in last year to profit and finally recorded a net profit of US$20.2 million.

Ms. Chang Karen Yi-Fen was appointed as the Chief Executive Officer in January, 2010 and carried out reviews on the business flow and operational issues by adopting the principles of digital and instantaneity management. Over the past year, various indicators of the retail business reappeared respective competitive strengths, such as comparables of individual stores, comparables on the sales of inventory, the aging structure of inventory, etc. For long term development, the Group had made great efforts in promoting resource integration and corporate restructure, which aimed at maintaining the quality and quantity of the brands not only in terms of the operation department, but also channel deployment, product procurement, store operation and service level. Besides, the Group devoted itself to getting familiar

CHAIRMAN'S STATEMENT

with the industry trend and becoming a strong support for the business segments on personnel, information and key financial function aspects, for example, the remuneration and incentive systems with competitive edges in the industry and the development of more forward-looking information systems, in order to obtain instant information on sales and conduct analysis on the changes in market and the consumer's needs. The above adjustments helped to solidify the foundation for the development of Pou Sheng in 2011 and afterwards.

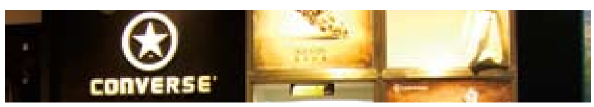


Over the past year, not only the retail business benefited by the operations directions, brand licensee business also made an improvement and a breakthrough. We signed a formal cooperation agreement with Reebok in mid 2010, pursuant that both parties jointly developed the business in the PRC in a "China-centred" view, which shortened the delivery period of products and the launch of new arrivals through domestic design and production of sportswear products. It was believed that the development of this business segment would allow the Group to further create a niche in licensee and wholesale operations.

From different indicators on economic information, we are optimistic about the economic development for the coming year. Besides, we will expand in services and domestic needs from manufacturing and external sales from the past more rapidly under the principle of the twelve five-year plan carried out by the government, which is positive and meaningful for the market of sports and lifestyle-based product industry with the urbanization on rural population. Through keeping on making adjustments in the past, the Group expects to have more progressive strategies on development and achievements in the coming year and the operation and management team will focus on the followings:

- To implement the expansion of channels and profit optimization by bringing out innovative thoughts and methods and to position itself as a leading role in the market in the existing advantaged regions; on the other hand, to create an appropriate profitable model through divergence in less advantaged regions.

- To continue the establishment of corporate and culture and to show the performance of the operation team with executive ability to achieve better results.



- To strengthen the cooperation relationship with retail brands and jointly expand and operate in the western region and other cities (other than first to third-tier cities), which will bring about a win-win situation with the brands.

- To continue the expansion in brand licensee business and strive for becoming the best partner for international brands that intend to hit the Chinese market through the resource integration and a solid rear support system of the Group.

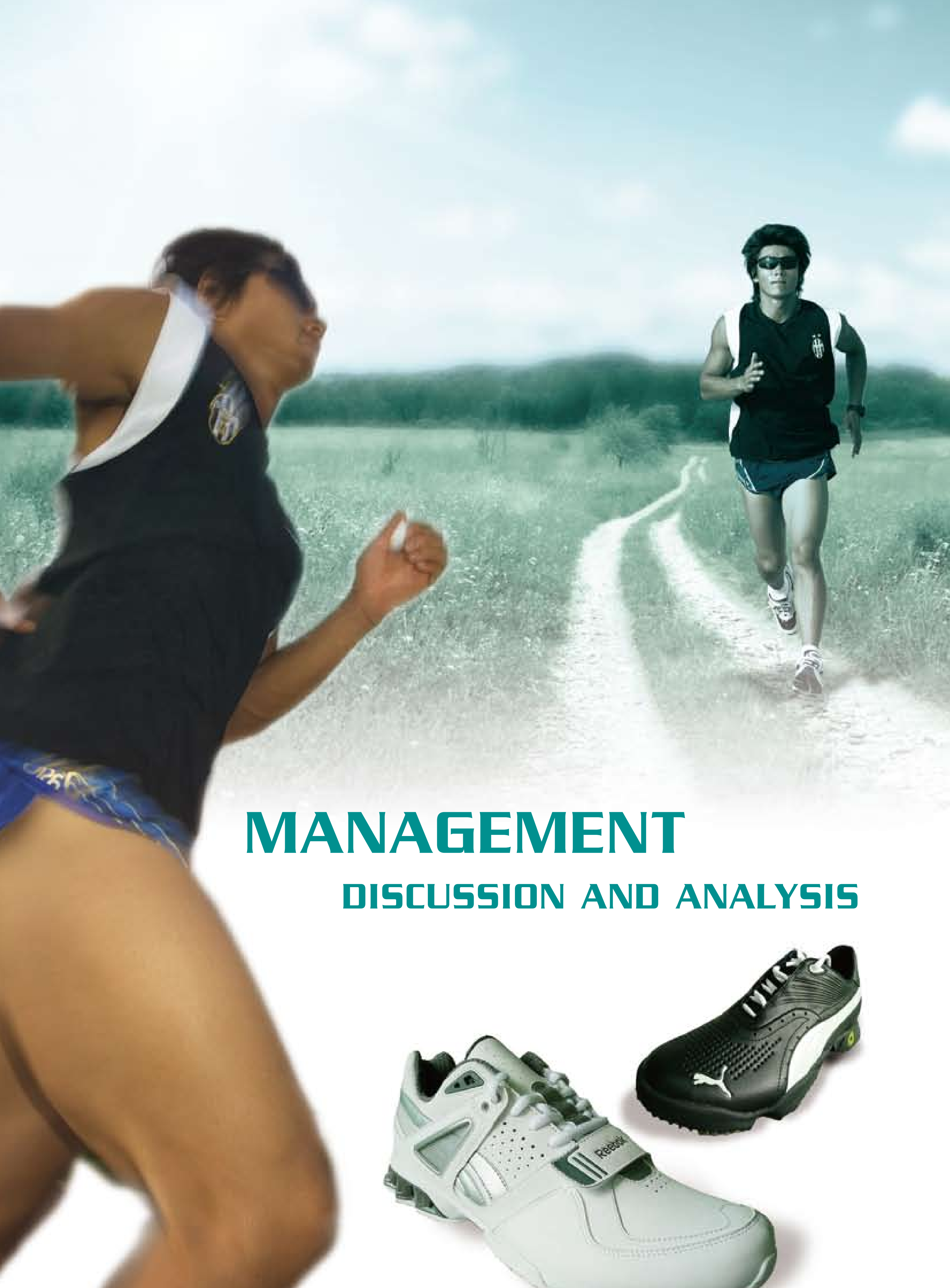
- To continue to improve the producing capability and efficiency of Taicang factory, reinforce the strategic partner relationship with our brand customers, and assess a suitable location and make investment in constructing a new production base, in order to provide a complete development and production service for the brands.

We are confident about the potential of the sports and lifestyle-based product in the PRC market. Currently, the Group has the most extensive retail coverage and will have a thorough expansion by geographical locations. In addition, we will continue to develop our brand licensee business by integrating internal resources, that is to unify the three major business segments, namely licensee, retail and manufacture, in order to maximize the core value of the Group and remain its leading position in sports and lifestyle-based product retailing in the PRC market.

In the end, I would like to express my appreciation to all shareholders, business partners and financial institutions for their great and sustained supports, and to extend my sincere appreciation to the management team and all staff for their efforts in last year. Facing new opportunities and challenges in the future, I expect to create fruitful achievements hand in hand.

TSAI David, Nai Fung
Chairman

January 19, 2011



MANAGEMENT
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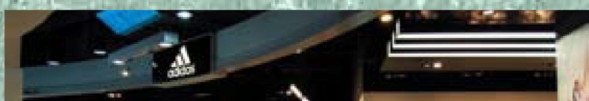
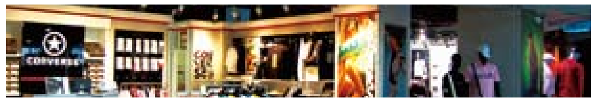


BUSINESS OVERVIEW

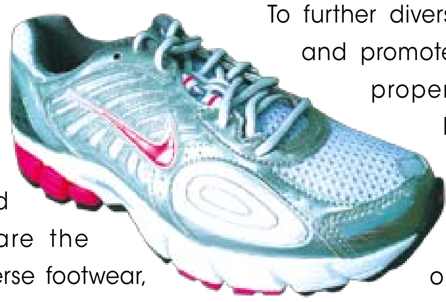
For each of our businesses, the retail business distributes a wide range of sportswear products, including various footwear, apparel and accessories, for certain leading international and domestic sportswear brands to end customers through our directly operated retail outlets, and also to retail sub-distributors on a wholesale basis, which in turn sell the products through their retail outlets under our supervision. As part of our strategy to enrich our retail network, brand portfolio and geographic coverage, we have established regional joint ventures in different regions in the PRC with leading local retailer in the past years. Those regional joint ventures operate their retail business under a model similar to ours. As at September 30, 2010, we had 2,295 directly operated retail outlets, and 2,829 retail sub-distributors, and our regional joint ventures' directly operated retail outlets and retail sub-distributors amounted to 1,661 and 1,389 respectively (as the Group and relevant joint venture partners had entered into agreements in relation to the disposal of the interests in three regional joint ventures, namely Hubei Jiezhixing Clothing and Accessories Company Limited ("Hubei Jiezhixing"), Zhejiang Jinguan Enterprises Development Company Limited ("Zhejiang Jinguan") and Harbin Shenge Sports Chain Company Limited ("Harbin Shenge"), and the transaction were completed during the fiscal year, the number of outlet operated

MANAGEMENT DISCUSSION AND ANALYSIS



by the aforementioned regional joint ventures had been excluded from the information of existing joint ventures). The operations of the Group and our other regional joint ventures have spanned over most of the provinces in the PRC.

For our brand licensee business, we are the exclusive brand licensee for selected international brands, namely Converse, Wolverine and Hush Puppies. The brand licensee agreements we have entered into typically grant us rights to design, develop, manufacture, market and distribute, and the flexibility to set retail prices of products under the licensed brands in specified geographical locations within the Greater China Region for a specified period of time. Currently, we are the exclusive brand licensee for Converse footwear, apparel and accessories in Hong Kong and Macau until December 31,2010 and in Taiwan until December 31, 2012. The Group and the licensor have orally agreed to renew the licensee arrangement for Converse in Hong Kong and Macau for extending two years to December 31, 2012 and anticipated that the procedure will be completed in late January or early February 2011. Since our exclusive brand licensee arrangement with Converse in the PRC has expired on December 31, 2008, starting from January 1, 2009, we become the exclusive distributor of Converse's products in the PRC until December 31, 2011. During the fiscal year, the Group signed an agreement with Reebok, an international brand, pursuant to which the Group will become the exclusive brand licensee for Reebok products in the PRC from January 1, 2011 to December 31, 2015.



In addition, we manufacture OEM/ODM products for various brands at our Taicang factory, namely Li Ning, ANTA, Umbro, Kappa, 361°, Lotto and XTEP.

To further diversify the types of retail channels and promote our "YY Sports" branding, our property leasing and management business has a dedicated unit that searches for and leases retail stores at "sports complex" which contains multiple brands' outlets in one single location. These sports complexes are decorated with the full "YY Sports Store" concept which are then sub-divided and leased to the Group's retail business team or third parties.

For the joint venture business, as part of the long-term plan to expand the Group's retail market, regional coverage and to diversify agency brands, the Group had established joint ventures with several regional joint ventures and continued the business, financial management and system integration with these companies. We may decide to acquire the remaining equity interests of these joint ventures when the integration progress becomes mature under a favorable market condition to enable us to become one of the leading retailers in the Greater China Region.

In addition to the continuous integration of Dalian Dongzhijie Sports Production Development Company Limited ("DZJ") (an associate acquired by the Group last year) frontline business, brand relationship, back-end networks and systems and so on, on August 6, 2010, the Group entered into an Equity Transfer Agreement with its joint venture partners in another regional joint venture, Zhejiang Yichuan Sports Goods Chain Company Limited ("Zhejiang Yichuan"), under which the Group would acquire the remaining 50% equity interest in Zhejiang Yichuan from the joint venture partners. Details of the acquisition are disclosed in the announcement of the Company dated August 6, 2010. The transaction was completed in October 2010, Zhejiang Yichuan has become a wholly owned subsidiary of the Group since then and a series of integration tasks have since commenced. In short, given the integration with its acquisition target, the Group believed that it will be able to achieve its goal to become a leading retailer in the Greater China region gradually.

Besides, for the entire interest and the long-term development of the Group, the Group in the integration process of joint venture companies, will keep negotiating with certain joint venture partners in respect of the disposal of the Group's interest in several joint ventures. During the year, the Group recognized the loss on disposals, which was of non-cash and non-recurring in nature, of three joint ventures and made appropriate provision for the loss arising from the anticipated disposals of certain joint ventures after the end of reporting date. (the Group should have made announcements dated March 11, 2010 and August 12, 2010 respectively in relation to the aforementioned disposals that were in compliance with the announcement requirement of the Hong Kong Stock Exchange).

FINANCIAL REVIEW

For the fiscal year ended September 30, 2010, the Group recorded revenue of US$1,323.8 million, representing an increase of 15.9% as compared with the previous year, while net profit attributable to owners of the Company was US$21.3 million (the profit attributable to owners of the Company reflected an aggregate of US$16.6 million non-recurrent items of loss on disposals of jointly controlled entities, gain on disposals/deregistration of subsidiaries, provision for impairment loss of

MANAGEMENT DISCUSSION AND ANALYSIS

assets and fair value changes on derivative financial instruments).

While the operation of the Group's business was getting more stable, the overall performance of the regional joint ventures indicated a slowdown as compared with that in the past. Excluding the effect bought by the acquisition and the termination of investment in regional joint ventures, each of the remaining regional joint ventures was affected by its owned operating model and the pace of adjustment that was lagged behind, hence resulting a weaker performance as compared with that in the past. For the fiscal year ended September 30, 2010, regional joint ventures contributed a total of US$10.7 million to the net profit, representing a decrease of 64.7% as compared with the fiscal year ended September 30, 2009. In this regard, the Group discussed with the joint venture partners on operation improvement and reviewed the direction and structure for the investment of joint ventures in order to increase its earnings.

Based on the foregoing, with the initial recovery in the industry, we persisted in strengthening our profitability by continuously focusing on our business nature, for example to improve operation excellence by rationalizing outlets distribution, optimizing inventory level and improving in-line products sell-through. We believe these will eventually create our long term sustainable core competence, hence our margin would be improved and our leading position in the market would be consolidated.

REVENUE

Our revenue increased by 15.9% to US$1,323.8 million for the fiscal year ended September 30, 2010 from US$1,142.3 million for the fiscal year ended September 30, 2009. This increase was primarily due to the continuing growth in our retail, manufacturing and property leasing businesses, including revenue generate after the acquisition of the entire equity interest in DZJ. Excluding such acquisition (ie. excluding the revenue of DZJ in the comparison of both fiscal periods), the Group's revenue for the fiscal year ended September 30, 2010 would have been US$1,084.4 million, representing an increase of 0.4% as compared with US$1,080.4 million for the fiscal year ended September 30, 2009.

Retail Business

Revenue from our retail business increased by 19.5% to US$1,140.9 million for the fiscal year ended September 30, 2010, from US$954.9 million for the fiscal year ended September 30, 2009. This increase was primarily attributable to the acquisition of DZJ, and the reclassification of sales of Converse in the PRC as retail business.

Brand Licensee Business

Revenue from our brand licensee business decreased by 26.1% to US$44.8 million for the fiscal year ended September 30, 2010, from US$60.6 million for the fiscal year ended September 30, 2009, which was primarily due to the expiry of our exclusive brand licensee arrangement with Converse in the PRC on December 31, 2008, and such sales have been reclassified as retail business since January 1, 2009.

Manufacturing Business

Revenue growth from our manufacturing business remained stable, from US$120.5 million for the fiscal year ended September 30, 2009 to US$128.8 million for the fiscal year ended September 30, 2010. The production lines in this fiscal year are 21 while there were 19 in 2009. The capacity utilization rate reached a full-blown status and the average selling price remained stable.

Property Leasing and Management Business

As the environment in which our outlets operated became more mature and the results of the same business under DZJ had been wholly consolidated to the Group's during the year, the revenue from the property leasing and management business of the Group for the fiscal year ended September 30, 2010 increased US$3.1 million to US$9.3 million from US$6.2 million for the fiscal year ended September 30, 2009.

COST OF SALES

Our cost of sales was US$926.8 million for the fiscal year ended September 30, 2010, compared with US$788.8 million for the fiscal year ended September 30, 2009, representing an increase of 17.5%, a higher increase than that of the revenue. This was primarily due to higher markdowns of our products in order to increase the sales and liquidate excessive inventory during the first half of the fiscal year under the prime objectives of optimizing operation management and inventory turnover, which had been gradually improved in the second half of the fiscal year.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the aforementioned changes, the Group's gross profit increased by 12.3% to US$397.1 million for the fiscal year ended September 30, 2010, from US$353.5 million for the fiscal year ended September 30, 2009, while the overall gross profit margin decreased to 30.0% for the fiscal year ended September 30, 2010 as compared with 30.9% for the fiscal year ended September 30, 2009. The decrease in gross profit margin was primarily due to the increased proportion of the lower gross profit margin of the wholesale business in the retail business. In addition, the sales of Converse in the PRC transited into our retail business as exclusive wholesaler, the gross profit margin under which was lower than that under brand licensee business. The gross profit margin of the manufacturing business decreased slightly due to the increase in part of the labor cost and material cost. Hence, the Group had been working hard for solutions, in order to minimize the impact on the rising costs caused by the economic growth of the PRC.

SELLING AND DISTRIBUTION EXPENSES AND ADMINISTRATIVE EXPENSES

Selling and distribution expenses and administrative expenses of the Group for the fiscal year ended September 30, 2010 were US$368.6 million in total, representing an US$7.4 million, or 2.0% decrease, as compared with US$376.0 million for the fiscal year ended September 30, 2009. The Group aimed at rationalizing its operating costs and with a larger proportion of wholesale business, the operating leverage over economy of scale, the percentage of sales under selling and distribution expenses and administrative expenses has decreased from 32.9% for the fiscal year 2009 to 27.8% for the current period. However, because of the termination of the Pre-IPO Share Subscription Plan in the last fiscal year, the balance of the fair value of the subscription right approximately US$12.5 million was recognized as an administrative expense. If excluding such one-off expenses, the expenses absolute amount in the current year still increased which was mainly attributable to: (i) the increase in sales and number of directly operated retail outlets that caused the increase in staffs costs and rental expenses as a result of acquisition of DZJ; (ii) more frequent promotions and mega sales organized for the fiscal year under the objective of continuously inventory adjustment in retail business, which increased the shopping mall expenses; (iii)

MANAGEMENT DISCUSSION AND ANALYSIS

the amortisation of intangible assets arising from the acquisition of DZJ; and (iv) the increase in research and development expenses from the manufacturing business.

OPERATING PROFIT

To sum up the above, the Group's operating profit for the fiscal year ended September 30, 2010 was US$43.5 million, as compared with operating loss of US$8.0 million for the fiscal year ended September 30, 2009. In addition to the overall improvement in the operating environment in the market, the increase in operating profit was also attributable to operating leverage and the improvement in inventory structure.

LOSS ON DISPOSALS OF JOINTLY CONTROLLED ENTITIES

For the fiscal year ended September 30, 2010, the Group recognized a loss of US$8.2 million arising from the disposal of its entire interests in three jointly controlled entities, Hubei Jiezhixing, Zhejiang Jinguan and Harbin Shenge, details of which should have been disclosed in the announcements dated March 11, 2010 and August 12, 2010 respectively made by the Company if the relevant disposals were in compliance with the announcement requirement of the Hong Kong Stock Exchange, and an impairment provision was made in the income statement announced in the quarterly report previously during the period. As the transaction was completed during the fiscal year, the Group recognized the actual loss and reclassified the impairment losses incurred in the year as loss on disposals of jointly controlled entities.

IMPAIRMENT LOSSES OF INTERESTS IN JOINT VENTURES

In order to achieve long-term benefit and strategic deployment, the Group will continue to conduct a review on the investment in regional joint ventures. In addition to the acquisition of the remaining equity interests in some joint ventures at a suitable time, we may also consider disposing of our interests in certain joint ventures. The Group is currently negotiating with several joint venture partners in relation to this. During the year, the impairment losses of approximately US$3.0 million were recognized in respect of the Group's interests in certain joint ventures due to the expected losses arising from our anticipated disposals after the end of the reporting period, of which the amounts were expected to be a non-cash and non-recurring in nature.

FAIR VALUE CHANGES ON DERIVATIVE FINANCIAL INSTRUMENTS

Fair value changes on derivative financial instruments were US$6.4 million for the fiscal year ended September 30, 2010, as compared with US$4.4 million for the fiscal year ended September 30, 2009. Assuming that the basic factors used in assessing the value of derivative financial instruments remained constant, the Group expected that the value of derivative financial instruments would decrease year by year due to the shortened remaining years for the exercise of the call options under the relevant Call Options agreements.

INTEREST EXPENSES ON BANK BORROWINGS WHOLLY REPAYABLE WITHIN FIVE YEARS

Our interest expenses on bank borrowings wholly repayable within five years were US$11.5 million for the fiscal year ended September 30, 2010, representing a decrease of 26.3% from US$15.6 million for the fiscal year ended September 30, 2009, primarily as a result of a combination effect of decrease in the amount of the average monthly outstanding borrowings and the floating interest rates thereof remained stable during the period.

SHARE OF RESULTS OF ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Our share of results of associates and jointly controlled entities decreased to US$10.7 million for the fiscal year ended September 30, 2010, from US$30.3 million for the fiscal year ended September 30, 2009. This was mainly because (1) DZJ became the wholly-owned subsidiary of the Group since July, 2009, the financial results of which were consolidated into the Group's, while the Group shared its result for the first nine months of last year, which was reflected under this item; (2) the share of results decreased due to the completion of the disposal of three joint ventures during the period; and (3) the slowdown in effectiveness associated with the channel expansion of some joint ventures, more efforts were made to increase sales, intensify price markdown and reduce purchase volume, and consequently, the relevant operating expenses increased and the gross profit was decreased, resulting in decreased contributions.

PROFIT BEFORE TAXATION

Based on the aforesaid reasons, the Group's profit before taxation of US$29.9 million for the fiscal year ended September 30, 2010, as compared with the loss of US$0.9 million for the fiscal year ended September 30, 2009.

INCOME TAX EXPENSE

Our income tax expense was US$9.7 million for the fiscal year ended September 30, 2010, representing an increase of 83.0% from US$5.3 million for the fiscal year ended September 30, 2009, which was primarily due to the increase in profit before taxation in subsidiaries. Except for certain subsidiaries which enjoyed different preferential tax rate, a statutory tax rate of 25% applied to the rest of the Group in the PRC.

PROFIT FOR THE YEAR

Our profit for the fiscal year ended September 30, 2010 was US$20.2 million, as compared with loss of US$6.3 million for the fiscal year ended September 30, 2009.

NON-CONTROLLING INTERESTS

Non-controlling interests were deficit of US$1.1 million for the fiscal year ended September 30, 2010, representing a decrease of US$1.5 million from deficit of US$2.6 million for the fiscal year ended September 30, 2009, which was primarily due to improved operation condition of some of the non-wholly owned subsidiaries for the year as compared with last year.

MANAGEMENT DISCUSSION AND ANALYSIS

WORKING CAPITAL EFFICIENCY

The average inventory turnover days for the fiscal year ended September 30, 2010 and the fiscal year ended September 30, 2009 were 110.8 days and 127.5 days respectively. The decrease was primarily due to various continued measures taken by the Group in liquidating excess inventory started from 2009, as a result of which the inventory level is currently returned to a reasonable level.

The average trade receivables turnover days for the fiscal year ended September 30, 2010 and the fiscal year ended September 30, 2009 were 32.8 days and 40.4 days respectively. Average trade receivables turnover days remained consistent with the credit terms of 30 to 60 days that the Group granted to its department store counters and retail distributors.

The average trade and bill payables turnover days for the fiscal year ended September 30, 2010 and the fiscal year ended September 30, 2009 were 43.3 days and 49.4 days respectively. As the Group recorded a relatively sufficient cash flow from operation for the fiscal year, we continue our plan to use the capital to match the cash rebate policy offered by the brand companies in exchange for quicker payment for merchandise, hence the average trade and bill payables turnover days decreased.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and cash equivalents for the fiscal year ended September 30, 2010 decreased by 0.9% to US$178.1 million, from US$179.8 million for the fiscal year ended September 30, 2009. As at September 30, 2010, the working capital of the Group (current assets minus current liabilities) was US$354.0 million, representing an increase of 53.0% compared with US$231.4 million as at September 30, 2009.

As at September 30, 2010, the Group's current ratio was 198.2%, as compared with 151.1% as at September 30, 2009. The gearing ratio (total borrowings divided by total assets) was 17.9% as compared with 21.7% as at September 30, 2009.

The Group's bank borrowings consisted mainly of short-term loans which roll over continuously upon maturity. As at September 30, 2010, our total bank borrowings decreased by 20.5% to US$218.0 million, from US$274.2 million as at September 30, 2009, of which US$184.4 million are repayable within one year and US$33.6 million are repayable more than one year but not exceeding three years. The bank borrowings were denominated mainly in Renminbi and cash and cash equivalents were mainly held in Renminbi as well.

As at September 30, 2010, net cash from operating activities was US$128.0 million, as compared with US$145.6 million as at September 30, 2009. We believe our liquidity requirement will be satisfied with a combination of the capital generated from operating activities and bank borrowings in the future.

Net cash used in investing activities as at September 30, 2010 was US$59.7 million (included the deposit paid for acquisition of the remaining interest in Zhejiang Yichuan in September), as compared with US$94.9 million as at September 30, 2009. During the period, capital expenditure of US$18.2 million was used in the purchases of fixed assets, plant and equipment.

Net cash used in financing activities as at September 30, 2010 was US$71.8 million, as compared with US$52.6 million as at September 30, 2009. During the period, the Group had raised and repaid bank borrowings of US$317.4 million and US$377.2 million respectively.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at September 30, 2010, the Group had capital commitments of US$9.0 million and US$1.6 million in respect of acquisition of the remaining interests in a jointly controlled entity and capital investment in jointly controlled entities respectively.

As at September 30, 2010, the Group had contingent liabilities of US$17.4 million in relation to guarantee given to banks in respect of banking facilities granted to jointly controlled entities.

FOREIGN EXCHANGE

The Group conducts its businesses primarily in the PRC with substantially all of its transactions denominated and settled in Renminbi. An appreciation or depreciation between US dollars and Renminbi may result in translation gain or loss in our financial statements as US dollar is used as our reporting currency. For the fiscal year ended September 30, 2010, the Group had no significant hedges for the foreign exchange.

PROSPECTS

Currently, statistics indicate that the macro economy is gradually recovering from its trough in the past. However, concerns over inflation prevails despite that the economy of China maintains its momentum of high growth, which may affect marginal consumption powers and inclinations of consumers. On the other hand, in respect of the condition of the sportswear industry that the Group operated in, lag effects as a result of the over heated expansion of sportswear retailing industry before and after the Olympics have led the overall industry to the middle stage of re-adjustment and reconstruction, which could bring about growth opportunities and risks at the same time. As a leading sportswear retailer in the industry and in view of this change, the Group still needs to intensify its speed to reform its overall organization, constitution and business model, and to establish a harmony corporate culture and right staff's value, in order to secure its mid- to long-term core competitiveness and then to accomplish it's mission.

Leveraging on the continued restructuring and planning of product purchase and product line profile by the management team over the past year, the Group's current inventory is back to a relatively healthy level. Looking forward, the Group will continue to act with prudence and implement the following strategies after taking into consideration of the general economic condition and its own operations so as to proactively strengthen our position as a leading sportswear retailer in the PRC.

- With our commitment to continuous growth and in order to maintain our leading position in the market, we will focus more on increasing productivity of existing outlets and developing innovative ways or models, for example multi-brand outlet, as our core growth driver. In addition, we will prudently and rapidly expand retail and wholesale roadmap in the Northwest region and lower-tier cities in the PRC to grasp the potential business opportunities created from urbanization and the increase in income per capita, in order to maintain our economy of scale.
- We plan to enhance our operational efficiency by continuing the measures such as rationalizing outlets distribution, optimizing inventory level, improving regular-priced and seasonal products sell-through ratio and other new plans such as streamlining our organizational structure to improve the overall operating performance.

MANAGEMENT DISCUSSION AND ANALYSIS

- We will continuously identify opportunities to expand its brand licensee business with an aim to create its business portfolio and enhance the growth niche of results in the future. Regarding Reebok brand, the short-term objectives of the Group are to increase brand strength, restructure product line and develop design products which meet the consumers' needs in the PRC market. The mid-term objectives are to further expand its retail and wholesales network, achieve economics of scale and finally form a business model with a maximized value chain which combines design, development and production. We will continue to further develop our supply chain solutions with the brand companies, which can create initiative models that may create an integrated value chain, optimize inventory management and lower use of working capital during the relatively long operation cycle.

- The Group will divide its future development in three strategic stages:

Current stage – "complete and internal change"

To carry out the overall strategies of the Group, the Group will divide its nationwide retail business into several regions and conduct intensive exploration in each geographical location for profit enhancement. For brand licensee development and products procurement, we will adopt a model which will be centralized managed by the headquarter and fully utilize the competitive advantages of resource integration, information sharing management, capability and experience promotion, resource procurement from brand companies, inventory allocation, talent optimization and mobility as a retail group on nationwide level, as thus enhance general profitability of the Group.

Short to mid term stage – "innovation and breakthrough"

The Group will promote the extensive research results on channel innovation and retail innovation and establish various retail models based on consumer's preferences in order to create more add-in values for the consumers. In addition, it will make good use of its advantages of combining the brand department to expand the multi-brand product channel and enhance the proportion of brand licensee business in order to earn excess profits in the industry.

Long term stage – "establishment of leading position"

The Group will endeavor to attain a leading position in the market that it will develop various channel portfolios matched up with different brands and commodities and operate with an operational capacity superior to other players in the industry, in order to accomplish the vision of becoming a leading sports retailer that is closely tied to its consumers and equip with an innovation ability. The Group will be the first choice for consumer as well as the best partner for branded companies.

HUMAN RESOURCES

As at September 30, 2010, the Group had a total of 23,936 employees. The Group reviews the performance of its employees periodically, which serves as a consideration basis in annual salary review and promotion appraisals. In order to remain competitive in the labor market, we also make reference to remuneration packages offered by peers in the industry. For our senior management, the Group reward its senior management with annual bonus based on various performance criteria. In addition, we also provide other benefits, such as social securities, mandatory retirement funds, medical coverage and training programs to employees based on their personal career development.

SHARE OPTION SCHEME

On January 21, 2010, the Company granted to certain participants options under which the holders are entitled to subscribe for ordinary shares of nominal value of HK$0.01 each in the share capital of the Company pursuant to the Share Option Scheme at an exercise price of HK$1.62 per share. The number of shares exercisable and subscribable pursuant to the options granted then was 64,500,000.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

BIOGRAPHICAL DATA OF DIRECTORS

Mr. TSAI David, Nai Fung

TSAI David, Nai Fung, aged 60, is our chairman and non-executive director. Prior to joining the Company in April 2008 and Yue Yuen group in February 1997, he was the chairman of Pou Yuen Industrial Holdings Limited. Mr. Tsai has been participating in the footwear sector over 30 years and is well-known in the industry. Mr. Tsai is the managing director of Yue Yuen Industrial (Holdings) Limited ("Yue Yuen"). He is also a director of Pou Chen Corporation ("PCC") and serves as a director of Elitegroup Computer Systems Co., Ltd. (The shares of these two companies are listed on the Taiwan Stock Exchange.) Mr. Tsai is a cousin of Ms. Tsai Patty, Pei Chun, a non-executive director of the Company. Mr. Tsai personally held 4,833,000 shares in the Company as at September 30, 2010.

Ms. TSAI Patty, Pei Chun

TSAI Patty, Pei Chun, aged 31, is a non-executive Director since April 2008. She joined Yue Yuen group in December 2003 as a special assistant to the chairman of PCC and is responsible for the financial planning and strategic investments of Yue Yuen group. She does not participate in the day-to-day operations of the Group. Ms. Tsai graduated from the Wharton School of the University of Pennsylvania in May 2002 with a Bachelor of Science in Economics degree with a concentration in Finance and a College Minor in Psychology. She serves as a board director of Yue Yuen. She was previously a director of Mega Financial Holding Company Limited (shares of which are listed on the Taiwan Stock Exchange). Ms. Tsai is a cousin of Mr. Tsai David, Nai Fung, the chairman of the Company. Ms. Tsai personally held 4,460,000 shares in the Company as at September 30, 2010.

Ms. CHANG Karen Yi-Fen

CHANG Karen Yi-Fen, aged 46, is an executive Director and has served as the Group's chief financial officer since she joined the Group in October 2007. Ms. Chang has served as acting Chairman of Executive Committee overseeing various business units since June 19, 2009 and has been appointed the chief executive officer of the Company with effect from January 1, 2010. Ms. Chang is primarily responsible for overseeing the overall strategies, planning and day-to-day operations and management of the Group. She is the director of various subsidiaries of the Group. She has many years of financial management and investment banking experiences gained from working with KPMG in Washington DC and Los Angeles in the U.S., Jardine Fleming, Merrill Lynch and Credit Suisse in Shanghai and Hong Kong. Ms. Chang received a Bachelor degree in Arts in English Literature from Fu-Jen Catholic University in Taiwan in 1986 and a Master of Business Administration degree from the George Washington University in Washington D.C. in the United States in 1988. Ms. Chang personally held 7,589,000 shares and 3,800,000 share options in the Company as at September 30, 2010.

Ms. KUO, Li-Lien

KUO Li-Lien, aged 54, was appointed as a non-executive Director and chairman of remuneration committee of the Company in March 2009. She resigned as chairman but remained as a member of the remuneration committee of the Company with effect from March 3, 2010. Ms. Kuo holds a bachelor degree from the School of Law of Soochow University. Ms. Kuo was a senior counselor of Lee and Li, attorneys-at-law, in Taiwan (1997-2008) before she joined PCC in January 2009. Ms. Kuo is the Chief Legal Counsel of PCC and an executive director of Yue Yuen.

Mr. CHEN Huan-Chung

CHEN Huan-Chung, aged 55, was appointed as an independent non-executive Director in April 2008. Mr. Chen is an accountant of Wong Tong & Co., CPAS (萬通聯合會計師事務所), a certified public accountant of Taiwan and a certified securities investment analyst of Taiwan. Mr. Chen worked as a deputy manager in E. Sun Bills Finance Corporation of Taiwan (台灣玉山票券金融(股)公司). He became a certified public accountant of Taiwan in 1992 and a certified securities investment analyst of Taiwan in February 1990. He received a Bachelor degree from the Department of Industrial Management of National Taiwan University of Science and Technology (formerly known as National Taiwan Institute of Technology) in June 1983.

Mr. HU Sheng-Yih

HU Sheng-Yih, aged 68, was appointed as an independent non-executive Director in April 2008. He was appointed chairman of the remuneration committee of the Company on March 3, 2010. Mr. Hu is an associate part-time professor at the College of Management, Shih Chien University. He worked as the first deputy general manager of Mega International Commercial Bank and an officer-in-charge of the International Commercial Bank of China (New York Branch) (中國國際商業銀行紐約分行). He received a Master degree in Economics from the Yale University in 1981, a Master and Doctoral degree in Laws from the Chinese Culture University in 1971 and 1977 respectively, and a Bachelor degree in Economics from the National Taiwan University in 1967. Mr. Hu serves as a board director of Global Brands Manufacture Ltd. (精成科技股份有限公司) (shares of which are listed on the Taiwan Stock Exchange). Mr. Hu also serves as independent director of Taiwan Shin Kong Commercial Bank (台灣新光商業銀行) (Shin Kong Financial Holding Co., Ltd. 新光金融控股股份有限公司, the parent company of Taiwan Shin Kong Commercial Bank (台灣新光商業銀行), shares of which are listed on The Taiwan Stock Exchange).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. MAK Kin Kwong

MAK Kin Kwong, aged 49, was appointed an independent non-executive Director in April 2008. Mr. Mak is also the chairman of the audit committee of the Company since May 2008. He is the managing director of Venfund Investment, a Shenzhen based mid-market M&A investment banking firm specializing in cross-border mergers and acquisitions, corporate restructuring, capital raising and international financial advisory services for Chinese privately-owned clients, which he co-founded in late 2001. Prior to that, Mr. Mak spent 17 years at Arthur Andersen Worldwide where he was a firm partner and served as the managing partner of Arthur Andersen Southern China in his last position with the firm. Mr. Mak also serves as an independent non-executive director and audit committee chairman of Trina Solar Limited(天合光能有限公司), China GrenTech Corp. Ltd.(國人通信股份有限公司), and China Security & Surveillance Technology, Inc.(中國安防技術有限公司), companies listed in the United States; Shenzhen Fiyata Holdings Ltd.(深圳市飛亞達(集團)股份有限公司), a company listed in Mainland China; and Huabao International Holdings Ltd. (華寶國際控股有限公司), Real Gold Mining Limited (瑞金礦業有限公司) and 361 Degrees International Limited(361度國際有限公司), companies listed on the Stock Exchange of Hong Kong Limited. Mr. Mak is a graduate of the Hong Kong Polytechnic University and a fellow member of the Association of Chartered Certified Accountants, United Kingdom, and the Hong Kong Institute of Certified Public Accountants, and a member of the Institute of Chartered Accountants, in England and Wales.

Mr. CHENG Ming Fun Paul

CHENG Ming Fun Paul, aged 74, was appointed as an independent non-executive Director in April 2008. Mr. Cheng obtained a Bachelor of Arts degree from Lake Forest College (Illinois, United States) in 1958 and a Master's degree in Business Administration from the Wharton Graduate School of Business at the University of Pennsylvania U.S.A. in 1961. He has been an active corporate leader in Hong Kong and was formerly Chairman of Inchcape Pacific Limited, N.M. Rothschild & Sons (Hong Kong) Limited, the American Chamber of Commerce in Hong Kong and the Hong Kong General Chamber of Commerce. Mr. Cheng was also a former Chairman of The Link Management Limited (HKSE), which manages a portfolio of previously government-owned retail and car parking assets valued at over HK$30 billion from 2005 to 2007. He was a member of the Hong Kong Legislative Council prior to 1998 and was a member of the preparatory committee appointed by the PRC government to prepare for the reunification of the sovereignty of Hong Kong with the PRC during 1994 to 1998. Mr. Cheng is an honorary fellow of both the Hong Kong University of Science and Technology and the Chinese University of Hong Kong. At present, Mr. Cheng is an honorary steward of the Hong Kong Jockey Club. He also serves as Deputy Chairman of Esprit Holdings Limited (HKSE) and is an independent non-executive director of Global Logistic Properties Limited (SGX), Vietnam Infrastructure Limited (AIM) and Pacific Alliance China Land Limited (AIM).

BIOGRAPHICAL DATA OF SENIOR MANAGEMENT

Mr. LIXIAO

Lixiao, aged 40 now appointed as retail division general manager of the Company. He graduated from CEIBS business administration with master degree. Mr. Li had worked for Shell China as head of national sales development, Unilever China Food as sales VP, Unilever China (food/personal care/ice cream) as strategic planning director and Nike Greater China sales director. He joined the Company on June 1, 2010.

Mr. LIN, Kuo-Hua

LIN, Kuo-Hua, aged 51, was appointed as a VP-China Region (brand licence department) of the Company in November 2009. Mr. Lin holds a bachelor degree from the School of Civil engineer of Zhong Yuan University. Mr. Lin was a sales manager / KA manager of Blue Ribbon Nike Taiwan and sales director of Taiwan Nike golf, in Taiwan (2003-2009) before he joined Yuecheng (Kunshan) Sports Co., Ltd. ("Yuecheng") in November 2009. Mr. Lin is the VP - China Region of Yuecheng.

Mr. LIAO Ching-yi

LIAO Ching-yi, aged 50, served as the vice financial director of the Company since August, 2009. Mr. Liao holds a Bachelor degree in Finance from the Central Musuri State University. Mr. Liao joined PCC in February, 1995, and has served in branches in Vietnam, Huangjiang Guangdong, Kunshan Jiangsu and Yangzhou Jiangsu, in charge of finance operations.

Mr. WANG Lenian

WANG Lenian, aged 47, was appointed as the human resources executive director of the Company in March, 2010. Mr. Wang holds a Bachelor degree in Economics from Zhongnan University of Economics and Law. Mr. Wang joined 龍光體育用品有限公司, a subsidiary of Yue Yuen, in March, 2006, responsible for investment management. From 2002 to 2005, he served as the assistant to general manager in Hainan Boao Investment Holdings Limited (海南博鰲投資控股有限公司). Prior to that, he was the head of the integrated program business management department of China Association for Science and Technology.

Mr. WEN, Chin-Fu

WEN Chin-Fu, aged 47, was appointed as a Decision Information Department Executive Director of the Company in July 2010. Mr. Wen holds a bachelor degree of Management Information System from the Tamkang University. He's been the Sales Ops Manager for Nike Taiwan and Project manager for Nike Asia Pacific for the past 13 years (1997-2010) before he joined the Company in March 2010.

Ms. CHONG Yim Kuen

CHONG Yim Kuen, aged 46, is our financial controller responsible for the Group's accounting activities. She is the director of certain Hong Kong subsidiaries of the Group. Before joining the Group in 2008, Ms. Chong had 14 years of accounting experience in Yue Yuen group. She received her Master degree in Administration (Accounting) from Jinan University and later obtained a Bachelor degree in Chinese Medicine from Hong Kong Baptist University. Ms. Chong is a member of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Chartered Association of Certified Accountants in the United Kingdom.

DIRECTORS' REPORT

The directors (the "Directors" or the "Board") of Pou Sheng International (Holdings) Limited (the "Company") have pleasure in presenting the Group's annual report and the audited consolidated financial statements for the year ended September 30, 2010.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended September 30, 2010 are set out in the consolidated income statement on page 48 of the annual report.

The Directors do not recommend the payment of a final dividend for the year.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Details of the principal subsidiaries, associates and jointly controlled entities of the Group at September 30, 2010 are set out in Notes 41, 42 and 43 to the consolidated financial statements, respectively.

SHARE CAPITAL

There were no movements in either the authorised or issued share capital of the Company during the year. Details of the share capital of the Company are set out in Note 29 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

DISTRIBUTABLE RESERVES OF THE COMPANY

As at September 30, 2010, the Company's reserves available for distribution consisted of contributed surplus of approximately US$166.0 million (2009: US$166.0 million) less accumulated losses of approximately US$22.2 million (2009: US$19.2 million).

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

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

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

DIRECTORS

The Directors during the year ended September 30, 2010 and up to the date of this report were:

Chairman and Non-Executive Director

Tsai David, Nai Fung

Chief Executive Officer and Executive Director

Chang Karen Yi-Fen

Executive Directors

Lu Ning	(resigned on January 31, 2010)
Lee Chung Wen	(retired on March 3, 2010)
Huang Chun Hua	(retired on March 3, 2010)

Non-Executive Director

Tsai Patty, Pei Chun
Kuo, Li-Lien

Independent Non-Executive Directors ("INEDs")

Chen Huan-Chung
Hu Sheng-Yih
Mak Kin Kwong
Cheng Ming Fun Paul

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

Pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of the Hong Kong Limited (the "Listing Rules"), each of the INEDs has filed an annual confirmation with the Company confirming his independence status with the Company as of September 30, 2010, and the Company considered that all INEDs meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent.

DIRECTORS' REPORT

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Group are set out on pages 20 to 23.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at September 30, 2010, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register required to be kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long position

	Number of ordinary shares					
Name of Director	**Beneficial owners**	**Held by spouse and/or children under 18**	**Held by controlled corporation**	**Held by a discretionary trust**	**Total**	**Percentage of the issued share capital of the Company**
Ordinary shares of HK$0.01 each of the Company						
Tsai David, Nai Fung	4,833,000	–	–	–	4,833,000	0.11%
Tsai Patty, Pei Chun	4,460,000	–	–	–	4,460,000	0.10%
Chang Karen Yi-Fen	11,389,000*	–	–	–	11,389,000	0.27%

* Out of 11,389,000 shares, 3,800,000 shares were share options granted on January 21, 2010, the details of which are set out under the heading "Share Option Scheme" in Note 36 in this annual report.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

The Company recognises the importance of attracting talents and retaining employees by providing them with incentives and rewards through granting share-based incentives. The Company believes that this will align their interests with that of the Company. In this connection, the Company has a share option scheme for the employees, the details of which are set out as follows:

Share Option Scheme

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

The following table discloses movements in the Company's share options during the year:

	Date of grant	Exercise price HK$	Exercisable period	Number of options outstanding at 1.10.2009	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Number of options outstanding at 30.9.2010
Director								
Chang Karen Yi-Fen	21.1.2010	1.62	21.1.2011 - 20.1.2018	-	570,000	-	-	570,000
	21.1.2010	1.62	21.1.2012 - 20.1.2018	-	570,000	-	-	570,000
	21.1.2010	1.62	21.1.2013 - 20.1.2018	-	1,140,000	-	-	1,140,000
	21.1.2010	1.62	21.1.2014 - 20.1.2018	-	1,520,000	-	-	1,520,000
				-	3,800,000	-	-	3,800,000
Employees								
	21.1.2010	1.62	21.1.2011 - 20.1.2018	-	9,105,000	-	(748,500)	8,356,500
	21.1.2010	1.62	21.1.2012 - 20.1.2018	-	9,105,000	-	(748,500)	8,356,500
	21.1.2010	1.62	21.1.2013 - 20.1.2018	-	18,210,000	-	(1,497,000)	16,713,000
	21.1.2010	1.62	21.1.2014 - 20.1.2018	-	24,280,000	-	(1,996,000)	22,284,000
				-	60,700,000	-	(4,990,000)	55,710,000
Grand total				-	64,500,000	-	(4,990,000)	59,510,000

DIRECTORS' REPORT

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES (Continued)

Further details of the Share Option Scheme are set out in Note 36 to the consolidated financial statements.

Save as disclosed above, at no time during the year was the Company or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at September 30, 2010, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interest disclosed above in respect of certain Directors and chief executives, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Name of shareholder	Notes	**Capacity/ Nature of interest**	**Number of ordinary shares held**	**Approximate percentage of interest in the issued share capital of the Company**
Major Focus Management Limited ("Major Focus")	(a)	Beneficial interest	2,408,344,622	56.13%
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")	(a), (b)	Beneficial interest	2,408,344,622	56.13%
Wealthplus Holdings Limited ("Wealthplus")	(b)	Interest of a controlled corporation	2,408,344,622	56.13%
Pou Chen Corporation ("PCC")	(b)	Interest of a controlled corporation	2,408,344,622	56.13%
Jollyard Investments Limited ("Jollyard")	(c)	Beneficial interest	216,945,000	5.06%
Sitori Trading Limited ("Sitori Trading")	(c)	Interest of a controlled corporation	216,945,000	5.06%
Shih Ching-I	(c)	Interest of a controlled corporation	216,945,000	5.06%

SUBSTANTIAL SHAREHOLDERS' INTERESTS (Continued)

Notes:

All the Shares are long positions.

(a) 2,408,344,622 shares are held by Major Focus, a wholly-owned subsidiary of Yue Yuen.

(b) PCC is deemed to be interested in these shares under the SFO by virtue of its interests in more than one third of the voting shares in Wealthplus, which in turn is deemed to be interested in these shares under the SFO by virtue of its interests in more than one third of the voting shares in Yue Yuen. Wealthplus is wholly owned by PCC, which is interested in approximately 46.55% of the issued share capital of Yue Yuen. Mr. Tsai David, Nai Fung, Ms. Tsai Patty, Pei Chun and Ms. Kuo, Li-Lien who are Directors of the Company are also directors of Yue Yuen. Mr. Tsai David, Nai Fung and Ms. Tsai Patty, Pei Chun, who are Directors of the Company, are also directors of Wealthplus. Mr. Tsai David, Nai Fung who is a Director of the Company is also a director of PCC.

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

Save as disclosed above, as at September 30, 2010, the Directors were not aware of any other person (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

DIRECTOR'S INTERESTS IN COMPETING BUSINESS

Three of the Directors of the Company, namely Mr. Tsai David, Nai Fung, Ms. Tsai Patty, Pei Chun and Ms. Kuo, Li-Lien, are directors of Yue Yuen. Yue Yuen is the Company's controlling shareholder and whose principal activities are OEM/ODM footwear manufacturing business. As the Company and Yue Yuen are separate listed entities run by separate and independent management, the Directors believe that the Company is capable of carrying on its business independently of, and at arms length from, Yue Yuen.

There is potentially competition between the manufacturing business of the Company and Yue Yuen. On May 23, 2008, the Company entered into the business separation deed (the "Business Separation deed") with Yue Yuen to put in place certain mechanisms to separate the Company's manufacturing businesses from those of Yue Yuen. During the year ended September 30, 2010, there were two new brand owners, namely Pony and Footzone (the "New Business"), who asked the Company to manufacture for them. Pursuant to the Business Separation Deed, the Company had obtained the permission from Yue Yuen for engaging in the New Business. The Company confirmed that it complied with the undertakings given by it under the clauses as stipulated in the Business Separation Deed and the independent non-executive Directors are satisfied that this is the case.

Save as described above, as at September 30, 2010, none of the Directors has an interest in any business, which competes or may compete, directly or indirectly with the Group's business.

DIRECTORS' REPORT

DIRECTOR'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company, or any of its holding company, fellow subsidiaries or subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

LOAN AGREEMENTS WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OBLIGATIONS ON THE CONTROLLING SHAREHOLDER

Members of the Group are parties to certain bank facilities that include conditions specifying the minimum equity interest of the Company to be held, directly or indirectly, by Yue Yuen, a substantial shareholder of the Company and any breach of such obligation will cause a default in respect of the facilities. Disclosures pursuant to Rule 13.18 and Rule 13.21 of the Listing Rules in respect of the relevant loans are as follows:

	Aggregate level of the facility that maybe affected by such breach	Life of the facility	Specific performance obligation
Loan I	US$20,000,000	No specific term	The Company remains a subsidiary of Yue Yuen
Loan II	US$30,000,000	Facility ends on September 7, 2012	The Company must ensure it remains controlled by Yue Yuen
Loan III	RMB70,000,000	No specific term	At least 51% of the issued share capital of the company must always be held and owned by Yue Yuen

CONNECTED TRANSACTIONS

(A) Connected transactions

Termination of Investment in Hubei Jiezhixing

On March 11, 2010, two subsidiaries of the Company, Dragonlight Group Limited and Dragonlight (China) Sports Goods Company Limited (龍光(中國)體育用品有限公司) (collectively known as the "Dragonlight Entities") entered into the Termination Framework Agreement with Mr. Qiu Xiaojie (邱小杰) ("Mr. Qiu"), Ms. Wang Lai (汪麗) ("Ms. Wang"), the spouse of Mr. Qiu, and Hubei Jiezhixing Clothing and Accessories Company Limited ("Hubei Jiezhixing") (湖北杰之行服飾有限公司), a 50% owned joint venture company, under which the Dragonlight Entities agreed to terminate their investments in 50% equity interest in Hubei Jiezhixing. The consideration that was payable to Dragonlight (China) Sports Goods Company Limited in respect of the disposal of 50% equity interest in Hubei Jiezhixing was RMB32,140,000 (equivalent to approximately US$4,709,000), representing 50% of the total registered capital of Hubei Jiezhixing. On the same date, the Dragonlight Entities, Mr. Qiu, Ms. Wang and Hubei Jiezhixing entered into the Call Option Termination Agreement under which the call option granted by Mr. Qiu to the Company in respect of 50% equity interest in Hubei Jiezhixing held by Mr. Qiu was terminated.

As Mr. Qiu is a substantial shareholder and a director of a subsidiary of the Company, Hubei Shengdao Sports Goods Company Limited (湖北勝道體育用品有限公司) ("Hubei Shengdao"), Mr. Qiu was a connected person of the Company under the Listing Rules. As Hubei Jiezhixing is an associate of Mr. Qiu by virtue of Mr. Qiu's interest in 50% of its equity interest, Hubei Jiezhixing is also a connected person of the Company under the Listing Rules. The entering into of the above transactions therefore constitutes connected transactions for the Company under the Listing Rules which is subject to announcement, reporting and independent shareholders' approval requirements. As the results of the size tests exceed 5%, the entering into of the above transactions also constitutes a discloseable transaction for the Company under the Listing Rules.

The transactions were completed on April 8, 2010 and the Group's equity interests in Hubei Shengdao has also been disposed of during the year.

(B) Continuing connected transactions

During the year, the Group conducted the transactions below which constitute non-exempted continuing connected transactions for the Company under the Listing Rules:

Master Purchase Agreement

On May 23, 2008, the Company entered into a master purchase agreement ("Master Purchase Agreement") with Yue Yuen under which the Company agreed to source footwear and sportswear products and accessories from Yue Yuen and its associates. During the year ended September 30, 2010, subsidiaries of the Company purchased sportswear products of approximately US$0.3 million from Yue Yuen and its associates.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS (Continued)

(B) Continuing connected transactions (Continued)

Master Purchase Agreement (Continued)

The exact terms of the purchases were to be set out in individual order. These purchases were (i) between non-PRC members of the Group and the Yue Yuen Group; and (ii) between PRC members of the Group and jointly controlled entities and/or associates of Yue Yuen. The Master Purchase Agreement took effect from the listing date of the Company and ended on September 30, 2010. The Directors foresee the transaction amounts will be minimal in the foreseeable future and no renewal of the Master Purchase Agreement was sought.

Financial assistance

Members of the Group advanced certain loans to Hubei Jiezhixing as working capital ("Joint Venture Loans"). As Hubei Jiezhixing was a connected person of the Company, the provision of the Joint Venture Loans to Hubei Jiezhixing constitutes continuing connected transactions of the Company under the Listing Rules.

The Joint Venture Loans are provided under an entrusted loan arrangement whereby the relevant member of the Group deposits a sum of money with a commercial bank which will then lend such money to Hubei Jiezhixing. The commercial bank charges a handling fee in respect of the arrangement which is ultimately borne by Hubei Jiezhixing. Interest on the Joint Venture Loans, which cannot exceed or be less than the then highest and lowest rates set by the People's Bank of China, is borne by Hubei Jiezhixing and paid into the bank account of the relevant lending Group member. As such, all interests and charges associated with the Joint Venture Loans are paid by Hubei Jiezhixing and therefore the effective cost to the lending members of the Group is nil. The Joint Venture Loans extended to Hubei Jiezhixing during the year ended September 30, 2010 are for a term of one year.

As the Joint Venture Loans are provided solely by members of the Group and not by the joint venture partner of Hubei Jiezhixing, such financial assistance is not provided in proportion to the equity interest in Hubei Jiezhixing held by the Group and therefore do not fall under Rule 14A.65 of the Listing Rules. The Joint Venture Loans are on normal commercial terms which are fair and reasonable and are in the interests of the shareholders as a whole.

Hubei Jeizhixing ceased to be a connected person of the Company during the year upon the termination of its investment in 50% equity interest in Hebei Jeizhixing.

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

RELATED PARTY TRANSACTIONS

Related party transactions entered into for the year are set out in Note 38 to the consolidated financial statements and those transactions falling under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) in accordance with Chapter 14A of the Listing Rules have been disclosed in this report under the section headed "Connected Transactions".

MANAGEMENT CONTRACTS

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

DONATIONS

During the year, the Group made charitable and other donations amount to US$0.5 million.

PENSION SCHEME

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

The Group also operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustees. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules.

The Group contributed approximately US$8.9 million to the above-mentioned schemes for the year ended September 30, 2010.

MAJOR CUSTOMERS AND SUPPLIERS

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

Aggregate purchases attributable to the Group's largest and five largest suppliers were 36% and 93% of the Group's total purchases respectively.

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

DIRECTORS' REPORT

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EMOLUMENT POLICY

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

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

The Company has adopted the Share Option Scheme which can be used to motivate and reward its Directors and eligible employees. Details of the Share Option Scheme are set out in Note 36 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended September 30, 2010.

EVENTS AFTER THE END OF REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in Note 44 to the consolidated financial statements.

AUDITOR

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

On behalf of the Board
Tsai David, Nai Fung
Chairman
Hong Kong
January 19, 2011

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

For the year ended September 30, 2010, the Company has applied the principles of and has complied with all code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except for deviation from provision A.2.1 of the Code.

SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following specific enquiries made by the Company, that they have complied with the required standards as set out in the Model Code throughout the year ended September 30, 2010.

The Company has also adopted internal guidelines for securities transactions by relevant employees (the "Employees Guidelines") in October 2008 which are based on the Model Code. The Employee Guideline will be updated from time to time according to the Model Code. Specified employees who are likely to be in possession of unpublished price-sensitive information related to the Group and its activities must comply with the Employees Guidelines. For the year ended September 30, 2010, the Company had not found any non-compliance by any such employees.

BOARD OF DIRECTORS

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

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

The Board is made up of eight Directors, including one executive Director, three non-executive Directors and four independent non-executive Directors (the "INEDs"). Biographical information of the Directors is set out in this annual report under the heading "Biographical Details of Directors and Senior Management" on pages 20 to 23.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

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

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

Name of Directors	Specific Position
Executive Director	
Chang Karen Yi-Fen*	Chief Executive Officer
Non-executive Directors	
Tsai David, Nai Fung**	Chairman
Tsai Patty, Pei Chun	
Kuo, Li-Lien	
Independent Non-executive Directors	
Chen Huan-Chung	
Hu Sheng-Yih***	Chairman of the Remuneration Committee
Mak Kin Kwong	Chairman of the Audit Committee
Cheng Ming Fun Paul	

* Ms. Chang Karen Yi-Fen was appointed Chief Executive Officer with effect from January 1, 2010.

** Mr. Tsai David, Nai Fung ceased his office as the Acting Chief Executive Officer and executive Director and remained as Chairman and non-executive Director with effect from January 1, 2010.

*** Hu Sheng-Yih was appointed Chairman of the Remuneration Committee in place of Ms. Kuo, Li-Lien with effect from March 3, 2010.

Note: Lu Ning resigned as an executive Director with effect from January 31, 2010. Lee Chung Wen and Huang Chun Hua retired by rotation at the annual general meeting held in March 2010 and did not offer themselves for re-election due to their other personal commitments.

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

BOARD OF DIRECTORS (Continued)

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

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

The Board believes that the five board meetings held for the year ended September 30, 2010 were adequate to cover all major issues during that period. In any event all Directors were available for consultation by management of the Group from time to time during the year.

Attendance of each Director at board meetings is set out as follows:

Name of Directors	Attendance
Executive Director	
Chang Karen Yi-Fen	5/5
Non-executive Directors	
Tsai David, Nai Fung*	3/5
Tsai Patty, Pei Chun	5/5
Kuo, Li-Lien	5/5
Independent Non-executive Directors	
Chen Huan-Chung	5/5
Hu Sheng-Yih	5/5
Mak Kin Kwong	5/5
Cheng Ming Fun Paul	5/5

* Mr. Tsai David, Nai Fung ceased his office as the Acting Chief Executive Officer and executive Director of the Company and remained as Chairman and non-executive Director of the Company with effect from January 1, 2010.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

Board Practices

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

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

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

All Directors have full access to information on the Group and are able to seek independent professional advice whenever necessary. The company secretary prepares minutes and keeps records of matters discussed and decisions resolved at all board meetings. Draft and final versions of board minutes are sent to all Directors for their comments within a reasonable time after the board meeting.

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

After the resignation of Mr. Liu Wen Xin as Chief Executive Officer of the Company on June 19, 2009, Mr. Tsai David, Nai Fung, the Chairman of the Company, assumed the role of acting Chief Executive Officer on June 19, 2009 on a temporary basis until Ms. Chang Karen Yi-Fen, the Chief Financial Officer and executive Director of the Company, was appointed as the new Chief Executive Officer of the Company with effect from January 1, 2010. As there was no segregation between the role of the Chairman and Chief Executive Officer of the Company during the period from June 19, 2009 to December 31, 2009, this constituted deviation from provision A.2.1 of the Code which stipulates that the roles of chairman and chief executive officer should be separated and should not be the same individual.

During the period of assuming the dual roles as Chairman and acting Chief Executive Officer of the Company by Mr. Tsai David, Nai Fung, an executive committee consisting of members of the management was formed to oversee different business segments of the Group. Ms. Chang Karen Yi-Fen, the Chief Financial Officer of the Company, was the acting head of the executive committee reporting to Mr. Tsai David, Nai Fung directly. As the Chairman and acting Chief Executive Officer of the Company, Mr. Tsai David, Nai Fung was responsible for the Group's overall management and strategic planning, including sales and marketing activities and on a temporary basis overseeing the overall strategies, planning and day-to-day operation and management of the Group. Since it was only a temporary measure while the Company was actively searching for a replacement to fill in the position of chief executive officer permanently, the Board does not consider that this structure had impaired the balance of power and authority between the Board and the management of the Company given there is a division of responsibility for each of the individual business operations segment of the Group.

NON-EXECUTIVE DIRECTORS

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

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

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

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

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

The current nomination procedures for appointment of new Directors would normally take into consideration of the candidates' past experience, qualifications and any other relevant factors. Any Director can recommend and nominate new Directors to the Board. Profiles of the shortlisted candidates would be tabled at the board meeting for consideration and the Board would select appropriate candidates from the shortlisted candidates.

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

As at the date of this annual report, the Company has not set up a nomination committee. No board meeting was held during the year ended September 30, 2010 for appointment of a new director.

AUDIT COMMITTEE

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

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

Four Audit Committee meetings were held during the year ended September 30, 2010 and the record of attendance of individual member is listed out below:

Name of Directors	Attendance
Mak Kin Kwong (Chairman)	4/4
Cheng Ming Fun Paul	3/4
Tsai Patty, Pei Chun	4/4

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

Functions and Role

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

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

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE (Continued)

Functions and Role (Continued)

In discharging its responsibilities, the Audit Committee performed the following work during the year ended September 30, 2010:

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

(ii) reviewed the quarterly, interim and annual results of the Group;

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

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

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

AUDITORS' REMUNERATION

During the year under review, the remuneration paid or to be payable to Messrs. Deloitte Touche Tohmatsu, the Company's external auditor, in respect of audit services rendered were approximately US$528,000 and in respect of non-audit services for interim review rendered were approximately US$100,000.

REMUNERATION OF DIRECTORS

The Remuneration Committee was established in May 2008 with specific written terms of reference which define the authority and duties of the committee. The terms of reference are available on the Company's website. The Remuneration Committee consists of one non-executive Director, namely Ms. Kuo, Li-Lien and two INEDs, namely Mr. Chen Huan-Chung and Mr. Hu Sheng-Yih. Mr. Hu Sheng-Yih was appointed chairman of the Remuneration Committee in place of Ms. Kuo, Li-Lien with effect from March 3, 2010.

Three meetings of the Remuneration Committee were held during the year ended September 30, 2010. None of the Directors were involved in determining his or her own remuneration. The record of attendance of individual member is listed out below:

Name of Directors	Attendance
Hu Sheng-Yih (Chairman)	3/3
Kuo, Li-Lien	3/3
Chen Huan-Chung	3/3

Functions and Role

The primary functions of the Remuneration Committee include the determination of remuneration policy, structure and remuneration packages of the Directors and senior management of the Group and the making of recommendations to the Board, and other related matters. In determining the remuneration package of Directors, the Remuneration Committee shall consider the qualifications and experience of each of the executive Directors and also remuneration policy of other comparable listed companies of similar business and size, time commitment and responsibilities of the Directors, employment conditions of the Company and its subsidiaries and the desirability of performance-based remuneration. The Remuneration Committee also ensures that the levels of remuneration should be sufficient to attract and retain the Directors to run the Company successfully but would avoid paying more than is necessary for this purpose. No Directors or any of their respective associates are involved in determining their own remunerations.

In order to attract, retain and motivate talented eligible staff and officers, including the Directors, the Company has adopted the Share Option Scheme in 2008.

The Share Option Scheme provides incentives to participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its Shareholders as a whole. Details of the Share Options Scheme are set out in the Directors' Report and Note 36 to the consolidated financial statements.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF DIRECTORS (Continued)

Functions and Role (Continued)

The following is a summary of the work performed by the Remuneration Committee during the year ended September 30, 2010:

1. reviewed and approved the remuneration packages of the Directors.

2. reviewed the adequacy of the terms of reference of the Remuneration Committee.

3. reviewed and approved the grant of share options to eligible employees under the Share Option Scheme.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

The report of the external auditors of the Company, Messrs. Deloitte Touche Tohmatsu, with regard to their reporting responsibilities on the Group's financial statements is set out in the Independent Auditor's Report on pages 46 and 47.

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

INTERNAL CONTROLS AND RISKS MANAGEMENT

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

The Company has established its own internal audit department for reviewing the effectiveness of the Group's internal control system. The Group's internal control system has been reported by its internal audit department to members of the Audit Committee frequently and has been reviewed annually by the Board to ensure the internal control system remain practical, sound and effective.

INTERNAL CONTROLS AND RISKS MANAGEMENT (Continued)

During the year ended September 30, 2010, the Company failed to make disclosure when it entered into loan agreements that include conditions imposing specific performance obligations on controlling shareholder pursuant to Listing Rules 13.18 and 13.21 as set out in its announcement dated August 26, 2010. Such non-disclosure was an incidence of control failing or weakness that had been identified by the Board during the year ended September 30, 2010. To prevent a repeat of error, the Company:

(a) had instructed our legal advisor to advise the Company on compliance matters generally;

(b) had prepared a compliance manual with professional assistance; and

(c) had held a seminar conducted by our legal advisor for key managers responsible for business operations and financing analysis of the Company.

The Directors were in the opinion that the inadvertent failure was an isolated event which would not have a material impact on the financial performance or condition of the Company.

INVESTOR RELATIONSHIP AND COMMUNICATION

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

The Company has set up its own website as a means to provide information on the Company to the Shareholders and investors and to communicate with them directly and effectively. Further, the Company's investor relations department is responsible for handling general public relation and investor relation matters. Shareholders are also encouraged to attend the Company's annual general meetings and general meetings for which notices would be served with at least 20 clear business days period and 10 clear business days period respectively . The Chairman of the Company and/or the Directors are available to answer questions on the Group's business at the meetings.

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of Pou Sheng International (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 48 to 149, which comprise the consolidated statement of financial position as at September 30, 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of the Group's affairs as at September 30, 2010 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
January 19, 2011

CONSOLIDATED INCOME STATEMENT

For the year ended September 30, 2010

	Notes	2010 US$'000	2009 US$'000
Revenue	5	1,323,845	1,142,293
Cost of sales		(926,790)	(788,760)
Gross profit		397,055	353,533
Other income		15,067	14,427
Selling and distribution expenses		(294,960)	(280,328)
Administrative expenses		(73,634)	(95,678)
Operating profit (loss)		43,528	(8,046)
Interests on bank borrowings wholly repayable within five years		(11,510)	(15,557)
Finance income	6	3,708	3,326
Finance cost – net		(7,802)	(12,231)
Share of results of associates		851	2,614
Share of results of jointly controlled entities		9,890	27,685
Gain on disposals of subsidiaries	32	1,776	–
Gain on deregistration of subsidiaries		122	–
Impairment losses of interests in associates	16	(1,300)	–
Impairment losses of interests in jointly controlled entities	17	(1,700)	(6,500)
Impairment loss of an available-for-sale investment	19	(900)	–
Loss on disposals of jointly controlled entities	17	(8,203)	–
Fair value changes on derivative financial instruments		(6,393)	(4,423)
Profit (loss) before taxation		29,869	(901)
Income tax expense	7	(9,702)	(5,349)
Profit (loss) for the year	8	20,167	(6,250)
Attributable to:			
Owners of the Company		21,287	(3,696)
Non-controlling interests		(1,120)	(2,554)
		20,167	(6,250)
Earnings (loss) per share	10		
– basic		US 0.5 cent	US (0.1) cent
– diluted		US 0.5 cent	US (0.1) cent

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended September 30, 2010

	2010 US$'000	2009 US$'000
Profit (loss) for the year	20,167	(6,250)
Other comprehensive income (expense)		
Exchange difference arising on translation	13,765	(645)
Revaluation increase upon acquisition of subsidiaries	–	8,108
Total comprehensive income for the year	33,932	1,213
Attributable to:		
Owners of the Company	34,408	3,722
Non-controlling interests	(476)	(2,509)
	33,932	1,213

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At September 30, 2010

	Notes	2010 US$'000	2009 US$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	143,680	185,951
Deposit paid for acquisition of property, plant and equipment		465	4,436
Prepaid lease payments	12	27,080	36,985
Rental deposits and prepayments		22,375	29,455
Intangible assets	13	70,612	73,756
Goodwill	14	27,622	27,622
Interests in associates	16	7,809	8,099
Loans to associates	16	7,659	7,499
Interests in jointly controlled entities	17	55,014	77,794
Loans to jointly controlled entities	17	58,042	73,613
Deposit paid for acquisition of the remaining interest in a jointly controlled entity	17	19,223	–
Long-term loan receivables	18	17,642	–
Available-for-sale investments	19	100	1,000
Derivative financial instruments	20	46,024	55,321
Deferred tax assets	21	2,293	1,215
		505,640	582,746
CURRENT ASSETS			
Inventories	22	262,049	300,447
Trade and other receivables	23	249,164	192,446
Prepaid lease payments	12	654	1,047
Taxation recoverable		1,978	761
Available-for-sale investments	19	8,227	–
Amounts due from related parties	24	14,307	9,225
Bank balances and cash	25	178,056	179,830
		714,435	683,756

	Notes	2010 US$'000	2009 US$'000
CURRENT LIABILITIES			
Trade and other payables	26	167,917	189,095
Taxation payable		7,150	8,622
Amounts due to related parties	27	1,024	1,088
Bank borrowings	28	184,353	253,589
		360,444	452,394
NET CURRENT ASSETS		353,991	231,362
TOTAL ASSETS LESS CURRENT LIABILITIES		859,631	814,108
NON-CURRENT LIABILITIES			
Bank borrowings	28	33,611	20,652
Deferred tax liabilities	21	21,695	22,880
		55,306	43,532
NET ASSETS		804,325	770,576
CAPITAL AND RESERVES			
Share capital	29	5,504	5,504
Reserves		784,813	748,827
Equity attributable to owners of the Company		790,317	754,331
Non-controlling interests		14,008	16,245
TOTAL EQUITY		804,325	770,576

The consolidated financial statements on pages 48 to 149 were approved and authorised for issue by the Board of Directors on January 19, 2011 and are signed on its behalf by:

Tsai David, Nai Fung
CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Chang Karen Yi-Fen
CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended September 30, 2010

	Equity attributable to owners of the Company											
	Share capital	Share premium	Special reserve	Other reserve	Revaluation reserve	Share-based compensation reserve	Non-distributable reserve	Translation reserve	Accumulated profits	Total	Non-controlling interests	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
	(Note 29)		(note (i))	(note (ii))	(note (iii))		(note (iv))					
At October 1, 2008	4,575	601,238	96,269	(211,176)	–	706	13,333	34,831	105,940	645,716	16,593	662,309
Exchange difference arising on the translation of financial statements	–	–	–	–	–	–	–	(690)	–	(690)	45	(645)
Revaluation increase upon acquisition of subsidiaries	–	–	–	–	8,108	–	–	–	–	8,108	–	8,108
Loss for the year	–	–	–	–	–	–	–	–	(3,696)	(3,696)	(2,554)	(6,250)
Total comprehensive income and expense for the year	–	–	–	–	8,108	–	–	(690)	(3,696)	3,722	(2,509)	1,213
Issue of shares for acquisition of subsidiaries	388	41,984	–	–	–	–	–	–	–	42,372	–	42,372
Issue of shares to Yue Yuen Industrial (Holdings) Limited	541	49,459	–	–	–	–	–	–	–	50,000	–	50,000
Recognition of equity-settled share-based payments	–	–	–	–	–	12,521	–	–	–	12,521	–	12,521
Cancellation of Pre-IPO Share Subscription Plan	–	–	–	–	–	(13,227)	–	–	13,227	–	–	–
Acquisition of additional interest in subsidiaries	–	–	–	–	–	–	–	–	–	–	2,161	2,161
Transfer	–	–	–	–	–	–	1,942	–	(1,942)	–	–	–
At September 30, 2009	5,504	692,681	96,269	(211,176)	8,108	–	15,275	34,141	113,529	754,331	16,245	770,576
Exchange difference arising on the translation of financial statements	–	–	–	–	–	–	–	13,121	–	13,121	644	13,765
Profit (loss) for the year	–	–	–	–	–	–	–	–	21,287	21,287	(1,120)	20,167
Total comprehensive income and expense for the year	–	–	–	–	–	–	–	13,121	21,287	34,408	(476)	33,932
Recognition of equity-settled share-based payments	–	–	–	–	–	1,578	–	–	–	1,578	–	1,578
Realised on deregistration of subsidiaries	–	–	–	–	–	–	–	(202)	202	–	(125)	(125)
Realised on disposal of subsidiaries	–	–	–	–	–	–	–	(770)	770	–	(1,222)	(1,222)
Realised on disposal of jointly controlled entities	–	–	–	–	–	–	–	(2,120)	2,120	–	–	–
Dividend paid to non-controlling interests of subsidiaries	–	–	–	–	–	–	–	–	–	–	(414)	(414)
Transfer	–	–	–	–	–	–	4,094	–	(4,094)	–	–	–
At September 30, 2010	5,504	692,681	96,269	(211,176)	8,108	1,578	19,369	44,170	133,814	790,317	14,008	804,325

notes:

(i) The special reserve represents the difference between the nominal value of the share capital issued by the Company and the share premium and the nominal value of the share capital of the subsidiaries comprising the Group prior to the group reorganisation in 2008.

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

(iii) The revaluation reserve represents the fair value adjustments on intangible assets attributable to the equity interest previously held by the Group at the date of acquisition of subsidiaries. The amount recognised in the revaluation reserve will be transferred to accumulated profits upon disposals of these subsidiaries or the relevant assets, whichever is earlier.

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

(v) No dividend was paid or proposed during the year (2009: nil), nor has any dividend been proposed since the end of the reporting period.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended September 30, 2010

	2010 US$'000	2009 US$'000
OPERATING ACTIVITIES		
Profit (loss) before taxation	29,869	(901)
Adjustments for:		
Depreciation of property, plant and equipment	28,935	33,461
Release of prepaid lease payments	797	827
Amortisation of intangible assets	4,627	1,152
Loss on disposal of property, plant and equipment	3,087	4,177
Allowance for inventories, net	1,815	3,795
Impairment loss recognised on trade receivables	422	35
Interest expense	11,510	15,557
Interest income	(3,708)	(3,326)
Share of results of associates	(851)	(2,614)
Share of results of jointly controlled entities	(9,890)	(27,685)
Recognition of equity-settled share-based payments	1,578	12,521
Gain on disposals of subsidiaries	(1,776)	–
Gain on deregistration of subsidiaries	(122)	–
Impairment losses of interests in associates	1,300	–
Impairment losses of interests in jointly controlled entities	1,700	6,500
Impairment loss of an available-for-sale investment	900	–
Loss on disposals of jointly controlled entities	8,203	–
Fair value changes on derivative financial instruments	6,393	4,423
Operating cash flows before movements in working capital	84,789	47,922
Decrease in rental deposits and prepayments	7,474	7,110
Decrease in inventories	42,169	16,378
(Increase) decrease in trade and other receivables	(9,455)	68,571
Increase in trade and other payables	17,430	15,177
Cash from operations	142,407	155,158
Income tax paid	(14,387)	(9,525)
NET CASH FROM OPERATING ACTIVITIES	128,020	145,633

	Notes	2010 US$'000	2009 US$'000
INVESTING ACTIVITIES			
Increase in loan receivables		(37,028)	–
Increase in deposit paid for acquisition of the remaining interest in a jointly controlled entity		(19,223)	–
Purchase of property, plant and equipment		(18,214)	(29,136)
Investment in available-for-sale investment		(8,227)	(1,000)
Investment in a jointly controlled entity		(6,588)	–
Increase in deposit paid for acquisition of property, plant and equipment		(456)	(298)
Repayment of advance to a non-controlling interest of a subsidiary		732	1,069
Proceeds from disposal of property, plant and equipment		1,405	1,094
Proceeds from disposal of subsidiaries (net of cash and cash equivalents disposed)	32	1,517	–
Interest income		3,708	3,326
Repayment of advance to jointly controlled entities		4,100	2,188
Proceeds from disposal of jointly controlled entities		8,652	–
Dividends received from jointly controlled entities		9,935	335
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	31	–	(52,131)
Additions of prepaid lease payments		–	(22,526)
Advance to associates		–	(180)
Investments in associates		–	(95)
Dividends received from an associate		–	90
Decrease in pledged bank deposits		–	2,337
NET CASH USED IN INVESTING ACTIVITIES		(59,687)	(94,927)
FINANCING ACTIVITIES			
Repayment of bank borrowings		(377,176)	(506,066)
Interest paid		(11,510)	(15,557)
Dividend paid to a non-controlling interest of a subsidiary		(414)	–
Repayment of advances from non-controlling interests of subsidiaries		(87)	(29,143)
New bank borrowings raised		317,382	448,183
Proceeds from issue of shares		–	50,000
NET CASH USED IN FINANCING ACTIVITIES		(71,805)	(52,583)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(3,472)	(1,877)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		1,698	(1,546)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		179,830	183,253
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		178,056	179,830

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

1. GENERAL INFORMATION

The Company is an exempted company incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The immediate holding company is Major Focus Management Limited, a private company incorporated in the British Virgin Islands ("BVI"). The Company's ultimate holding company is Yue Yuen Industrial (Holdings) Limited ("Yue Yuen"), an exempted company incorporated in Bermuda with limited liability and its shares are also listed on the Stock Exchange.

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

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

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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRSs (Amendments)[1]	Improvements to HKFRSs 2008
HKFRSs (Amendments)[2]	Improvements to HKFRSs 2009
HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 3 (Revised)	Business Combinations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK-Int 5	Classification by the Borrowers of a Term Loan that Contains a Repayment on Demand Clause
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

1 Except for the amendment to HKAS 1, which was early adopted during the year ended September 30, 2009.

2 Except for the amendments that are effective for annual periods beginning on or after January 1, 2010.

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

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

The Group applies HKFRS 3 (Revised 2008) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after October 1, 2009.

As there was no transaction during the current year in which HKFRS 3 (Revised 2008) is applicable, the application of HKFRS 3 (Revised 2008) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised 2008) and the consequential amendments to the other HKFRSs are applicable.

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

HKFRS 8 is a disclosure standard that requires the identification of reportable segments to be reported on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see Note 5) nor has the adoption of HKFRS 8 changed the basis of measurement of segment revenue, profit or loss, assets and liabilities.

Hong Kong Interpretation 5 "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause" ("HK Int 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK Int 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

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

In order to comply with the requirements set out in HK Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK Int 5, term loans with a repayment on demand clause are classified as current liabilities.

As at September 30, 2010, bank loans (that are repayable more than one year after the end of the reporting period but contain a repayment on demand clause) with the aggregate carrying amount of US$1,197,000 have been classified from non-current liabilities to current liabilities. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years nor the financial position as at September 30, 2009.

Such term loans have been presented in the earliest time band in the maturity analysis for financial liabilities that reflects the remaining contractual maturities (see Note 40).

In the current year, the directors of the Company decided to change the presentation of the consolidated income statement by dividing the income and expense line items into operating and non-operating activities to better reflect the operating results of the Group. Prior year figures have been re-presented to reflect the new presentation. The reclassification has had no net effect on the results of the Group for 2009 and 2010.

The effect of changes in presentation for the prior year by line items presented in the consolidated income statement is as follows:

	Year ended September 30, 2009 US$'000
Increase in finance income	3,326
Decrease in other income	(3,326)
Increase in administrative expenses	12,521
Decrease in equity-settled share-based payments	(12,521)
Change in loss for the year	–

No consolidated statement of financial position as at October 1, 2008 is presented as the reclassifications disclosed above have no effect on the financial position of the Group presented in the consolidated statement of financial position for all financial reporting periods.

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

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

HKFRSs (Amendments)	Amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 as part of Improvements to HKFRSs 2009[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2010[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[7]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 32 (Amendments)	Classification of Rights Issues[2]
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters[1]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[6]
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions[1]
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets[6]
HKFRS 9 (Revised 2010)	Financial Instruments[8]
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[5]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after January 1, 2010
2 Effective for annual periods beginning on or after February 1, 2010
3 Effective for annual periods beginning on or after July 1, 2010
4 Effective for annual periods beginning on or after July 1, 2010 and January 1, 2011, as appropriate
5 Effective for annual periods beginning on or after January 1, 2011
6 Effective for annual periods beginning on or after July 1, 2011
7 Effective for annual periods beginning on or after January 1, 2012
8 Effective for annual periods beginning on or after January 1, 2013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

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

HKFRS 9 "Financial Instruments" issued in November 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 (as revised in November 2010) adds the requirements for the financial liabilities and for derecognition. Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning October 1, 2013 and that the application of HKFRS 9 might have impact on amounts reported in respect of the Group's financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

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

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

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

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in subsidiaries are presented separately for the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to October 1, 2009, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interest in a subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity (other reserve) and attributed to owners of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in the Group's ownership interests in existing subsidiaries (Continued)

When the Group loses control over a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained profits). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Business combinations that took place prior to October 1, 2009

Acquisition of businesses were accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that met the relevant conditions for recognition were generally recognised at their fair values at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The minority interest in the acquiree was initially measured at the minority interest's proportion share of the amounts of the assets, liabilities and contingent liabilities recognised.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent liabilities were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Business combinations that took place on or after October 1, 2009

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

The identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at either their fair value or another measurement basis required by another Standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on acquisition of a business is carried at cost less any accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU"), or groups of CGU, that are expected to benefit from the synergies of the combination. A CGU to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a jointly controlled entity. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates (Continued)

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

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

Interests in jointly controlled entities

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

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the jointly controlled entity. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

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

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

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

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

Dividend income from investments is recognised when the shareholders' rights to receive payments have been established.

Property, plant and equipment

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets (other than goodwill) below).

Gain or loss arising from derecognition of an intangible asset is measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Financial instruments

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

Financial assets

The Group's financial assets are classified as loans and receivables, financial assets at fair value through profit or loss ("FVTPL") and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including long-term loan receivables, trade and other receivables, amounts due from related companies, loans to associates and jointly controlled entities and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Financial assets at fair value through profit or loss

Financial assets at FVTPL of the Group include derivative financial instruments that are not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each end of the reporting period subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

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

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days to 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income.

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derivative financial instruments

Derivatives are initially recognised at fair value at the date derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

Derecognition

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

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

Inventories

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Leasing

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the terms of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease terms on a straight-line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

The Group as lessor

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

Leasehold land and building

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

Research and development expenditure

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

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

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of the (i) subscription rights for shares at a discount under the pre-IPO share subscription plan and (ii) share options granted under share option scheme, as set out in Note 36, at the respective grant dates is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share-based compensation reserve).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payment transactions (Continued)

Equity-settled share-based payment transactions (Continued)

At the time when the subscription right for shares or the share options are cancelled during the vesting period, the Group accounts for the cancellation as an acceleration of vesting, and recognises immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period. The amount previously recognised in share-based compensation reserve will be transferred to accumulated profits.

Customer loyalty programmes

The fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale. The consideration allocated to the award credits is measured by reference to their fair values (i.e. the amount for which the award credits could be sold separately).

The consideration allocated to award credits is recognised as revenue when award credits are redeemed and the Group fulfills its obligations to supply awards. The amount of revenue recognised is based on the number of award credits that have been redeemed in exchange for awards, relative to the total number expected to be redeemed.

If at any time the unavoidable costs of meeting the obligations to supply the awards are expected to exceed the consideration received and receivable for them (i.e. the consideration allocated to the award credits at the time of the initial sale that has not yet been recognised as revenue plus any further consideration receivable when the customer redeems the award credits), the entity has onerous contracts. A liability shall be recognised for the excess in accordance with HKAS 37. The need to recognise such a liability could arise if the expected costs of supplying awards increase, for example if the entity revises its expectations about the number of award credits that will be redeemed.

4. CAPITAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

4. CAPITAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Critical judgments in applying the entity's accounting policies

The following is a critical judgement, apart from those involving estimations (see below), that the directors have made in the process of applying the entity's accounting policies and that has the most significant effect on the amounts recognised in financial statements.

Intangible asset with an indefinite useful life

The directors consider that the brandname with a carrying amount of US$32,408,000 (2009: US$31,731,000), as set out in Note 13, for all practical purposes has an indefinite useful life and is therefore not amortised until its useful life is determined to be finite. The brandname is tested for impairment annually.

Key sources of estimation uncertainty

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

(i) Estimated impairment of goodwill and brandname

Determining whether goodwill and brandname are impaired requires an estimation of the value in use of the CGU to which goodwill and brandname have been allocated. This calculation requires the Group to estimate the present value of the future cash flows expected to arise from the CGU containing goodwill and brandname using a suitable discount rate. Where the expected future cash flows arising from the relevant CGU differ from the original estimation, an impairment loss may arise. The carrying amount of goodwill of approximately US$27,622,000 (2009: US$27,622,000) and brandname of approximately US$32,408,000 (2009: US$31,731,000) as at September 30, 2010 was allocated to the retail business segment. Details of the recoverable amount calculation are disclosed in Note 15.

(ii) Estimated impairment of intangible assets with finite useful lives

The Group tests whether intangible assets which have finite useful lives have suffered any impairment whenever there is any indication that the assets may have been impaired. The recoverable amounts of these intangible assets have been determined based on their value in use, which have been estimated using discounted cash flow method. The directors consider that the recoverable amount exceeded the carrying amount of the intangible assets and no impairment was recognised during the year. Where the actual future cash flows is different from the amounts estimated when applying the discounted cash flow method, an impairment loss may arise in future years. The carrying amount of intangible assets which have finite useful lives at the end of the reporting period was approximately US$38,204,000 (2009: US$42,025,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

4. CAPITAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

(iii) *Impairment loss for inventories*

The management of the Group reviews the aging of the inventories at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production nor saleable in the market. The management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete items. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at September 30, 2010, the carrying amount of inventories was US$262,049,000 (2009: US$300,447,000) (net of allowance for inventories of US$10,503,000 (2009: US$8,486,000)).

(iv) *Estimated impairment of trade receivable*

When there is objective evidence of impairment loss, the Group takes into consideration the estimated future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at September 30, 2010, the carrying amount of trade receivable was US$122,780,000 (2009: US$115,469,000) (net of allowance for doubtful debts of US$771,000 (2009: US$349,000)).

(v) *Fair value of Call Options*

Measurements of the fair value of the Call Options require the use of variables and assumptions including (i) the underlying value of the relevant equity interests, (ii) the profitability of the Company and the relevant companies and (iii) the share price of the Company. The carrying amount of the derivative financial instruments is US$46,024,000 (2009: US$55,321,000). Details of the measurements of the fair value and assumptions used are disclosed in Note 20.

(vi) *Income taxes*

As at September 30, 2010, a deferred tax asset of US$2,293,000 (2009: US$1,215,000) in relation to unused tax losses was recognised in the Group's consolidated statement of financial position. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

5. REVENUE AND SEGMENTAL INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from October 1, 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM"), being the board of directors of the Company, in order to allocate resources to segments and to assess their performance. Information reported to the CODM is organised by its four lines of businesses.

In contrast, the predecessor Standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments.

In the opinion of the directors, the basis upon which the Group reported its primary segment information under HKAS 14 is the basis on which internal reports are presented to the Company's CODM, being the board of directors, for the purposes of resource allocation and assessment of segment performance. The Group's operating segments under HKFRS 8 are therefore identical to the business segments under HKAS 14. The application of HKFRS 8 has not resulted in a redesignation of the Group's operating segments as compared with the primary segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment revenue, profit or loss, assets and liabilities.

The Group's operating segments under HKFRS 8, are as follows:

(i) manufacturing and sales of OEM footwear ("Manufacturing Business");

(ii) retailing of sportswear ("Retail Business");

(iii) distribution of licensed products ("Brand Licensee Business"); and

(iv) Operating and leasing of large scale retail spaces and sportswear malls which are sub-divided and leased to retail distributors ("Property Leasing and Management").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

5. REVENUE AND SEGMENTAL INFORMATION (Continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segment:

	Manufacturing Business US$'000	Retail Business US$'000	Brand Licensee Business US$'000	Property Leasing and management US$'000	Segment total US$'000	Eliminations US$'000	Consolidated US$'000
For the year ended September 30, 2010							
REVENUE							
External sales	128,825	1,140,901	44,782	9,337	1,323,845	–	1,323,845
Inter-segment sales*	–	2,831	7,371	3,157	13,359	(13,359)	-
Total	128,825	1,143,732	52,153	12,494	1,337,204	(13,359)	1,323,845
Segment profit (loss)	12,073	48,057	3,437	(9,118)	54,449	–	54,449
Reconciling items:							
Central administrative expenses							(10,921)
Finance costs – net							(7,802)
Share of results of associates							851
Share of results of jointly controlled entities							9,890
Gain on disposal of subsidiaries							1,776
Gain on deregistration of subsidiaries							122
Impairment losses of interests in associates							(1,300)
Impairment losses of interests in jointly controlled entities							(1,700)
Impairment losses of an available-for-sale investment							(900)
Loss on disposals of jointly controlled entities							(8,203)
Fair value changes on derivative financial instruments							(6,393)
Profit before taxation							29,869

5. REVENUE AND SEGMENTAL INFORMATION (Continued)

Segment revenue and results (Continued)

	Manufacturing Business US$'000	Retail Business US$'000	Brand Licensee Business US$'000	Property Leasing and management US$'000	Segment total US$'000	Eliminations US$'000	Consolidated US$'000
For the year ended September 30, 2009							
REVENUE							
External sales	120,510	954,938	60,601	6,244	1,142,293	–	1,142,293
Inter-segment sales*	–	–	11,447	2,753	14,200	(14,200)	–
Total	120,510	954,938	72,048	8,997	1,156,493	(14,200)	1,142,293
Segment profit (loss)	11,769	14,967	4,571	(17,367)	13,940	–	13,940
Reconciling items:							
Central administrative expenses							(21,986)
Finance costs – net							(12,231)
Share of results of associates							2,614
Share of results of jointly controlled entities							27,685
Impairment losses of interests in jointly controlled entities							(6,500)
Fair value changes on derivative financial instruments							(4,423)
Loss before taxation							(901)

* *Inter-segment sales are charged at prevailing market rates*

Segment profit (loss) represents profit (loss) earned (incurred) by each segment without absorption of reconciling items, details of which are set out above. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

5. REVENUE AND SEGMENTAL INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segments:

	2010 US$'000	2009 US$'000
Segment assets		
Manufacturing business	94,553	86,609
Retail business	589,223	619,539
Brand license business	22,001	23,337
Property leasing and management	94,992	119,564
Total segment assets	800,769	849,049
Interests in associates	7,809	8,099
Loans to associates	7,659	7,499
Interests in jointly controlled entities	55,014	77,794
Loans to jointly controlled entities	58,042	73,613
Loan receivables	37,028	–
Derivative financial instruments	46,024	55,321
Bank balances and cash	178,056	179,830
Other unallocated assets	29,674	15,297
Consolidated assets	1,220,075	1,266,502
Segment liabilities		
Manufacturing business	20,581	13,715
Retail business	132,432	163,003
Brand license business	10,622	4,900
Property leasing and management	4,214	4,457
Total segment liabilities	167,849	186,075
Bank borrowings	217,964	274,241
Other unallocated liabilities	29,937	35,610
Consolidated liabilities	415,750	495,926

5. REVENUE AND SEGMENTAL INFORMATION (Continued)

Segment assets and liabilities (Continued)

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than interest in associates and jointly controlled entities, loans to associates and jointly controlled entities, loan receivables, derivative financial instruments, available-for-sale investments, certain property, plant and equipment, deferred tax assets, taxation recoverable, amounts due from related parties, certain other receivables and bank balances and cash; and

- all liabilities are allocated to operating segments other than accruals and other payables of the head office, taxation payable, amounts due to related parties, bank borrowings and deferred tax liabilities.

Other segment information

For the year ended September 30, 2010

	Manufacturing Business US$'000	Retail Business US$'000	Brand Licensee Business US$'000	Property Leasing and management US$'000	Segment total US$'000	Unallocated US$'000	Consolidated US$'000
Amounts included in the measure of segment profit or loss or segment assets:							
Additions to non-current assets (note)	4,770	10,209	667	6,464	22,110	430	22,540
Depreciation of property, plant and equipment	5,182	20,152	168	2,845	28,347	588	28,935
Release of prepaid lease payments	26	29	-	742	797	-	797
Amortisation of intangible assets	-	4,627	-	-	4,627	-	4,627
Loss on disposal of property, plant and equipment	31	2,309	54	688	3,082	5	3,087
Impairment loss recognised (reversed) on trade receivables	(67)	489	-	-	422	-	422
Allowance (reversal of allowance) for inventories	-	1,848	(33)	-	1,815	-	1,815

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

5. REVENUE AND SEGMENTAL INFORMATION (Continued)

Other segment information (Continued)

For the year ended September 30, 2010 (Continued)

	Manufacturing Business US$'000	Retail Business US$'000	Brand Licensee Business US$'000	Property Leasing and management US$'000	Segment total US$'000	Unallocated US$'000	Consolidated US$'000
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:							
Interests in associates	-	7,809	-	-	7,809	-	7,809
Interests in jointly controlled entities	-	55,014	-	-	55,014	-	55,014
Share of results of associates	-	851	-	-	851	-	851
Share of results of jointly controlled entities	-	9,890	-	-	9,890	-	9,890
Gain on disposal of subsidiaries	-	1,411	-	365	1,776	-	1,776
Gain on deregistration of subsidiaries	-	122	-	-	122	-	122
Impairment losses of interests in associates	-	(1,300)	-	-	(1,300)	-	(1,300)
Impairment losses of interests in jointly controlled entities	-	(1,700)	-	-	(1,700)	-	(1,700)
Impairment losses of an available-for-sale investment	-	(900)	-	-	(900)	-	(900)
Loss on disposals of jointly controlled entities	-	(8,203)	-	-	(8,203)	-	(8,203)

5. REVENUE AND SEGMENTAL INFORMATION (Continued)

Other segment information (Continued)

For the year ended September 30, 2009

	Manufacturing Business US$'000	Retail Business US$'000	Brand Licensee Business US$'000	Property Leasing and management US$'000	Segment total US$'000	Unallocated US$'000	Consolidated US$'000
Amounts included in the measure of segment profit or loss or segment assets:							
Additions to non-current assets (note)	4,419	134,873	893	14,100	154,285	732	155,017
Depreciation of property, plant and equipment	4,686	24,821	590	3,022	33,119	342	33,461
Release of prepaid lease payments	26	29	–	772	827	–	827
Amortisation of intangible assets	–	1,152	–	–	1,152	–	1,152
Loss on disposal of property, plant and equipment	4	3,867	2	304	4,177	–	4,177
Impairment loss recognised (reversed) on trade receivables	62	(30)	3	–	35	–	35
Allowance for inventories	–	3,630	165	–	3,795	–	3,795
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:							
Interests in associates	–	8,099	–	–	8,099	–	8,099
Interests in jointly controlled entities	–	77,794	–	–	77,794	–	77,794
Share of results of associates	–	2,614	–	–	2,614	–	2,614
Share of results of jointly controlled entities	–	27,685	–	–	27,685	–	27,685
Impairment losses of interests in jointly controlled entities	–	(6,500)	–	–	(6,500)	–	(6,500)

note: Non-current assets exclude financial instruments and deferred tax assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

5. REVENUE AND SEGMENTAL INFORMATION (Continued)

Information about major customers

The directors are not aware of any customer that individually contributed over 10% of the consolidated revenue from external customers for both years.

Geographical information

The Group's operations are mainly located in the PRC.

The following table provides an analysis of the Group's revenue by geographical location of customers, irrespective of the origin of the goods and information about its non-current assets by geographical location of the assets.

	Revenue from external customers Year ended September 30,		Non-current assets (note)	
	2010	2009	2010	2009
	US$'000	US$'000	US$'000	US$'000
PRC	1,268,979	1,090,675	310,636	357,824
Hong Kong	23,580	21,659	133	177
Other locations	31,286	29,959	288	204
	1,323,845	1,142,293	311,057	358,205

note: Non-current assets exclude interest in associates and jointly controlled entities, financial instruments and deferred tax assets.

6. FINANCE INCOME

	2010 US$'000	2009 US$'000
Interest income on:		
Banks deposits	2,213	1,415
Advances to associates	379	49
Advances to jointly controlled entities	1,116	1,862
	3,708	3,326

7. INCOME TAX EXPENSE

	2010 US$'000	2009 US$'000
Taxation attributable to the Company and its subsidiaries:		
Current tax charge		
Current year:		
Hong Kong Profits Tax (note i)	588	399
PRC Enterprise Income Tax ("EIT") (note ii)	9,687	4,091
Overseas income tax (note iii)	1,296	812
Under (over)provision in prior years:		
PRC EIT	640	220
Overseas income tax	(246)	–
	11,965	5,522
Deferred tax credit (Note 21)	(2,263)	(173)
	9,702	5,349

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

7. INCOME TAX EXPENSE (Continued)

notes:

(i) Hong Kong

Hong Kong Profits Tax is calculated at 16.5% (2009: 16.5%) of the estimated assessable profit for the year.

(ii) PRC

PRC EIT is calculated based on the statutory rate of 25% of the assessable profit for those subsidiaries established in the PRC, as determined in accordance with the relevant income tax rules and regulations in the PRC, except for the followings:

(a) Pursuant to the relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction in the applicable tax rate for the next three years. These tax concessions would expire between 2009 and 2012.

(b) Pursuant to《國家稅務總局關於落實西部大開發有關稅收政策具體實施意見的通知》, the relevant state policy and with approval obtained from tax authorities in charge, certain subsidiaries which are located in specified provinces of Western China and engaged in a specific encouraged industry were subject to a preferential tax rate of 15% during the period from 2001 to 2010 when the annual revenue from the encouraged business exceeded 70% of its total revenue in a fiscal year.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprises Income Tax (Guofa [2007] No. 39), the tax concessions from EIT as set out in (a) above continue to be applicable until the expirations of the relevant concessions. Subject to the fulfilments of the conditions set out above, the preferential treatment set out in (b) above continues on the implementation of the Law of the PRC on Enterprise Income Tax.

For entities which were entitled to unutilised tax holidays (including two-year exemption and three-year half rate) under the then existing preferential tax treatments, the unutilised tax holiday are allowed to be carried forward to 2008 and future years until their expiry. However, if an entity did not commence its tax holiday due to its loss position, the tax holiday is deemed to commence from 2008 onwards. Certain PRC subsidiaries were loss-making up to 2008, their tax holidays are therefore deemed to commence in 2008.

(iii) Overseas

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

7. INCOME TAX EXPENSE (Continued)

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

	2010 US$'000	2009 US$'000
Profit (loss) before taxation	29,869	(901)
Tax at domestic tax rates applicable to profits of taxable entities in the countries concerned (note)	3,212	(671)
Tax effect of share of results of associates and jointly controlled entities	(2,685)	(7,575)
Tax effect of expenses not deductible for tax purposes	8,106	9,926
Tax effect of income not taxable for tax purposes	(1,430)	(464)
Effect of tax holidays granted to PRC subsidiaries	(1,491)	(1,834)
Effect of tax loss not recognised	7,595	6,325
Utilisation of tax losses previously not recognised	(3,999)	–
Underprovision of tax in prior years	394	220
Deferred tax on undistributed earnings of PRC's subsidiaries, associates and jointly controlled entities derived since January 1, 2008	–	(578)
Tax charge for the year	9,702	5,349

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

8. PROFIT (LOSS) FOR THE YEAR

	2010 US$'000	2009 US$'000
Profit (loss) for the year has been arrived at after charging (crediting):		
Directors' emoluments (Note 9)	1,501	10,347
Retirement benefit scheme contributions, excluding directors	8,945	8,528
Equity-settled share-based payments, excluding directors	1,477	4,998
Other staff costs	120,310	114,129
Total staff costs	132,233	138,002
Auditor's remuneration	528	560
Depreciation of property, plant and equipment	28,935	33,461
Release of prepaid lease payment	797	827
Amortisation of intangible assets	4,627	1,152
Loss on disposal of property, plant and equipment	3,087	4,177
Impairment loss recognised on trade receivables	422	35
Allowance for inventories, net	1,815	3,795
Costs of inventories recognised as an expense	926,790	788,760
Research and development expenditure recognised as an expense	2,828	1,878
Cash discounts from suppliers (included in other income)	(7,180)	(4,361)
Income from store displays and related items	(45)	(285)
Net exchange gain	(522)	(1,423)
Share of taxation of associates (included in share of results of associates)	502	1,060
Share of taxation of jointly controlled entities (included in share of results of jointly controlled entities)	3,210	9,349

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of emoluments of each of the eleven (2009: thirteen) individual directors are set out as follows:

	Fees US$'000	Salaries and other allowances US$'000	Bonus US$'000 (note i)	Retirement benefit scheme contributions US$'000	Equity-settled share-based payment US$'000	Total US$'000
For the year ended September 30, 2010						
Executive directors:						
Chang Karen Yi-Fen	–	168	276	1	101	546
Lu Ning (note ii)	–	70	183	1	–	254
Lee Chung Wen (note iii)	–	63	126	–	–	189
Huang Chun Hua (note iii)	–	50	274	1	–	325
Non-executive directors:						
Tsai David, Nai Fung (note iv)	–	–	–	–	–	–
Kuo, Li-Lien (note v)	–	44	–	1	–	45
Tsai Patty, Pei Chun	–	–	–	–	–	–
Independent non-executive directors:						
Chen Huan-Chung	32	–	–	–	–	32
Hu Sheng-Yih	32	–	–	–	–	32
Mak Kin Kwong	39	–	–	–	–	39
Cheng Ming Fun Paul	39	–	–	–	–	39
	142	395	859	4	101	1,501

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

	Fees US$'000	Salaries and other allowances US$'000	Bonus US$'000 (note i)	Retirement benefit scheme contributions US$'000	Equity-settled share-based payment US$'000	Total US$'000
For the year ended September 30, 2009						
Executive directors:						
Tsai David, Nai Fung (note iv)	–	–	–	–	–	–
Huang Tsung Jen (note vi)	–	141	766	–	–	907
Lee Chung Wen	–	150	303	–	2,268	2,721
Huang Chun Hua	–	119	307	–	1,512	1,938
Chang Karen Yi-Fen	–	122	200	2	1,815	2,139
Lu Ning	–	184	366	4	1,928	2,482
Non-executive directors:						
Tsai David, Nai Fung (note iv)	–	–	–	–	–	–
Kuo, Li-Lien (note v)	–	18	–	–	–	18
Ku Edward, Yu-Sun (note vii)	–	–	–	–	–	–
Tsai Patty, Pei Chun	–	–	–	–	–	–
Independent non-executive directors:						
Chen Huan-Chung	32	–	–	–	–	32
Hu Sheng-Yih	32	–	–	–	–	32
Mak Kin Kwong	39	–	–	–	–	39
Cheng Ming Fun Paul	39	–	–	–	–	39
	142	734	1,942	6	7,523	10,347

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

notes:

(i) Bonus is recommended by the Remuneration Committee and is approved by the board of directors, having regard to the Group's operating results, individual performance and comparable market statistics.

(ii) Mr. Lu Ning resigned as an executive director on January 31, 2010.

(iii) Mr. Lee Chung Wen and Mr. Huang Chun Hua retired at the annual general meeting of the Company held on March 3, 2010.

(iv) Mr. Tsai David, Nai-Fung resigned as non-executive director and was redesignated as executive director on July 10, 2009 until January 1, 2010 when he was redesignated as non-executive director again.

(v) Ms. Kuo Li-Lien was appointed as non-executive director on March 31, 2009.

(vi) Mr. Huang Tsung Jen resigned as executive director on February 27, 2009.

(vii) Mr. Ku Edward, Yu-Sun deceased on March 30, 2009.

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group for the year ended September 30, 2010, four (2009: five) were directors of the Company whose emoluments are set out above. The emoluments of the remaining one individual for the year ended September 30, 2010 were as follows:

	2010 US$'000
Salaries and other allowances	143
Bonus	274
Equity-settled share-based payment	32
	449

The emoluments of the individual falls within the band of HK$3,000,001 to HK$3,500,000 for the year ended September 30, 2010.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

10. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the owners of the Company is based on the following data:

	2010 US$'000	2009 US$'000
Earnings (loss):		
Profit (loss) for the year attributable to owners of the Company for the purposes of basic and diluted earnings (loss) per share	21,287	(3,696)

	2010	2009
Number of shares:		
Number (2009: weighed average number) of ordinary shares for the purposes of basic and diluted earnings (loss) per share	4,290,495,163	3,726,010,762

The computation of diluted earnings per share for the year ended September 30, 2010 does not assume the exercise of the Group's share options because the exercise price of those options was higher than the average market price of the shares for the year.

The computation of diluted loss per share for the year ended September 30, 2009 does not assume the exercise of the Group's outstanding Plan Shares (as defined in Note 36) under the Pre-IPO Share Subscription Plan as the subscription price of those Plan Shares were higher than the average market price of the Company for the year then ended prior to its termination on September 4, 2009.

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings US$'000	Office and shopping mall buildings US$'000	Factory buildings and warehouses US$'000	Plant and machinery US$'000	Leasehold improvements US$'000	Furniture, fixture and equipment US$'000	Motor vehicles US$'000	Construction in progress US$'000	Total US$'000
COST									
At October 1, 2008	8,793	31,771	46,334	17,661	55,028	24,005	2,262	29,975	215,829
Exchange realignment	24	97	80	200	88	92	6	22	609
Additions	–	6,819	–	1,056	26,265	4,323	563	8,419	47,445
Acquired on acquisition of subsidiaries	–	–	–	–	5,999	970	240	–	7,209
Transfer	–	–	35,787	–	–	–	–	(35,787)	–
Disposals	–	–	–	(5)	(7,955)	(951)	(155)	–	(9,066)
At September 30, 2009	8,817	38,687	82,201	18,912	79,425	28,439	2,916	2,629	262,026
Exchange realignment	189	844	821	428	1,185	535	61	63	4,126
Additions	–	5,252	–	2,201	11,435	2,648	657	347	22,540
Disposals	–	–	–	(30)	(14,475)	(2,281)	(329)	–	(17,115)
Disposals of subsidiaries	–	(3,498)	(30,042)	–	(298)	(247)	(24)	(3,039)	(37,148)
At September 30, 2010	9,006	41,285	52,980	21,511	77,272	29,094	3,281	–	234,429
DEPRECIATION									
At October 1, 2008	318	488	6,327	3,958	27,824	6,448	902	–	46,265
Exchange realignment	1	2	2	7	121	6	5	–	144
Provided for the year	173	813	2,687	1,546	23,649	4,105	488	–	33,461
Eliminated on disposals	–	–	–	(1)	(3,104)	(603)	(87)	–	(3,795)
At September 30, 2009	492	1,303	9,016	5,510	48,490	9,956	1,308	–	76,075
Exchange realignment	17	33	69	123	692	312	20	–	1,266
Provided for the year	196	873	3,505	1,593	17,889	4,489	390	–	28,935
Eliminated on disposals	–	–	–	(3)	(11,441)	(981)	(198)	–	(12,623)
Eliminated on disposals of subsidiaries	–	(167)	(2,498)	–	(124)	(101)	(14)	–	(2,904)
At September 30, 2010	705	2,042	10,092	7,223	55,506	13,675	1,506	–	90,749
CARRYING VALUE									
At September 30, 2010	8,301	39,243	42,888	14,288	21,766	15,419	1,775	–	143,680
At September 30, 2009	8,325	37,384	73,185	13,402	30,935	18,483	1,608	2,629	185,951

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For the year ended September 30, 2010

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

At the end of the reporting period, office and shopping mall buildings with an aggregate carrying amount of approximately US$3,881,000 (2009: nil) were pledged to secure general banking facilities granted to the Group.

All buildings, office and shopping mall buildings and factory building and warehouses are erected on land with medium-term land use rights in the PRC. As at September 30, 2010, the Group had not been granted formal titles to buildings with an aggregate carrying value of approximately US$4,820,000 (2009: US$2,906,000).

All office and shopping mall buildings are held for leasing under its Property Leasing and Management business.

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

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

12. PREPAID LEASE PAYMENTS

	2010 US$'000	2009 US$'000
The carrying amount of the Group's prepaid lease payments are analysed as follows:		
Non-current assets	27,080	36,985
Current assets	654	1,047
	27,734	38,032

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

At the end of the reporting period, prepaid lease payments with an aggregate carrying amount of approximately US$16,669,000 (2009: nil) were pledged to secure general banking facilities granted to the Group.

13. INTANGIBLE ASSETS

	Customer relationship US$'000	Non-compete agreement US$'000	Brandname US$'000	Total US$'000
COST				
At October 1, 2008	–	–	–	–
Acquired on acquisition of subsidiaries	4,332	38,808	31,702	74,842
Exchange realignment	4	35	29	68
At September 30, 2009	4,336	38,843	31,731	74,910
Exchange realignment	93	827	677	1,597
At September 30, 2010	4,429	39,670	32,408	76,507
AMORTISATION				
At October 1, 2008	–	–	–	–
Provided for the year	132	1,020	–	1,152
Exchange realignment	–	2	–	2
At September 30, 2009	132	1,022	–	1,154
Provided for the year	530	4,097	–	4,627
Exchange realignment	13	101	–	114
At September 30, 2010	675	5,220	–	5,895
CARRYING VALUE				
At September 30, 2010	3,754	34,450	32,408	70,612
At September 30, 2009	4,204	37,821	31,731	73,756

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For the year ended September 30, 2010

13. INTANGIBLE ASSETS (Continued)

Customer relationship and non-compete agreement have finite useful lives and are amortised on a straight-line basis over the following periods:

Customer relationship	8 years
Non-compete agreement	10 years

All of the Group's intangible assets arose from the acquisition of Farsighted International Limited ("Farsighted") on July 10, 2009 and were valued as of that date by American Appraisal China Limited, a firm of independent professional valuers, on the following basis:

Customer relationship	The Excess Earnings method under the Income Approach
Non-compete agreement	The "With and Without" method under the Income Approach
Brandname	The Relief from Royalty method under the Income Approach

In estimating the fair values of the intangible assets on initial recognition, the present values of the net cash flows attributable to the intangible assets were determined using cost of equity of 14% and cost of debt of 6%. Other key assumptions used in the calculations related to the estimation of cash inflows/outflows which included budgeted sales and gross margin. Such estimation was based on the past performance of Farsighted and its subsidiaries and management's expectations for the market development.

The brandname is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows to the Group indefinitely. It is tested for impairment annually and whenever there is an indication that it may have been impaired. Particulars of the impairment testing are set out in Note 15.

14. GOODWILL

	US$'000
COST	
At October 1, 2008	2,101
Transfer when Farsighted became a subsidiary (Note 16)	3,003
Arising on acquisition of subsidiaries (Note 31)	22,518
At September 30, 2009 and 2010	27,622

Particulars regarding impairment testing on goodwill are detailed in Note 15.

15. IMPAIRMENT TESTING ON GOODWILL AND BRANDNAME WITH INDEFINITE USEFUL LIVE

For the purpose of impairment testing, goodwill and brandname of the Group as set out in Note 13 and 14 respectively are allocated to the Retail Business CGU which is expected to benefit from the above-mentioned goodwill and brandname.

During the year ended September 30, 2010, management of the Group determined that the CGU containing goodwill and brandname had not suffered any impairment. The basis of recoverable amount of the above CGU and the major underlying assumptions are summarised below:

The recoverable amount of the CGU has been determined based on the value in use calculation and value as of the end of the reporting period by Vigers Appraisal & Consulting Limited, a firm of independent professional valuers. That calculation uses cash flow projections based on financial budgets approved by management covering a 5 year period and a discount rate of 13% (2009: 14%). The cash flows beyond the five year period are extrapolated using a steady growth rate of 3% (2009: 3%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumption for the value in use calculation relate to the estimation of cash inflows/outflows which included budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the recoverable amount of the CGU to fall below its carrying amount.

16. INTERESTS IN ASSOCIATES/LOANS TO ASSOCIATES

	2010 US$'000	2009 US$'000
Cost of unlisted investments in associates (note i)	5,353	5,353
Share of post-acquisition profits, net of dividends received	3,027	2,176
Share of post-acquisition reserves	729	570
Impairment losses (note ii)	(1,300)	–
	7,809	8,099
Loans to associates (note iii)	7,659	7,499

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For the year ended September 30, 2010

16. INTERESTS IN ASSOCIATES/LOANS TO ASSOCIATES (Continued)

notes:

(i) Included in cost of investments in associates as at October 1, 2008 was goodwill of approximately US$3,003,000 arising from the acquisition of 30% of the issued share capital of Farsighted in prior years. The movement of goodwill is set out as follows:

	US$'000
COST	
At October 1, 2008	3,003
Transfer when Farsighted became a subsidiary (Note 14)	(3,003)
At September 30, 2009 and 2010	–

(ii) During the year, impairment losses of approximately US$1,300,000 were made in respect of the Group's interests in certain associates. The recoverable amounts of the relevant associates were estimated by reference to their fair values less costs to sell, based on the expected disposal proceeds from their anticipated disposals after the end of the reporting period.

(iii) The loans to associates are secured by the equity interests in the relevant associates held by the other major shareholders, interest bearing at the quoted lending rate of People's Bank of China ("PBOC") and have no fixed terms of repayment. Before offering any new loans to associates, the Group will assess the associates' credit qualities and the usages of the loans by the associates. The recoverability of the loans is reviewed throughout the year. In the opinion of the directors, the associates are of good credit qualities. The entire amount of the loans was neither past due nor impaired. The loans are not expected to be repaid within one year and are classified as non-current.

Details of the Group's associates at September 30, 2010 and 2009 are set out in Note 42.

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

	2010 US$'000	2009 US$'000
Total assets	43,853	46,632
Total liabilities	(24,951)	(29,747)
Net assets	18,902	16,885
Group's share of net assets of associates	9,109	8,099
Revenue	47,377	279,258
Profit for the year	2,220	9,664
Group's share of results of associates for the year	851	2,614

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LOANS TO JOINTLY CONTROLLED ENTITIES/DEPOSIT PAID FOR ACQUISITION OF THE REMAINING INTEREST IN A JOINTLY CONTROLLED ENTITY

	2010 US$'000	2009 US$'000
Cost of unlisted investments in jointly controlled entities (notes i and ii)	30,780	34,116
Share of post-acquisition profits, net of dividends received	21,945	45,210
Share of post-acquisition reserves	3,989	4,968
Impairment losses (note iii)	(1,700)	(6,500)
	55,014	77,794
Loans to jointly controlled entities (note iv)	58,042	73,613
Deposit paid for acquisition of the remaining interest in a jointly controlled entity (note v)	19,223	–

notes:

(i) Included in cost of investments in jointly controlled entities is goodwill of approximately US$2,119,000 arising from the acquisition of 50% of the issued share capital of a jointly controlled entity during the year. The movement of goodwill is set out as follows:

	US$'000
COST	
At October 1, 2009	–
Arising on acquisition of a jointly controlled entity	2,119
At September 30, 2010	2,119

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LOANS TO JOINTLY CONTROLLED ENTITIES/DEPOSIT PAID FOR ACQUISITION OF THE REMAINING INTEREST IN A JOINTLY CONTROLLED ENTITY (Continued)

notes: (continued)

(ii) Pursuant to the joint venture agreements, the initial investment made by the Group for certain jointly controlled entities were subject to a price adjustment mechanism which is determined by the financial performance achieved by the jointly controlled entities during the specified profit evaluation periods, which range from 2 to 3 years, and expired between December 31, 2008 and August 31, 2010, as appropriate. If the financial performance of jointly controlled entities during the specified profit evaluation period did not meet certain benchmarks, the other joint venture partner of that jointly controlled entity had to compensate the Group for the price adjustment either by cash or by transferring a portion of its equity interest in such jointly controlled entity to the Group. If the financial performance of the jointly controlled entities during such profit evaluation period exceeded certain benchmarks, then the Group was required to make additional cash contribution to those jointly controlled entities. At October 1, 2008, September 30, 2009 and September 30, 2010, the fair values of the estimated compensation and/or contributions in respect of the price adjustment mechanism were not material.

(iii) During the year ended September 30, 2010 and 2009, impairment losses of approximately US$1,700,000 (2009: US$6,500,000) were made in respect of the Group's interests in certain jointly controlled entities which the Group expected to dispose of after the end of the reporting period. The recoverable amounts of the relevant jointly controlled entities were estimated by reference to their fair values less costs to sell, based on the expected disposal proceeds from their anticipated disposals after the end of the reporting period.

During the year ended September 30, 2010, the Group recognised loss on disposals of certain other jointly controlled entities upon the disposals of these jointly controlled entities during the year, calculated as the difference between the net disposal proceeds and the carrying amounts of the jointly controlled entities.

(iv) The loans to jointly controlled entities are secured by the equity interests in the relevant jointly controlled entities held by the other venture partners, interest bearing at the quoted lending rate of PBOC and have no fixed terms of repayment. Before offering any new loans to jointly controlled entities, the Group will assess the jointly controlled entities' credit qualities and the usages of the loans by the jointly controlled entities. The recoverability of the loans is reviewed throughout the year. In the opinion of the directors, the jointly controlled entities are of good credit qualities. The entire amount of the loans was neither past due nor impaired. The loans are not expected to be repaid within one year and are classified as non-current.

(v) The entire amount as at September 30, 2010 represented the deposit paid for acquisition of the remaining 50% of the issued share capital of a jointly controlled entity, Zhejiang Yichuan Sports Goods Chain Company Limited ("Zhejiang Yichuan") not already held by the Group by exercising the call options granted by the Relevant Partners (as defined in Note 20) of Zhejiang Yichuan. The call options were recognised on the consolidated statement of financial position of the Group as derivative financial instruments, as set out in Note 20. The principal activities of Zhejiang Yichuan are retailing of sportswear and sports footwear in the PRC.

The acquisition was completed in October, 2010, further details of which are set out in Note 44.

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES/LOANS TO JOINTLY CONTROLLED ENTITIES/DEPOSIT PAID FOR ACQUISITION OF THE REMAINING INTEREST IN A JOINTLY CONTROLLED ENTITY (Continued)

Details of the Group's principal jointly controlled entities at September 30, 2010 and 2009 are set out in Note 43.

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

	2010 US$'000	2009 US$'000
Non current assets	10,200	24,305
Current assets	155,329	205,715
Total assets	165,529	230,020
Current liabilities	(110,934)	(145,726)
Net assets	54,595	84,294
Revenue	373,484	433,268
Expense and income tax expense	(363,594)	(405,583)
Profit for the year	9,890	27,685

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18. LONG-TERM LOAN RECEIVABLES

These relate to loan receivables due from certain former jointly controlled entities which carry variable interests ranging from 5.31% to 5.4% per annum. The Group has assessed the counterparties' credit quality and the recoverability of these long-term loan receivables. In the opinion of the Directors, the borrowers are of good credit quality.

	2010 US$'000	2009 US$'000
The loan receivables are expected to be repayable as follows:		
Within one year	19,386	–
More than one year, but not exceeding two years	9,156	–
More than two years, but not exceeding three years	8,486	–
	37,028	–
Less: amount due within one year shown under current assets (Note 23)	(19,386)	–
Amount due after one year	17,642	–
Analysed as:		
Secured	32,899	–
Unsecured	4,129	–
	37,028	–

At September 30, 2010, the above loans were neither past due nor impaired. The collaterals for the secured portion of these loans are certain assets of the relevant entities. The Group is not permitted to sell or repledge the collaterals in the absence of default by the borrowers.

19. AVAILABLE-FOR-SALE INVESTMENTS

	2010 US$'000	2009 US$'000
Available-for-sale investments comprise unlisted equity securities:		
Private entity (note i)	100	1,000
Unlisted funds (note ii)	8,227	–
	8,327	1,000
Analysed for reporting purposes as:		
Non-current assets	100	1,000
Current assets	8,227	–
	8,327	1,000

notes:

(i) Private entity
The amount represents unlisted equity securities issued by a private entity incorporated in BVI that engages in the business of retailing of sportswear in the PRC.

During the year, the entity experienced significant financial difficulties and an impairment loss of US$900,000 was recognised in profit or loss.

(ii) Unlisted funds
Amount represents units in investment funds managed by financial institutions. The underlying assets of the funds comprise unlisted bonds issued in the PRC by government, central bank, banks and corporate entities.

All of the Group's available-for-sale investments are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates was so significant that the directors are of the opinion that their fair value could not be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

20. DERIVATIVE FINANCIAL INSTRUMENTS

	2010 US$'000	2009 US$'000
Derivative financial assets, analysed for reporting purposes as non-current assets comprise:		
Call options for acquisition of additional interests in subsidiaries, associates and jointly controlled entities	46,024	55,321

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

The Call Options are exercisable within five years commencing from December 6, 2008, the expiry of the first six months after dealing in the shares of the Company on the Stock Exchange commenced, and upon the mutual agreements between the Company and the Relevant Partners on certain conditions stipulated in the respective agreements in respect of the performance of the Relevant Companies during the pre-determined evaluation periods, such conditions were not yet fulfilled at the end of the reporting period except for the Call Options granted by the Relevant Partners of Zhejiang Yichuan.

Pursuant to the Call Options agreements, each of the Relevant Partners has agreed not to transfer or dispose of the Relevant Equity Interests during the Call Options exercisable period without the Group's prior written consent. Furthermore, the consideration for acquiring the Relevant Equity Interests is to be determined based on the actual profit of the Relevant Companies attributable to the Relevant Partners during the pre-determined evaluation periods and the price earnings ratio of the Company during a specified period and after certain discount agreed between the Company and the Relevant Partners. The consideration is to be settled by the issue of shares in the Company at the average price during the same specified period and after deducting the Option Premium paid.

20. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The value of each of the Call Options at September 30, 2010 was valued by Savills Valuation and Professional Services Limited, an independent valuer, using the binomial model. The key inputs into the model include estimated earnings of the Relevant Companies and expected price earning ratio of the Company at the time of exercise of the options and further details are set out below.

	2010	2009
Derivative financial assets – Call Options:		
Expected price earning ratio – the Company	24	35
Expected volatility – the Company	53%	56%
Expected volatility – the Relevant Companies	34%	37%
Risk free rate	2.36%	2.73%
Exercisable period	3.18 years	4.2 years
Expected dividend yield	Nil	Nil

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

During the year, the Group exercised the call options granted by the Relevant Partners of Zhejiang Yichuan for their Relevant Equity Interests thereof. As at the completion date of the transaction, the carrying amount of the relevant call options of approximately US$8,060,000 were derecognised and included as cost of investment in Zhejiang Yichuan. As set out in Note 44, the transaction has been completed in October 2010 and the relevant Call Options been derecognised thereafter.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

21. DEFERRED TAXATION

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

	Tax losses US$'000	Undistributed earnings of PRC entities US$'000	Fair value adjustments on business combination US$'000	Total US$'000
At October 1, 2008	(1,908)	3,044	–	1,136
Acquired on acquisition of subsidiaries	–	1,992	18,710	20,702
Charge (credit) to the consolidated income statement	693	(578)	(288)	(173)
At September 30, 2009	(1,215)	4,458	18,422	21,665
Credit to the consolidated income statement	(1,078)	–	(1,185)	(2,263)
At September 30, 2010	(2,293)	4,458	17,237	19,402

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

	2010 US$'000	2009 US$'000
Deferred tax assets	(2,293)	(1,215)
Deferred tax liabilities	21,695	22,880
	19,402	21,665

At the end of the reporting period, the Group had unused tax losses of US$45.8 million (2009: US$32.7 million) available for offset against future profits. A deferred tax asset has been recognised in respect of US$9.2 million (2009: US$4.9 million) of such losses. No deferred tax asset has been recognised in respect of the remaining unused tax loss of US$36.6 million (2009: US$27.8 million) due to the unpredictability of future profit streams.

21. DEFERRED TAXATION (Continued)

The unused tax losses will expire as follows:

	2010 US$'000	2009 US$'000
2012	7,435	7,580
2013	9,845	25,100
2014	28,524	–
	45,804	32,680

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of PRC subsidiaries amounting US$202.4 million (2009: US$139.1 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Included in these accumulated profits of PRC subsidiaries are profits arising from PRC associates and jointly controlled entities that have been equity accounted for in the Group's consolidated financial statements amounting to US$43.6 million (2009: US$30.3 million). The Group is able to control the timing of the reversal of such temporary differences as these investments are made through PRC subsidiaries and it is probable that the temporary differences will not reverse in the foreseeable future.

22. INVENTORIES

	2010 US$'000	2009 US$'000
Raw materials	4,641	3,773
Work in progress	4,947	8,090
Finished goods	252,461	288,584
	262,049	300,447

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23. TRADE AND OTHER RECEIVABLES

	2010 US$'000	2009 US$'000
Trade receivables	122,780	115,469
Deposits, prepayments and other receivables	126,384	76,977
	249,164	192,446

Deposits, prepayments and other receivables represent:

	2010 US$'000	2009 US$'000
Consideration receivable for disposal of subsidiaries (Note 32)	25,027	–
Long-term loan receivables – due within one year	19,386	–
Deposits paid to suppliers	11,240	8,823
Rental deposits and prepayments	10,969	4,791
Value-added tax recoverable	6,413	10,364
Consideration receivable for disposal of a jointly controlled entity (note)	6,404	–
Other prepayments	26,254	30,156
Others	20,691	22,843
	126,384	76,977

note: Amount represents the consideration receivable from the buyer of the interests in a jointly controlled entity being disposed of by the Group during the year. The directors have assessed the credit quality of the buyer and continuously assessed the recoverability of such amount. The directors consider the buyer is of good credit quality.

23. TRADE AND OTHER RECEIVABLES (Continued)

The Group generally allows an average credit period of 30 days to 60 days which are agreed with each of its trade customers. The aged analysis of the Group's trade receivables, based on the invoice date, is as follows:

	2010 US$'000	2009 US$'000
0 – 30 days	118,858	108,283
31 – 90 days	2,902	5,897
Over 90 days	1,020	1,289
	122,780	115,469

Included in trade receivables are trade balances with related companies of approximately US$12,473,000 (2009: US$9,014,000), details of the relevant transactions are set out in Note 38.

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of US$1,877,000 (2009: US$2,386,000) which were past due as at the reporting date and for which the Group has not provided for impairment loss because management is of the opinion the fundamental credit quality of these customers has not deteriorated. The Group does not hold any collateral over these balances. The average age of these receivables is approximately 105 days for both years. Aging of trade receivables, based on the payment due date, which is past due but not impaired, is as follows:

	2010 US$'000	2009 US$'000
61 – 90 days	857	1,097
Over 90 days	1,020	1,289
	1,877	2,386

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For the year ended September 30, 2010

23. TRADE AND OTHER RECEIVABLES (Continued)

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

Movement in the allowance for doubtful debt

	2010 US$'000	2009 US$'000
Balance at beginning of the year	349	314
Impairment losses recognised on trade receivables	422	35
Balance at the end of the year	771	349

24. AMOUNTS DUE FROM RELATED PARTIES

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

			Maximum amount outstanding for year ended September 30,	
	2010 US$'000	2009 US$'000	2010 US$'000	2009 US$'000
Jointly controlled entities	14,307	8,493	14,307	8,493
Non-controlling interests of subsidiaries	–	732	732	1,801
	14,307	9,225		

The amounts are unsecured, interest-free and expected to be recovered within one year. The directors consider the related parties are of good credit qualities because all amounts are neither past due nor impaired and have no default payment history.

25. BANK BALANCES AND CASH

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

During the year, the bank deposits carried variable interest rates ranging from 0.01% to 2.35% (2009: 0.01% to 4.42%) per annum.

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

	2010 US$'000	2009 US$'000
USD	19,010	34,571
Hong Kong dollars ("HKD")	3,821	1,084
	22,831	35,655

26. TRADE AND OTHER PAYABLES

	2010 US$'000	2009 US$'000
Trade payables	98,944	120,205
Bills payables	483	405
Other payables	68,490	68,485
	167,917	189,095

Other payables represent:

	2010 US$'000	2009 US$'000
Accruals	28,234	24,503
Receipt in advance from customers	16,849	12,280
Royalty payable	1,435	1,099
Others	21,972	30,603
	68,490	68,485

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26. TRADE AND OTHER PAYABLES (Continued)

The aged analysis of the Group's trade and bills payables, based on invoice date, is as follows:

	2010 US$'000	2009 US$'000
0 – 30 days	97,431	105,539
31 – 90 days	1,138	14,620
Over 90 days	858	451
	99,427	120,610

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

Included in trade payables are trade balances with related companies of approximately US$78,000 (2009: US$661,000). Details of the relevant transactions are set out in Note 38.

27. AMOUNTS DUE TO RELATED PARTIES

Particulars of the amounts due to related parties:

	2010 US$'000	2009 US$'000
Non-controlling interests of subsidiaries	1,024	1,088

Amounts represent temporary fund transfers, which are non-trade in nature. They are unsecured, interest-free and repayable on demand.

28. BANK BORROWINGS

	2010 US$'000	2009 US$'000
The bank borrowings are repayable:		
Within one year	184,353	253,589
More than one year, but not exceeding two years	33,611	6,152
More than two years, but not exceeding three years	–	14,500
	217,964	274,241
Less: amount included in current liabilities	(184,353)	(253,589)
Amount due after one year	33,611	20,652
Analysed as:		
Secured	17,502	–
Unsecured	200,462	274,241
	217,964	274,241

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

	2010 US$'000	2009 US$'000
Fixed rate borrowings	3,590	5,860
Variable rate borrowings	214,374	268,381
	217,964	274,241

The secured bank borrowings were secured by certain of the Group's property, plant and equipment. The carrying amount of the assets pledged is disclosed in Notes 11 and 12.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

28. BANK BORROWINGS (Continued)

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

	2010	2009
Effective interest rate:		
Fixed rate borrowings	6.08%	6.08%
Variable rate borrowings	1.02% – 5.67%	2.00% to 7.20%

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

	2010 US$'000	2009 US$'000
USD	56,000	44,500

29. SHARE CAPITAL

	Number of shares	Nominal value HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At October 1, 2008, September 30, 2009 and 2010	30,000,000,000	300,000
Issued and fully paid:		
At October 1, 2008	3,567,559,000	35,676
Issue of shares upon acquisition of subsidiaries (note i)	301,314,541	3,013
Issue of shares to Yue Yuen (note ii)	421,621,622	4,216
At September 30, 2009 and 2010	4,290,495,163	42,905

29. SHARE CAPITAL (Continued)

	US$'000
Shown in the consolidated financial statements as:	
At September 30, 2009 and 2010	5,504

notes:

(i) In January 2009, the Group entered into a sales and purchase agreement for the acquisition of the remaining 70% interest in Farsighted not already owned by the Group by the issue of 301,314,541 ordinary shares of HK$0.01 each as part of the consideration. Details of the acquisition are set out in Note 31.

(ii) In January 2009, the Group also entered into a share subscription agreement with Yue Yuen for the subscription of 421,621,622 ordinary shares of HK$0.01 each in the Company at a subscription price of HK$0.925 per share to finance the acquisition of Farsighted. The shares were issued to Yue Yuen in July 2009.

30. INFORMATION OF THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2010 US$'000	2009 US$'000
Assets and liabilities		
Property, plant and equipment	70	173
Investments in subsidiaries	167,426	166,010
Other receivables	894	872
Amounts due from subsidiaries	462,825	408,079
Bank balances and cash	10,979	24,270
Total assets	642,194	599,404
Other payables	1,416	6,636
Bank borrowings	49,500	–
Total liabilities	50,916	6,636
	591,278	592,768
Capital and reserves		
Share capital	5,504	5,504
Reserves (note i)	585,774	587,264
	591,278	592,768

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

30. INFORMATION OF THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

notes:

(i) Reserves

	Share premium US$'000	Contributed surplus US$'000 (note ii)	Share-based compensation reserve US$'000	Accumulated losses US$'000	Total US$'000
At October 1, 2008	348,989	166,010	706	(13,077)	502,628
Loss and total comprehensive expense for the year	–	–	–	(19,328)	(19,328)
Issue of shares for acquisition of subsidiaries	41,984	–	–	–	41,984
Issue of shares to Yue Yuen	49,459	–	–	–	49,459
Recognition of equity-settled share-based payment	–	–	12,521	–	12,521
Cancellation of Pre-IPO Share Subscription Plan	–	–	(13,227)	13,227	–
At September 30, 2009	440,432	166,010	–	(19,178)	587,264
Loss and total comprehensive expense for the year	–	–	–	(3,068)	(3,068)
Recognition of equity-settled share-based payment	–	–	1,578	–	1,578
At September 30, 2010	440,432	166,010	1,578	(22,246)	585,774

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

31. ACQUISITION OF SUBSIDIARIES

For the year ended September 30, 2009

(i) On July 10, 2009, the Group completed the acquisition of 70% of the issued share capital of Farsighted not yet held by the Group. The principal activities of Farsighted are retailing of sportswear and sports footwear in the PRC.

The consideration consisted of (i) cash in the amount of approximately US$54,947,000 and (ii) a maximum of 393,584,541 ordinary shares of HK$0.01 each at the market price of HK$1.09 at the date of exchange for control of Farsighted, of which 301,314,541 shares were issued upon completion of the acquisition during the year and the remaining 92,270,000 shares would only be issued if the aggregate profits of Farsighted for the two years ended September 30, 2010 reached certain predetermined levels ("Targeted Profit Levels").

As the Targeted Profit Levels were not reached, none of the contingently issuable shares have been issued during the year ended September 30, 2010.

(ii) On November 1, 2008, the Group acquired 65.67% of the issued share capital of Business Network Holdings Limited ("Business Network") for a consideration of US$307,000. The principal activities of Business Network are retailing of sportswear and sports footwear in the PRC.

The transactions have been accounted for using the purchase method of accounting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

31. ACQUISITION OF SUBSIDIARIES (Continued)

The net assets acquired in the transactions, and the goodwill arising, are as follows:

	Farsighted			Business Network	
	Carrying amount before combination US$'000	Fair value adjustments US$'000	Fair value US$'000	Carrying amount and fair value US$'000	2009 Total US$'000
Net assets acquired:					
Property, plant and equipment	6,651	–	6,651	558	7,209
Intangible assets	–	74,842	74,842	–	74,842
Inventories	62,785	–	62,785	6,373	69,158
Trade and other receivables	30,081	–	30,081	3,289	33,370
Amounts due from related parties	4,885	–	4,885	–	4,885
Bank balances and cash	2,999	–	2,999	124	3,123
Trade and other payables	(21,380)	–	(21,380)	(738)	(22,118)
Taxation payable	(5,290)	–	(5,290)	–	(5,290)
Amounts due to related parties	(21,170)	–	(21,170)	(7,138)	(28,308)
Bank borrowings	(19,316)	–	(19,316)	–	(19,316)
Deferred tax liabilities	(1,992)	(18,710)	(20,702)	–	(20,702)
	38,253	56,132	94,385	2,468	96,853
Non-controlling interests	–	–	–	(2,161)	(2,161)
	38,253	56,132	94,385	307	94,692
Interest in associates – interest previously held before combination			(11,476)	–	(11,476)
Fair value adjustments attributable to the Group's interests in Farsighted before combination			(8,108)	–	(8,108)
			74,801	307	75,108
Goodwill (Note 14)			22,518	–	22,518
Total consideration			97,319	307	97,626
Satisfied by:					
Cash			54,947	307	55,254
Shares of the Company			42,372	–	42,372
			97,319	307	97,626
Net cash outflow arising on acquisition:					
Cash consideration paid			(54,947)	(307)	(55,254)
Bank balances and cash acquired			2,999	124	3,123
			(51,948)	(183)	(52,131)

31. ACQUISITION OF SUBSIDIARIES (Continued)

During the year ended September 30, 2009, the subsidiaries acquired contributed a loss of approximately US$4,098,000 to the Group's loss for the year between the respective dates of acquisitions and September 30, 2009.

During the year ended September 30, 2009, the issue of the 301,314,541 shares for the acquisition of Farsighted was a major non-cash transaction of the Group.

If the acquisition had been completed on October 1, 2008, total revenue of the Group for the year ended September 30, 2009 would have been US$1,338,599,000, and the Group would have recorded a profit for that year of US$491,000. This pro forma information is for illustration purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on October 1, 2008, nor is it intended to be a projection of future results.

The directors consider the goodwill arising on acquisition of Farsighted was attributable to the anticipated future operating synergies of the Group's retailing business of sportswear and sports footwear in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

32. DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of (i) the entire interest in Hubei Shengdao Sports Goods Company Limited and its subsidiaries to an independent third party; and (ii) the entire interest in Hong Kong Dragonlight Limited and its subsidiary to another independent third party.

The aggregate amounts of the assets and liabilities attributable to these subsidiaries on the respective dates of disposal were as follows:

	US$'000
Net assets disposed of:	
Property, plant and equipment	34,244
Prepaid lease payment	10,061
Trade and other receivables	2,928
Bank balances and cash	94
Trade and other payables	(21,243)
Shareholder's loan	(20,927)
	5,157
Non-controlling interests	(1,222)
	3,935
Assignment of shareholder's loan	20,927
Gain on disposal of subsidiaries	1,776
Total consideration	26,638
Satisfied by:	
Cash	1,611
Consideration receivables (included in deposits, prepayments and other receivables)	25,027
	26,638
Net cash inflow (outflow) arising on disposal:	
Cash consideration received	1,611
Bank balances and cash disposed of	(94)
	1,517

32. DISPOSAL OF SUBSIDIARIES (Continued)

Consideration receivables are unsecured, interest-free and will be recovered within one year. The directors of the Company have assessed the buyer's credit quality. The directors have continuously assessed the recoverability of consideration receivables. In the opinion of the directors, the buyer is of good credit quality.

The subsidiaries disposed of during the year did not contribute significantly to the results and cash flows of the Group during the period prior to the disposal.

33. OPERATING LEASES

The Group as lessee

The Group made the following lease payments during the year:

	2010 US$'000	2009 US$'000
Operating lease rentals in respect of:		
Minimum lease payments:		
– street level stores	22,696	27,627
– shopping mall stores	22,379	21,806
– other properties	7,295	8,282
	52,370	57,715
Contingent rentals:		
– street level stores	636	778
– shopping mall stores	97,362	81,123
– other properties	3,650	3,636
	101,648	85,537
	154,018	143,252

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

33. OPERATING LEASES (Continued)

The Group as lessee (Continued)

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

	2010 US$'000	2009 US$'000
Within one year	36,204	42,287
In the second to fifth year inclusive	53,912	83,588
Over five years	14,542	10,787
	104,658	136,662

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

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

The Group as lessor

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

	2010 US$'000	2009 US$'000
Within one year	2,191	1,207
In the second to fifth year inclusive	7,848	3,418
Over five years	6,524	7,009
	16,563	11,634

In addition to the basic rental receipts as disclosed above, the lease agreements with the tenants also include provision for the payment of contingent rents to the Group. In general, these contingent rents are calculated with reference to the revenue generated by the tenants operating in the Group's retailing complex using pre-determined formulae. It is not possible to estimate in advance the amount of such contingent rents receivable. Rental income received by the Group during the year amounted to US$9,337,000 (2009: US$6,244,000), included in which was contingent rental income arising from contingent lease contracts of US$8,130,000 (2009: US$5,663,000).

34. CAPITAL COMMITMENTS

	2010 US$'000	2009 US$'000
Capital expenditures contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of the remaining interests in a jointly controlled entity	8,969	–
– acquisition of property, plant and equipment	–	1,997
Other commitments contracted for but not provided in the consolidated financial statements in respect of capital investment in jointly controlled entities	1,556	1,523
	10,525	3,520

Save as disclosed above and in Note 17, the Group had no other material capital commitments.

35. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had contingent liabilities as follow:

	2010 US$'000	2009 US$'000
Guarantee given to banks in respect of banking facilities granted to jointly controlled entities		
– amount guaranteed	20,494	44,086
– amount utilised	17,444	34,840

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36. SHARE-BASED PAYMENT TRANSACTIONS

The Company had/has the following incentive plans to motivate and reward its directors and employees:

(I) Pre-IPO Share Subscription Plan

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

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

notes:

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

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

The fair value of the subscription right for the Plan Shares on the date of invitation was calculated using the binomial model, which involved assumptions and variables based on the directors' best estimates.

On September 4, 2009, the Company and all grantees (except for those who left the Group already and whose subscription rights lapsed automatically) agreed to terminate all the existing outstanding subscriptions and agreed to release each other from their respective obligations under the Plan so that the Company would not be required to issue new shares and the relevant grantees would not be required to subscribe for new shares of the Company.

36. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

The total fair value of the subscription right for the Plan Shares on the grant date was US$13,227,000, of which an amount of US$706,000 was recognised as expense in the year ended September 30, 2008 and the balance of US$12,521,000 was recognised as an administrative expense for the year ended September 30, 2009, of which US$8,787,000 was recognised as a result of accelerated recognition following the effective cancellation of the Plan.

(II) Share Option Scheme

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

Without prior approval from the Group's shareholder, (i) the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time; (ii) the number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time; and (iii) options in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million may not be granted to substantial shareholders or independent non-executive directors.

Options are exercisable over the vesting periods to be determined by the Board of Directors. The exercise price is determined by the Board of Directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

No options were granted, exercised or lapsed under the Scheme during the year ended September 30, 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(II) Share Option Scheme (Continued)

The following tables disclose movements in the Company's share options under the Scheme during the year ended September 30, 2010:

	Date of grant	Exercise price HK$	Exercisable period	Number of options outstanding at 1.10.2009	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Number of options outstanding at 30.9.2010
Director								
Chang Karen Yi-Fen	21.1.2010	1.62	21.1.2011 - 20.1.2018	-	570,000	-	-	570,000
	21.1.2010	1.62	21.1.2012 - 20.1.2018	-	570,000	-	-	570,000
	21.1.2010	1.62	21.1.2013 - 20.1.2018	-	1,140,000	-	-	1,140,000
	21.1.2010	1.62	21.1.2014 - 20.1.2018	-	1,520,000	-	-	1,520,000
				-	3,800,000	-	-	3,800,000
Employees								
	21.1.2010	1.62	21.1.2011 - 20.1.2018	-	9,105,000	-	(748,500)	8,356,500
	21.1.2010	1.62	21.1.2012 - 20.1.2018	-	9,105,000	-	(748,500)	8,356,500
	21.1.2010	1.62	21.1.2013 - 20.1.2018	-	18,210,000	-	(1,497,000)	16,713,000
	21.1.2010	1.62	21.1.2014 - 20.1.2018	-	24,280,000	-	(1,996,000)	22,284,000
				-	60,700,000	-	(4,990,000)	55,710,000
Grand total				-	64,500,000	-	(4,990,000)	59,510,000
Exercisable as at September 30, 2009 and 2010				-				-

At September 30, 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme represented 1.4% (2009: nil) of the issued share capital at that date.

36. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(II) Share Option Scheme (Continued)

The total fair value of the share options granted under the Scheme during the year ended September 30, 2010 is HK$44,322,000 (equivalent to approximately US$5,709,000). The fair value of the share options granted during the current year is calculated using the Black-Scholes Option Pricing Model (the "Model"). The inputs into the Model and the estimated fair value of the share options are as follows:

	Share options with a vesting period of one year	Share options with a vesting period of two years	Share options with a vesting period of three years	Share options with a vesting period of four years
Exercise price	HK$1.62	HK$1.62	HK$1.62	HK$1.62
Share price at date of grant	HK$1.62	HK$1.62	HK$1.62	HK$1.62
Expected life of share options	4.5 years	5.0 years	5.5 years	6.0 years
Expected volatility	54% per annum	54% per annum	54% per annum	54% per annum
Expected dividend yield	1%	1%	1%	1%
Risk free rates	1.7% per annum	1.8% per annum	2.0% per annum	2.1% per annum
Fair value per share option	HK$0.69	HK$0.72	HK$0.75	HK$0.78

The Model is one of the commonly used models to estimate the fair value of the share options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of a share option varies with different variables of certain subjective assumptions.

Expected volatility was determined by using the historical volatility of the Company's share price over the past year. The early exercise assumption used in the Model has been estimated, based on management's best estimate, for the effect of behavioural considerations.

The Group recognised a total expense of US$1,578,000 for the year ended September 30, 2010 (2009: nil) in relation to share options granted by the Company under the Scheme.

37. RETIREMENT BENEFIT PLANS

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

The Group also operates a Mandatory Provident fund Scheme ("MPF Scheme") for all its qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustees. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules.

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37. RETIREMENT BENEFIT PLANS (Continued)

The total cost of US$8,949,000 (2009: US$8,534,000) charged to consolidated income statement represents contribution paid or payable to the above retirement benefit plans by the Group for the year.

At the end of the reporting periods, the Group had no significant obligation apart from the contribution as stated above.

38. RELATED PARTY DISCLOSURES

(I) Transactions and trade balances

the Group had the following related party transactions and trade balances:

Relationship	Nature of transactions/balances	2010 US$'000	2009 US$'000
Substantial shareholder of the Company and its affiliates other than the Group			
Yue Yuen	Subscription of shares in the Company (Note 29)	–	50,000
Substantial shareholder of Yue Yuen	Purchase of sportswear products	256	249
	Trade payables at September 30,	–	45
Associates and jointly controlled entities of the Group			
Associates (note)	Sales of sportswear products	2,886	3,250
	Purchase of sportswear products	–	357
	Interest income	379	49
	Management fee received	214	356
	Trade receivables at September 30,	4,902	2,674
Jointly controlled entities	Sales of sportswear products	25,700	7,828
	Purchase of sportswear products	215	685
	Interest income	1,116	1,862
	Management fee received	192	81
	Trade receivables at September 30,	7,571	6,340
	Trade payables at September 30,	78	616
Other related parties			
Joint venture partners of jointly controlled entities of the Group	Considerations for disposals of jointly controlled entities	17,489	–

note: The amounts include transactions with Farsighted up to July 10, 2009.

38. RELATED PARTY DISCLOSURES (Continued)

(II) Non-trade balances

Details of the Group's non-trade balances with related parties are set out on the consolidated statement of financial position and in Notes 16, 17, 24 and 27.

(III) Guarantees

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

	2010 US$'000	2009 US$'000
Non-controlling interests of subsidiaries on a joint and several basis	3,775	4,306

Details of the Group's guarantees to certain jointly controlled entities are set out in Note 35.

In addition, the Group is a party to certain bank facilities that include conditions specifying the minimum equity interest of the Company to be held, directly or indirectly, by Yue Yuen and any breach of such obligation will cause a default in respect of the loans. At September 30, 2010, the aggregate balance of the bank borrowings under such facilities was approximately US$30,000,000 (2009: nil).

(IV) Compensation of key management personnel

	2010 US$'000	2009 US$'000
Short term benefits	2,633	4,702
Post employment benefits	6	8
Equity-settled share-based payments	375	7,523
	3,014	12,233

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

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39. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which include the borrowings disclosed in Note 28, and equity attributable to owners of the Company, comprising issued share capital, various reserves and accumulated profits.

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

40. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2010 US$'000	2009 US$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	465,403	403,090
Derivative financial instruments	46,024	55,321
Available-for-sale investments	8,327	1,000
Financial liabilities		
Amortised cost	334,369	421,423

(b) Financial risk management objectives

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

40. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Market risk

(i) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances (Note 25), loans to associates (Note 16) and jointly controlled entities (Note 17), loan receivables (Note 18) and bank borrowings (Note 28). Management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see Note 28 for details respectively).

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates of variable rate bank balances and borrowings. The analysis is prepared assuming all of the above amounts outstanding at the end of the reporting period were outstanding for the whole year. A 10 basis point increase or decrease for bank balances in the PRC and 50 basis points for loans to associates and jointly controlled entities, loan receivables and borrowings are used and represent management's assessment of the reasonably possible change in interest rates for each of the two years ended September 30, 2010.

If interest rates on interest bearing bank balances, loans to associates and jointly controlled entities, loan receivables and bank borrowings had been 10 or 50 basis points higher/lower, as appropriate, and all other variables were held constant, the Group's profit for the year would decrease/increase by approximately US$294,000 (2009: loss for the year increase/decrease by US$568,000).

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

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40. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Market risk (Continued)

(ii) Foreign exchange risk

Certain subsidiaries of the Company have foreign currency bank balances and bank borrowings as detailed in Notes 25 and 28, respectively, which expose the Group to foreign exchange risk, whilst over 90% of the Group's sales and purchases are denominated in the respective group entities' functional currency.

Sensitivity analysis

The following is the Group's sensitivity to a 5% increase and decrease in RMB against USD. 5% is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis mainly includes the Group's USD bank balances and bank borrowings. Where RMB strengthens against USD by 5%, the Group's profit for the year would increase by US$1,387,000 (2009: loss for the year ended decrease by US$372,000), while a 5% weakening of RMB against USD, there would be an equal and opposite impact on the profit and balances would be negative.

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

(iii) Other price risk

The Group is exposed to other price risk arising from the Call Options. The fair values of the Call Options were calculated using the binomial model and amongst other inputs, the estimates of earnings of the Relevant Companies and the price earnings ratio of the Company. Details of which are set out in Note 20.

40. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Market risk (Continued)

(iii) Other price risk (Continued)

Sensitivity analysis

As set out in Note 20, the fair values of the Call Options were valued using the binomial model, which uses cash flow projections based on assumptions that are not supported by observable current market transactions nor based on available observable market data. The fair values of the Call Options recognised in the financial statements would have been changed significantly if one or more of those assumptions were changed.

If the inputs to the valuation model had been 10% higher/lower while all variables were held constant, the profit for the year ended September 30, 2010 would have increase (decreased) and the loss for the year ended September 30, 2009 would have (increased) decreased as follows:

	2010		2009	
	Higher by 10%	Lower by 10%	Higher by 10%	Lower by 10%
	US$'000	US$'000	US$'000	US$'000
Growth rate	689	(615)	1,892	(1,863)
Expected price earnings ratio				
– the Company	(978)	1,147	(1,781)	1,902

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

40. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Credit risk

As at September 30, 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and

- the amount of contingent liabilities in relation to financial guarantees issued by the Group as disclosed in Note 35.

The Group's customer base is diverse and the trade receivables consist of a large number of customers. In order to minimise the credit risk arising from its open account sales, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are provided for irrecoverable amounts. In this regard, the directors consider that the credit risk is significantly reduced.

In addition to the credit risk on trade debts, the Group is also exposed to concentration of credit risk on its advances to, and guarantees granted to banks on behalf of, two associates and eight jointly controlled entities, which account for over 14% (2009: 20%) of its loans and receivables. Such sums are secured by the equity interests of the other joint venture partners in these entities as collateral for the advances. In addition, because of the Group's involvement in the management of these entities, the Group is in a position to monitor their financial performance and would take timely actions to safeguard its assets and/or to minimise its losses. Accordingly, management believes that the Group's exposure to the credit risk associated with these loans is significantly reduced.

The Group's concentration of credit risk by geographical locations is mainly in PRC, which covered over 90% (2009: over 90%) of its total receivables as at September 30, 2010.

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

40. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Liquidity risk

The Group relies on bank borrowings as a significant source of liquidity. Details of which are set out in Note 28.

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

The following table details the contractual maturity of the Group's financial liabilities based on the agreed repayment terms. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is based on the interest rate at the end of the reporting periods.

	Weighted average interest rate %	0 to 30 days US$'000	31 to 90 days US$'000	91 to 365 days US$'000	Over 1 year US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
As at September 30, 2010							
Non-interest bearing	–	114,408	1,138	859	–	116,405	116,405
Fixed interest rate instruments	6.08%	3,590	–	–	–	3,590	3,590
Variable interest rate instruments	3.35%	142,540	–	39,179	34,737	216,456	214,374
		260,538	1,138	40,038	34,737	336,451	334,369
Financial guarantee contracts	–	20,494	–	–	–	20,494	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

40. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Liquidity risk (Continued)

	Weighted average interest rate %	0 to 30 days US$'000	31 to 90 days US$'000	91 to 365 days US$'000	Over 1 year US$'000	Total undiscounted cash flows US$'000	Carrying amount US$'000
As at September 30, 2009							
Non-interest bearing	-	144,376	1,702	1,104	-	147,182	147,182
Fixed interest rate instruments	6.08%	-	-	2,487	3,728	6,215	5,860
Variable interest rate instruments	4.92%	181,216	46,812	35,577	17,980	281,585	268,381
		325,592	48,514	39,168	21,708	434,982	421,423
Financial guarantee contracts	-	44,086	-	-	-	44,086	-

The amounts included above for financial guarantee contracts are the maximum amounts the Group can be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

(c) Fair value of financial instruments

The fair values of financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The fair values of the Call Options are determined based on binomial model and estimated earnings of the Relevant Companies and price earning ratio of the Company.

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

40. FINANCIAL INSTRUMENTS (Continued)

(d) Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs) ("Level 3 measurements").

Financial instrument, that are measured subsequently to initial recognition at fair value, being the Group's derivative financial instruments, amounted to US$46,024,000 (2009: US$55,321,000), as set out in Note 20, is based on Level 3 measurements.

Reconciliation of Level 3 measurements of financial assets is as follows:

	Derivative financial instruments US$'000
At October 1, 2009	55,321
Fair values changes, recognised in profit or loss	(6,393)
Derecognised upon disposals of certain jointly-controlled entities	(2,904)
At September 30, 2010	46,024

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

41. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at September 30, 2010 and 2009:

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i) 2010	2009	Principal activities
YY Sports Holdings Limited ("YY Sports") (note i)	BVI	US$1	100%	100%	Investment holding
A – Grade Holdings Limited	BVI	US$9,000	100%	100%	Investment holding
Baosheng Daoji (Beijing) Trading Company Limited 寶盛道吉(北京)貿易有限公司 (note ii)	PRC	US$20,000,000	100%	100%	Retailing of sportswear
Baoxin (Chengdu) Trading Company Limited 寶信(成都)商貿有限公司 (note ii)	PRC	US$5,000,000	100%	100%	Retailing of sportswear
Baoyu (Chengdu) Trading Company Limited 寶渝(成都)商貿有限公司 (note ii)	PRC	US$7,400,000	100%	100%	Retailing of sportswear
Brightup Group Limited	HK	HK$1	100%	100%	Investment holding
Charming Technology Limited	BVI	US$200	100%	100%	Investment holding
Dailan Baoshun Sports Goods Company Limited 大連寶順體育用品有限公司 (note iv)	PRC	RMB2,000,000	100%	100%	Retailing of sportswear
Dalian Dongzhijie Sports Production Development Company Limited 大連東之杰運動產業發展有限公司 (note ii)	PRC	RMB200,000,000	100%	100%	Retailing of sportswear
Dedicated Group Limited	BVI	US$1,000	100%	100%	Investment holding
Diodite Limited	BVI	US$1	100%	100%	Investment holding
Diodite (China) Sports Good Co., Ltd. 笛亞泰(中國)體育用品有限公司 (note ii)	PRC	US$20,000,000	100%	100%	Retailing of sportswear

41. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i) 2010	2009	Principal activities
Dragonlight Group Limited	BVI	US$1	100%	100%	Investment holding
Dragonlight (China) Sports Goods Company Limited 龍光(中國)體育用品有限公司 (note ii)	PRC	US$66,000,000	100%	100%	Investment holding
Farsighted International Limited	BVI	US$100	100%	100%	Investment holding
Favour Mark Holdings Limited	HK	HK$200	100%	100%	Investment holding
Fujian Baomin Sporting Goods, Co., Ltd. 福建寶閩體育用品有限公司 (note ii)	PRC	US$4,500,000	90%	90%	Retailing of sportswear
Great Sea Holdings Limited	HK	HK$100	100%	100%	Distribution of sportswear
Guangzhou Baoyuen Trading Company Limited 廣州寶元貿易有限公司 (note ii)	PRC	US$4,810,000	100%	100%	Retailing of sportswear
Guangzhou Shengdao Sports Goods Company Limited 廣州勝道體育用品有限公司 (note iv)	PRC	RMB20,000,000	100%	100%	Property leasing and management
Guangzhou Yangji Information Technology Company Limited 廣州市揚基信息科技有限公司 (note ii)	PRC	HK$13,000,000	100%	100%	Retailing of sportswear
Guiyang Baoxin Sports Goods Company Limited 貴陽寶新體育用品有限公司 (note ii)	PRC	US$10,000,000	100%	100%	Retailing of sportswear
Guizhou Shengdao Sports Goods Development Company Limited 貴州勝道體育用品開發有限公司 (note iv)	PRC	RMB70,000,000	100%	100%	Property leasing and management

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

41. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i) 2010	2009	Principal activities
Harbin Baosheng Sports Goods Company Limited 哈爾濱寶勝體育用品有限公司 (note iv)	PRC	RMB7,000,000	100%	100%	Retailing of sportswear
Hefei Baoxun Sports Goods Trading Company Limited 合肥寶勳體育用品商貿有限公司 (note iv)	PRC	RMB1,000,000	100%	100%	Retailing of sportswear
Hubei Shengdao Sports Goods Company Limited 湖北勝道體育用品有限公司 (notes iv and v)	PRC	RMB50,000,000	–	60%	Property leasing and management
Nanning Pou Guan Sporting Goods Company Limited 南寧寶冠體育用品有限公司 (note ii)	PRC	US$1,300,000	100%	100%	Retailing of sportswear
Nice Palace Investments Limited	HK	HK$200	100%	100%	Investment holding
Pau Yuen Trading Corporation 寶原興業股份有限公司	Taiwan	NTD50,000,000	90%	90%	Distribution of licenced products
Pau Zhi Trading Corporation 寶智企業股份有限公司	Taiwan	NTD5,000,000	90%	90%	Retailing of sportswear
Profit Concept Group Limited	BVI	US$100	51%	51%	Investment holding
Qingdao Baoruina Sports Goods Company Limited 青島寶瑞納體育用品有限公司 (note iii)	PRC	RMB20,000,000	72%	72%	Retailing of sportswear
Qujing Shengdao Sports Goods Co., Ltd. 曲靖勝道體育用品有限公司 (note iv)	PRC	RMB35,000,000	60%	60%	Property leasing and management

41. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i) 2010	2009	Principal activities
Rainbow Faith Investments Limited	HK	HK$200	100%	100%	Investment holding
Richwin Management Limited	BVI	US$1	100%	100%	Investment holding
Shanghai Baoyuen Sports Goods Company Limited 上海寶原體育用品商貿有限公司 (note ii)	PRC	US$20,000,000	100%	100%	Retailing of sportswear
Shanghai Shengdao Sports Goods Company Limited 上海勝道體育用品有限公司 (note iv)	PRC	RMB5,100,000	100%	100%	Property leasing and management
Sheng Dao (Yangzhou) Sporting Goods Dev. Co., Ltd. 勝道(揚州)體育用品開發有限公司 (note ii)	PRC	US$66,000,000	100%	100%	Investment holding
Selangor Gold Limited	BVI	US$1,000	100%	100%	Investment holding
Taicang Yusheng Moulding Company Limited 太倉裕盛模具有限公司 (note ii)	PRC	US$2,100,000	100%	100%	Manufacturing of shoe moulds
Tiajian Baoxin Sports Goods Company Limited 天津寶信體育用品有限公司 (note iv)	PRC	RMB1,000,000	100%	100%	Retailing of sportswear
Treasure Chain International Limited	BVI	US$1	100%	100%	Investment holding
Wellmax Business Group Limited	BVI	US$9,000	100%	100%	Investment holding
Wuxi Baoyuen Sports Goods Trading Company Limited 無錫寶原體育用品商貿有限公司 (note iv)	PRC	RMB1,000,000	100%	100%	Retailing of sportswear

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

41. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i) 2010	2009	Principal activities
Xian Baoqin Trading Company Limited 西安寶秦貿易有限公司 (note ii)	PRC	US$20,000,000	100%	100%	Retailing of sportswear
Yangzhou Baoyuan Shoes Manufactuaring . Co., Ltd 揚州寶源制鞋有限公司 (notes ii and v)	PRC	US$5,000,000	–	100%	Property leasing and management
Yue-Shen (Taicang) Footwear Co., Ltd. 裕盛(太倉)鞋業有限公司 (note ii)	PRC	US$15,000,000	100%	100%	Manufacturing of sportswear
Yue Cheng (Kunshan) Sports Co., Ltd. 裕程(昆山)體育用品有限公司 (note ii)	PRC	US$10,000,000	100%	100%	Retailing of sportswear
Yue Ming International Limited	HK	HK$1	100%	100%	Distribution of licensed products
Yue Sheng (Kunshan) Sports Co., Ltd. 裕晟(昆山)體育用品有限公司 (note ii)	PRC	US$4,200,000	100%	100%	Retailing of sportswear
Yunnan Orientsport Trading Co., Ltd. 雲南奧龍世博經貿有限公司 (note ii)	PRC	RMB56,100,000	51%	51%	Retailing of sportswear
Yunnan Shengdao Sports Goods Company Limited 雲南勝道體育用品有限公司 (note iv)	PRC	RMB87,500,000	60%	60%	Property leasing and management

41. PRINCIPAL SUBSIDIARIES (Continued)

notes:

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

(ii) These companies are wholly-foreign owned enterprises established in the PRC.

(iii) These companies are sino-foreign owned enterprises established in the PRC.

(iv) These companies are wholly-domestic owned enterprises established in the PRC.

(v) These companies have been disposed of by the Group during the year.

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

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

42. ASSOCIATES

As at the end of the reporting periods, the Group had interests in the following associates:

Name of entity	Place of incorporation or establishment/ operation	Proportion of issued and fully paid up capital indirectly held by the Company 2010	2009	Principal activities
Shaanxi Wuhuan Shengdao Sports Production Development Company Limited 陝西五環勝道運動產業開發有限公司	PRC	40%	40%	Retailing of sportswear
Zhejiang Baohong Sports Goods Company Limited 浙江寶宏體育用品有限公司	PRC	49%	49%	Retailing of sportswear

Both associates are sino-foreign enterprises established in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

43. PRINCIPAL JOINTLY CONTROLLED ENTITIES

As at the end of the reporting periods, the Group had interest in the following principal jointly controlled entities:

Name of entity	Place of incorporation or establishment/ operation	Proportion of issued and fully paid up capital indirectly held by the Company 2010	2009	Principal activities
Guiyang Baoshang Sports Goods Company Limited 貴陽寶尚體育用品有限公司	PRC	50%	50%	Retailing of sportswear
Hangzhou Baohong Sports Goods Company Limited 杭州寶宏體育用品有限公司	PRC	50%	50%	Retailing of sportswear
Harbin Shenge Sports Chain Company Limited 哈爾濱申格體育連鎖有限公司 (note)	PRC	–	45%	Retailing of sportswear
Hebei Zhanxin Sports Development Company Limited 河北展新體育發展有限公司	PRC	45%	45%	Retailing of sportswear
Heifei Tengrei Sports Goods Company Limited 合肥騰瑞體育用品有限公司	PRC	50%	50%	Retailing of sportswear
Hubei Jiezhixing Clothing and Accessories Company Limited 湖北杰之行服飾有限公司 (note)	PRC	–	50%	Retailing of sportswear
Jilin Lingpao Sports Goods Company Limited 吉林領跑體育用品有限公司	PRC	50%	50%	Retailing of sportswear
Jilin Xinfangwei Sports Goods Company Limited 吉林新方位體育用品有限公司	PRC	50%	50%	Retailing of sportswear
Shaanxi Jixian Longyue Sports Goods Company Limited 陝西極限龍躍體育用品有限公司	PRC	50%	50%	Retailing of sportswear
Suzhou Xinjun Trading Development Company Limited 蘇州信俊貿易發展有限公司	PRC	49%	49%	Retailing of sportswear

43. PRINCIPAL JOINTLY CONTROLLED ENTITIES (Continued)

Name of entity	Place of incorporation or establishment/ operation	Proportion of issued and fully paid up capital indirectly held by the Company 2010	2009	Principal activities
Wenzhou Baofeng Trading Company Limited 溫州寶灃商貿有限公司	PRC	50%	50%	Retailing of sportswear
Zhejiang Jinguan Enterprise Development Company Limited 浙江金冠實業發展有限公司 (note)	PRC	–	50%	Retailing of sportswear
Zhejiang Yichuan Sports Goods Chain Company Limited 浙江易川體育用品連鎖有限公司	PRC	50%	50%	Retailing of sportswear

note: These companies have been disposed of by the Group during the year.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2010

44. EVENTS AFTER THE END OF REPORTING PERIOD

Acquisition of remaining interest in Zhejiang Yichuan

As set out in Notes 17 and 20, the Company exercised during the year ended September 30, 2010 the call options granted by the Relevant Partners of Zhejiang Yichuan for the acquisition of the 50% equity interest not already held by the Group in order to expand the store network and geographical coverage of the Company in the PRC. The control of Zhejiang Yichuan has been passed to the Group in October 2010 and the transaction was accounted for using purchase method.

Consideration transferred

	US$'000
Cash	25,500
Equity instruments issued	2,692
Call option for acquisition of additional interests in Zhejiang Yichuan (Note 20)	8,060
	36,252

Equity instruments issued represent 18,990,000 shares in the Company whose fair value has been determined as the share price of the Company at the date of acquisition. In addition, the Group may also be required to issue a further 15,000,000 shares in the Company as additional consideration if the audited after-tax profits of Zhejiang Yichuan in any one or more of the three years ending September 30, 2013 reach certain predetermined levels. The fair value of the contingent consideration is awaiting the receipt of professional valuation.

44. EVENTS AFTER THE END OF REPORTING PERIOD (Continued)

Provisional fair value of assets and liabilities, based on their carrying amounts recorded in the financial statements of Zhejiang Yichuan, recognised at the date of acquisition are as follow:

Net assets recognised:

	US$'000
Property, plant and equipment (note)	3,641
Inventories (note)	36,736
Trade and other receivables (note)	23,957
Bank balances and cash	1,531
Trade and other payables (note)	(8,153)
Tax payables	(638)
Shareholder's loan	(23,382)
Bank borrowings	(16,978)
	16,714

note: The initial accounting for the acquisition has been determined provisionally for these items as well as certain intangible assets to be identified and recognised separately from goodwill awaiting the receipt of professional valuation in relation to the respective fair values.

FINANCIAL SUMMARY

RESULTS

	Year ended September 30,				
	2006	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000	US$'000
Revenue	372,960	555,903	959,548	1,142,293	1,323,845
Profit (loss) for the year	21,012	43,934	79,701	(6,250)	20,167
Attributable to:					
Owners of the Company	11,383	31,927	70,024	(3,696)	21,287
Non-controlling interests	9,629	12,007	9,677	(2,554)	(1,120)
	21,012	43,934	79,701	(6,250)	20,167

ASSETS AND LIABILITIES

	As at September 30,				
	2006	2007	2008	2009	2010
	US$'000	US$'000	US$'000	US$'000	US$'000
Total assets	214,661	553,930	1,137,406	1,266,502	1,220,075
Total liabilities	(162,999)	(366,541)	(475,097)	(495,926)	(415,750)
	51,662	187,389	662,309	770,576	804,325
Equity attributable to:					
Owners of the Company	36,368	138,417	645,716	754,331	790,317
Non-controlling interests	15,294	48,972	16,593	16,245	14,008
	51,662	187,389	662,309	770,576	804,325

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