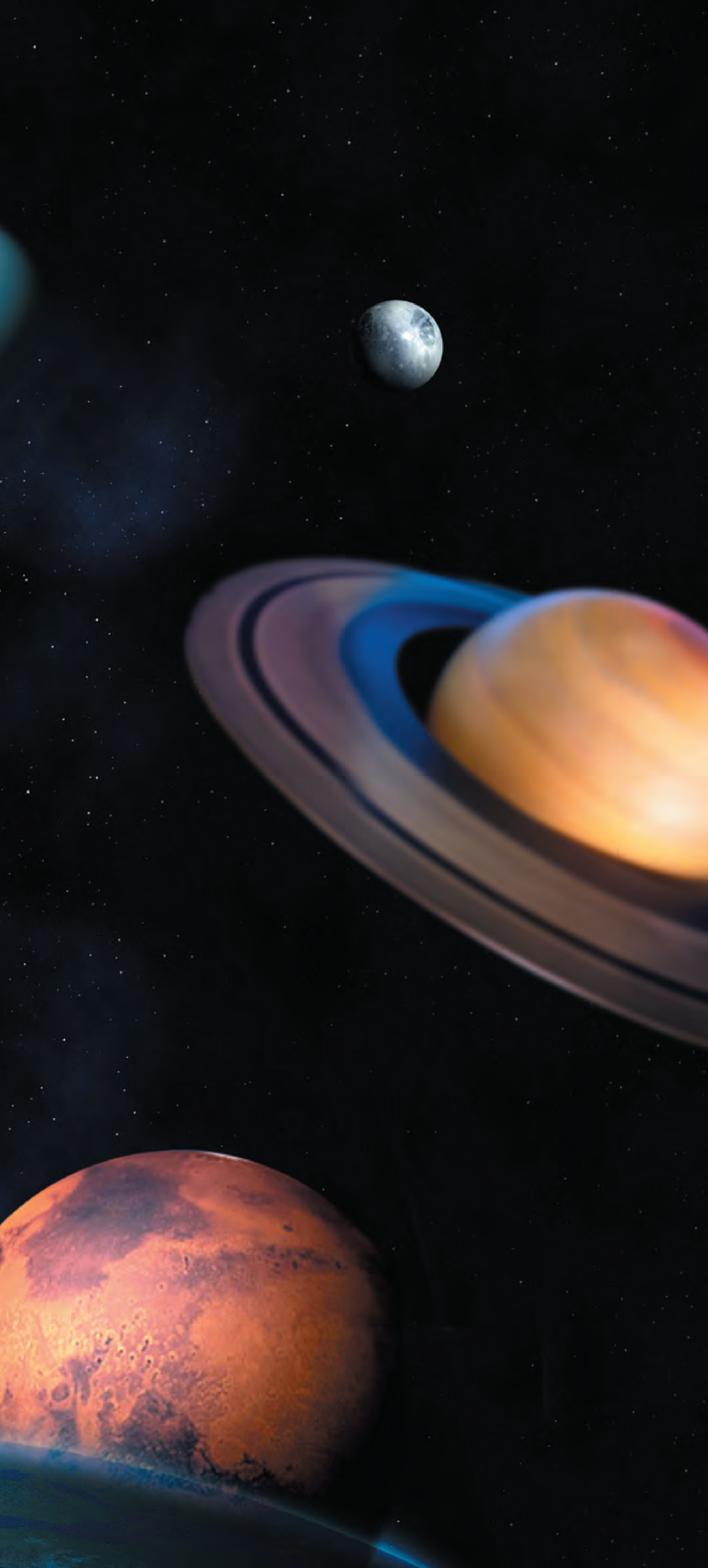
Universiade SHENZHEN 2011

361°

深圳2011世界大运会全球合作伙伴
Worldwide Partner of Universiade Shenzhen 2011

ANNUAL REPORT 2010/11



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COMPANY INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ding Wuhao (丁伍號)
Ding Huihuang (丁輝煌) *(Chairman)*
Ding Huirong (丁輝榮)
Wang Jiabi (王加碧)

Independent Non-executive Directors

Yan Man Sing Frankie (甄文星)
Sun Xianhong (孫先紅)
Liu Jianxing (劉建興)

BOARD COMMITTEES

Audit Committee

Yan Man Sing Frankie (甄文星) *(Chairman)*
Sun Xianhong (孫先紅)
Liu Jianxing (劉建興)

Remuneration Committee

Wang Jiabi (王加碧) *(Chairman)*
Sun Xianhong (孫先紅)
Liu Jianxing (劉建興)

Nomination Committee

Ding Wuhao (丁伍號) *(Chairman)*
Yan Man Sing Frankie (甄文星)
Liu Jianxing (劉建興)

COMPANY SECRETARY

Choi Mun Duen (蔡敏端) *FCCA, HKICPA*

Company Information

AUTHORISED REPRESENTATIVES

Ding Wuhao (丁伍號)
Choi Mun Duen (蔡敏端)

REGISTERED OFFICE

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEAD OFFICE IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

STOCK CODE

01361

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

HONG KONG SHARE REGISTRAR

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

AUDITOR

KPMG

LEGAL ADVISERS

As to Hong Kong law:

Orrick, Herrington & Sutcliffe

As to Cayman Islands law:

Conyers Dill & Pearman

PRINCIPAL BANKERS

China Construction Bank Corporation
Industrial Bank Co., Ltd.
Xiamen International Bank
China Minsheng Bank Corp. Ltd.
Citic Bank International Limited

COMPANY WEBSITE

www.361sport.com

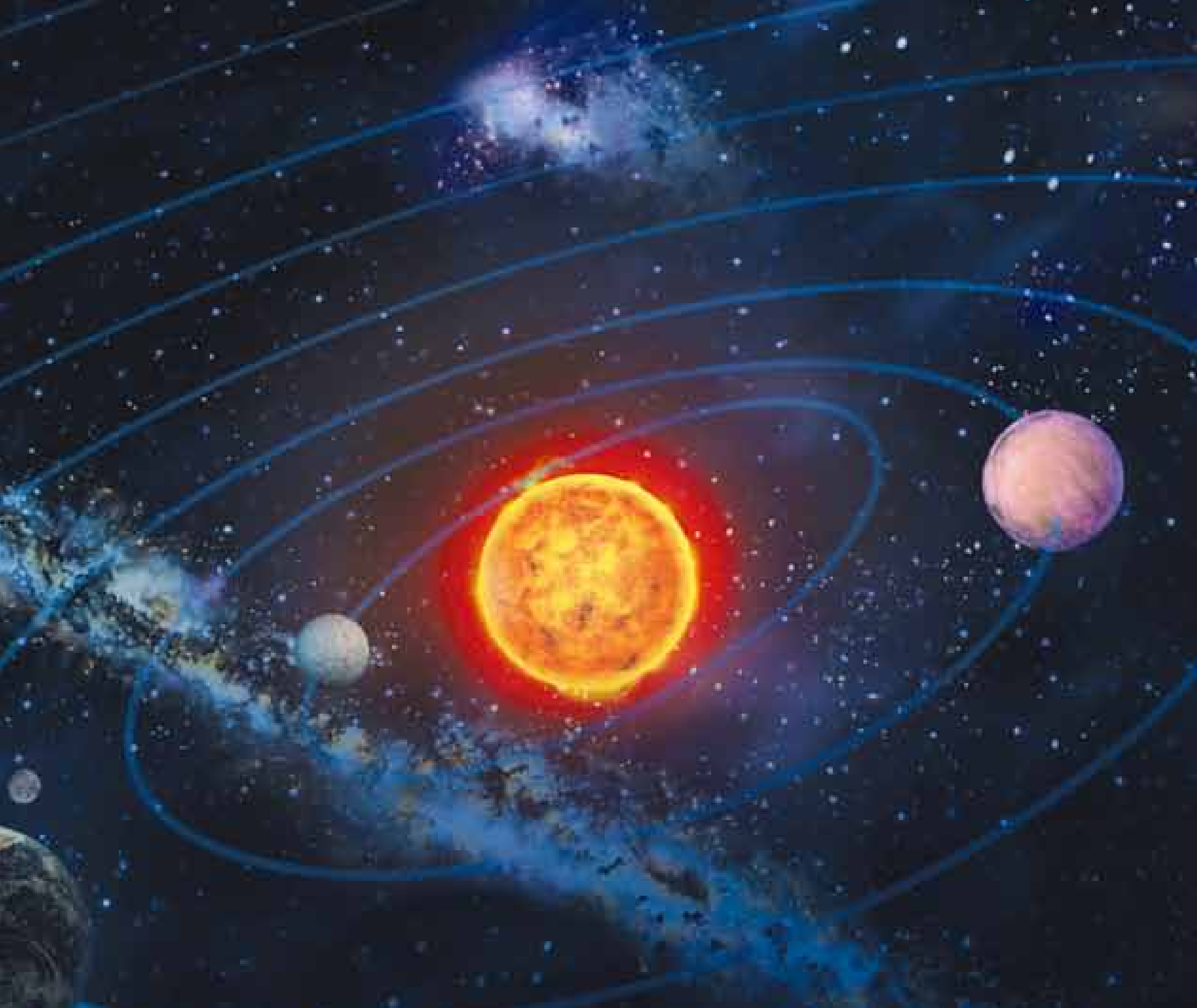
FINANCIAL HIGHLIGHTS FOR 10/11

Turnover significantly increased by **26.1% to** RMB5,461.2 million

Profit attributable to the equity shareholders was RMB1,196.1 million, representing a **growth of 30.5%**

Gross profit margin increased by **2.9 percentage points ("ppts") to 42.3%**

Financial Highlights for 10/11



Financial Performance

Turnover significantly increased by 26.1% to RMB5,461.2 million

Gross profit substantially increased by 35.4% to RMB2,310.9 million

Operating profit increased by 37.0% to RMB1,441.2 million

Profit attributable to the equity shareholders was RMB1,196.1 million, representing a significant growth of 30.5%

Gross profit margin increased by 2.9 ppts to 42.3%

Basic earnings per share is RMB57.9 cents, representing a growth of 30.1%

Proposed to declare a final dividend of RMB16.1 cents per share

Business Performance

Total number of *361°* retail outlets increased from 6,927 to 7,681

Income from sales of footwear products increased by 44.8% to RMB2,793.7 million

Income from the sales of *361°* Kids products increased by 534.1% to RMB238.7 million

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

FIVE-YEAR FINANCIAL SUMMARY

For the year ended 30 June	2011	2010	2009	2008	2007
Profitability data (RMB'000)					
Turnover	**5,461,240**	4,330,804	3,446,588	1,317,069	373,346
Gross profit	**2,310,942**	1,706,325	1,193,803	348,028	76,923
Operating profit	**1,441,236**	1,051,852	740,200	202,543	29,331
Profit attributable to equity shareholders	**1,196,133**	916,814	632,111	178,973	22,911
Earnings per share					
— basic (RMB cents)	**57.9**	44.5	42.1	11.9	1.5
— diluted (RMB cents)	**57.6**	44.3	42.1	N/A	N/A
Profitability ratios (%)					
Gross profit margin	**42.3**	39.4	34.6	26.4	20.6
Operating profit margin	**26.4**	24.3	21.5	15.4	7.9
Net profit margin	**21.9**	21.2	18.3	13.6	6.1
Effective tax rate	**17.5**	12.7	12.7	9.2	12.9
Return on shareholders' equity (Note 1)	**31.3**	31.0	44.7	80.5	23.0
Operating ratios (as a percentage of turnover) (%)					
Advertising and promotion expenses	**9.5**	8.9	8.2	6.4	9.1
Staff costs	**6.8**	3.6	3.1	5.4	11.2
Research and development	**1.5**	0.9	0.4	0.3	0.06

Notes:

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

Five-Year Financial Summary

As at 30 June	2011	2010	2009	2008	2007
Assets and liabilities data (RMB'000)					
Non-current assets	**1,109,397**	724,574	333,172	112,080	40,892
Current assets	**4,499,806**	3,839,443	3,745,678	1,040,235	350,030
Current liabilities	**1,325,091**	1,129,375	1,559,148	831,145	263,791
Non-current liabilities	**5,342**	3,125	9,504	3,584	—
Equity attributable to equity shareholders	**4,235,925**	3,396,423	2,510,198	317,586	127,131
Non-controlling interests	**42,845**	35,094	—	—	—
Asset and Working Capital data					
Current asset ratios	**3.4**	3.4	2.4	1.3	1.3
Gearing ratios (%) (Note 2)	**0.2**	—	6.5	13.0	15.3
Net asset value per share (RMB) (Note 3)	**2.1**	1.7	1.3	N/A	N/A
Inventory turnover days (days) (Note 4)	**19**	15	21	47	64
Trade and bills receivable turnover days (days) (Note 5)	**83**	97	103	86	75
Trade and bills payable turnover days (days) (Note 6)	**82**	111	118	111	151

Notes:

2) The calculation of gearing ratio is based on the interest-bearing debt divided by the total asset of the Group at the end of the year.

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

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

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

6) Trade and bills payable turnover days is equal to the average opening and closing trade and bills payables divided by cost of sales and multiplied by 365/366 days.

361° Degrees International Limited Annual Report 2011

Chairman Statement

We **Accept** Any **CHALLENGE**

CHAIRMAN STATEMENT

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

Dear Shareholders,

On behalf of the board of directors ("the Board") of *361°* Degrees International Limited, I am pleased to present the audited annual results of the Company and its subsidiaries ("the Group") for the year ended 30 June 2011 ("this financial year", "FY2011").

Looking back at last year, the national economy, driven by consumption demand, kept growing. The launch of "The-Twelfth-Five-Year plan of the Sports Industry" in the country has laid a sound foundation for the development of the industry. The rapid development in urban and rural areas, compounded by the steady increase in domestic spending power, and the more impressionable health awareness in the public, contributed to a marked demand for sporting goods in second and third-tier cities, providing a good basis for the industry's overall growth. At the same time, the industry's structural adjustment and the rising inflation in China bring forth challenges to the business growth of sports brands.

The Group offers a diverse array of product combination through its market-oriented strategy and emphasis in product design and research and development. In addition, by using the effective business model at its establishment, the Group consolidates its operation, strengthens guidance and training in retail channels to ensure the most quality service to our customers.

In response to market changes, the Group strives to continue the effort to restrict the management of working capital and strictly adheres the plan of network expansion by opening 600 to 800 new stores each year. The Group believes that such pace of expansion would help to improve average turnover of the receivables and receivable notes to realize a better financial condition and preserve its competitive edge.

Benefited from the enhanced brand recognition, higher product sales and price, and expanded sales network, the Group recorded a steady growth during the year. Turnover reached RMB5,461.2 million, representing a healthy year-on-year increase of 26.1%. Profit attributable to shareholders rose by 30.5% to RMB1,196.1 million as compared with that of the previous financial year. Basic earnings per share were RMB57.9 cents (2010: RMB44.5 cents).

The Board has recommended to declare a final dividend of RMB16.1 cents per share for the financial year to reward the shareholders. This, when added to the interim dividend of RMB7.1 cents already paid, translates into a total payout of RMB23.2 cents for the year, representing 40.1% of the Group's attributable profit, realizing the objective of dividend increase.

During the financial year, we capitalized on our advantage as the Prestige Partner of the 2010 Guangzhou Asian Games and the Global Partner of the 2011 Summer

Chairman Statement

Universiade in Shenzhen to strengthen our brand and marketing promotion as well as to enhance the recognition of *361°* as a brand. Meanwhile, we continued with our positioning as a professional sports brand by sponsoring professional sports. During the year, we signed up for sponsorship with Swedish Curling Association for various international events including the World Men and the World Women's Curling Championship.

Kid's wear business is one of the Group's major future business focuses. With the good momentum last year, the Group continued to expand its market in children's wear with 766 children's wear stores during the year. In brand development, the Group launched another sub-brand "Shine" or "尚"in Chinese, cleverly incorporating the Arabic numerals, 3, 6 and 1 in the Chinese character. It was well-received when first launched in developed coastal cities.

The prospects of the industry and channel management are on the spotlight, with uncertain global economic situation, exacerbating inflation pressure in Mainland China, and recent volatility in the sportswear sector. However, we believe that China's ongoing steady economic growth and urbanization will continue to create a favorable environment for the sportswear sector as a whole and offer tremendous opportunities in the market.

The Group will continue to strengthen its edges in network deployment and land additional footholds in second-tier, third-tier, and fourth-tier cities where consumption power is on the rise; besides, the Group will also speed up the expansion in the Western and Northern regions. The Group attaches importance to the value created for the Group from network locations and therefore will continue to strengthen the cooperation with distributors and retailers whilst provide training and guidance during the year in order to improve same store sales.

For cost control, the Group will continue to strictly control the operating costs in all aspects and actively identify suitable substitutes for raw materials in order to relieve pressure from the rising costs.

For brand building, we intend to separate the series of "Shine" or "尚" in Chinese as an individual business which will be equipped with exclusive outlets, product design teams, and sub-contractors. The Group believes that such product series will become another major growth driver besides the kid's wear business of the Group.

Last but not least, on behalf of the Board, I would like to express my sincere gratitude to our management and all staffs for their continuous efforts and whole-hearted devotion. We are also truly grateful to our shareholders and customers for their enormous support and trust.

Ding Huihuang
Chairman

Hong Kong, 23 August 2011

Management Discussion and Analysis

We are **ready** to be **LIMITLESS**


361°
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MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In this financial year which covers the third and last calendar quarters of calendar year 2010 and the first two quarters of 2011, the Gross Domestic Product or GDP in China continued to grow, albeit at a lower rate than the most recent past but still averaged just over 10%. This growth has kept the sales momentum in the retail sale of consumer goods, of which the sportswear industry forms a significant segment, a development that had seen the rapid expansion of this industry in the last five years or so.

The financial year in review, however, has been one of the most challenging in recent times for the sportswear industry. Cotton, which is a key fabric used in the manufacture of sports apparel, has experienced an unprecedented price hike and to varying extent, the costs of other synthetic fibers have also risen. Labour, for long a competitive advantage in Chinese industries, has become increasingly scarce in certain coastal regions such as Guangdong, Zhejiang and Fujian in the absence of an influx of new emigrants from inland provinces.

A boom in the housing sector has fuelled spiraling prices which translated into higher commercial property rentals, a situation aggravated by an increasing number of consumer brands looking for a presence in key shopping areas.

Years of heady growth in China have spurned consumer prices to rise, with the control of inflation now the top economic priority. Successive increases in bank reserve requirements and benchmark lending and deposit rate hikes appear to have some effect but would take time to work through the system. It is now widely believed that the basic CPI index has peaked at around 6%, although a rate of 4-4.5%, much higher than recent years, is likely to remain for a considerable period.

As is often true for most situations, such challenging times with intensifying competition will result in different players executing alternative operating strategies and produce winners and losers eventually. Empirical evidence suggests that weaker companies will be weeded out and the industry will become consolidated.

The key growth drivers for the sports industry: continued urbanization, a rising level of disposable income are well known and understood.

Additionally, the implementation of the National Fitness Plan under the National Fitness Law achieved substantial progress during the first half of 2011. Sports facilities and infrastructure in provinces of Gansu, Xinjiang, Fujian and Shanxi have already commenced construction and will be ready for the use by the general public later this year or next. The target of the National Fitness Plan (2011-2015) is to raise the country's percentage of urban and rural residents who exercise frequently to 32% in 2015 from 28% in 2007. This will provide ongoing momentum to the sporting goods industry in China.

The industry is entering a different phase of growth as certain key markets are now more mature and growth is moderating off a base that has expanded substantially larger in the recent five years. Whilst new store expansion will remain an important element of growth, the sustainability of growth in existing and established stores, at both the volume and price levels, is of greater importance by far.

Management Discussion and Analysis

BUSINESS REVIEW

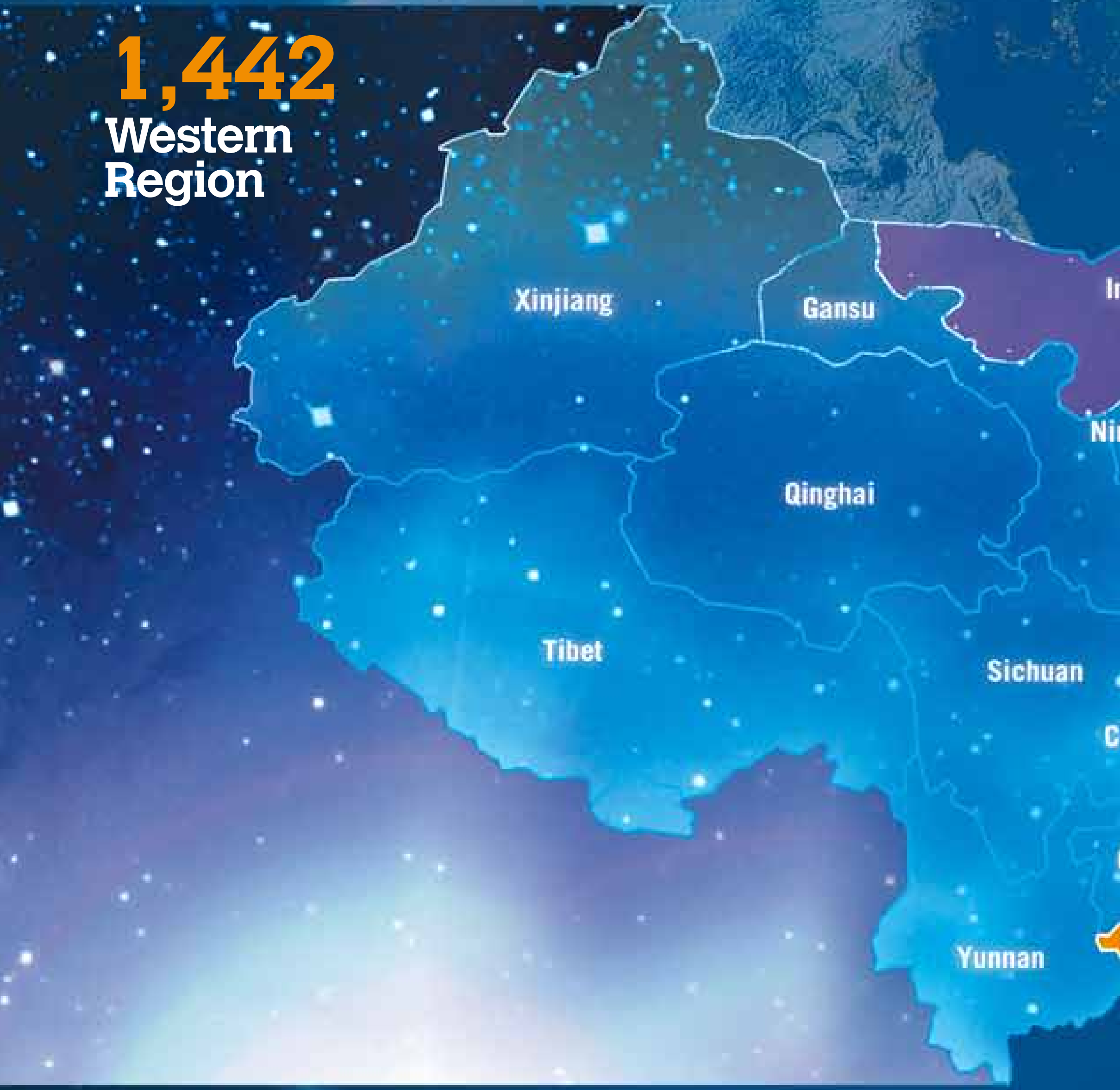
Sale and distribution network

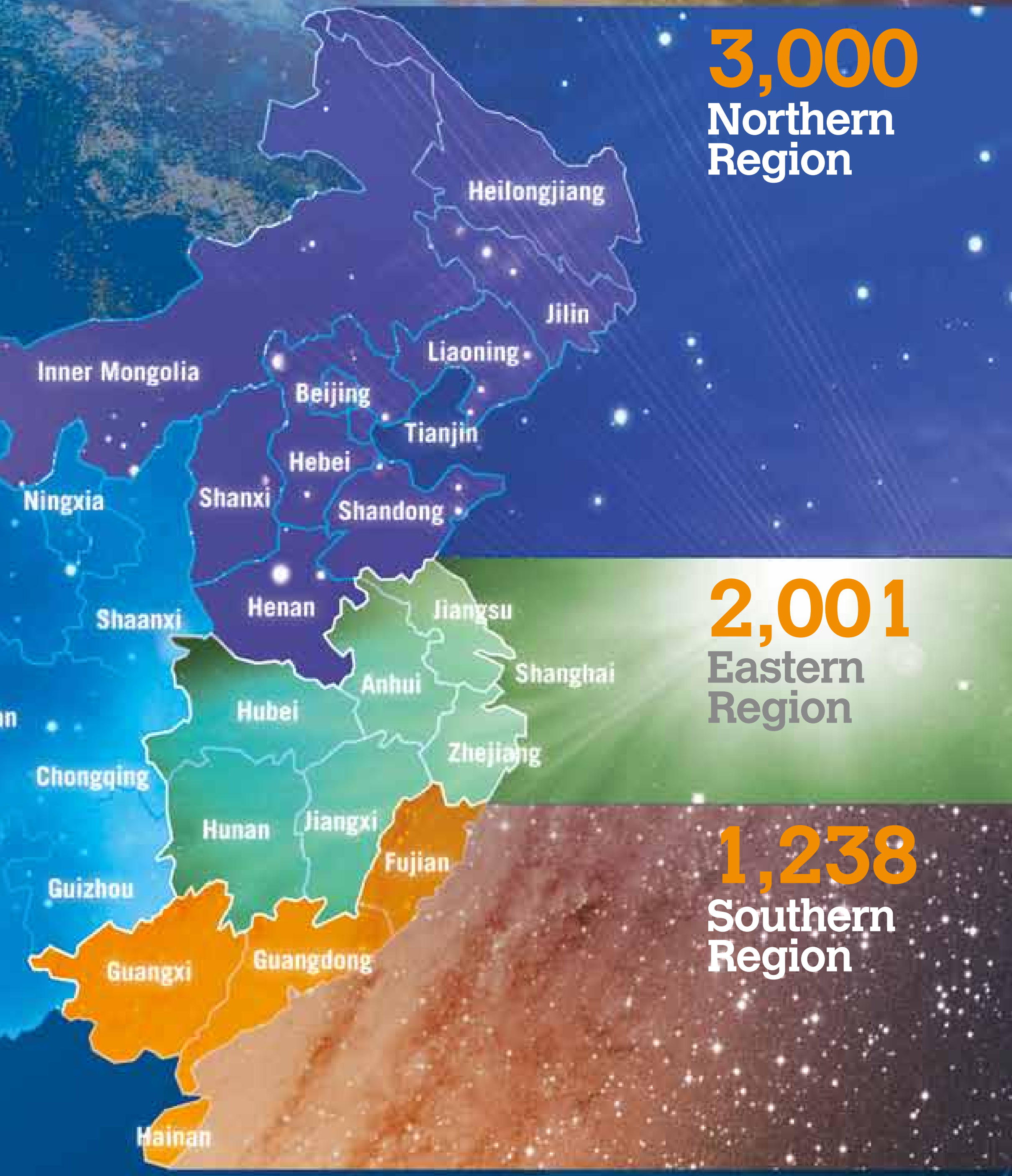
The Group considers its distributorship business model to be very robust in two particular aspects. Firstly, distributors not only distribute the *361°* products on an exclusive basis but just as importantly have sole geographical rights. Although virtually a monopoly at a provincial level, this exclusive distributorship business model brings obvious operating benefits as it allows better economies of scale, especially as regards inventory control and sales promotion. Secondly, the Group practices a uniform pricing system between itself, the distributors and the retailers. The price at which the Group sells to the distributors, often called the wholesale discount, has been fixed at 62% early on. Reflecting the improving brand equity and strength, this was reduced to 60% in the 2011 Autumn Trade Fair in December 2010 and further reduced to 58% in the 2012 Spring/Summer Trade Fair which concluded in late July 2011. These measures will help to protect margins of the Company at a time when the industry enters into a period of consolidation and more mature growth.

During this financial year, the number of exclusive distributors remains unchanged at 32. It is a standard requirement that their operations are conducted through the structure of a limited company entity, as this facilitates restructuring should the need for fresh capital arises. Further, the distributors' agreements are renewable every year, after a review and assessment.

The distributors themselves oversee 3,438 authorized dealers who in turn owned and managed a total of 7,681 retail outlets. The number of outlets as at 30 June 2011 represented a net increase of 754 from 6,927 as at 30 June 2010, with the overall mix in strong favour of third-tier and smaller cities, relatively unchanged at 72%.

1,442 Western Region




3,000
Northern Region
2,001
Eastern Region
1,238
Southern Region
Heilongjiang
Jilin
Liaoning
Inner Mongolia
Beijing
Tianjin
Hebei
Ningxia
Shanxi
Shandong
Shaanxi
Henan
Jiangsu
Shanghai
Anhui
Hubei
Zhejiang
Chongqing
Hunan
Jiangxi
Fujian
Guizhou
Guangxi
Guangdong
Hainan

	As at 30 June 2011	2010	Change (%)
Number of retail outlets	**7,681**	6,927	10.9
Total retail floor area (square metre)	**777,072**	691,284	12.4
Average floor area per retail outlet (square metre)	**101.2**	99.8	1.4

As at 30 June 2011, there were 5,586 standalone stores which contributed over 70% of the retail outlets, 77 flagship stores and 4 "*361°* Towns", the average size of these stores were about 90 square metres, 580 square metres and 1,100 square metres, respectively.

With the support from the distributors, the Group started to establish a new generation of flagship stores "*361°* Towns" aimed at communicating more effectively the determination of *361°* to become a leader in the sportswear market in China. During the second half of this financial year, the Group concentrated its efforts in optimizing the operation of the existing four "*361°* Towns" which are situated in Zhengzhou, Jinan, Wuhan and Harbin.

	As at 30 June 2011		2010		
	Number of authorized retail outlets	**% of total number of authorized retail outlets**	Number of retail outlets	% of total number of authorized retail outlets	Change (%)
Eastern region[1]	**2,001**	**26.1**	1,876	27.1	6.7
Southern region[2]	**1,238**	**16.1**	1,107	16.0	11.8
Western region[3]	**1,442**	**18.8**	1,240	17.9	16.3
Northern region[4]	**3,000**	**39.0**	2,704	39.0	10.9
Total	**7,681**	**100.0**	6,927	100.0	10.9

Notes:

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

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

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

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

ePOS expanded its connectivity coverage to 4,146 outlets

The Group has made solid progress on the electronic points-of-sale ("ePOS") linkage to its retail outlets. Currently operating as a separate module, it will eventually dovetail into an enterprise resource planning ("ERP") system for supply chain management. As at 30 June 2011, the e-POS linkage is extended to 4,146 outlets. There are pockets of resistance in some of the more remote areas with less educated retailers who are reluctant to share sales information and efforts will be intensified in these areas. There are also infrastructural challenges regarding the right level of support from service providers in some of the more distant areas which have to be overcame. The e-POS installation has become a standard contractual requirement in all new retail dealerships.

The Group hopes to consolidate at this current level whilst the above issues are addressed and has been testing a Business Intelligence module which will provide very valuable sales data for further analysis into customer buying trends, patterns and preferences.

This ePOS has played an instrumental role in the collection of sales and inventory statistics on a real time basis, allowing the Group to monitor store efficiency dynamics more closely including changes in customer preferences and consumption patterns.

Implementing recommendations by retail management consultant to further enhance store efficiency

The Group has been implementing recommendations by its retail consulting specialist S1MONE throughout the financial year. S1MONE works closely with our retailers to provide valuable advices on ways to enhance customers' retail experience, including customer service attitudes of store attendants, mix and match recommendations to the customers to encourage cross-selling of products, enhancing the visibility of key products, guidance on order merchandising, odd-dollar tagged pricing, optimizing store and shelf space and product displays and hosting of in-store events to provide an enriching shopping atmosphere.

These measures have played an instrumental role in helping the Group to drive overall revenue and profit growth through strong same-store sales growth. Same-store sales growth at retail level during the first to the fourth quarter in the financial year were 16.0%, 15.0%, 14.7% and 18.1% respectively. Inventory-to-sales ratio for the year was maintained at a low level. They were 2.6 times, 3.9 times, 3.3 times and 3.9 times, respectively during the first to the fourth quarter in the financial year. This marks a very notable achievement considering deteriorating overstocking of some industry peers.

361° Kids

361° Kids has kicked off to a good start in the year under review. Positioned as mid-low end of the market, this new product group leverages on the overall *361°* brand and on the current proven distributorship model. However, *361°* Kids has its own design, procurement and out-sourcing functions. It organizes its own Trade Fairs twice this financial year, for its Spring/Summer and Autumn/Winter collections.

2011 Autumn/Winter Kidswear Trade Fair was held successfully in March 2011, with over 400 retailers and distributors attended the Trade Fair. The orders received exceeded that of last year by a notable 60%. During the 2-day event, approximately 1,200 stock keeping units ("SKU") were on display, featuring new offerings in the apparel, footwear and accessory categories.

The key to further success in this product group will be the right economies of scale and in this regard, the number of retail outlets is crucial to provide the basic reordering demand at the trade fairs.

During the year, the Group oversaw the set up of 766 dedicated outlets, all operated by independent retailers and of which 365 were standalone stores, 245 in shopping malls and 156 as counters in the larger *361°* franchised stores as at the end of June 2011, representing a net increase of 530 stores from 236 as at 30 June 2010.

Brand promotion and marketing

The *361°* brand has been launched with considerable success because of its universal appeal to both sexes, with product offerings highly attractively designed and yet priced reasonably. The brand is positioned for the mass market, targeting customers between the ages of 18 and 30, who have a passion for sports, not necessarily in active participation. The Group's tag line, "多一度熱愛" which is translated literally as "One Extra Degree of Passion" embodies one of the core values of the brand which is "excellence".

The Group believes that just as professionals excel in their sports, the brand must excel in its execution which is often only possible with that extra one degree of effort. Riding on such a theme, the Group firmly believes its advertising campaign must be firmly anchored in event sponsorship, in that it provides for the promotion of the sports itself as well as bringing the actual telecast of the event into the life of an average person, involving a "direct engagement."

This is particularly important for a young brand like *361°* where brand recognition is of utmost priority and event sponsorship actively promotes the visibility of the brand. The *361°* brand is especially well associated with multi-sport events, as *361°* was a sponsor at the highest level during the intervening years between the Beijing and London Olympics, the only two events in China at an international level.

In November 2010, the Group was the Prestige Partner at the 16th Asian Games in Guangzhou where over 45 countries involving 9,704 athletes and officials participated in over 42 different sports. Throughout the 16-day event, the *361°* logo was prominently displayed at various strategic points in the stadium, court or hall and the event was carried "live" to over 30 countries with an estimated total audience of running into hundreds of million. All officials and volunteers to these Games wore the *361°* uniform for official duties and several major roads in Guangzhou city had prominent roadside advertising banners. In addition, all voluntary workers helping with road directions and general advice also wore the official *361°* uniform. The Group believed that the carnival atmosphere of the event during the two-week period created a very favourable impression of the brand which will endure well into the future.

The Group is the Global Partner of the 26th Summer Universiade being held in Shenzhen in August 2011. At this time of writing, excitement is building up in the city leading up to these Games. Over 152 countries involving about 12,000 athletes and officials are participating in the two-week events.

The lighting of the Universiade torch was performed in a simple ceremony in April 2011 to coincide with the 100th Anniversary of Tsinghua University, one of the top institutions of higher learning in the country. Customers' ready acceptance of *361°* products, their strong association of the products with high performance, innovation and cutting-edge style were the core drivers of the Group's success in the last few years. This brand strength hinges on the Group's resources and devotion put into promoting the *361°* brand on an ongoing basis.

While much of the continuing strong growth in sales during the first half of this financial year had been attributable to the deep involvement of *361°* in the 2010 Guangzhou Asian Games, the benefits were carried on to the second half of the year and beyond. The brand equity of *361°* had been significantly enhanced as a result.

A strong backing of research and development comes as the backbone of this functionality-driven marketing strategy. The Group's newly established a research and development ("R&D") laboratory in Guangzhou, opened in September 2010, started producing new product prototypes for different sports categories. These products contribute to enhancing the performances of professional athletes through delivering top-notch functionality, comfort, user-friendliness and quality. The Group has started to supply prototype products to professional athletes in China's national teams in different sports categories, and collecting feedback which can help to improve product quality and design.

In March 2011, the Group also opened a new high-performance sports apparel design center in Beijing Institute of Fashion Design (北京服裝設計學院) to further enhance its capability in the area of professional sports apparel design.

Sponsorships of professional sports teams and star athletes

Sponsorships of professional sports teams and star athletes constitute an important component of *361°* brand's promotion and marketing strategy. The Group believes that the professional teams and athletes who participate in national and international sports events and tournaments, in *361°* brand gears, help to showcase the values and attitude orientation of the *361°* brand and entice a larger following.

Professional teams that *361°* is proud to sponsor include:
— National Delegation to London 2012 Paralympic Games
— National Softball Team
— National Cycling Team
— National Triathlon Team
— National Modern Pentathlon Team
— Zhejiang Provincial Swimming Team
— North Korea London 2012 Olympics Delegation
— Swedish National Curling Team

Management Discussion and Analysis

As a further step towards its brand building, the Group has begun to identify athletes and sports professionals who can epitomize the core values of the brand. To date, it has closed contracts with several Jamaican athletes and a couple of Taiwanese female tennis professionals. It is also very confident of finalizing a contract with Sun Yang, one of the brightest Chinese swimmers who recently broke the world record in his favourite event, the 1500m free-style. As at 30 June 2011, the Group had signed up 9 budding and star athletes who will be in *361°* brand gears when they attend national and international tournaments.

Sponsorships of professional sports events

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

Time	Event	Capacity
2010-2015	*361°* Men/Women's National Volleyball Tournament series	Sole Title Sponsor
2007-2013	*361°* China University Basketball Super League	Designated Partner
2010	Guangzhou 2010 Asian Games	Sportswear Prestige Partner
2011	Summer Universiade 2011 Shenzhen	Global Partner
2011	Women's Curling Championship 2011	Designated footwear, apparel and accessories sponsor
2012	Haiyang 2012 Asian Beach Games	Prestige Partner
2012	World Men's Curling Championship 2012	Designated apparel sponsor
2009-2013	China Table Tennis Super League	Title Sponsor
2009-2013	CCTV Channel 5	Sportswear sponsor for hosts and journalists
2009-2013	China Zhengkai Marathon	Designated sports footwear and apparel sponsor
2009-2013	Jinmen Marathon	Designated sports footwear and apparel sponsor
2013	Women's Curling Championship 2013	Designated apparel sponsor

Management Discussion and Analysis

The Group has already started its marketing efforts for the 26th Summer Universiade 2011 held in Shenzhen. The "Universiade", also known as the "Small Olympics", is only next to the Olympic Games in international sports games in terms of scale. The Group has reached agreements to provide professional sports equipment and apparel products to teams and workers from 16 different countries.

361° has rolled out in selected outlets in Shenzhen neighboring cities and major provincial capitals product series developed specifically for Universiade from May 2011, featuring a different theme in every month with special in-store promotions to drive sales.

The Group proceeded with its sole title sponsorships for six national volleyball tournaments in the People's Republic of China ("PRC")won in August 2010, including Men/Women's National Volleyball Leagues, Men/Women's National Volleyball Grand Prize Cup and Men/Women's National Volleyball Championship Cup ("Volleyball Tournaments") between 2010 and 2015. The Group will provide players, coaches, organizing officials and working staff of these tournaments with sports footwear, apparels and accessories.

This series of Volleyball Tournaments is the highest ranked events of its kind at the national level and is jointly organized by China Volleyball Association and CCTV 5. The Volleyball Tournaments will be titled "*361°* Men/Women's National Volleyball Leagues", "*361°* Men/Women's National Volleyball Grand Prize Cup" and "*361°* Men/Women's National Volleyball Championship Cup" and broadcasted at prime viewing hours at CCTV 5.

Product design and development

The Group firmly believes that product design and development forms a key cornerstone in the success of a sports brand and is increasing expenditure in this area. During the course of the year under review, the Group secured the services of a group of talented designers who had developed years of expertise working for top notch OEM manufacturers for some of the leading sports brands in the world. This partnership is based in Guangzhou, where the *361°* Asian Design Centre is housed in self-contained facilities that featured the latest equipment in design and development facilities. It includes a testing track where professional athletes undergo intensive testing as part of the development of their sports gear.

The Group also entered into a partnership with the Beijing Institute of Fashion Technology in Beijing to stay abreast of all the latest trends in fashion, fabrics and styles.

All these efforts will help to ensure products paraded at each Trade Fair has a high degree of commercial success and the investment in design and development is easily recouped by higher brand value as reflected in higher average wholesale selling price ("ASP"). In the three Trade Fairs held during the year under review, ASP from the Fairs have recorded an increase. Consistent appropriation of abundant resources to strengthen product design and development capabilities helps the Group staying on the cutting edge of the latest technological advancements and styles. These efforts allow *361°* products to consistently meet the stringent requirements of professional athletes while accommodating changing consumer preferences for trends and styles.

In response to the increasingly stringent requirements by the average amateur customers on professional functionalities of sporting goods they spend on, and thanks to the heightened consciousness of a healthier lifestyle, the Group has realized more than ever the catalytic enhancement effect of advancing product design and technology that will bring about to enhancing brand value and product selling prices.

The Group has independent R&D and design departments dedicated to footwear, apparel and accessory products based in two R&D centres in Jinjiang and Guangzhou and one high-performance sports apparel design centre in Beijing. As of 30 June 2011, there were 182 full-time design professionals for the footwear R&D design department and 155 for the apparel and accessory R&D and design departments.

There are also 2 footwear laboratories and one apparel laboratory to conduct tests and collect performance data. The Group currently owns 22 patents for footwear products. In collaboration with external design agencies, *361°* caters to consumer trends while echoing thematic elements from our integrated marketing campaigns to establish a unified image for our brand and products.

Production

An important characteristic of FY2011 is that it marked the completion of construction of the Group's second manufacturing facility in Jinjiang, namely the Wuli Industrial Park. Whilst the land was acquired in 2008, the civil works were started in 2009 and by the end of this financial year, the development is substantially complete. This new facility encompasses a new workshop for the manufacture of apparel, a relatively new development for the Group. It believes that by engaging in such a manufacture in a small but meaningful way, the Group would be able to keep abreast of trends and costs in the apparel industry. This new workshop when operating at its optimal capacity has a production target of about 5 million pieces per annum, which is about 16% of the sales volume of the Group during the year.

As at 30 June 2011, there were 23 footwear production lines in Wuli and Jinjiang, bringing the total inhouse capacity to approximately 21 million pairs, or about 70% of the Group's sales volume during the year.

The Wuli Industrial Park is not just another production base. The opportunity has been taken to develop comprehensive facilities which will serve the needs of the Group well into the future. These are the Trade and Exhibition Halls where the various Trade Fairs are held every year. There is also a central warehouse to receive finished goods and to dispatch them to the distributors just as quickly.

The Group believes that one of its competitive strengths is in-house production of footwear and recognizing the challenges of retaining production labour at a time of dwindling availability in the market, it has developed comprehensive facilities for staff welfare. In addition to the usual dormitories, canteens and basketball courts, there are the internet hall, sports facilities such as snooker and table tennis tables, a gymnasium, a library and mini-cinemas and meeting rooms. In essence, the average production worker now has access to all the amenities of a recreational and sporting life. In the longer term, this will pay dividends in the form of a stable workforce and improved productivity.

The production direct labour workforce at the end of June 2011 stood at 6,882, an increase of about 6% from the year before as manufacturing and hence the worker recruitment in Wuli was introduced in stages from April 2010.

The Group has a 51% owned subsidiary with a leading Taiwanese specialist for the manufacture of sole with the intention that the factory supplies this key component on a cost-effective and regular basis. During the financial year, this subsidiary completed its full year of operations and made a small loss. However, in recent months, with a higher level of production, the subsidiary has begun to break even.

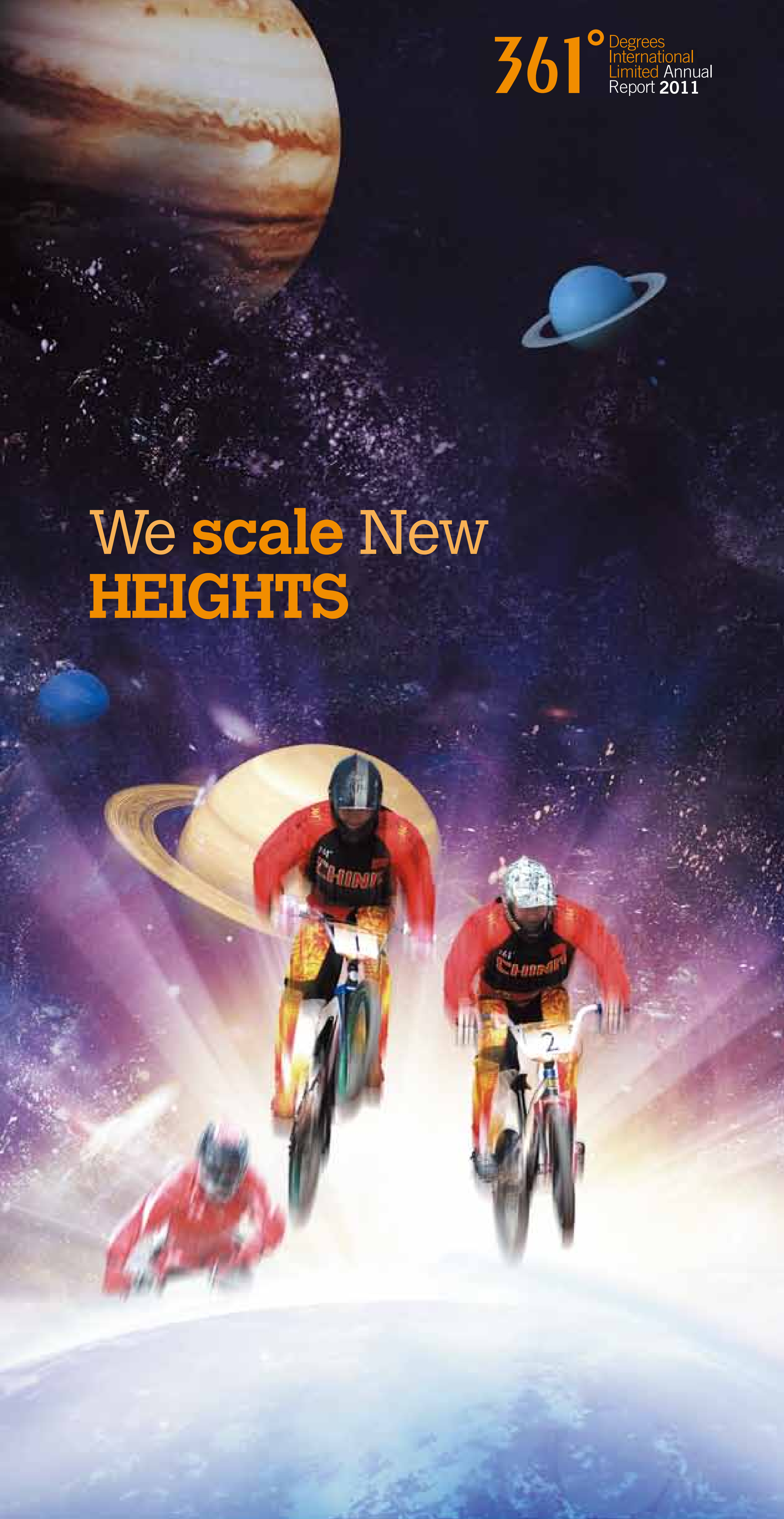
The factory of this subsidiary is based in Jinjiang City, Fujian Province and is run and managed by the Taiwanese partner although the Group controls the board.

Awards

During the financial year, the Group has been awarded Silver Award in Astrid Awards for Annual Reports, non-traditional category; and Gold Award in Grand Award for Best of the Best Annual Report for its Annual Report 2009/10.

In December 2010, The *361°* brand was listed 44th in a study of the top 50 brands in China, carried out by Millward Brown, which included only two other sports brands.

In November 2010, the Group had been selected by Forbes as one of the "Best Under A Billion" companies listed in the Forbes Asia September 2010 issue.


361° Degrees International Limited Annual Report 2011
We scale New HEIGHTS
CHINA
CHINA
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FINANCIAL REVIEW

Turnover

The Group registered a total turnover of RMB 5.5 billion for FY2011, an overall growth of 26.1% compared with the turnover for the previous financial year. The bulk of the improvement came from footwear, which posted healthy increases in both volume and average selling price. There was a marginal increase in revenues for apparel where higher selling prices offset lower volumes as increased competition in the industry meant that distributors were understandably slower in taking delivery of some products.

The deliveries for the year primarily comprised orders taken for three Trade Fairs (2010 Winter, 2011 Spring/Summer and the 2011 Autumn). At the 2011 Autumn Trade Fair held in December 2010, the wholesale discount was reduced to 60%, an adjustment made to reflect the stronger equity in the brand and the increasing maturity of the distribution model. This adjustment was made without affecting the overall pricing structure to the retailers in an effort to preserve their margins in the face of higher overheads such as rentals.

361° Kids, a separate product group, continued its relatively modest start, with revenues topping RMB238.7 million in this first full year of operations against RMB37.6 million for the financial year ended 30 June 2010 (“FY2010”).

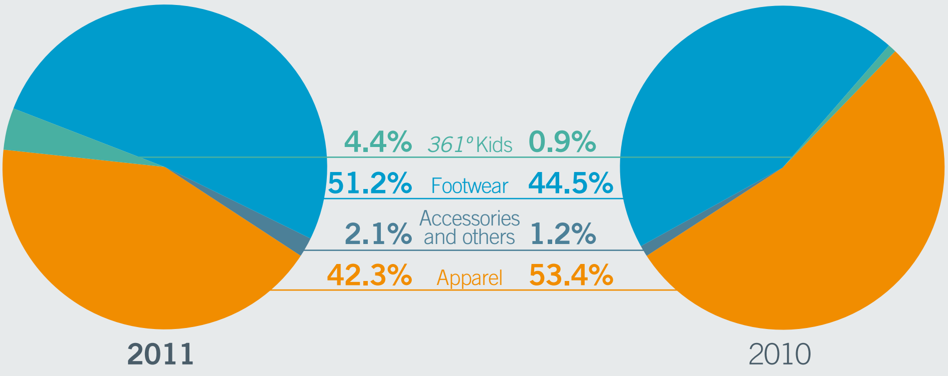
The following table sets forth a breakdown of the Group’s turnover by products during the financial year:

	For the financial year ended 30 June 2011		2010		
	RMB’000	**% of Turnover**	RMB’000	% of Turnover	Change (%)
(a) By Products					
***361°* Products — Adults**					
Footwear	**2,793,741**	**51.2**	1,929,018	44.5	44.8
Apparel	**2,311,955**	**42.3**	2,310,995	53.4	0.1
Accessories and others(1)	**116,881**	**2.1**	53,154	1.2	119.9
***361°* Products — Kids**	**238,663**	**4.4**	37,637	0.9	534.1
Total	**5,461,240**	**100.0**	4,330,804	100	26.1

Note:

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

Table of Turnover by Products



In terms of revenue mix, the weightage shifted in favour of footwear in FY2011, which accounted for about 51.2% of the total against 44.5% in the previous year. However, this is primarily a function of revenue recognition upon deliveries and does not represent a longer term trend. The retail market for apparel remains very much larger and so is the orders received at the Trade Fairs.

There is a small but appreciable improvement in accessories as higher quality products enabled a strong rise in both ASP and volume, but still the contribution remains relatively insignificant.

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

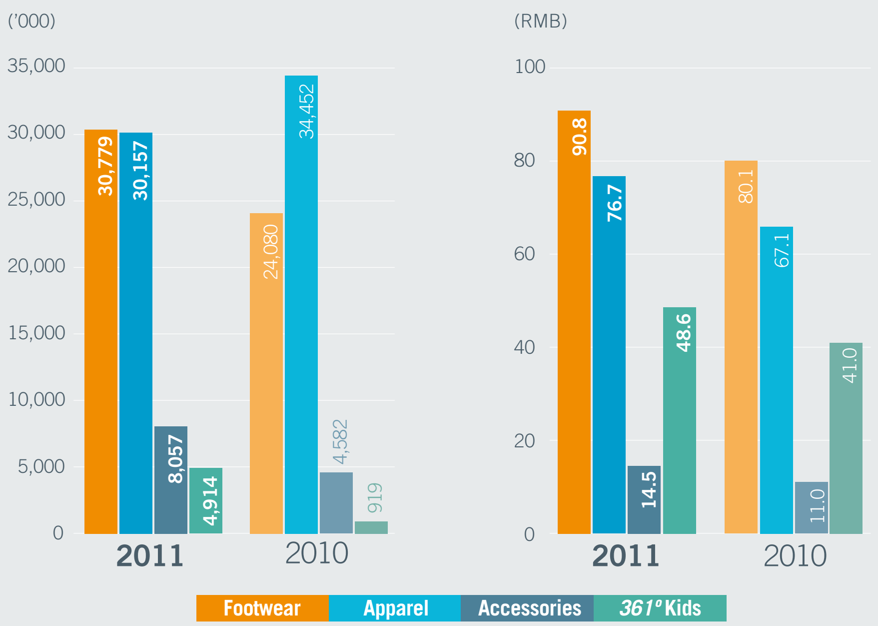
	For the financial year ended 30 June			
	2011		2010	
	Total units sold '000	**Average wholesale selling price[(1)] RMB**	Total units sold '000	Average wholesale selling price[(1)] RMB
(b) By Volume and ASP				
***361°* Products — Adults**				
Footwear (pairs)	**30,779**	**90.8**	24,080	80.1
Apparel (pieces)	**30,157**	**76.7**	34,452	67.1
Accessories (pieces/pairs)	**8,057**	**14.5**	4,582	11.0
***361°* Products — Kids**	**4,914**	**48.6**	919	41.0

Note:

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

Units Sold

Average Wholesale Selling Price



Management Discussion and Analysis

As is evident from the accompanying chart, the Group remains a leading player in Northern China where it has about 39.0% of its stores. It believes it is gaining market share at the expense of the competition as revenues have improved by 35.5% this year on a relatively large base. The Group is also expanding very quickly in the Western Region where it has increased its presence by 16.3% in terms of store units whilst revenues have leapt by almost 40% in this financial year. As economic development in China further drifts westwards, the Group will stand to gain appreciably in the longer term.

Management Discussion and Analysis

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

		For the financial year ended 30 June				
		2011		2010		
		RMB'000	**% of Turnover**	RMB'000	% of Turnover	Change (%)
(c)	**By Regions**					
	Eastern region[1]	**1,232,218**	**22.6**	1,018,589	23.5	21.0
	Southern region[2]	**1,241,756**	**22.7**	1,126,740	26.0	10.2
	Western region[3]	**929,461**	**17.0**	666,280	15.4	39.5
	Northern region[4]	**2,057,805**	**37.7**	1,519,195	35.1	35.5
	Total	**5,461,240**	**100**	4,330,804	100	26.1

Notes:

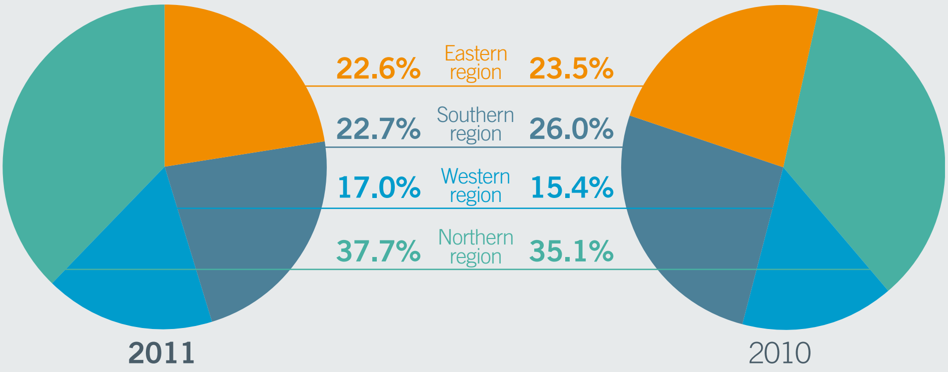
(1) Eastern region includes Jiangsu, Zhejiang, Hubei, Anhui, Hunan, Shanghai and Jiangxi.

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

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

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

Table of Turnover by Regions



Cost of sales

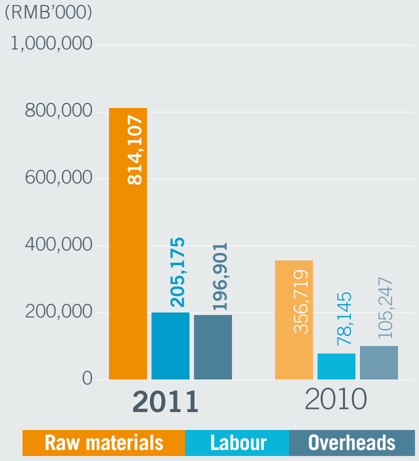
In FY2011, with the availability of the new manufacturing facilities in Wuli, there was a greater reliance on inhouse production of footwear. Up to about 70% of the total pairs sold in the year were internally produced as this gives the Group a cost advantage of about 8 ppts.

However, as the Group has limited capability to produce garments, close to 90% of the products were still out-sourced, leaving internal production to concentrate on higher margin products and those with proprietary rights.

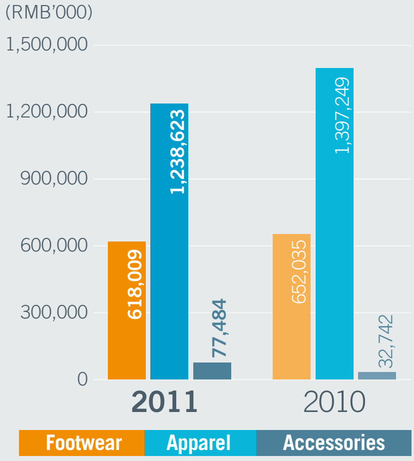
The following table sets forth a breakdown of cost of sales for *361°* products (excluding the cost of sales related to the sales of raw materials) during the financial year:

	For the financial year ended 30 June			
	2011		2010	
	RMB'000	**% of total costs of sales**	RMB'000	% of total costs of sales
***361°* Products**				
Footwear & Apparel (Internal Production)				
Raw materials	**814,107**	**25.8**	356,719	13.6
Labour	**205,175**	**6.5**	78,145	3.0
Overheads	**196,901**	**6.3**	105,247	4.0
	1,216,183	**38.6**	540,111	20.6
Outsourced Products				
Footwear	**618,009**	**19.6**	652,035	24.9
Apparel	**1,238,623**	**39.3**	1,397,249	53.3
Accessories	**77,484**	**2.5**	32,742	1.2
	1,934,115	**61.4**	2,082,026	79.4
Cost of sales for *361°* Products	**3,150,298**	**100**	2,622,137	100

Cost of Sales for *361°* Products Internal Production



Cost of Sales for *361°* Products Outsoured Products



Management Discussion and Analysis

Gross profit and gross profit margin

Despite a very challenging year in terms of rising costs, the Group has managed to increase its gross profit margin to 42.3%, a very commendable 2.9% improvement when compared to FY2010. This has been achieved by leveraging on in-house production at a time when many OEM suppliers were struggling to find sufficient labour as well as maintaining working capital.

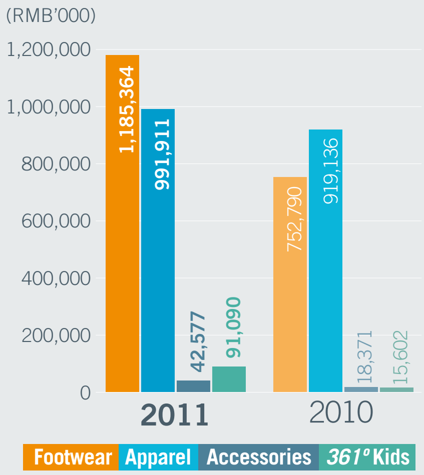
The Group considers its manufacturing capability of footwear as one of its competitive advantages and this is clearly manifested in FY2011 where over 21 million pieces were produced at substantially lower cost. In the case of apparel, the Group works on a cost-plus basis and managed to capitalize on its long-standing relationship with these third-party suppliers by maintaining its usual mark-ups, which meant effectively that the higher cost of raw materials had largely been passed on to the consumers.

In terms of gross profit contributions, footwear, enjoying a largely successful year, accounted for the bulk of the improvement in gross margins, but this was dampened by lower contribution from apparel because of its lower volume this year. *361°* Kids, having completed its full year of operations, accounted for the balance.

The following tables set forth a breakdown of the gross profit and gross profit margin for *361°* products (excluding the gross profit and gross profit margin related to sales of raw materials) during the financial year:

	For the financial year ended 30 June			
	2011		2010	
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %
***361°* Products — Adults**				
Footwear	**1,185,364**	**42.4**	752,790	39.0
Apparel	**991,911**	**42.9**	919,136	39.8
Accessories	**42,577**	**36.4**	18,371	36.5
***361°* Products — Kids**	**91,090**	**38.2**	15,602	41.5
Total	**2,310,942**	**42.3**	1,705,899	39.4

Gross Profit by Products



Management Discussion and Analysis

Selling and distribution expenses

As a percentage of turnover, selling and distribution expenses in FY2011 amounted to 12.2%, which is virtually unchanged from that of last year.

Administrative expenses

As would be expected because of a much larger organization, administrative expenses of the Group increased by about 78.5% to RMB276.7 million in this financial year. The primary increase is in R&D expenses which leapt by RMB37.8 million to a total of RMB84.4 million. However, this represents only 1.5% of turnover, and the Group will continue to invest at or above this level, to ensure that its products remain functionally competitive whilst staying in line with the latest designs.

The other sharp increase is in depreciation, which rose from 0.3% to 0.6% because of the additional charges as a result of the expansion into Wuli.

The Group remains vigilant of its costs and believes it has grown to the right size in terms of structure and manpower over the last two years. Future increases in costs will be carefully controlled.

Income tax expenses

The effective tax rate of the Group for FY2011 is 17.5%, an increase of 4.8 ppts from the rate of 12.7% last year. Of its four operating subsidiaries in China, three are now taxable at the standard rate of 25% whereas the only one subsidiary can still enjoy a half-rate tax on its income until December 2012.

In the last financial year, the aforesaid subsidiary was fully exempt from income tax in the 1st half financial year and subject to tax at 50% of the standard tax rate in the remaining period of time.

Profit for the year

The Group has had another good year in FY2011. It has managed to deliver on its orders from the successful Trade Fairs held earlier and leveraged on this additional volume to produce better gross margins. Below-the-line expense items have been relatively kept in check, resulting in highly respectable operating margins, of 26.4%. Despite a higher tax charge which is inevitable as the Group is subject to the tax reforms of the country, the net profit for the year showed an improvement of slightly under 30.5%.

Dividend for the year

The Board recommended a final dividend of RMB16.1 cents (equivalent to HK19.4 cents) per share, subject to approval by the shareholders at the forthcoming annual general meeting. Including the interim dividend of RMB7.1 cents (equivalent to HK8.3 cents) per share for the six months ended 31 December 2010 already paid, total payout for the year amounted to RMB23.2 cents (equivalent to HK27.7 cents) per share or RMB479.7 million in aggregate, representing 40.1% of the profit attributable to equity shareholders of the Company for the financial year. It is expected that the final dividend, if approved by shareholders at the forthcoming annual general meeting of the Company, will be paid to shareholders by 31 October 2011.

Liquidity and financial resources

During the current year, net cash inflow from operating activities of the Group amounted to RMB605.0 million (2010: RMB1,125.5 million). As at 30 June 2011, cash and cash equivalents, including bank deposits and cash in hand, and fixed deposits with original maturities not exceeding three months, amounted to RMB2,229.4 million, representing a net increase of RMB674.8 million as compared to the position as at 30 June 2010. The increase was attributed to the following items:

	For the year ended 30 June 2011 RMB'000	For the year ended 30 June 2010 RMB'000
Net cash inflow generated from operating activities	**605,002**	1,125,490
Net capital expenditure	**(504,553)**	(358,262)
Dividends paid	**(332,722)**	(223,065)
Proceeds from new bank loans	**40,661**	224,000
Repayment of bank loans	**(27,429)**	(491,000)
Proceeds from new shares issued, net of issuing expenses	**—**	200,878
Proceeds from shares issued under share option scheme	**7,668**	—
Withdrawal/(placement) of fixed deposit (with maturity over three months)	**800,715**	(936,085)
Other net cash inflow	**85,439**	29,084
Net increase/(decrease) in cash and cash equivalents	**674,781**	(428,960)

The Group has always been pursuing a prudent treasury management policy and is in a strong liquidity position with sufficient standby banking facilities to cope with daily operations and future development demands for capital. As at 30 June 2011, total available banking facilities of the Group amounted to RMB2,453.0 million, among which the amount of outstanding bank borrowings and bills payable were RMB13.2 million and RMB214.1 million respectively. The ratio of outstanding bank borrowings to total assets was 0.2% (2010: zero).

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

Foreign Exchange Risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. Part of the Group's cash and bank deposits are denominated in Hong Kong Dollars. The Group also pays the declared dividends in Hong Kong Dollars.

During the year, the Group did not hedge any foreign exchange exposure against foreign currency risk.

Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group.

Pledge of Assets

As at 30 June 2011, the Group secured its bank facilities by pledging its land use right with a carrying amount of RMB32.1 million (2010: RMB32.7 million).

WORKING CAPITAL MANAGEMENT

The Group recognizes the importance of ensuring that strong positive cash flows from the operations will help to ensure that it can stay competitive and capture every business opportunity. In the year under review, the Chinese Government had tightened monetary policies and this has driven liquidity out of the system and created some difficulties in certain quarters, especially for smaller businesses.

The average working capital cycle for the Group for FY2011 was 20 days (FY2010: 1 day). This is a very strong measure by any standard, and certainly among the best in the industry.

The average inventory turnover cycle was 19 days, a slight deterioration from the 15 days for the previous year, but still reflects a very sound policy and a strong execution of its logistics capability.

The average trade and bills receivable turnover cycle has further improved to 83 days (FY2010: 97 days) as its distributors become financially stronger and had improved liquidity through stronger retail sales. It had also been able to secure its own financing from local banks.

The average trade and bills payable cycle has shortened to 82 days (FY2010: 111 days) as most of the third party suppliers are small or medium enterprises and recent monetary policies had meant that credit is tight. In the past, the Group had issued bills in favour of its suppliers, but the proportion of such usage had dropped dramatically in recent years. In the case of newer and bigger suppliers, the Group had to comply with stricter payment terms.

USE OF PROCEEDS

The shares of the Company were listed on the main board of the Hong Kong Stock Exchange on 30 June 2009 with net proceeds from the global offering of approximately HK$1,905.4 million (after deducting underwriting commissions and related expenses).

Net proceeds from the global offering (HKD million)

Use of net proceeds	Available to utilise	Utilised (as at 30 June 2011)	Unutilised (as at 30 June 2011)
Developing and increasing brand awareness	741.2	457.2	284.0
Developing new production facilities	613.5	613.5	—
Developing children's footwear and apparel sub-brand	171.5	90.3	81.2
Establishment of a new product testing and R&D laboratory	114.3	79.7	34.6
Establishment of an ERP system	74.3	7.5	66.8
General working capital	190.6	190.6	—
	1,905.4	1,438.8	466.6

EMPLOYEES AND EMOLUMENTS

As at 30 June 2011, the Group employed a total of 9,200 full time employees in the PRC which included management staff, technicians, salespersons and workers. For the year ended 30 June 2011, the Group's total expenses on the remuneration of employees was RMB369.6 million, representing 6.8% of the turnover of the Group. The Group's emolument policies are formulated based on the performance of individual employees, which will be reviewed periodically. Apart from the provident fund scheme (operation in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

PROSPECTS

There are initial signs that China's recent rounds of credit tightening measures are beginning to take effect. Keeping a lid on inflation remains the biggest challenge but the general consensus is that the economic growth will still be maintained at a moderate rate. Whilst the longer-term fundamentals for the industry remain unchanged in that increasing urbanization and a change of life-styles will be key drivers, the short term concerns focus on intensifying completion and cost control.

The Group has considerable advantages in a more competitive environment. Higher brand equity, a comprehensive network of retailers and distributors, product leadership and a strong management team will ensure that it will continue to deliver superior returns to its shareholders.

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 30 June 2011.

Registered office and principal place of business in Hong Kong

361 Degrees International Limited ("the Company") is a company incorporated and domiciled in Cayman Islands and has its registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, Cayman Islands and its principal place of business in Hong Kong at Rm 3901, 39/F, COSCO Tower, 183 Queen's Road Central, Hong Kong, respectively.

Principal activities

The principal activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiaries are set out in note 12 to the financial statements.

Major customers and suppliers

The information in respect of the sales and purchases attributable to the major customers and suppliers of the Company and its subsidiaries ("the Group") respectively during the financial year is as follows:

At no time during the financial year have the directors, their respective associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had any interest in any of these major customers and suppliers.

Financial statements

The profit of the group for the year ended 30 June 2011 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 58 to 112.

Transfer to reserves

Profits attributable to equity shareholders, before dividends, of RMB1,196,133,000 (2010: RMB916,814,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

An interim dividend of RMB7.1 cents (2010: RMB4.3 cents per share) per share was paid on 4 April 2011. The directors recommend, subject to the shareholders approval at the forthcoming annual general meeting, the payment of a final dividend of RMB16.1 cents per share (2010: RMB9.0 cents per share) for the year ended 30 June 2011.

	Percentage of the group's total	
	Sales	Purchases
The largest customer	15%	
Five largest customers in aggregate	40%	
The largest supplier		7%
Five largest suppliers in aggregate		22%

Charitable donations

Charitable donations made by the Group during the financial year amounted to RMB424,000 (2010: RMB3,860,000).

Fixed assets

Details of the movements in fixed assets during the year are set out in note 11 to the financial statements.

Report of the Directors

Share capital

Details of the movements in share capital of the Company during the financial year are set out in note 23(c) to the financial statements.

Purchases, sales or redemptions of the Company's shares

During the year ended 30 June 2011, the Company repurchased 900,000 shares of the Company on the Hong Kong Stock Exchange. Of these repurchased shares, 400,000 shares were cancelled on 26 January 2011 and the balance of 500,000 shares were cancelled subsequently on 21 April 2011. Details of the repurchases of shares were as follows:

Month of repurchase	Number of shares repurchased	Price paid per share Highest HK$	Price paid per share Lowest HK$	Aggregate price paid HK$
January 2011	200,000	5.31	5.31	1,062,960
January 2011	200,000	5.10	5.10	1,019,660
March 2011	265,000	4.88	4.83	1,290,842
March 2011	235,000	4.95	4.82	1,147,693
	900,000			4,521,155

Save as disclosed above, at no time during the year ended 30 June 2011 was there any purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Directors

The directors during the financial year and up to the date of this report were:

Executive directors

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

Independent non-executive directors

Mr Mak Kin Kwong
(resigned on 2 August 2011)
Mr Yan Man Sing Frankie
(appointed on 9 August 2011)
Mr Sun Xianhong
Mr Liu Jianxing

Pursuant to Article 84 of the Articles of the Association of the Company, at each annual general meeting, one-third of the directors for the time being shall retire from office by rotation.

By virtue to Articles 84 and 85 of the Articles of the Association of the Company, Mr Ding Huihuang, Mr Ding Wuhao and Mr Sun Xianhong will retire from office by rotation at the forthcoming annual general meeting ("AGM"). In addition, pursuant to Article 83 of the Articles, Mr. Yan Man Sing Frankie, who was appointed by the Board as a Director to fill a causal vacancy on the Board in August 2011, will hold office until the AGM, being the first general meeting after this appointment, and will retire and subject to re-election from office at the AGM. Being eligible, each of them will offer themselves for re-election.

Directors' service contracts

No director purposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at 30 June 2011, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which were required to be notified to the company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the directors of Company (the "Model Code") contained in the Rules of Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") were as follows:

Long position in the company

Name of director	Nature of interest	Number of shares (ordinary shares)	Percentage
Mr Ding Wuhao (1)	Interest in controlled corporation	375,000,000	18.14%
Mr Ding Huihuang (2)	Interest in controlled corporation	360,000,000	17.41%
Mr Ding Huirong (3)	Interest in controlled corporation	360,000,000	17.41%
Mr Wang Jiabi (4)	Interest in controlled corporation	187,500,000	9.07%

Notes:

(1) Mr Ding Wuhao is deemed to be interested in 375,000,000 shares of the company held by Dings International Company Limited by virtue of it being controlled by Mr Ding Wuhao. He is the brother-in-law of both Mr Ding Huihuang and Mr Ding Huirong.

(2) Mr Ding Huihuang is deemed to be interested in 360,000,000 shares of the company held by Ming Rong International Company Limited by virtue of it being controlled by Mr Ding Huihuang. He is the elder brother of Mr Ding Huirong and the brother-in-law of Mr Ding Wuhao.

(3) Mr Ding Huirong is deemed to be interested in 360,000,000 shares of the company held by Hui Rong International Company Limited by virtue of it being controlled by Mr Ding Huirong. He is brother of Mr Ding Huihuang and the brother-in-law of Mr Ding Wuhao.

(4) Mr Wang Jiabi is deemed to be interested in 187,500,000 shares of the company held by Jia Wei International Co., Ltd. by virtue of it being controlled by Mr Wang Jiabi.

Apart from the foregoing, as at 30 June 2011, none of the directors or chief executive of the Company or any of their spouses or children under eighteen years of age had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company, or any of its holding companies, subsidiaries or other associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

At no time was the Company, or any of its holding companies or subsidiaries a party to any arrangements to enable any director and chief executive of the Company (including their spouses and children under 18 years of age) to hold any interest or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

Share option scheme

Pre-IPO Share Option Scheme

The Company has adopted a Pre-IPO Share Option Scheme on 10 June 2009 for the purpose of giving its employees, advisors, consultants and business partners an opportunity to have a personal stake in the Company and help to motivate them to optimise their future performance and efficiency to the group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such employees, advisors, consultants and business partners who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group. Options to subscribe for an aggregate of 20,380,000 shares were granted to 10 members of the senior management, 58 employees of the Group and 23 shareholders and members of senior management of the Group's distributors on 10 June 2009. The exercise price per share is HK$2.89, being a discount of 20% to the final offer price of the share under the global offering. Each grantee of options under the Pre-IPO Share Option Scheme was required to pay the Company HK$1.0 upon acceptance of the grant on or before 28 days after the offer date.

No further options would be granted under the Pre-IPO Share Option Scheme on or after listing of the Company on the Stock Exchange on 30 June 2009. All options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manner and, in any event, cannot be exercised for a period of twelve months from 30 June 2009:

Exercise period

	Number of options '000	Commencement of exercise period	Maximum percentage of options exercisable
Date of grant of Options:			
— 10 June 2009	6,114	One year from the date of listing of the Company's shares	30%
— 10 June 2009	6,114	Two years from the date of listing of the Company's shares	30%
— 10 June 2009	8,152	Three years from the date of listing of the Company's shares	40%
	20,380		100%

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

Details of movements of the options granted under the Pre-IPO Share Option Scheme as at 30 June 2011 are as follows:

Grantees	Date of grant	Exercise price per share	Number of Shares issuable under the options as at 30 June 2010	exercised during the year[1]	lapsed during the year	cancelled during the year	as at 30 June 2011
Senior Management							
In aggregate	10/06/2009	2.89	7,420,000	(1,677,000)	—	—	5,743,000
Employees							
In aggregate	10/06/2009	2.89	7,960,000	(813,000)	—	—	7,147,000
Business Partners							
In aggregate	10/06/2009	2.89	5,000,000	(600,000)	—	—	4,400,000
			20,380,000	(3,090,000)	—	—	17,290,000

Note:

(1) The weighted average dosing price per share immediately before the dates of exercise of the options is HK$7.06.

Share Option Scheme

The Company has adopted a Share Option Scheme on 10 June 2009 for the purpose of motivating eligible persons to optimise their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the total number of shares in issue at 30 June 2009, i.e. 200,000,000 shares. No options may be granted to any participant of the Share Option Scheme such that the total number of shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant under the Share Option Scheme. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.0 upon acceptance of the grant on or before 28 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

(a) the nominal value of a share;

(b) the closing price of a share as stated in the Hong Kong Stock Exchange's daily quotations sheets on the offer date; and

(c) the average closing price of a share as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from 30 June 2009, after which no further options will be granted or offered.

No options have been granted under the Share Option Scheme up to 30 June 2011.

Information on the accounting policy for share options granted and the weighted average value per option is provided in note 1(l)(ii) and note 21 to the financial statements respectively.

Apart from the foregoing, at no time during the year was the Company, or any of its holding companies or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 30 June 2011, so far as is known to any director or chief executive of the company, the persons (other than the directors and the chief executive of the company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were directly or indirectly, interested in 10% of more of the nominal value of the any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group were as follows:

Name of shareholders	Note	Long position in ordinary shares held	Percentage of total issued shares
Dings International Company Limited	(1)	375,000,000	18.14%
Ming Rong International Company Limited	(2)	360,000,000	17.41%
Hui Rong International Company Limited	(3)	360,000,000	17.41%
Jia Wei International Co., Ltd.	(4)	187,500,000	9.07%
Jia Chen International Co., Ltd.	(5)	187,500,000	9.07%

Notes:

(1) The entire issued share capital of Dings International Company Limited is owned by Mr Ding Wuhao, an executive director and the president of the company. Mr Ding Whuao is the brother-in-law of Mr Ding Huihuang and Mr Ding Huirong.

(2) The entire issued share capital of Ming Rong International Company Limited is owned by Mr Ding Huihuang, an executive director and the chairman of the company. Mr Ding Huihuang is the brother-in-law of Mr Ding Wuhao and brother of Mr Ding Huirong.

(3) The entire issued share capital of Hui Rong International Company Limited is owned by Mr Ding Huirong, an executive director. Mr Ding Huirong is the brother-in-law of Mr Ding Wuhao and brother of Mr Ding Huihuang.

(4) The entire issued share capital of Jia Wei International Co., Ltd. is owned by Mr Wang Jiabi, an executive director. Mr Wang Jiabi is the brother of Mr Wang Jiachen.

(5) The entire issued share capital of Jia Chen International Co., Ltd. is owned by Mr Wang Jiachen, who is the brother of Mr Wang Jiabi.

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company as at the date of this annual report, the Directors of the Company are satisfied that the Company has maintained the prescribed minimum public float under the Listing Rules.

Directors' interests in contracts

No contract of significance to which the Company, or any of its holding companies or subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

Directors' interests in competing business

As at 30 June 2011, none of the directors or their respective associates had any business or interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group. Please also refer to the paragraph headed "Compliance with the Deed of Non-competition" below.

Compliance with the Deed of Non-competition

Each of Mr Ding Wuhao, Dings International Company, Mr Ding Huihuang, Ming Rong International Company Limited, Mr Ding Huirong and Hui Rong International Company Limited (collectively the "Covenantors" and each a "Covenantor") confirmed that, as at 30 June 2011, it is in compliance with the terms of the deed of non-competition ("Deed of Non-competition") dated 10 June 2009 signed by each of them in favour of the Group.

To monitor the compliance of the terms of the Deed of Non-competition by the Covenantors, the independent non-executive directors have reviewed, among others, the business activities undertaken by the Covenantors (if any) outside of the Group. Based on the result of such review, the independent non-executive directors are satisfied that the Covenantors have complied with the terms of the Deed of Non-competition for the financial year ended 30 June 2011.

Bank loans and other borrowings

Particulars of bank loans and other borrowings of the Group as at 30 June 2011 are set out in note 18 to the financial statements.

Financial summary

A summary of the results and of the assets and liabilities of the Group is set out on pages 6 and 7 of the annual report.

Retirement schemes

The Group operates a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

The employees of the subsidiaries in the People's Republic of China are members of the retirement schemes operated by the local authorities. The subsidiaries are required to contribute a certain percentage of the eligible employees' salaries to these schemes to fund the benefits. The only obligation of the group with respect to these schemes is the required contributions under the schemes.

The Group's total contributions to retirement schemes charged to the consolidated income statement during the year ended 30 June 2011 amounted to RMB11,518,000 (2010: RMB4,454,000).

Confirmation of independence

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

Code on Corporate Governance Practices

The directors are of the opinion that the Group has complied with the requirements of all code provisions of the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules during the financial year.

Directors' securities transactions

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Upon enquiring by the company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code during the year ended 30 June 2011.

Audit Committee

The Audit Committee has reviewed with management and the external auditor the accounting principles and polices adopted by the Group and the audited annual consolidated financial statements for the year ended 30 June 2011.

Auditors

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the board

DING HUIHUANG
Chairman

Hong Kong, 23 August 2011

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in the Appendix 14 of the Listing Rules during the year ended 30 June 2011.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions. Having made specific enquiries of all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code for the year under review.

BOARD OF DIRECTORS

The overall management of the Group's business is vested in the Board. Key responsibilities include formulation of the Group's overall strategies and policies, setting of performance targets, evaluation of business performance and oversight of management. The management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group.

As at 30 June 2011, the Board comprises four executive Directors and three independent non-executive Directors. Biographical details of the current Directors and the relationships between the Directors (if any) are set out in the section headed "Directors and Senior Management" of this annual report.

On 2nd August, one of the independent non-executive Directors, Mr Mak Kin Kwong ("Mr Mak") has resigned from his position and the Board has appointed Mr Yan Man Sing Frankie ("Mr Yan") to replace Mr Mak on 9th August 2011. The details of Mr Yan's biography is set out in the section headed "Director and Senior Management" of the annual report.

Brief details of the attendance of the board meetings held during the year under review were summarized as follows:

	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Mr. Ding Huihuang (Chairman)	9/9	N/A	N/A	N/A
Mr. Ding Wuhao (President)	9/9	N/A	N/A	1/1
Mr. Ding Huirong (Vice President)	9/9	N/A	N/A	N/A
Mr. Wang Jiabi (Vice President)	7/9	N/A	1/1	N/A
Independent Non-executive Directors				
Mr. Mak Kin Kwong *(resigned on 2 August 2011)*	4/9	2/2	N/A	1/1
Mr. Sun Xianhong	4/9	2/2	1/1	N/A
Mr. Liu Jianxing	4/9	2/2	1/1	1/1

Note: Number of meetings attended/number of meetings held.

The composition of the Board is well balanced with the Directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The executive Directors and independent non-executive Directors bring a variety of experience and expertise to the Company. In determining the independence of the independent non-executive Directors, the Board follows the requirements set out in the Listing Rules. The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

THE ROLES OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The divisions of responsibilities between the Chairman of the Board, Mr. Ding Huihuang, and the President, Mr. Ding Wuhao, who effectively performs the functions of the Chief Executive Officer of the Group, are clearly defined and have been approved by the Board. Mr. Ding Wuhao is the brother-in-law of Mr. Ding Huihuang.

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. He is primarily responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda.

The President is directly in charge of the daily operations of the Group and are accountable to the Board for the financial and operational performance of the Group.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 30 June 2009, subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than three months' prior written notice.

Each of independent non-executive Directors has entered into a service contract with the Company for an initial term of three years from their respective dates of appointment, subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than three months' prior written notice.

In accordance with the Company's articles of association, each year, one third of the Directors (including executive Directors and independent non-executive Directors) for the time being will retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years at the general meeting.

BOARD COMMITTEES

As an integral part of good corporate governance practices, the Board established the following Board committees to oversee particular aspects of the Group's affairs. Each of these committees comprises entirely independent non-executive Directors who have invited to serve as members. These committees are governed by the respective written terms of reference approved by the Board.

Audit Committee

The audit committee of the Company ("Audit Committee") was established on 10 June 2009 with written terms of reference in compliance with the Code. The Audit Committee comprises three members, all are independent non-executive Directors, namely Mr. Mak Kin Kwong, Mr. Sun Xianhong and Mr. Liu Jianxing. Mr. Mak, the Chairman of the Committee, resigned as an independent non-executive Director on 2 August 2011 and ceased to be the Chairman and member of the Audit Committee. His role was replaced by Mr. Yan Man Sing Frankie.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 30 June 2011, including the accounting principles and practice adopted by the Group.

The primary duties of the Audit Committee are mainly to review the material investment, capital operation an material financial system of our Company; to review the accounting policy, financial position and financial reporting procedures of our Company; to communicate with external audit firms; to assess the performance of internal financial and audit personnel; and to assess the internal controls of the Company.

The audit committee has held two meetings for the year ended 30 June 2011 to discuss the auditing, internal controls and financial reporting matters of the Company.

Remuneration Committee

The remuneration committee of the Company ("Remuneration Committee") was established on 10 June 2009 with written terms of reference in compliance with the Code. During the year, the Remuneration Committee comprises three members, namely Mr. Wang Jiabi, Mr. Sun Xianhong and Mr. Liu Jianxing. Mr. Wang Jiabi is the Chairman of the Remuneration Committee and the other two are independent non-executive Directors.

The primary duties of the Remuneration Committee are to review the terms of the remuneration package of each Director and member of senior management and making recommendations to the Board regarding any adjustment thereof. No Director shall participate in any discussion about his or her own remuneration.

The emolument policy of the employees of the Group is determined on the basis of their merit, qualifications and competence.

The emolument of the Directors are recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance, experience, responsibility, workload and time devoted to the Company and comparable market statistics. Each of the executive Directors is entitled to a basic salary which is reviewed annually. In addition, each of the executive Directors may receive a discretionary bonus as the Board may recommend, the aggregate amount for all executive Directors shall not exceed 5% of the audited consolidated net profits after tax of the Group for the relevant financial year. Such amount has to be approved by the Remuneration Committee.

The remuneration committee has held one meeting to review and approve the remuneration packages of Directors and senior management of the Group for the year ended 30 June 2011.

Nomination Committee

The nomination committee of the Company ("Nomination Committee") was established on 10 June 2009 with written terms of reference in compliance with the Code. During the year, the Nomination Committee comprises three members, namely Mr. Ding Wuhao, Mr. Mak

Kin Kwong and Mr. Liu Jianxing. Mr. Ding Wuhao is the Chairman of the Nomination Committee and the other two members are independent non-executive Directors. Mr. Mak ceased to be member of the Normination Committee on 2 August 2011 following his resignation as an independent non-executive Director. His role was replaced by Mr. Yan Man Sing Frankie.

The primary duties of the Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board. During the year ended 30 June 2011, no additional Director was appointed.

The nomination committee has held one meeting for the year ended 30 June 2011 to nominate the members of board for retirement and re-election at the forthcoming Annual General Meeting.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare the financial statements for each financial year which give a true and fair view of the state of affairs of the Group. However, the above statement should be read in conjunction with, but distinguished from, the independent auditor's report in the section headed "Independent Auditor's Report" which acknowledges the reporting responsibilities of the Group's auditor.

Auditors' Remuneration

During the year ended 30 June 2011, the remuneration paid or payable to the Group's auditors, KPMG, in respect of their audit and non-audit services are as follows:

	2011	2010
Interim review	—	HK$1,010,000
Statutory audit services	HK$2,580,000	HK$2,100,000
Non-audit services	HK$200,000	HK$300,000
Total	**HK$2,780,000**	**HK$3,410,000**

The Group appointed SHINEWING Risk Services Limited as the independent adviser to carry out an internal control review for the financial year, which is non-audit service by nature, at a fee of HK$200,000 (2010: HK$300,000).

Internal Control

The Board acknowledges its responsibility to ensure that sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interest of shareholders. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

During the year, the Board has conducted reviews of the internal control system of the Company and considered the internal control system of the Company has implemented effectively. External consultants were hired to assist the Board to perform high-level review of internal control systems for selected business operations and processes. Such review covered financial, compliance and operational controls as well as risk management mechanisms.

COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of maintaining clear, timely and effective communication with shareholders of the Company and investors. The Board also recognizes that effective communication with investors is the key to establish investor confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the investors and the shareholders of the Company are receiving accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, interim reports, announcements and circular. The Company also publishes all corporate correspondence on the Company's website, www.361sport.com. The Board maintains regular dialogues with institutional investors and analysts from time to time to keep them informed of the Group's strategy, operations, management and plans. The Directors and the members of the various board committee would attend and answer questions raised on the annual general meeting of the Company. Separate resolutions would be proposed at the general meeting on each substantially separate issue.

The chairman of the general meetings of the Company would explain the procedures for conducting poll before putting a resolution to vote. The results of the voting by poll would be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively.

Shareholders may put forward their proposals or inquiries to the Board by sending their written request to the Company's correspondence address in Hong Kong.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Ding Wuhao (丁伍號), aged 46, is an executive Director and the president of the Company. He is primarily responsible for the Group's overall strategies, planning and business development. He has over 15 years of experience in the PRC sportswear industry. Since December 2006, he has been a member of the Chinese People's Political Consultative Conference ("CPPCC") Fujian Province Jinjiang City Committee (中國人民政治協商會議福建省晉江市委員會). In October 2008, he received the award of the "2008 Most Socially Responsible Entrepreneur in China" (2008年度中國最具社會責任企業家) by the Annual Selection Organising Committee of China Human Resources Management (中國人力資源管理年度評選組委會). In May 2009, he received the "Contribution Award for China TV Sports Programmes" (中國體育電視貢獻獎) by CCTV Sports Channel (中央電視台體育頻道). Mr. Ding is the son-in-law of Mr. Ding Jiantong, and the brother-in-law of Mr. Ding Huihuang and Mr. Ding Huirong. He enrolled in a CEO in China's Enterprise/Finance program at the Cheung Kong Graduate School of Business in May 2011.

Mr. Ding Huihuang (丁輝煌), aged 45, is an executive Director and the chairman of the Company. He is primarily responsible for overall strategies, operation planning and footwear production. He has over 15 years of experience in the PRC sportswear industry. He was awarded the "Top Ten Outstanding Youths in China Industrial Economy" (中國工業經濟十大傑出青年) by the Organising Committee of China Industry Forum (中國工業論壇組委會) in January 2008 and the "Top Ten Outstanding Youth Entrepreneurs of Quanzhou City" (泉州市十大傑出青年企業家) jointly issued by 18 governmental and commercial institutions in Quanzhou City, Fujian Province, the PRC in February 2007. He has been a standing member of the third committee of Quanzhou City Shoe Commercial Association (泉州市鞋業商會) and a vice chairman of Fujian Province Shoe Industry Association (福建省鞋業行業協會) since January 2006 and January 2007 respectively. Mr. Ding is the elder brother of Mr. Ding Huirong and the brother-in-law of Mr. Ding Wuhao.

Mr. Ding Huirong (丁輝榮), aged 39, is an executive Director and a vice president of the Company. He is primarily responsible for financial management and infrastructure construction management of the Company, more specifically the construction of the new production facility and warehouse of the Group at the Wuli Industrial Park. He has over 15 years of experience in financial management. Mr. Ding is the younger brother of Mr. Ding Huihuang and the brother-in-law of Mr. Ding Wuhao.

Mr. Wang Jiabi (王加碧), aged 53, is an executive Director and a vice president of the Company. He is primarily responsible for the human resources and external public relationship. Mr. Wang has over 15 years of experience in the PRC sportswear industry. He has completed an EMBA programme offered by Peking University (北京大學) in January 2010. Mr. Wang is the elder brother of Mr. Wang Jiachen, one of the members of the senior management team.

Directors and Senior Management

Independent non-executive Directors

Mr. Yan Man Sing Frankie (甄文星), aged 53, has many years of experience in financial management, corporate governance, corporate finance, corporate and financial advisory, restructuring, mergers and acquisitions. He was a graduate of Hong Kong Polytechnic University and is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). He is a member of the corporate finance committee of the HKICPA. He is currently a director of the corporate finance department of a securities company, and the company secretary of a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He previously worked in the London and Hong Kong offices of an international auditing firm. He was a senior manager of the Listing Division of the Stock Exchange and a director of the corporate finance department of another securities company.

He was an independent non-executive director as well as member of the audit committee and the remuneration committee of Global Sweeteners Holdings Limited (Stock Code: 3889), a company listed on the Stock Exchange between September 2007 to May 2009.

Mr. Yan is currently a member of the Election Committee of the Hong Kong Special Administrative Region.

Mr. Sun Xianhong (孫先紅), aged 48, is an independent non-executive Director of the Company. Mr. Sun has over 20 years of experience in the media and marketing industries. Since April 2002, he has been a member of the CPPCC of Huhhot City, Inner Mongolia Autonomous Region (中國人民政治協商會議內蒙古呼和浩特市委員會). Mr. Sun was graduated from Taiyuan University of Technology (formerly known as Shanxi Mining College (山西礦業學院)) in July 1985.

Mr. Liu Jianxing (劉建興), aged 36, is an independent non-executive Director of the Company. Mr. Liu has over seven years of experience in macroeconomics and policy research. Mr. Liu is currently the head of the research department of International Cooperation Centre of National Development and Reform Commission ("NDRC") (中華人民共和國國家發展和改革委員會). Mr. Liu received his bachelor's degree in management engineering from Nanchang University (南昌大學) in July 1997, a master's degree in national economics from Peking University (北京大學) in July 2002 and a doctor's degree in national economics from Peking University (北京大學) in July 2005.

SENIOR MANAGEMENT

Mr. Chen Yongling (陳永靈), aged 37, is the head of capital operation department of the Group and is primarily responsible for the Group's overall financial management. He joined the Group in August 2005. Mr. Chen has over 15 years of experience in finance, operation and business management. Mr. Chen received his diploma in business management from Zhejiang University (浙江大學) in January 2007. Mr. Chen holds a qualification certificate for accounting (中國會計師) conferred by the Ministry of Finance of the PRC, a qualification certificate for finance (中國金融師) conferred by the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部), and received the Certificate of Qualification for International Certified Senior Accountant (國際註冊高級會計師) awarded by the International Profession Certification Association (國際認證協會).

Directors and Senior Management

Ms. Choi Mun Duen (蔡敏端), aged 42, joined the Group in October 2008 and is the chief financial officer, an authorised representative and the company secretary of the Company. She has over 16 years of experience in auditing, finance and accounting. She received her bachelor's degree in accounting and finance from University of Glamorgan in the U.K. She is a certified public accountant of the HKICPA and a fellow member of the Association of Chartered Certified Accountants.

Mr. Chen Zhicheng (陳志誠), aged 53, is the general manager of children's wear business of the Group and is primarily responsible for the Group's daily operation and management of children's wear series. He possesses over 17 years of experience in managing renowned international children's wear brands in the children's wear industry of China and Taiwan. He joined the Group in May 2009 and received his bachelor's degree in business administration from National Cheng Kung University in Taiwan in 1981.

Mr. Chen Yuen Feng (陳遠逢), aged 57, is the vice-president of investor relations and is primarily responsible for the Group's investor relationship. He joined the Group in November 2009. Mr. Chen was admitted as an associate member of the Institute of Chartered Accountants in England and Wales in 1980.

Mr. Lou Sen (羅森), aged 49, is the vice president of footwear business and is primarily for the overall daily operation and management of the Group's footwear business. He possesses over 16 years of experience in managing renowned international footwear brands. He joined the Group in December 2009 and gained his bachelor's degree from Henan Institute of Education in 1982.

Ms. Tang Lijun (湯麗軍), aged 48, is the vice president of apparel business of the Group and primarily responsible for strategies, structure building and management of the Group's apparel business. She has more than 10 years of experience in managing famous domestic brands and joined the Group in March 2010. She received her EMBA from Cheung Kong Graduate School of Business in 2009.

Mr. Wang Hongzheng (王宏征), aged 46, is the vice president of operation department of the Group and primarily responsible for daily operation and management in the operation department of the Group. He has over 20 years of experience in managing international and local renowned brands. He joined the Group in October 2010. Mr. Wang received his MBA from Heriot-Watt University in United Kingdom in 2002.

Ms. Zhuchenye (朱晨曄), aged 37, is the vice president of brand management center of the Group and primarily responsible for daily operation and management in the brand management center of the Group. She has over 12 years of experience in managing international renowned sportswear brands. She joined the Group in November 2010. Ms. Zhu received her MBA from China Europe International Business School (中歐國際工商學院) and her bachelor's degree in science from Shanghai Jiao Tong University (上海交通大學) in 2008 and 1995 respectively.

Mr. Yeung Tsz Keung (楊子強), aged 47, is the vice president of supply chain management center and primarily responsible for overall planning in warehouse, logistics and network, integrating data stream and managing enterprise information system deployment of the Group. He has over 28 years of experience in information system related works and has worked in world-renowned enterprises. He joined the Group in January 2011. Mr. Yeung received his bachelor's degree in computer science from University of Ulster in United Kingdom in 1993.

Directors and Senior Management

Mr. Sui Jian (隋健), aged 46, is the vice president of human resources centre of the Group and is primarily responsible for overall human resources management, training and administration in the Group. He has over 17 years of relevant experience in managing international renowned enterprises. He joined the Group in March 2011. Mr. Sui was graduated from the Department of English of Shanghai Normal University (上海師範大學) in 1994.

Mr. Wang Zhiqian (王志謙), aged 39, is the head of the research and development department for the Group's footwear business. Mr. Wang has over 16 years of experience in the PRC sportswear industry. He joined the Group in October 2003. Mr. Wang received his diploma from Jilin Second Light Industry School (吉林省二輕工業學校) in July 1992.

Ms. Zhao Jingli (趙京利), aged 53, is the head of project management centre of the Group and is primarily responsible for project planning and management. She joined the Group in September 2006. Ms. Zhao received her bachelor's degree in business management in Economics Department of Beijing Normal University (北京師範大學) in July 1996.

Mr. Ling Jun (凌雋), aged 36, is the head of the Group's brand department and is primarily responsible for the Group's overall brand management. Mr. Ling has over 5 years of experience in brand management. He joined the Group in April 2008. He received his diploma in the advance program of study in business communication and management from California State University of Sacramento in September 2002. He received his master's degree in business administration from American National University in April 2003.

Mr. Li Xiang (李翔), aged 37, is the head of the equipment and accessories business of the Group and is primarily responsible for the overall management of equipment and accessories. Mr. Li joined the Group in October 2007. Mr. Li has over 10 years of experience in marketing and product management. Mr. Li received his bachelor's degree in art from Hua Zhong Normal University (華中師範大學) in September 1997.

Mr. Wang Jiachen (王加琛), aged 49, is a vice general manager of our footwear business and is primarily responsible for the daily operation of the Group's footwear production and the procurement of the soles. He has over 15 years of experience in footwear production management. He joined the Group in July 2003 and he is the younger brother of Mr. Wang Jiabi, an executive Director.

Ms. Lin Meiyun (林美雲), aged 41, is the head of shoes production department and primarily responsible for the Group's footwear production management. She has more than 19 years of experience in footwear production management in China and joined the Group in October 2009.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of
361 Degrees International Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of 361 Degrees International Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 58 to 112, which comprise the consolidated and company balance sheets as at 30 June 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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 and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 judgement, 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 of the consolidated financial statements that give a true and fair view 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 affairs of the Company and of the Group as at 30 June 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

23 August 2011

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Turnover	3	**5,461,240**	4,330,804
Cost of sales		**(3,150,298)**	(2,624,479)
Gross profit		**2,310,942**	1,706,325
Other revenue	4	**68,810**	32,478
Other net gain	4	**3,392**	1,558
Selling and distribution expenses		**(665,220)**	(533,461)
Administrative expenses		**(276,688)**	(155,048)
Profit from operations		**1,441,236**	1,051,852
Finance costs	5(a)	**(493)**	(3,326)
Profit before taxation	5	**1,440,743**	1,048,526
Income tax	6(a)	**(251,448)**	(133,677)
Profit for the year		**1,189,295**	914,849
Attributable to:			
Equity shareholders of the Company	9	**1,196,133**	916,814
Non-controlling interests		**(6,838)**	(1,965)
Profit for the year		**1,189,295**	914,849
Earnings per share	10		
Basic (cents)		**57.9**	44.5
Diluted (cents)		**57.6**	44.3

The notes on pages 68 to 112 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 23(b).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2011
(Expressed in Renminbi)

	2011 RMB'000	2010 RMB'000
Profit for the year	**1,189,295**	914,849
Other comprehensive income for the year		
Exchange differences on translation of financial statements	**(31,937)**	(16,855)
Total comprehensive income for the year	**1,157,358**	897,994
Attributable to:		
Equity shareholders of the Company	**1,164,196**	899,959
Non-controlling interests	**(6,838)**	(1,965)
Total comprehensive income for the year	**1,157,358**	897,994

The notes on pages 68 to 112 form part of these financial statements. There was no tax effect relating to the components of other comprehensive income.

CONSOLIDATED BALANCE SHEET

at 30 June 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Fixed assets	11		
— Property, plant and equipment		**846,503**	566,239
— Interests in leasehold land held for own use under operating leases		**82,991**	84,768
		929,494	651,007
Deposits and prepayments	14	**166,423**	54,910
Deferred tax assets	22(b)	**13,480**	18,657
		1,109,397	724,574
Current assets			
Inventories	13	**197,255**	132,836
Trade debtors and bills receivable	14	**1,581,658**	895,698
Deposits, prepayments and other receivables	14	**305,316**	219,038
Pledged bank deposits	15	**50,840**	101,200
Deposits with banks		**135,370**	936,085
Cash and cash equivalents	16	**2,229,367**	1,554,586
		4,499,806	3,839,443
Current liabilities			
Trade and other payables	17	**1,174,090**	1,019,830
Bank loans	18	**13,216**	—
Current taxation	22(a)	**137,785**	109,545
		1,325,091	1,129,375
Net current assets		**3,174,715**	2,710,068
Total assets less current liabilities		**4,284,112**	3,434,642
Non-current liabilities			
Deferred tax liabilities	22(b)	**5,342**	3,125
NET ASSETS		**4,278,770**	3,431,517

at 30 June 2011
(Expressed in Renminbi)

Consolidated balance sheet (continued)

	Note	2011 RMB'000	2010 RMB'000
CAPITAL AND RESERVES			
Share capital	23(c)	**182,298**	182,109
Reserves		**4,053,627**	3,214,314
Total equity attributable to equity shareholders of the Company		**4,235,925**	3,396,423
Non-controlling interests		**42,845**	35,094
TOTAL EQUITY		**4,278,770**	3,431,517

Approved and authorised for issue by the board of directors on 23 August 2011

Ding Wuhao
Director

Ding Huihuang
Director

The notes on pages 68 to 112 form part of these financial statements.

BALANCE SHEET

at 30 June 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Non-current asset			
Investment in subsidiary	12	**1**	1
Current assets			
Amounts due from subsidiaries	19	**1,022,576**	863,234
Other receivables	14	**817**	3,733
Deposits with banks		**47,327**	718,685
Cash and cash equivalents	16	**135,309**	352
		1,206,029	1,586,004
Current liabilities			
Amounts due to subsidiaries	19	**19,677**	12,717
Other payables	17	**9,004**	8,916
		28,681	21,633
Net current assets		**1,177,348**	1,564,371
NET ASSETS		**1,177,349**	1,564,372

at 30 June 2011
(Expressed in Renminbi)

Balance sheet (continued)

	Note	2011 RMB'000	2010 RMB'000
CAPITAL AND RESERVES	23(a)		
Share capital		**182,298**	182,109
Reserves		**995,051**	1,382,263
TOTAL EQUITY		**1,177,349**	1,564,372

Approved and authorised for issue by the board of directors on 23 August 2011

Ding Wuhao
Director

Ding Huihuang
Director

The notes on pages 68 to 112 form part of these financial statements.

361° Degrees International Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2011
(Expressed in Renminbi)

	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Other reserve RMB'000
Balance at 1 July 2009		176,340	1,302,833	156,252	82,724
Changes in equity for the year ended 30 June 2010:					
Profit for the year		—	—	—	—
Other comprehensive income		—	—	—	—
Total comprehensive income		—	—	—	—
Shares issued under placing, net of issuing expenses	23(c)(i)	5,769	195,109	—	—
Capital contribution received by a non-wholly owned subsidiary from non-controlling shareholder		—	—	—	—
Equity-settled share-based transactions		—	—	—	—
Appropriation to statutory reserve		—	—	—	—
Dividends declared and paid during the year	23(b)	—	(88,813)	—	—
Balance at 30 June 2010		182,109	1,409,129	156,252	82,724
Balance at 1 July 2010		182,109	1,409,129	156,252	82,724
Changes in equity for the year ended 30 June 2011:					
Profit for the year		—	—	—	—
Other comprehensive income		—	—	—	—
Total comprehensive income		—	—	—	—
Purchase of own shares	23(c)(ii)				
— par value paid		(76)	—	—	—
— premium paid		—	(3,738)	—	—
Shares issued under share option scheme	23(c)(iii)	265	9,582	—	—
Capital contribution received by a non-wholly owned subsidiary from non-controlling shareholder		—	—	—	—
Equity-settled share-based transactions		—	—	—	—
Appropriation to statutory reserve		—	—	—	—
Dividends declared and paid during the year	23(b)	—	(332,722)	—	—
Balance at 30 June 2011		182,298	1,082,251	156,252	82,724

The notes on pages 68 to 112 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 30 June 2011
(Expressed in Renminbi)

Statutory reserve RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Attributable to equity shareholders of the Company						
127,738	490	14,652	649,169	2,510,198	—	2,510,198
—	—	—	916,814	916,814	(1,965)	914,849
—	—	(16,855)	—	(16,855)	—	(16,855)
—	—	(16,855)	916,814	899,959	(1,965)	897,994
—	—	—	—	200,878	—	200,878
—	—	—	—	—	37,059	37,059
—	8,453	—	—	8,453	—	8,453
140,497	—	—	(140,497)	—	—	—
—	—	—	(134,252)	(223,065)	—	(223,065)
268,235	8,943	(2,203)	1,291,234	3,396,423	35,094	3,431,517
268,235	8,943	(2,203)	1,291,234	3,396,423	35,094	3,431,517
—	—	—	1,196,133	1,196,133	(6,838)	1,189,295
—	—	(31,937)	—	(31,937)	—	(31,937)
—	—	(31,937)	1,196,133	1,164,196	(6,838)	1,157,358
—	—	—	—	(76)	—	(76)
—	—	—	—	(3,738)	—	(3,738)
—	(2,179)	—	—	7,668	—	7,668
—	—	—	—	—	14,589	14,589
—	4,174	—	—	4,174	—	4,174
182,784	—	—	(182,784)	—	—	—
—	—	—	—	(332,722)	—	(332,722)
451,019	10,938	(34,140)	2,304,583	4,235,925	42,845	4,278,770

361° Degrees International Limited

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 June 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Operating activities			
Profit before taxation		**1,440,743**	1,048,526
Adjustments for:			
Depreciation	5(c)	**52,048**	22,796
Amortisation of land lease premium	5(c)	**1,777**	1,777
Finance costs	5(a)	**493**	3,326
Interest income	4	**(21,595)**	(14,360)
Net loss on disposal of fixed assets	4	**21**	239
Equity-settled share-based payment expenses	5(b)	**4,174**	8,453
Effect of foreign exchange rates changes		**(31,927)**	(16,855)
Changes in working capital:			
Increase in inventories		**(64,419)**	(49,199)
(Increase)/decrease in trade debtors and bills receivable		**(685,960)**	517,815
Increase in deposits, prepayments and other receivables		**(89,451)**	(36,247)
Increase/(decrease) in trade and other payables		**214,912**	(246,762)
Cash generated from operations		**820,816**	1,239,509
People's Republic of China ("PRC") income tax paid		**(215,814)**	(114,019)
Net cash generated from operating activities		**605,002**	1,125,490
Investing activities			
Payment for the purchase of fixed assets		**(504,553)**	(358,262)
Proceeds from disposal of fixed assets		**29**	—
Decrease/(increase) in pledged bank deposits		**50,360**	(14,500)
Decrease/(increase) in deposits with banks		**800,715**	(936,085)
Interest received		**24,768**	9,851
Net cash generated from/(used in) investing activities		**371,319**	(1,298,996)

Consolidated cash flow statement (continued)

for the year ended 30 June 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000
Financing activities			
Proceeds from new bank loans		**40,661**	224,000
Repayment of bank loans		**(27,429)**	(491,000)
Proceeds from new shares issued, net of issuing expenses	23(c)(i)	**—**	200,878
Proceeds from shares issued under share option scheme	23(c)(iii)	**7,668**	—
Payment for repurchase of shares	23(c)(ii)	**(3,814)**	—
Capital contribution received by a non-wholly owned subsidiary from non-controlling shareholder		**14,589**	37,059
Interest paid		**(493)**	(3,326)
Dividends paid	23(b)	**(332,722)**	(223,065)
Net cash used in financing activities		**(301,540)**	(255,454)
Net increase/(decrease) in cash and cash equivalents		**674,781**	(428,960)
Cash and cash equivalents at the beginning of the year		**1,554,586**	1,983,546
Cash and cash equivalents at the end of the year	16	**2,229,367**	1,554,586

The notes on pages 68 to 112 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 30 June 2011 comprise the Company and its subsidiaries.

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 27.

(c) Subsidiaries and non-controlling interests

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 1(i) or (j) depending on the nature of the liability.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Subsidiaries and non-controlling interests *(Continued)*

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(f)), unless the investment is classified as held for sale.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(f)).

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

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

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

— Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(e) Operating lease charges

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

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

(f) Impairment of assets

(i) Impairment of investments in subsidiaries and receivables

Investments in subsidiaries and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becomes probable that the debtor will enter bankruptcy or other financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Impairment of assets *(Continued)*

(i) Impairment of investments in subsidiaries and receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For investments in subsidiaries, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(f)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(f)(ii).

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Impairment of assets *(Continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that property, plant and equipment, interests in leasehold land held for own use under operating leases and non-current deposits and prepayments may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

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

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Inventories

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

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

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

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

(h) Trade and other receivables

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

(i) Interest-bearing borrowings

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

(j) Trade and other payables

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Cash and cash equivalents

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

(l) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

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

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits.)

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Income tax

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Income tax *(Continued)*

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

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

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

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

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

  — the same taxable entity; or

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

(n) Provisions and contingent liabilities

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

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

(ii) Interest income

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

(iii) Government grants

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

(p) Translation of foreign currencies

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

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

The results of entities with functional currency other than RMB are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Borrowing costs

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

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

(r) Research and development and advertising

Expenditure on research and advertising activities is recognised as an expenses in the period in which it is incurred. Prepayments for advertising are recognised as an expense in equal instalments over the periods covered by the agreement term.

(s) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

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

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Segment reporting

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

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

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

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

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— Improvements to HKFRSs (2009)

— Improvements to HKFRSs (2010)

— HK (Int) 5, *Presentation of Financial Statement - Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause*

— HK(IFRIC)19, *Extinguishing financial liabilities with equity instruments*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 28).

The HK (Int) 5 has had no material impact on the Group's financial statements as they were consistent with policies already adopted by the Group. HK(IFRIC) 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a debt for equity swap).

(Expressed in thousands of Renminbi
unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

The remaining developments related primarily to clarification of certain disclosure requirements applicable to the Group's financial statements. These developments have had no material impact on the contents of these financial statements.

3 TURNOVER

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

	2011 **RMB'000**	2010 RMB'000
Footwear	**2,880,176**	1,944,663
Apparel	**2,459,054**	2,331,828
Accessories and others	**122,010**	54,313
	5,461,240	4,330,804

The Group's customer base is diversified and includes only three customers (2010: two) with whom transactions have exceeded 10% of the Group's revenues. During the year ended 30 June 2011, revenues from sales of footwear, apparel and accessories and others to these customers, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately RMB2,242 million (2010: RMB1,472 million). Details of concentrations of credit risk arising from these customers are set out in 24(a)(i).

4 OTHER REVENUE AND NET GAIN

	2011 **RMB'000**	2010 RMB'000
Other revenue		
Bank interest income	**21,595**	14,360
Government grants	**46,256**	17,223
Others	**959**	895
	68,810	32,478
Other net gain		
Net loss on disposal of fixed assets	**(21)**	(239)
Net foreign exchange gain	**3,413**	1,797
	3,392	1,558

Government grants of RMB46,256,000 (2010: RMB17,223,000) were received from several local government authorities for the Group's contribution to local economies, of which the entitlement was unconditional and under the discretion of the relevant authorities.

Notes to the financial statements

(Expressed in thousands of Renminbi unless otherwise indicated)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		2011 RMB'000	2010 RMB'000
(a)	***Finance costs***		
	Interest on bank borrowings wholly repayable within five years	**493**	3,326
(b)	***Staff costs***		
	Contributions to defined contribution retirement plans	**11,518**	4,454
	Equity-settled share-based payment expenses (note 21)	**4,174**	8,453
	Salaries, wages and other benefits	**353,932**	143,288
		369,624	156,195
(c)	***Other items***		
	Auditors' remuneration	**2,564**	3,020
	Amortisation of land lease premium	**1,777**	1,777
	Depreciation	**52,048**	22,796
	Operating lease charges in respect of properties	**7,821**	5,358
	Research and development costs *	**84,431**	37,824
	Cost of inventories **	**3,150,298**	2,624,479

* Research and development costs include RMB24,534,000 (2010: RMB10,896,000) relating to staff costs of employees in the research and development department, which amount is also included in the total staff costs as disclosed in note 5(b).

** Cost of inventories include RMB266,987,000 (2010: RMB111,088,000) relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

(Expressed in thousands of Renminbi
unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Income tax in the consolidated income statement represents:

	2011 RMB'000	2010 RMB'000
Current tax — PRC income tax		
Provision for the year	**241,059**	162,781
Under/(over) provision in respect of prior years	**2,995**	(4,068)
	244,054	158,713
Deferred tax		
Origination and reversal of temporary differences	**7,394**	(25,036)
	251,448	133,677

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

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

(iii) Pursuant to the income tax rules and regulations of the PRC, provision for PRC corporate income tax is calculated based on a statutory rate of 25% of the assessable profits of the companies comprising the Group. During the year, a PRC subsidiary is subject to tax at 50% of the standard tax rate under the relevant tax rules and regulations.

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

	2011 RMB'000	2010 RMB'000
Profit before taxation	**1,440,743**	1,048,526
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**360,983**	263,644
Tax effect of non-deductible expenses	**38,328**	19,385
Tax effect of non-taxable income	**(3,017)**	(1,843)
Tax effect of profits entitled to tax exemption in the PRC	**(147,841)**	(143,441)
Under/(over) provision in respect of prior years	**2,995**	(4,068)
Actual tax expense	**251,448**	133,677

(Expressed in thousands of Renminbi unless otherwise indicated)

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2011				
	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Discretionary bonus RMB'000	Total RMB'000
Executive directors					
Ding Wuhao	—	2,109	5	—	2,114
Ding Huihuang	—	1,685	5	—	1,690
Ding Huirong	—	1,685	5	—	1,690
Wang Jiabi	—	932	5	—	937
Independent non-executive directors					
Mak Kin Kwong	476	—	—	—	476
Sun Xianhong	320	—	—	—	320
Liu Jianxing	210	—	—	—	210
	1,006	6,411	20	—	7,437

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

(Expressed in thousands of Renminbi
unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with highest emoluments, three (2010: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the remaining two (2010: two) individuals are as follows:

	2011 RMB'000	2010 RMB'000
Salaries and other emoluments	**4,201**	3,221
Equity-settled share-based transactions	—	1,843
Retirement scheme contributions	**168**	6
	4,369	5,070

The emoluments of the two (2010: two) individuals with the highest emoluments are within the following bands:

	2011 Number of individuals	2010 Number of individuals
RMB1,000,001 to RMB2,000,000	—	1
RMB2,000,001 to RMB3,000,000	**2**	—
RMB3,000,001 to RMB4,000,000	—	1

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB5,190,000 (2010: RMB14,917,000) which has been dealt with in the financial statements of the Company.

(Expressed in thousands of Renminbi unless otherwise indicated)

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB1,196,133,000 (2010: RMB916,814,000) and the weighted average number of shares in issue during the year of 2,068 million (2010: 2,061 million), calculated as follows:

Weighted average number of ordinary shares

	2011	2010
	'000	'000
Issued ordinary shares at the beginning of the year	**2,065,412**	2,000,000
Effect of shares issued upon placing and public offering (note 23(c)(i))	**—**	61,469
Effect of shares repurchased (note 23(c)(ii))	**(309)**	—
Effect of share options exercised (note 23(c)(iii))	**2,410**	—
Weighted average number of ordinary shares at the end of the year	**2,067,513**	2,061,469

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB1,196,133,000 (2010: RMB916,814,000) and the weighted average number of ordinary shares of 2,076 million (2010: 2,068 million) adjusted for the potential dilutive effect caused by the share options granted under Pre-IPO share option scheme (note 21(a)), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2011	2010
	'000	'000
Weighted average number of ordinary shares at 30 June	**2,067,513**	2,061,469
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 21)	**8,862**	6,840
Weighted average number of ordinary shares (diluted) at 30 June	**2,076,375**	2,068,309

(Expressed in thousands of Renminbi
unless otherwise indicated)

11 FIXED ASSETS

The Group

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment and other fixed assets RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:								
At 1 July 2009	105,036	45,115	9,020	5,593	102,805	267,569	88,478	356,047
Additions	—	54,449	15,929	2,582	269,687	342,647	—	342,647
Disposals	—	(267)	(65)	(420)	—	(752)	—	(752)
Transfer from construction in progress	220,891	—	41,213	—	(262,104)	—	—	—
At 30 June 2010	325,927	99,297	66,097	7,755	110,388	609,464	88,478	697,942
Accumulated depreciation and amortisation:								
At 1 July 2009	2,373	14,975	1,929	1,665	—	20,942	1,933	22,875
Charge for the year	7,108	4,614	9,807	1,267	—	22,796	1,777	24,573
Written back on disposals	—	(180)	(10)	(323)	—	(513)	—	(513)
At 30 June 2010	9,481	19,409	11,726	2,609	—	43,225	3,710	46,935
Net book value:								
At 30 June 2010	316,446	79,888	54,371	5,146	110,388	566,239	84,768	651,007
Cost:								
At 1 July 2010	325,927	99,297	66,097	7,755	110,388	609,464	88,478	697,942
Exchange adjustments	—	—	(51)	—	—	(51)	—	(51)
Additions	—	50,751	22,742	6,926	251,969	332,388	—	332,388
Disposals	—	(106)	—	—	—	(106)	—	(106)
Transfer from construction in progress	300,090	5,800	12,101	—	(317,991)	—	—	—
At 30 June 2011	626,017	155,742	100,889	14,681	44,366	941,695	88,478	1,030,173
Accumulated depreciation and amortisation:								
At 1 July 2010	9,481	19,409	11,726	2,609	—	43,225	3,710	46,935
Exchange adjustments	—	—	(25)	—	—	(25)	—	(25)
Charge for the year	15,901	12,225	21,754	2,168	—	52,048	1,777	53,825
Written back on disposals	—	(56)	—	—	—	(56)	—	(56)
At 30 June 2011	25,382	31,578	33,455	4,777	—	95,192	5,487	100,679
Net book value:								
At 30 June 2011	600,635	124,164	67,434	9,904	44,366	846,503	82,991	929,494

As at 30 June 2011, fixed assets with aggregate net book value of RMB32,064,000 (2010: RMB32,744,000) was pledged as security for certain banking facilities of the Group totalling RMB133,000,000 (2010: RMB80,000,000).

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

At 30 June 2011, the Group was applying for certificates of ownership for buildings with net book value of RMB272,006,000 (2010: RMB36,021,000) from the relevant PRC government authorities.

Notes to the financial statements

(Expressed in thousands of Renminbi unless otherwise indicated)

12 INVESTMENT IN SUBSIDIARY

	2011 RMB'000	2010 RMB'000
Unlisted share, at cost	1	1

Details of the Company's subsidiaries are set out as below. The class of shares held is ordinary unless otherwise stated.

Name of Company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Sanliuyidu Holdings Company Limited	BVI	US$100	100%	100%	—	Investment Holding
361 Enterprise Company Limited	Hong Kong	HK$1	100%	—	100%	Investment Holding
361 Investment Company Limited	Hong Kong	HK$1	100%	—	100%	Investment Holding
361 Degrees (HK) Investment Limited	Hong Kong	HK$1	100%	—	100%	Investment Holding
Sanliuyidu (Fujian) Sports Goods Co., Ltd 三六一度(福建)體育用品有限公司 (Notes (i) and (iii))	PRC	HK$280,000,000	100%	—	100%	Manufacture and trading of sporting goods
Sanliuyidu (China) Co., Ltd 三六一度(中國)有限公司 (Notes (i) and (iii))	PRC	HK$560,000,000	100%	—	100%	Manufacture and trading of sporting goods
Sanliuyidu Xiamen Industry & Trade Co., Limited 三六一度(廈門)工貿有限公司 (Notes (ii) and (iii))	PRC	RMB100,000,000	100%	—	100%	Trading of sporting goods
Sanliuyidu (Fujian) Shoes and Plastics Technology Co., Ltd 三六一度(福建)鞋塑科技有限公司 (Notes (i) and (iii))	PRC	HK$86,000,000	51%	—	51%	Manufacture and trading of shoes soles
Sanliuyidu (Guangdong) Industry & Trade Co., Limited 三六一度(廣東)工貿有限公司 (Notes (i) and (iii))	PRC	HK$10,000,000	100%	—	100%	Trading of sporting goods

Notes:

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

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

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

(Expressed in thousands of Renminbi
unless otherwise indicated)

13 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2011 RMB'000	2010 RMB'000
Raw materials	**25,190**	24,015
Work in progress	**53,337**	73,904
Finished goods	**118,728**	34,917
	197,255	132,836

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

	The Group	
	2011 RMB'000	2010 RMB'000
Carrying amount of inventories sold	**3,150,298**	2,624,479

14 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Trade debtors and bills receivable				
Trade debtors	**1,598,078**	935,218	**—**	—
Bills receivable	**23,100**	—	**—**	—
Less: allowance for doubtful debts (note 14(b))	**(39,520)**	(39,520)	**—**	—
	1,581,658	895,698	**—**	—
Deposits, prepayments and other receivables				
Deposits	**1,428**	10,498	**—**	—
Prepayments	**442,857**	248,867	**—**	—
Other receivables	**27,454**	14,583	**817**	3,733
	471,739	273,948	**817**	3,733
Less: Non-current portion of deposits and prepayments	**(166,423)**	(54,910)	**—**	—
	305,316	219,038	**817**	3,733

Included in prepayments are amounts prepaid to suppliers of RMB210,194,000 (2010: RMB147,805,000) and payments for acquisition of interest in leasehold land held for own use under operating leases amounting to RMB102,177,000 (2010: RMB37,812,000) respectively.

All of the trade debtors and bills receivable and current portion of deposits, prepayments and other receivables are expected to be recovered within one year, except that the Group's deposits are expected to be recovered or recognised as expenses after more than one year.

(Expressed in thousands of Renminbi unless otherwise indicated)

14 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis

Trade debtors and bills receivable (net of allowance for doubtful debts) have the following ageing analysis, based on the date of invoice, as of the end of the reporting period:

	The Group	
	2011	2010
	RMB'000	RMB'000
Within 90 days	**1,519,287**	801,290
Over 91 days but within 180 days	**62,371**	94,408
	1,581,658	895,698

Trade debtors and bills receivable are due within 30-180 days from the date of billing. Further details on the Group's credit policy are set out in note 24(a)

(b) Impairment of trade debtors

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(f)(i)). There are no movements in the allowance for doubtful debts during the years ended 30 June 2011 and 2010.

At 30 June 2011, the Group's trade debtors of RMB39,520,000 (2010: RMB39,520,000) were individually determined to be impaired. The individually impaired receivables related to a number of customers and management assessed that the receivables were not recoverable. Consequently, specific allowances for doubtful debts were recognised. The Group does not hold any collateral over these balances.

(Expressed in thousands of Renminbi unless otherwise indicated)

14 TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

	The Group	
	2011	2010
	RMB'000	RMB'000
Neither past due nor impaired	**1,368,230**	574,339
Less than 1 month past due	**154,654**	82,988
1 to 3 months past due	**58,774**	238,371
Amount past due	**213,428**	321,359
	1,581,658	895,698

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

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

15 PLEDGED BANK DEPOSITS

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

16 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits with banks	**777,146**	—	**134,746**	—
Cash at bank and in hand	**1,452,221**	1,554,586	**563**	352
	2,229,367	1,554,586	**135,309**	352

At 30 June 2011, the balances that were placed with banks or in hand in the PRC and included in the cash and cash equivalents amounted to RMB1,856,842,000 (2010: RMB1,545,616,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

(Expressed in thousands of Renminbi unless otherwise indicated)

17 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade creditors	**598,490**	226,381	**—**	—
Bills payable	**214,082**	382,000	**—**	—
Receipts in advance	**3,049**	28,597	**—**	—
Other payables and accruals	**358,469**	382,852	**9,004**	8,916
	1,174,090	1,019,830	**9,004**	8,916

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

Bills payable as at 30 June 2011 and 2010 were secured by pledged bank deposits as disclosed in note 15.

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the end of the reporting period:

	The Group	
	2011	2010
	RMB'000	RMB'000
Due within 1 month or on demand	**202,366**	101,774
Due after 1 month but within 3 months	**177,718**	200,942
Due after 3 months but within 6 months	**432,488**	305,665
	812,572	608,381

18 BANK LOANS

As at 30 June 2011, the bank loans were unsecured and repayable within one year or on demand.

The amounts of banking facilities and the utilisation at the end of each reporting period are set out as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
Facility amount	**2,453,000**	1,780,000
Utilisation at the end of reporting period	**227,298**	382,000

At 30 June 2011, certain banking facilities of the Group were secured by mortgages over their interests in leasehold land held for own use under operating leases with a carrying value of RMB32,064,000 (2010: RMB32,744,000).

19 AMOUNTS DUE FROM/TO SUBSIDIARIES

The Company

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

20 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

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

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

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

21 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

(a) Pre-IPO share option scheme

Pursuant to the shareholders' written resolution passed on 10 June 2009, the Company adopted a Pre-IPO share option scheme ("the Pre-IPO Option") whereby 91 employees of the Group were given the rights to subscribe for shares of the Company. The subscription price per share pursuant to the Pre-IPO Option is HK$2.89, being 20% discount to the global offering price.

Each option granted under the Pre-IPO Option has a vesting period of three years commencing from the date of listing of the Company on the Hong Kong Stock Exchange and the options are exercisable for a period of five years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

(Expressed in thousands of Renminbi unless otherwise indicated)

21 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

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

(i) The terms and conditions of the grants are as follows:

	Number of instruments '000	Vesting conditions	Contractual life of options
Options granted to employees:			
— on 10 June 2009	6,114	One year from the date of listing of the Company's shares	5.1 years
— on 10 June 2009	6,114	Two years from the date of listing of the Company's shares	5.1 years
— on 10 June 2009	8,152	Three years from the date of listing of the Company's shares	5.1 years
Total share options granted	20,380		

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

	2011		2010	
	Exercise price	**Number of options '000**	Exercise price	Number of options '000
Outstanding at the beginning of the year	**HK$2.89**	**20,380**	HK$2.89	20,380
Exercised during the year	**HK$2.89**	**(3,090)**	—	—
Outstanding at the end of the year	**HK$2.89**	**17,290**	HK$2.89	20,380
Exercisable at the end of the year		**9,138**		6,114

The weighted average share price at the date of exercise for share options exercised during the year was HK$7.24 (2010: Not applicable).

The share options outstanding at 30 June 2011 had an exercise price of HK$2.89 (2010: HK$2.89) and a weighted average remaining contractual life of 3 years (2010: 4 years).

(Expressed in thousands of Renminbi
unless otherwise indicated)

21 EQUITY-SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

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

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

	2011	2010
Fair value of share options and assumptions		
Fair value at measurement date	**HK$0.86**	HK$0.86
Share price	**HK$2.14**	HK$2.14
Exercise price	**HK$2.89**	HK$2.89
Expected volatility (expressed as weighted average volatility used in the modelling under binominal lattice model)	**50.97%**	50.97%
Expected option life (expressed as weighted average life used in the modelling under binominal lattice model)	**5 years**	5 years
Expected dividends	**2.80%**	2.80%
Risk-free interest rate	**2.03%**	2.03%

(b) Share option scheme

The Company has also adopted a share option scheme ("the Share Option Scheme") pursuant to the shareholders' written resolution passed on 10 June 2009.

The maximum number of shares that may be granted under the Share Option Scheme and other share options schemes shall not exceed 10% of the number of issued shares of the Company from time to time. No option may be granted to any person such that the total number of shares of the Company issued and to be issued upon exercise of all options granted and to be granted to that person in any 12-month period exceeds 1% of the number of shares of the Company in issue from time to time.

An option under the Share Option Scheme may be exercised in accordance with the terms of the scheme at any time during a period as determined by the Board of Directors of the Company, which must not be more than 10 years from the date of the grant.

No share option has been granted under the Share Option Scheme during the year (2010: Nil).

Notes to the financial statements

(Expressed in thousands of Renminbi unless otherwise indicated)

22 INCOME TAX IN THE BALANCE SHEET

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

	The Group	
	2011	2010
	RMB'000	RMB'000
Provision for PRC income tax for the year	**241,059**	162,781
Provisional income tax paid	**(128,386)**	(64,029)
	112,673	98,752
Balance of income tax provision relating to prior years	**25,112**	10,793
	137,785	109,545

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax assets and liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

Deferred tax arising from:	Allowance for doubtful debts RMB'000	Withholding tax on dividends RMB'000	Expenses to be deductible on paid basis RMB'000	Total RMB'000
At 1 July 2009	9,880	(19,384)	—	(9,504)
Credited to profit or loss	—	—	25,036	25,036
At 30 June 2010	9,880	(19,384)	25,036	15,532
At 1 July 2010	9,880	(19,384)	25,036	15,532
Charged to profit or loss	—	—	(7,394)	(7,394)
At 30 June 2011	9,880	(19,384)	17,642	8,138

Reconciliation to the consolidated balance sheet

	The Group	
	2011	2010
	RMB'000	RMB'000
Net deferred tax assets recognised on the consolidated balance sheet	**13,480**	18,657
Net deferred tax liabilities recognised on the consolidated balance sheet	**(5,342)**	(3,125)
	8,138	15,532

(c) Deferred tax liabilities not recognised

At 30 June 2011, the Group has not recognised deferred tax liabilities of RMB93,245,000 (2010: RMB41,884,000) in respect of temporary differences relating to the undistributed profits of subsidiaries amounting to RMB1,864,890,000 (2010: RMB837,681,000) that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

(Expressed in thousands of Renminbi
unless otherwise indicated)

23 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

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

The Company

	Note	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Exchange Reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 July 2009		176,340	1,302,833	490	59	136,198	1,615,920
Changes in equity for the year ended 30 June 2010:							
Loss for the year		—	—	—	—	(14,917)	(14,917)
Other comprehensive income		—	—	—	(22,897)	—	(22,897)
Total comprehensive income		—	—	—	(22,897)	(14,917)	(37,814)
Shares issued under placing, net of issuing expenses	23(c)(i)	5,769	195,109	—	—	—	200,878
Equity-settled share-based transactions		—	—	8,453	—	—	8,453
Dividends declared and paid during the year	23(b)	—	(88,813)	—	—	(134,252)	(223,065)
At 30 June 2010		182,109	1,409,129	8,943	(22,838)	(12,971)	1,564,372
At 1 July 2010		182,109	1,409,129	8,943	(22,838)	(12,971)	1,564,372
Changes in equity for the year ended 30 June 2011:							
Loss for the year		—	—	—	—	(5,190)	(5,190)
Other comprehensive income		—	—	—	(57,139)	—	(57,139)
Total comprehensive income for the year		—	—	—	(57,139)	(5,190)	(62,329)
Purchase of own shares	23(c)(ii)						
— par value paid		(76)	—	—	—	—	(76)
— premium paid		—	(3,738)	—	—	—	(3,738)
Shares issued under share option scheme	23(c)(iii)	265	9,582	(2,179)	—	—	7,668
Equity-settled share-based transactions		—	—	4,174	—	—	4,174
Dividends declared and paid during the year	23(b)	—	(332,722)	—	—	—	(332,722)
At 30 June 2011		182,298	1,082,251	10,938	(79,977)	(18,161)	1,177,349

(Expressed in thousands of Renminbi unless otherwise indicated)

23 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividends

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

	2011 RMB'000	2010 RMB'000
Interim dividend declared and paid of RMB7.1 cents per ordinary share during the year (2010: RMB4.3 cents per ordinary share)	**146,835**	88,813
Final dividend proposed after the balance sheet date of RMB16.1 cents per ordinary share (2010: RMB9 cents per ordinary share)	**332,884**	185,887
	479,719	274,700

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

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

	2011 RMB'000	2010 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB9 cents per ordinary share (2010: RMB6.5 cents per ordinary share)	185,887	134,252

(c) Share capital

Authorised and issued share capital

	2011 Number of shares '000	2011 HK$'000	2010 Number of shares '000	2010 HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	**10,000,000**	**1,000,000**	10,000,000	1,000,000

(Expressed in thousands of Renminbi
unless otherwise indicated)

23 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital *(Continued)*

	Note	Number of shares '000	Amount HK$'000	RMB'000
Ordinary shares, issued and fully paid:				
At 1 July 2009		2,000,000	200,000	176,340
Shares issued under placing	(i)	65,412	6,541	5,769
At 30 June 2010		2,065,412	206,541	182,109
At 1 July 2010		2,065,412	206,541	182,109
Shares repurchased	(ii)	(900)	(90)	(76)
Shares issued under share option scheme	(iii)	3,090	309	265
At 30 June 2011		2,067,602	206,760	182,298

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

Notes:

(i) **Shares issued under placing**
On 23 July 2009, the Company issued 65,412,000 shares with a par value of HK$0.10 each, at a price of HK$3.61 per share upon the exercise of the over-allotment option in connection with the global initial public offering. Net proceeds from such issue amounted to RMB200,878,000 (after offsetting share issuance expenses of RMB7,371,000), out of which RMB5,769,000 and RMB195,109,000 were recorded in share capital and share premium respectively.

(ii) **Shares repurchased**
During the year, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$'000
January 2011	200,000	5.31	5.31	1,063
January 2011	200,000	5.10	5.10	1,020
March 2011	265,000	4.88	4.83	1,291
March 2011	235,000	4.95	4.82	1,148
Total	900,000			4,522

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase of the shares of HK$4,432,000 was recorded in share premium.

(iii) **Shares issued under share option scheme**
During the year ended 30 June 2011, options were exercised to subscribe for 3,090,000 ordinary shares in the Company at a consideration of RMB7,668,000 of which RMB265,000 was credited to share capital and the balance of RMB7,403,000 was credited to the share premium account. RMB2,179,000 has been transferred from the share option reserve to the share premium account in accordance with policy set out in note 1(l)(ii).

(Expressed in thousands of Renminbi unless otherwise indicated)

23 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(d) At 30 June 2011, the outstanding options of the Company were:

Date of options granted	Exercise period	Exercise price	Number of options outstanding At 30 June 2011 '000	At 30 June 2010 '000
10 June 2009	30 June 2010 to 30 June 2014	HK$ 2.89	**3,024**	6,114
10 June 2009	30 June 2011 to 30 June 2014	HK$ 2.89	**6,114**	6,114
10 June 2009	30 June 2012 to 30 June 2014	HK$ 2.89	**8,152**	8,152
			17,290	20,380

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 21 to the financial statements.

(e) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

(ii) Capital reserve

On 9 June 2009, 361 Enterprise Company Limited entered into an agreement with a shareholder of the Company whereby repayment of amounts due to the shareholder by 361 Enterprise Company Limited totalling HK$177,216,000 (equivalent to RMB156,252,000) was waived. The waiver of repayment has been reflected as a reduction in the amounts due to a shareholder of the Company and a corresponding increase in capital reserve.

(iii) Other reserve

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

23 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

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

(iv) *Statutory reserve*

Pursuant to applicable PRC regulations, certain PRC subsidiaries are required to appropriate 10% of their profit-after-tax (after offsetting prior year losses) to the reserve until such reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to shareholders. The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

(v) *Share option reserve*

The share option reserve comprises the fair value of the actual or estimated number of unexercised share options granted under the Pre-IPO share option scheme recognised in accordance with the accounting policy accepted for share-based payments in note 1(l)(ii).

(vi) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from translation of the financial statements of entities with functional currency other than RMB. The reserve is dealt with in accordance with the accounting policy set out in note 1(p).

(f) Distributability of reserves

At 30 June 2011, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB984,113,000 (2010: RMB1,373,320,000). After the balance sheet date the directors proposed a final dividend of RMB16.1 cents (equivalent to HK19.4 cents) (2010: RMB9 cents (equivalent to HK10.3 cents) per ordinary share, amounting to RMB332,884,000 (2010: RMB185,887,000). This dividend has not recognised as a liability at the balance sheet date.

23 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(g) Capital management

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

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

The Group monitors capital with reference to its debt position. The Group's strategy is to maintain the equity and debt in a balanced position and ensure there is adequate working capital to service its debt obligation. The Group's gearing ratio, being the Group's total liabilities over its total assets, as at 30 June 2011 was 24% (2010: 25%).

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

24 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate, commodity price and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

(i) Trade debtors and bills receivable and deposits, prepayments and other receivables

The Group's credit risk is primarily attributable to trade and other receivables. Credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade debtors and bills receivable are due within 30 to 180 days from the date of billing. Debtors with balances that are more than 1 year from the date of billing are requested to settle all outstanding balances before any further credit is granted.

24 FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

(i) Trade debtors and bills receivable and deposits, prepayments and other receivables (Continued)

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the balance sheet date, the Group has a certain concentration of credit risk as 20% (2010: 17%) of the total trade debtors and bills receivable were due from the Group's largest customer, and 57% (2010: 50%) of the total trade debtors and bills receivable were due from the Group's five largest customers as at 30 June 2011.

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 14.

(ii) Deposits with banks

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

(b) Liquidity risk

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

(Expressed in thousands of Renminbi unless otherwise indicated)

24 FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk *(Continued)*

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

The Group

	2011			2010		
	Contractual undiscounted cash outflow			Contractual undiscounted cash outflow		
	Within 1 year or on demand RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000	Within 1 year or on demand RMB'000	Total RMB'000	Balance Sheet carrying amount RMB'000
Bank loans	13,421	13,421	13,216	—	—	—
Trade and other payables	1,171,041	1,171,041	1,171,041	991,233	991,233	991,233
Total	1,184,462	1,184,462	1,184,257	991,233	991,233	991,233

The Company

	2011			2010		
	Contractual undiscounted cash outflow			Contractual undiscounted cash outflow		
	Within 1 year or on demand RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000	Within 1 year or on demand RMB'000	Total RMB'000	Balance Sheet carrying amount RMB'000
Other payables	9,004	9,004	9,004	8,916	8,916	8,916
Amounts due to subsidiaries	19,677	19,677	19,677	12,717	12,717	12,717
Total	28,681	28,681	28,681	21,633	21,633	21,633

(Expressed in thousands of Renminbi
unless otherwise indicated)

24 FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

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

(i) Interest rate profile

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

The Group

	2011		2010	
	Effect interest rate	**Amount RMB'000**	Effect interest rate	Amount RMB'000
Fixed rate deposits				
Deposits with banks	**1.12% - 3.53%**	**(135,370)**	0.78% - 1.65%	(936,085)
Cash and cash equivalents	**0.71% - 2.96%**	**(777,146)**	—	—
Bank loans	**5.02% - 5.76%**	**13,216**	—	—
		(899,300)		(936,085)
Variable rate deposits				
Pledged bank deposits	**0.5% - 3.05%**	**(50,840)**	0.36% - 1.98%	(101,200)
Cash and cash equivalents	**0.001% - 0.5%**	**(1,448,408)**	0.001% - 0.36%	(1,554,586)
		(1,499,248)		(1,655,786)
Total net deposits		**(2,398,548)**		(2,591,871)

(Expressed in thousands of Renminbi unless otherwise indicated)

24 FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk *(Continued)*

(i) Interest rate profile (Continued)

The Company

	2011 Effect interest rate	2011 Amount RMB'000	2010 Effect interest rate	2010 Amount RMB'000
Fixed rate deposits				
Deposits with banks	3.53%	(47,327)	0.78% - 1.65%	(718,685)
Cash and cash equivalents	0.71% - 2.96%	(134,746)	—	—
		(182,063)		(718,685)
Variable rate deposits				
Cash and cash equivalents	0.001%	(563)	0.001%	(352)
Total net deposits		(182,636)		(719,037)

(ii) Sensitivity analysis

At 30 June 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increased/decreased the Group's profit after tax and retained profits by approximately RMB14,992,000 (2010: RMB16,558,000). Other components of consolidated equity would not be affected by the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis in 2010.

(Expressed in thousands of Renminbi unless otherwise indicated)

24 FINANCIAL INSTRUMENTS *(Continued)*

(d) Commodity price risk

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

(e) Currency risk

The Group is exposed to currency risk primarily through bank deposits that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily Hong Kong dollars.

(i) *Exposure to currency risk*

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date.

The Group

	2011 RMB'000	2010 RMB'000
Cash and cash equivalents	**4,559**	98,319

The Company

	2011 RMB'000	2010 RMB'000
Amounts due to subsidiaries	**(19,677)**	(12,717)

(Expressed in thousands of Renminbi unless otherwise indicated)

24 FINANCIAL INSTRUMENTS *(Continued)*

(e) Currency risk *(Continued)*

(ii) Sensitivity analysis

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

	2011		2010	
	Increase/ decrease in foreign exchange rates	**Effect on profit after tax and retained profits RMB'000**	Increase/ decrease in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
Hong Kong dollars	5%	175	5%	3,705
	(5%)	(175)	(5%)	(3,705)

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

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the year until the next annual balance sheet date. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit after tax and retained profits measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis in 2010.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 30 June 2011 and 2010.

(g) Business risk

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

(Expressed in thousands of Renminbi
unless otherwise indicated)

25 COMMITMENTS

(a) Contractual commitments outstanding at 30 June 2011 not provided for in the financial statements were as follows:

	2011 RMB'000	2010 RMB'000
Advertising and marketing expenses	**396,368**	628,058

(b) Capital commitments outstanding at 30 June 2011 not provided for in the financial statements were as follows:

	2011 RMB'000	2010 RMB'000
Contracted for	**20,839**	78,857

(c) At 30 June 2011, the Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	2011 RMB'000	2010 RMB'000
Within 1 year	**4,154**	3,181
After 1 year but with 5 years	**6,230**	1,882
	10,384	5,063

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

26 MATERIAL RELATED PARTY TRANSACTIONS

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

(Expressed in thousands of Renminbi unless otherwise indicated)

26 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2011 RMB'000	2010 RMB'000
Short-term employee benefits	**30,315**	17,819
Equity-settled share-based payment	**2,345**	3,491
Post-employment benefits	**475**	83
	33,135	21,393

Total remuneration is disclosed in "staff costs" (see note 5(b)).

27 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Notes 21 and 24 contain information about the assumptions and their risk factor relating to fair value of share option granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Useful lives of fixed assets

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

(b) Impairment losses on trade debtors and bills receivable

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

27 ACCOUNTING ESTIMATES AND JUDGEMENTS

(c) Other impairment losses

If circumstances indicate that carrying value of investment in subsidiary, property, plant and equipment, interest in leasehold land held for own use under operating and non-current deposits and prepayments may not be recoverable, these assets may be considered impaired, and an impairment loss may be recognised in accordance with HKAS 36, Impairment of assets. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amount may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling prices and the value in use. It is difficult to estimate precisely selling prices because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

(d) Net realisable value of inventories

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

(e) Income taxes

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

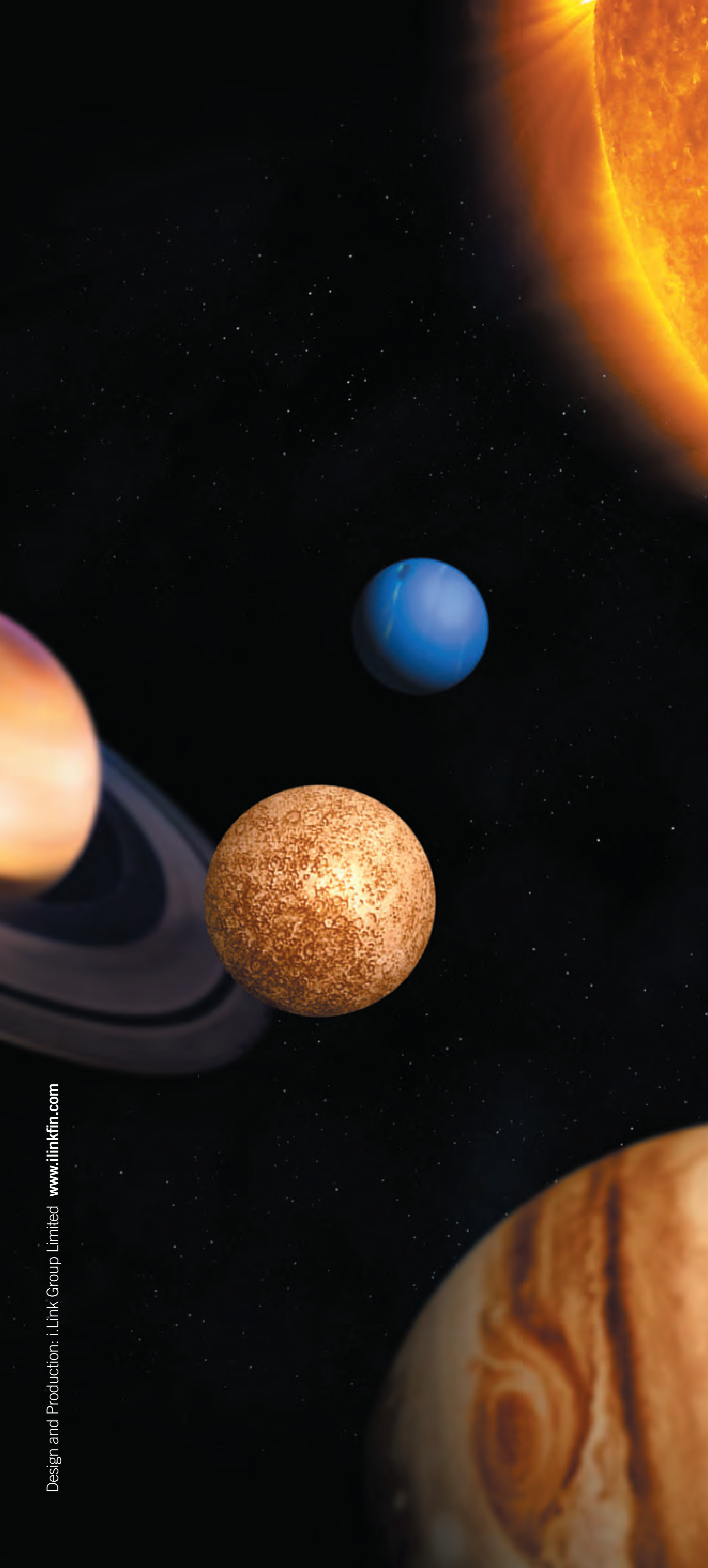
(Expressed in thousands of Renminbi unless otherwise indicated)

28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 30 JUNE 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of new standards, amendments and interpretations which are not yet effective for the year ended 30 June 2011, and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Revised HKAS 24, *Related party disclosures*	1 January 2011
Amendments to HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards — Severe hyperinflation and removal of fixed dates for first-time adopters*	1 July 2011
Amendments to HKFRS 7, *Financial instruments: Disclosures — Transfers of financial assets*	1 July 2011
Amendments to HKAS 12, Income taxes	1 January 2012
HKFRS 9, *Financial instruments*	1 January 2013
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
Revised HKAS 28, *Investments in associates and joint ventures*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013

The Group is in the process of making an assessment of what the impact of these new standards, amendments, and interpretations is expected to be in the period of initial application but is not yet in a position to state whether these new standards, amendments, and interpretations would have a significant impact on the Group's results of operations and financial position.



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