



寶勝國際  
POU SHENG INTERNATIONAL

# YYSPORTS 胜道 Annual Report 2011

*One Team, One Dream*

**POU SHENG INTERNATIONAL (HOLDINGS) LIMITED**

**寶勝國際（控股）有限公司**

(Incorporated in Bermuda with limited liability)

(Stock Code : 3813)



寶勝國際  
POU SHENG INTERNATIONAL



## OUR MISSION

### Short Term

Transforming from  
an acceptable player  
to a competitive  
winner

### Long Term

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

			Chairman's Statement	Corporate Information	Corporate Overview
					
	Management Discussion and Analysis	10	6	5	2
	Biographical Details of Directors and Senior Management	22			
	Directors' Report	26			
	Corporate Governance Report	36			
	Independent Auditor's Report	47			
	Consolidated Income Statement	49			
	Consolidated Statement of Comprehensive Income	50			
	Consolidated Statement of Financial Position	51			
	Consolidated Statement of Changes in Equity	53			
	Consolidated Statement of Cash Flows	55			
	Notes to the Consolidated Financial Statements	57			
		154			Financial Summary

# CONTENTS







寶勝國際  
POU SHENG INTERNATIONAL



# CORPORATE OVERVIEW







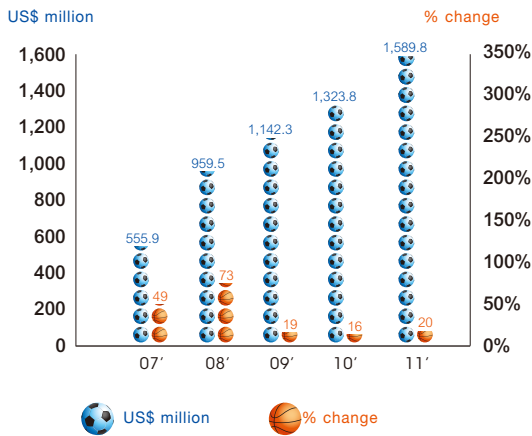
# CORPORATE OVERVIEW

## THE GROUP'S FINANCIAL HIGHLIGHTS

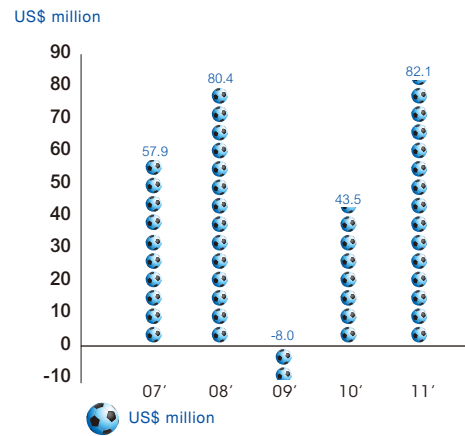
	For the year ended September 30,		Percentage increase
	2011	2010	
Revenue (US\$'000)	1,589,802	1,323,845	20.1%
Operating profit (US\$'000)	82,078	43,528	88.6%
Profit attributable to owners of the Company (US\$'000)	53,670	21,287	152.1%
Basic earnings per share (US cents)	1.25	0.5	150.0%

## KEY SHAREHOLDER VALUE INDICES

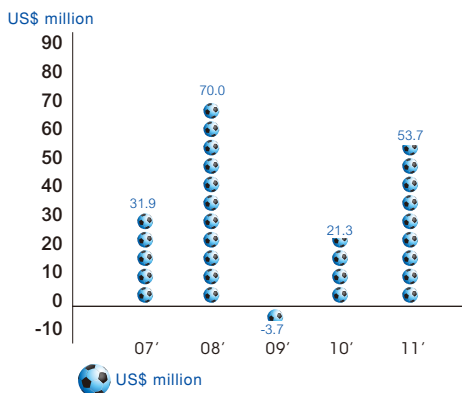
### Revenue



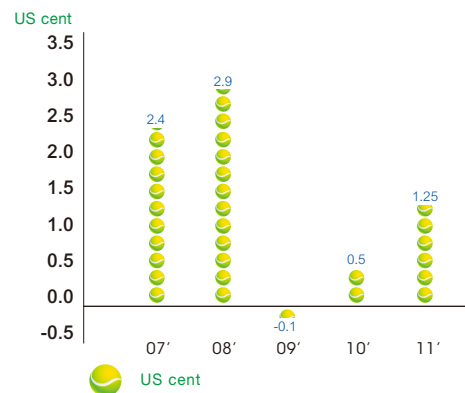
### Operating Profit (Loss)



### Profit (Loss) Attributable to Owners of the Company



### Basic Earnings (Loss) Per Share



 **CORPORATE INFORMATION**

**DIRECTORS**

**Non-Executive Directors**

Tsai David, Nai Fung<sup>6</sup> (*Chairman*)

Tsai Patty, Pei Chun<sup>1</sup>

Kuo, Li-Lien<sup>3</sup>

**Executive Director**

Chang Karen Yi-Fen

(*Chief Executive Officer*)

**Independent Non-Executive Directors**

Chen Huan-Chung<sup>2,3,5</sup>

Hu Sheng-Yih<sup>4</sup>

Chang Li Hsien, Leslie<sup>1,5</sup>

*Notes:*

- <sup>1</sup> Member of Audit Committee
- <sup>2</sup> Chairman of Audit Committee
- <sup>3</sup> Member of Remuneration Committee
- <sup>4</sup> Chairman of Remuneration Committee
- <sup>5</sup> Member of Nomination Committee
- <sup>6</sup> Chairman of Nomination Committee

**COMPANY SECRETARY**

Ng Lok Ming

**REGISTERED OFFICE**

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

**PRINCIPAL PLACE OF BUSINESS**

Suites 3106-09, 31/F., Tower 6

The Gateway, 9 Canton Road

Tsim Sha Tsui, Kowloon

Hong Kong

**STOCK CODE**

3813 HK

**AUDITOR**

Deloitte Touche Tohmatsu

**PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

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

**HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

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

**SOLICITOR**

Reed Smith Richards Butler

**PRINCIPAL BANKERS**

Australia and New Zealand Bank (China) Company Limited  
Citibank, N.A.  
CITIC Bank International Limited  
Hang Seng Bank Limited  
Standard Chartered Bank (Hong Kong) Limited  
The Hongkong and Shanghai Banking Corporation Limited

**WEBSITE ADDRESS**

[www.pousheng.com](http://www.pousheng.com)



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# CHAIRMAN'S STATEMENT





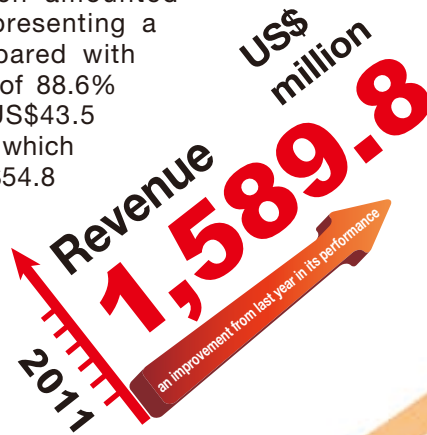




Since the beginning of 2011, there have been uncertainties in global economy with the continuous spreading of the European debt crisis, potential risks triggered by the U.S. debt crisis, inflation confronted by Mainland China and the pressure of appreciation of Renminbi that caused fluctuation to the economy to some extent. However, in the first half of 2011, the GDP of Mainland China maintained at a growth of 9.6% and the nominal growth rate of the total sales of social consumer goods was 16.8%. The actual growth rate would be approximately 12% without taking into consideration the price factor. The overall consumption power maintains an upward trend.

Under various factors in the overall economy, enterprises are facing new challenges for their operations. Under concrete strategy for business development, optimization of its unceasing operation flow and the endeavors of all staff, the Group's performance for the year had a substantial improvement as compared with last year with a continuous increase in turnover which amounted to US\$1,589.8 million, representing a growth of 20.1% as compared with last year, and an increase of 88.6% in operating profit from US\$43.5 million to US\$82.1 million, which recorded a net profit of US\$54.8 million.

In response to the ever-changing retail market of sportswear, the Group redeployed the organization structure of its retail team nationwide from three major management regions in the past reclassified into seven major regions that were cultivated by a response team deeply and wholeheartedly by making good use of various measures which suits such regions to gain quick feedbacks. Meanwhile, the Group continued to enhance its retail management system, including the upgrade of IT and HR systems and the introduction of new modules, in order to provide complete information in a more efficient and faster way to allow quicker decisions.





In order to expand the geographical coverage of its retail business while providing a more forward-looking deployment of retail network for sportswear brands companies, the Group completed the acquisition of Zhejiang Yichuan and enhanced its strategic deployment and channel building of the sportswear retail market in Mainland China.

In the past year, the Group focused on the deployment of Reebok in the Mainland's market for its brand licensee business. It introduced new brand concepts and methods for retail operation to product development, marketing strategy, cooperation with distributors, etc., which gradually showed the unique style and clear market positioning of such brand while establishing a mutually complementary and beneficial operation model by integrating the Group's internal brand licensee and retail business. Through this operation model, the Group will also expand its brand business in terms of scope and profundity and continue to introduce new brands while providing a more complete marketing and retail deployment which shows a sustained growth.

The retail, brand licensee and manufacture businesses are core competitive edges of the Group and balanced development will bring about higher growth for the Group. Looking forward, though the overall economic condition will still be full of uncertainties, domestic market will continue to expand in the PRC and general public's income will continue to increase, which will facilitate the development of retail market. Besides, in light of the development of sportswear retail business, it is inevitable that the economies of scale will experience the situation of only the strong survive in the future. After the complete strategic deployment, the Group will maintain its leading role in the market of sportswear retail and brand licensee businesses and persist in its operation value of bringing returns for its shareholders and consumers. In the end, I would like to express my appreciation to all shareholders, financial institutions and business partners for their sustained supports and assistances, and to encourage the operation team to keep on improving and strive for perfection. I expect to create splendid results and achievements hand in hand.

**TSAI David, Nai Fung**

*Chairman*

December 29, 2011





寶勝國際  
POU SHENG INTERNATIONAL

# MANAGEMENT DISCUSSION AND ANALYSIS









## BUSINESS REVIEW

For each of our businesses, the retail business distributes a wide range of sportswear products, including various footwear, apparel and accessories, for certain leading international and domestic sportswear brands to end customers through our directly operated retail outlets, and also to retail sub-distributors on a wholesale basis, which in turn sell the products through their retail outlets under our supervision. As at September 30, 2011, we had 3,055 directly operated retail outlets, and 3,357 retail sub-distributors, and our regional joint ventures' directly operated retail outlets and retail sub-distributors amounted to 1,078 and 946 respectively. In view of the exclusive distributor contract of Converse's products in the PRC with Converse will be expired on December 31, 2011, this may







affect the performance of the Group's retail wholesale business. The Group has plans and arrangements and will make use of the new brand licensee arrangement with Reebok to promote its retail business and other brands' retail business development to fill the vacancy.

For our brand licensee business, we are the exclusive brand licensee for selected international brands, namely Converse, Reebok, Hush Puppies and Wolverine. The brand licensee agreements we have entered into typically grant us exclusive rights to design, develop, manufacture, market and distribute, and the flexibility to set retail prices under products of the licensed brands in specified locations within the Greater China Region for a specified period of time. Currently, we are the exclusive brand



licensee for Converse's footwear, apparel and accessories in Hong Kong, Macau and Taiwan until December 31, 2012. For the new brand licensee arrangement with Reebok, the Group is the exclusive brand licensee for Reebok products in the mainland China until December 31, 2015. To cope with the Group's future plan, an arrangement for early termination of the relevant brand licensee agreement is under negotiation between the Group and Wolverine.

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

Regarding the joint venture business, the Group completed the acquisition of the remaining equity interests in Zhejiang Yichuan on October 1, 2010, which has now become a wholly owned subsidiary of the Group. A series of integration work was immediately commenced. Considering the diversification and long-term plan to expand the Group's retail market, regional coverage and to diversify licensee brands, the Group will continue the integration work of business, financial management and system with several regional joint ventures. We may decide to acquire the remaining equity interests of these regional joint ventures when the integration progress becomes mature under a favorable market condition, to enable us to become one of the leading retailers in the Greater China Region.

## FINANCIAL REVIEW

For the fiscal year ended September 30, 2011, the Group recorded revenue of US\$1,589.8 million and profit attributable to owners of the Company of US\$53.7 million (the profit attributable to owners of the Company reflected non-recurring net gain of US\$1.4 million of gain on deemed disposal of a jointly controlled entity, deregistration of subsidiaries, fair value changes on derivative financial instruments and impairment losses of interests in an associate and jointly controlled entities, etc.), representing an increase of 20.1% and 152.1% respectively as compared with last year.

While the operation of the Group's business was getting more stable, the overall performance of the regional joint ventures indicated a slowdown as compared with that in the past. Excluding the effect bought by the acquisition and the termination of investment in regional joint ventures, most of the remaining regional joint ventures were affected by its licensee contents, operating model and the pace of adjustment on operation that was lagged behind, hence resulting in a weaker performance as compared with that in the past and a loss on share of results of joint ventures of US\$2.5 million for the year. However, as various joint ventures commenced adjustments during the period, results in the second half of the year performed better than the first half. In general, the Group has worked closely with the joint venture partners on proposals to improve operation, reviewed the investment direction and structure of the joint ventures and purified in every aspect in order to increase its earnings.



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

## REVENUE

Our revenue increased by 20.1% to US\$1,589.8 million for the fiscal year ended September 30, 2011 as compared with last year. This increase was primarily due to the continuing growth in our retail and manufacturing businesses where the growth in retail business comprised factors in relation to acquisition of the remaining equity interest in Zhejiang Yichuan. Excluding such acquisition, the Group's revenue for the current year would have been US\$1,432.9 million, representing an increase of 8.2% on a year-on-year basis.

### Retail Business

Revenue from our retail business increased by 20% to US\$1,380.5 million. This increase was primarily attributable to the acquisition of Zhejiang Yichuan.

### Brand Licensee Business

Revenue from our brand licensee business increased by 35.1% to US\$60.5 million, which was primarily due to the launch of RBK business and the natural growth of existing brands.

### Manufacturing Business

Revenue growth from our manufacturing business increased by 15.5% to US\$148.8 million on a year-on-year basis, which was attributable to the increase in the number of production line from 21 lines in the previous year to 25 lines for the year. During the period, the capacity utilization rate is close to the mature status and the average selling price remained stable.

## GROSS PROFIT AND GROSS PROFIT MARGIN

During the year, the Group's gross profit increased by 21.5% to US\$482.3 million from the previous year. The gross profit margin was 30.3%.

## SELLING AND DISTRIBUTION EXPENSES AND ADMINISTRATIVE EXPENSES

Selling and distribution expenses and administrative expenses of the Group increased by 19.5% to US\$438 million, which was mainly attributable to the full consolidation of Zhejiang Yichuan's financial information during the year. The Group aimed at rationalizing its operating costs and continues to reduce costs. Despite the effect arising from inflation, the percentage of selling and administrative expenses to revenue was 27.5%, representing a slight decrease as compared with the same period of last year.



## OPERATING PROFIT

To sum up the above, the Group's operating profit increased to US\$82.1 million, representing a significant increase of 88.6%.

## GAIN ON DEEMED DISPOSAL OF A JOINTLY CONTROLLED ENTITY

During the year, a non-recurring gain of US\$18.8 million on deemed disposal of a jointly controlled entity was recorded after completion of acquisition of the remaining 50% equity interests in Zhejiang Yichuan.

## IMPAIRMENT LOSSES OF INTERESTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

For the fiscal year ended September 30, 2011, the impairment losses of approximately US\$2 million have been made in respect of the Group's interest in certain joint ventures due to the expectation of losses arising from the anticipated future disposals.

## FAIR VALUE CHANGES ON DERIVATIVE FINANCIAL INSTRUMENTS

During the year, the Group's fair value changes on derivative financial instruments were loss of US\$15.6 million. Assuming that the basic factors used in assessing the value of derivative financial instruments remained constant, the Group expected that the value of derivative financial instruments would decrease year by year due to the shortened remaining years for the exercising of the call options under the relevant Call Options agreements.

## INTERESTS ON BANK BORROWINGS WHOLLY REPAYABLE WITHIN FIVE YEARS

Our interest expenses on bank borrowings wholly repayable within five years decreased to US\$10 million, representing a decrease of 13.3%, as a result of the average monthly outstanding borrowings decreased during the year.

## SHARE OF RESULTS OF ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Our share of results of associates and jointly controlled entities was loss of US\$2.5 million for the year, which was mainly because (1) the Group still shared the results of four joint ventures, namely Jinguan, Jiezhixing, Shenge and Zhejiang Yichuan in last year, whereas the Group had successively disposed of the first three companies since the second half of last year and acquired the remaining equity interest in Zhejiang Yichuan during the year. Hence, the base on which the Group shared the results of these joint ventures diminished during the year; and (2) the effectiveness associated with the channel expansion of some joint ventures slowed down, more efforts were made to increase sales and intensify price markdown, consequently, relevant selling and administrative expenses increased and the profit was decreased and resulting in loss.

### INCOME TAX EXPENSE

As the profit before taxation in subsidiaries increased, our income tax expense increased to US\$22.1 million, representing an increase of 127.3% as compared with last year. Except for certain subsidiaries in the PRC that enjoyed different preferential tax rate, a statutory tax rate of 25% was applied to the rest of the Group's subsidiaries in the PRC.

### PROFIT FOR THE YEAR

Our profit for the fiscal year ended September 30, 2011 was US\$54.8 million, representing a significant increase of 171.8% as compared with last year.

### WORKING CAPITAL EFFICIENCY

During the year, the average inventory turnover days was 109 days (2010: 111 days), which remained at a reasonable level. The average trade receivables turnover days was 34 days (2010: 33 days), which was consistent with the credit terms of 30 to 60 days that the Group granted to its department store counters and retail distributors. The average trade and bill payables turnover days was 39 days (2010: 42 days). As the Group recorded a relatively sufficient cash flow from operation, we continue our plan to use the capital to match the cash rebate policy offered by the brand companies in exchange for quicker payment for merchandise.

### LIQUIDITY AND FINANCIAL RESOURCES

As at September 30, 2011, the Group's cash and cash equivalents were US\$172.7 million (September 30, 2010: US\$178.1 million) and the working capital (current assets minus current liabilities) was US\$444 million (September 30, 2010: US\$354 million). Our total bank borrowings decreased by 22.8% to US\$168.2 million, from US\$218 million as at September 30, 2010, which are repayable within one year. The bank borrowings were denominated mainly in Renminbi and cash and cash equivalents were mainly held in Renminbi as well. The Group's current ratio was 198%, (September 30, 2010: 201%). The gearing ratio (total borrowings divided by total assets) was 12% as at September 30, 2011 (September 30, 2010: 18%).

During the period, net cash from operating activities was US\$28.4 million. The Group believes our liquidity requirement will be satisfied with a combination of capital generated from operating activities and bank borrowings in the future. Net cash from investing activities was US\$51.6 million, and capital expenditure used to purchase of property, plants and equipment was of US\$30.4 million. Net cash used in financing activities was US\$87.5 million. The Group had raised and repaid bank borrowings of US\$164.6 million and US\$237.4 million respectively.



## DEPOSIT PAID FOR PROPOSED ACQUISITION OF A BUSINESS

On September 30, 2011, a member of the Group entered into a non-legally binding (save for provisions relating to treatment of deposit and exclusivity which are expressed to be binding) letter of intent with Pengda, pursuant to which the Group would acquire, subject to completion of due diligence, negotiations and the entering into a formal agreement, the tangible assets (including but not limited to the shop operating assets, property, plant and equipment and inventories) and intangible assets (including but not limited to non-competing agreements and customer relationships) in the sportswear retailing business in the PRC owned by Pengda and its related parties. The entire balance as at September 30, 2011 arose during the year and represents a refundable deposit paid to Pengda while the Group conducts its due diligence.

Subsequently on December 21, 2011, a non-legally binding (save for provisions relating to treatment of deposit and exclusivity which are expressed to be binding) restated and amended letter of intent superseding the letter of intent dated September 30, 2011 was entered into under which a further refundable deposit was paid with a view to securing continuing discussion and extension of exclusivity.

## PLEGGED BANK DEPOSITS

The pledged bank deposits are placed with a bank for certain banking facilities granted to a former subsidiary of the Group. The pledged bank deposits will be released upon the settlement or termination of the relevant banking facilities.

## CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at September 30, 2011, the Group had capital commitments of US\$11 million and US\$1.6 million in respect of the acquisition of the remaining interests in a jointly controlled entity and the investment in jointly controlled entities respectively. In addition, the Group had contingent liabilities of US\$9.9 million and US\$12.5 million in relation to guarantee given to banks in respect of banking facilities granted to jointly controlled entities and a former subsidiary.

## FOREIGN EXCHANGE

The Group conducts its businesses primarily in the PRC with substantially all of its transactions denominated and settled in Renminbi. An appreciation or depreciation between US dollars and Renminbi may result in translation gain or loss in our financial statements as US dollar is used as our reporting currency. As at September 30, 2011, the Group had no significant hedges for the foreign exchange.



## PROSPECTS

Currently, statistics indications in different aspects show that the global economy is recovering slowly but is still restrained by various unstable factors, which is full of challenges. Concerns over inflation, imbalanced income in the community and the European debt crisis prevails despite that the economy of China maintains its momentum of high growth, which may affect marginal consumption powers and inclinations of consumers. On the other hand, in respect of the environments of the sportswear industry that the Group operated in, the over heated expansion of the industry amid high-speed development in current years and the lag effects resulted have led the players in the sports industry to the stage of continuous readjustment of business model and necessary reconstruction in order to adapt to macro and micro economic changes, which could bring about growth opportunities and risks at the same time. As such, the Group, as a leading sportswear retailer in the industry, knows well the importance of such opportunities and still needs to, internally, intensify its speed to reform its overall organization, constitution and business model, and to establish a harmony corporate culture and right staff's value, in order to secure its mid- to long-term core competitiveness and then to accomplish its mission and, externally, to grasp the chance to capture opportunities for integration and combination of retail and brand businesses with high value through the scale expansion in order to remain itself at a leading position for the long run.

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

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



- We will continuously identify opportunities to expand its brand licensee business with an aim to create its business portfolio and enhance the growth niche of results in the future. Regarding Reebok brand, the short-term objectives of the Group are to increase brand strength, restructure product line and develop design products which meet the consumers' needs in the PRC market. The mid-term objectives are to further expand its retail and distributing network, achieve economics of scale and finally form a business model with a maximized value chain which combines design, development and production. We will continue to further develop our supply chain solutions with the brand companies, which can create initiative models that may create an integrated value chain, optimize inventory management and lower use of working capital during the relatively long operation cycle.
- In respect to integration and development management of joint ventures, joint ventures are now under the stage of management and business restructure as a whole due to the reform of their licensed brands. This resembles the previous adjustment process of the Company and takes time for improvement. The Group is in closely negotiation with certain potential joint venture partners for chances to further co-operate or integrate, and will plan prudently to pursue a larger market share and strengthen the leadership in the industry.
- The Group will divide its future development in three stages:
  - Current stage – “complete and internal change”**

To carry out the overall strategies of the Group, the Group will divide its nationwide retail business into several key regions, capture progressively the geographical locations with advantages and completely integrate resources and conduct intensive exploration in each geographic location for profit enhancement. For brand relationship development, we will fully utilize the competitive advantages of resource integration, information sharing, experience promotion, resource procurement, inventory allocation, talent optimization and mobility as a retail group on nationwide level, as thus enhance general profitability of the Group.
  - Short to mid-term stage – “innovation and breakthrough”**

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

**Long term stage – “establishment of leading position”**

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

**HUMAN RESOURCES**

As at September 30, 2011, the Group had a total of 27,500 employees. The Group reviews the performance of its employees periodically, which serves as a consideration basis in annual salary review and promotion appraisals. In order to remain competitive in the labor market, we also make reference to remuneration packages offered by peers in the industry. For our senior management, the Group reward its senior management with annual bonus based on various performance criteria. In addition, we also provide other benefits, such as social securities, mandatory retirement funds, medical coverage and training programs to employees based on their personal career development.

**SHARE OPTION SCHEME**

On January 20, 2011, the Company granted to certain participants options under which the holders are entitled to subscribe for ordinary shares of nominal value of HK\$0.01 each in the share capital of the Company pursuant to the Share Option Scheme at an exercise price of HK\$1.23 per share. The number of shares exercisable and subscribable pursuant to the options granted then was 55,000,000.

## • BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### BIOGRAPHICAL DATA OF DIRECTORS

#### **Mr. TSAI David, Nai Fung**

TSAI David, Nai Fung, aged 61, is our chairman and non-executive director. The length of appointment of Mr. Tsai has been renewed for another three years commencing June 6, 2011 pursuant to a supplemental appointment letter dated May 31, 2011. Prior to joining the Company in April 2008 and group of Yue Yuen Industrial (Holdings) Limited ("Yue Yuen") in February 1997, he was the chairman of Pou Yuen Industrial Holdings Limited. Mr. Tsai has been participating in the footwear sector over 30 years and is well-known in the industry. Mr. Tsai is the managing director of Yue Yuen. He is also a director of Pou Chen Corporation ("PCC") and serves as a director of Elitegroup Computer Systems Co., Ltd. (The shares of these two companies are listed on the Taiwan Stock Exchange.) Mr. Tsai is a cousin of Ms. Tsai Patty, Pei Chun, a non-executive director of the Company. Mr. Tsai personally held 4,833,000 shares in the Company as at September 30, 2011.

#### **Ms. TSAI Patty, Pei Chun**

TSAI Patty, Pei Chun, aged 32, is a non-executive Director since April 2008. The length of appointment of Ms. Tsai has been renewed for another three years commencing June 6, 2011 pursuant to a supplemental appointment letter dated May 31, 2011. She joined Yue Yuen group in December 2003 as an executive director and is responsible for the strategic investments and financial planning of Yue Yuen group. Ms. Tsai graduated from the Wharton School of the University of Pennsylvania in May 2002 with a Bachelor of Science in Economics degree with a concentration in Finance and a College Minor in Psychology. She serves as a board director of Yue Yuen. She was previously a director of Mega Financial Holding Company Limited (shares of which are listed on the Taiwan Stock Exchange). Ms. Tsai is a cousin of Mr. Tsai David, Nai Fung, the chairman of the Company. Ms. Tsai personally held 4,460,000 shares in the Company as at September 30, 2011.

#### **Ms. CHANG Karen Yi-Fen**

CHANG Karen Yi-Fen, aged 47, is an executive Director and has served as the Group's chief financial officer since she joined the Group in October 2007. Ms. Chang was appointed the chief executive officer of the Company in January 2010. Ms. Chang is primarily responsible for overseeing the overall strategies, planning and day-to-day operations and management of the Group. The length of appointment of Ms. Chang has been renewed for another three years commencing June 6, 2011 pursuant to a supplemental service agreement dated May 31, 2011. She is the director of various subsidiaries of the Group. She resigned as director of 繁昌裕盛體育用品有限公司, a PRC subsidiary of the Company during the year ended September 30, 2011. She has many years of financial management and investment banking experiences gained from working with KPMG in Washington DC and Los Angeles in the U.S., Jardine Fleming, Merrill Lynch and Credit Suisse in Shanghai and Hong Kong. Ms. Chang received a Bachelor degree in Arts in English Literature from Fu-Jen Catholic University in Taiwan in 1986 and a Master of Business Administration degree from the George Washington University in Washington D.C. in the United States in 1988. She has been appointed on June 27, 2011 as an independent non-executive director of Sun Art Retail Group Limited, a company listed on the Stock Exchange of Hong Kong Limited. Ms. Chang personally held 7,589,000 shares and 8,800,000 share options in the Company as at September 30, 2011.



## • BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### **Ms. KUO, Li-Lien**

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

### **Mr. CHEN Huan-Chung**

CHEN Huan-Chung, aged 56, was appointed as an independent non-executive Director in April 2008. The length of appointment of Mr. Chen has been renewed for another three years commencing June 6, 2011 pursuant to a supplemental appointment letter dated May 31, 2011. He was also appointed as the chairman of audit committee of the Board in September 2011. Mr. Chen is a partner of Wong Tong & Co., CPAS (萬通聯合會計師事務所), a certified public accountant of Taiwan and a certified securities investment analyst of Taiwan. He is also a Supervisor of PCC. Mr. Chen worked as a deputy manager in E. Sun Bills Finance Corporation of Taiwan (台灣玉山票券金融(股)公司). He became a certified public accountant of Taiwan in 1992 and a certified securities investment analyst of Taiwan in February 1990. He received a Bachelor degree from the Department of Industrial Management of National Taiwan University of Science and Technology (formerly known as National Taiwan Institute of Technology) in June 1983.

### **Mr. HU Sheng-Yih**

HU Sheng-Yih, aged 69, was appointed as an independent non-executive Director in April 2008. He was also the chairman of the remuneration committee of the Board since March, 2010. The length of appointment of Mr. Hu has been renewed for another three years commencing June 6, 2011 pursuant to a supplemental appointment letter dated May 31, 2011. Mr. Hu is an associate part-time professor at the College of Management, Shih Chien University. He worked as the first deputy general manager of Mega International Commercial Bank and an officer-in-charge of the International Commercial Bank of China (New York Branch)(中國國際商業銀行紐約分行). He received a Master degree in Economics from the Yale University in 1981, a Master and Doctoral degree in Laws from the Chinese Culture University in 1971 and 1977 respectively, and a Bachelor degree in Economics from the National Taiwan University in 1967. Mr. Hu also serves as independent director of Taiwan Shin Kong Commercial Bank (台灣新光商業銀行) and Shin Kong Life Insurance Co., LTD. (新光人壽保險股份有限公司) (Shin Kong Financial Holding Co., Ltd. 新光金融控股股份有限公司, the parent company of Taiwan Shin Kong Commercial Bank (台灣新光商業銀行) and Shin Kong Life Insurance Co., LTD. (新光人壽保險股份有限公司), shares of which are listed on The Taiwan Stock Exchange).

## • BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### **Mr. Chang Li Hsien, Leslie**

Chang Li Hsien, Leslie, aged 57, was appointed independent non-executive director of the Company in March 2011. He is a certified public accountant in the State of New York, a member of The American Institute of Certified Public Accountants and The Hong Kong Institute of Certified Public Accountants.

Mr. Chang started his career at US Office of KPMG (formerly known as KPMG Peat Marwick) (the "Firm") and became a partner specializing in the financial services industry. He was also the Firm's director of Chinese Practice in the United States. He then joined CITIC Pacific Ltd in 1994 and was executive director and the deputy managing director of the group of CITIC Pacific Ltd. He also served as an alternate director on the board of Cathay Pacific Airways Limited. Mr. Chang is currently the executive director and chief executive officer of HKC (Holdings) Limited and the executive director and the Vice Chairman of China Renewable Energy Investment Limited (formerly Hong Kong Energy (Holdings) Limited). CITIC Pacific Ltd, Cathay Pacific Airways Limited, HKC (Holdings) Limited and China Renewable Energy Investment Limited are listed on the main board of the Stock Exchange.

## **BIOGRAPHICAL DATA OF SENIOR MANAGEMENT**

### **Mr. LIXIAO**

Lixiao, aged 41, now appointed as retail division general manager of the Company. He graduated from CEIBS business administration with master degree. Mr. Li had worked for Shell China as head of national sales development, Unilever China Food as sales VP, Unilever China (food/personal care/ice cream) as strategic planning director and Nike Greater China sales director. He joined the Company on June 1, 2010.

### **Mr. LIN, Kuo-Hua**

LIN, Kuo-Hua, aged 52, was appointed as a VP-China Region (brand licence department) of the Company in November 2009. Mr. Lin holds a bachelor degree from the School of Civil engineer of Zhong Yuan University. Mr. Lin was a sales manager / KA manager of Blue Ribbon Nike Taiwan and sales director of Taiwan Nike golf, in Taiwan (2003-2009) before he joined Yuecheng (Kunshan) Sports Co., Ltd. ("Yuecheng") in November 2009. Mr. Lin is the GM - China Region of PSI-Brand Agent Division.

## • BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### **Mr. LIAO Ching-yi**

LIAO Ching-yi, aged 51, served as the vice financial director of the Company since August, 2009. Mr. Liao holds a Bachelor degree in Finance from the Central Musuri State University. Mr. Liao joined PCC in February, 1995, and has served in branches in Vietnam, Huangjiang Guangdong, Kunshan Jiangsu and Yangzhou Jiangsu, in charge of finance operations.

### **Mr. WANG Lenian**

WANG Lenian, aged 48, was appointed as the human resources executive director of the Company in March, 2010. Mr. Wang holds a Bachelor degree in Economics from Zhongnan University of Economics and Law. Mr. Wang joined 龍光體育用品有限公司, a subsidiary of Yue Yuen, in March, 2006, responsible for investment management. From 2002 to 2005, he served as the assistant to general manager in Hainan Boao Investment Holdings Limited (海南博鰲投資控股有限公司). Prior to that, he was the head of the integrated program business management department of China Association for Science and Technology.

### **Mr. WEN, Chin-Fu**

WEN Chin-Fu, aged 48, was appointed as a Decision Information Department Executive Director of the Company in July 2010. Mr. Wen holds a bachelor degree of Management Information System from the Tamkang University. He's been the Sales Ops Manager for Nike Taiwan and Project manager for Nike Asia Pacific for the past 13 years (1997-2010) before he joined the Company in March 2010.

### **Ms. CHONG Yim Kuen**

CHONG Yim Kuen, aged 47, is our financial controller responsible for the Group's accounting activities. She is the director of certain Hong Kong subsidiaries of the Group. Before joining the Group in 2008, Ms. Chong had 14 years of accounting experience in Yue Yuen group. She received her Master degree in Administration (Accounting) from Jinan University and later obtained a Master degree in Chinese Medicine from Hong Kong Baptist University. Ms. Chong is a member of The Hong Kong Institute of Certified Public Accountants and a fellow member of The Chartered Association of Certified Accountants in the United Kingdom.

## • DIRECTORS' REPORT

The directors (the "Directors" or the "Board") of Pou Sheng International (Holdings) Limited (the "Company") have pleasure in presenting the Group's annual report and the audited consolidated financial statements for the year ended September 30, 2011.

### PRINCIPAL ACTIVITIES

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

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended September 30, 2011 are set out in the consolidated income statement on page 49 of the annual report.

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

### SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Details of the principal subsidiaries, associates and jointly controlled entities of the Group at September 30, 2011 are set out in Notes 41, 42 and 43 to the consolidated financial statements, respectively.

### SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 29 to the consolidated financial statements.

### PROPERTY, PLANT AND EQUIPMENT

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

### DISTRIBUTABLE RESERVES OF THE COMPANY

As at September 30, 2011, the Company's reserves available for distribution consisted of contributed surplus of approximately US\$166.0 million (2010: US\$166.0 million) less accumulated losses of approximately US\$25.9 million (2010: US\$22.2 million).

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

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.



## • DIRECTORS' REPORT

### DIRECTORS

The Directors during the year ended September 30, 2011 and up to the date of this report were:

#### Chairman and Non-Executive Director

Tsai David, Nai Fung

#### Chief Executive Officer and Executive Director

Chang Karen Yi-Fen

#### Non-Executive Directors

Tsai Patty, Pei Chun

Kuo, Li-Lien

#### Independent Non-Executive Directors ("INEDs")

Chen Huan-Chung

Hu Sheng-Yih

Chang Li Hsien Lesile (appointed on March 7, 2011)

Cheng Ming Fun Paul (resigned on March 1, 2011)

Mak Kin Kwong (resigned on August 2, 2011)

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

Pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of the Hong Kong Limited (the "Listing Rules"), each of the remaining INEDs has filed an annual confirmation with the Company confirming his independence status with the Company as of September 30, 2011, and the Company considered that all INEDs meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent.

### DIRECTORS' SERVICE CONTRACTS

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

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Group are set out on pages 22 to 25.

## • DIRECTORS' REPORT

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

As at September 30, 2011, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register required to be kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

#### Long position

Name of Director	Number of ordinary shares				Total	Percentage of the issued share capital of the Company
	Beneficial owners	Held by spouse and/or children under 18	Held by controlled corporation	Held by a discretionary trust		
Ordinary shares of HK\$0.01 each of the Company						
Tsai David, Nai Fung	4,833,000	-	-	-	4,833,000	0.11%
Tsai Patty, Pei Chun	4,460,000	-	-	-	4,460,000	0.10%
Chang Karen Yi-Fen	16,389,000*	-	-	-	16,389,000	0.38%

\* Out of 16,389,000 shares, 8,800,000 shares were share options, of which 3,800,000 and 5,000,000 were granted on January 21, 2010, and January 20, 2011, respectively. Details of the share options are set out in Note 36 to the consolidated financial statements.

### ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

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

## • DIRECTORS' REPORT

### SHARE OPTION SCHEME

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

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

	Date of grant	Exercise price HK\$	Exercisable period	Number of options outstanding at 1.10.2010	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Number of options outstanding at 30.9.2011
<b>Director</b>								
Chang Karen Yi-Fen	21.1.2010	1.62	21.1.2011 - 20.1.2018	570,000	-	-	-	570,000
	21.1.2010	1.62	21.1.2012 - 20.1.2018	570,000	-	-	-	570,000
	21.1.2010	1.62	21.1.2013 - 20.1.2018	1,140,000	-	-	-	1,140,000
	21.1.2010	1.62	21.1.2014 - 20.1.2018	1,520,000	-	-	-	1,520,000
	20.1.2011	1.23	20.1.2012 - 19.1.2019	-	1,250,000	-	-	1,250,000
	20.1.2011	1.23	20.1.2013 - 19.1.2019	-	1,250,000	-	-	1,250,000
	20.1.2011	1.23	20.1.2014 - 19.1.2019	-	1,250,000	-	-	1,250,000
	20.1.2011	1.23	20.1.2015 - 19.1.2019	-	1,250,000	-	-	1,250,000
				3,800,000	5,000,000	-	-	8,800,000
<b>Employees/consultants</b>								
	21.1.2010	1.62	21.1.2011 - 20.1.2018	8,356,500	-	-	(1,821,750)	6,534,750
	21.1.2010	1.62	21.1.2012 - 20.1.2018	8,356,500	-	-	(1,821,750)	6,534,750
	21.1.2010	1.62	21.1.2013 - 20.1.2018	16,713,000	-	-	(3,643,500)	13,069,500
	21.1.2010	1.62	21.1.2014 - 20.1.2018	22,284,000	-	-	(4,858,000)	17,426,000
	20.1.2011	1.23	20.1.2012 - 19.1.2019	-	12,500,000	-	-	12,500,000
	20.1.2011	1.23	20.1.2013 - 19.1.2019	-	12,500,000	-	-	12,500,000
	20.1.2011	1.23	20.1.2014 - 19.1.2019	-	12,500,000	-	-	12,500,000
	20.1.2011	1.23	20.1.2015 - 19.1.2019	-	12,500,000	-	-	12,500,000
				55,710,000	50,000,000	-	(12,145,000)	93,565,000
Grand total				59,510,000	55,000,000	-	(12,145,000)	102,365,000

## • DIRECTORS' REPORT

### SHARE OPTION SCHEME (Continued)

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

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

### SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at September 30, 2011, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interest disclosed above in respect of certain Directors and chief executives, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Name of shareholder	Notes	Capacity/ Nature of interest	Number of ordinary shares held	Approximate percentage of interest in the issued share capital of the Company
Major Focus Management Limited ("Major Focus")	(a)	Beneficial interest	2,408,344,622	56.05%
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")	(a), (b)	Interest of a controlled corporation	2,408,344,622	56.05%
Wealthplus Holdings Limited ("Wealthplus")	(b)	Interest of a controlled corporation	2,408,344,622	56.05%
Pou Chen Corporation ("PCC")	(b)	Interest of a controlled corporation	2,408,344,622	56.05%
Jollyard Investments Limited ("Jollyard")	(c)	Beneficial interest	216,945,000	5.05%
Sitori Trading Limited ("Sitori Trading")	(c)	Interest of a controlled corporation	216,945,000	5.05%
Shih Ching-I	(c)	Interest of a controlled corporation	216,945,000	5.05%
Allianz SE	(d)	Interest of a controlled corporation	215,135,000	5.01%



## • DIRECTORS' REPORT

### SUBSTANTIAL SHAREHOLDERS' INTERESTS (Continued)

Notes:

All the Shares are long positions.

- (a) 2,408,344,622 shares are held by Major Focus, a wholly-owned subsidiary of Yue Yuen.
- (b) PCC is deemed to be interested in these shares under the SFO by virtue of its interests in more than one third of the voting shares in Wealthplus, which in turn is deemed to be interested in these shares under the SFO by virtue of its interests in more than one third of the voting shares in Yue Yuen. Wealthplus is wholly owned by PCC, which is interested in approximately 46.55% of the issued share capital of Yue Yuen. Mr. Tsai David, Nai Fung, Ms. Tsai Patty, Pei Chun and Ms. Kuo, Li-Lien who are Directors of the Company are also directors of Yue Yuen. Mr. Tsai David, Nai Fung and Ms. Tsai Patty, Pei Chun, who are Directors of the Company, are also directors of Wealthplus. Mr. Tsai David, Nai Fung who is a Director of the Company is also a director of PCC.
- (c) These shares are held by Jollyard, a wholly-owned subsidiary of Sitori Trading, which is in turn wholly-owned by Ms. Shih Ching-I.
- (d) Allianz SE is deemed to be interested in these shares under the SFO by virtual of its indirect wholly-owned interests in Allianz Global Investors AG, which in turn is deemed to be interested in these shares under the SFO by virtue of its indirectly wholly-owned interests in Allianz Global Investors Asia Pacific GmbH, Allianz Global Investors of America Holdings Inc. and Allianz Global Investors Europe Holding GmbH respectively.

Allianz Global Investors Asia Pacific GmbH wholly-owned Allianz Global Investors Taiwan Ltd and Allianz Global Investors Hong Kong Ltd which held 13,300,000 shares and 62,869,000 shares respectively.

Allianz Global Investors of America Holdings Inc. wholly-owned Allianz Global Investors Capital LLC which held 506,000 shares.

Allianz Global Investors Europe Holding GmbH wholly-owned Allianz Global Investors Luxembourg S.A. and Allianz Global Investments Ireland Ltd which held 107,908,000 shares and 30,552,000 shares respectively.

Save as disclosed above, as at September 30, 2011, the Directors were not aware of any other person (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein.

## • DIRECTORS' REPORT

### DIRECTOR'S INTERESTS IN COMPETING BUSINESS

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

There is potentially competition between the manufacturing business of the Company and Yue Yuen. On May 23, 2008, the Company entered into the business separation deed (the "Business Separation deed") with Yue Yuen to put in place certain mechanisms to separate the Company's manufacturing businesses from those of Yue Yuen including the permission from Yue Yuen for engaging in new manufacturing business. During the year ended September 30, 2011, no new brand owners asked the Company to manufacture for them and the independent non-executive Directors have reviewed the scenario and were of the opinion that the compliance with undertakings was not applicable in such case.

Save as described above, as at September 30, 2011, none of the Directors had an interest in any business, which competes or may compete, directly or indirectly with the Group's business.

### DIRECTOR'S INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

## • DIRECTORS' REPORT

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

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

	Aggregate level of the facility granted that maybe affected by such breach US\$'000	Borrowing under such facilities as at September 30, 2011 US\$'000	Life of the facility	Specific performance obligation
Loan I	20,000	-	No specific term	The Company remains a subsidiary of Yue Yuen
Loan II	30,000	19,998	Facility ends on September 7, 2012	The Company must ensure that it remains controlled by Yue Yuen
		19,998		

### CONNECTED TRANSACTIONS

During the year ended September 30, 2011, subsidiaries of the Company in the People's Republic of China (the "PRC") purchased sportswear products of approximately US\$0.1 million from Yue Yuen and its associates. The exact terms of the purchases were to be set out in individual order. The above continuing connected transactions entered into by the Group with the connected persons are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 14A.33 of the Listing Rules.

### RELATED PARTY TRANSACTIONS

Related party transactions entered into for the year are set out in Note 38 to the consolidated financial statements.

## • DIRECTORS' REPORT

### MANAGEMENT CONTRACTS

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

### PENSION SCHEME

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

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

The Group contributed approximately US\$11.7 million to the above-mentioned schemes for the year ended September 30, 2011.

### MAJOR CUSTOMERS AND SUPPLIERS

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

Aggregate purchases attributable to the Group's largest and five largest suppliers were 27% and 84% of the Group's total purchases respectively.

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

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

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



## • DIRECTORS' REPORT

### EMOLUMENT POLICY

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

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

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

### PRE-EMPTIVE RIGHTS

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

### SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended September 30, 2011.

### EVENT AFTER THE REPORTING PERIOD

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

### AUDITOR

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

On behalf of the Board

**Tsai David, Nai Fung**

*Chairman*

Hong Kong

December 29, 2011

## • CORPORATE GOVERNANCE REPORT

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

### CORPORATE GOVERNANCE PRACTICES

For the year ended September 30, 2011, the Company has applied the principles of and has complied with all code provisions set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

### SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. All Directors have confirmed, following specific enquiries made by the Company, that they have complied with the required standards as set out in the Model Code throughout the year ended September 30, 2011.

The Company has also adopted internal guidelines for securities transactions by relevant employees (the "Employees Guidelines") in October 2008 which are based on the Model Code. The Employee Guideline had been updated from time to time according to the Model Code. Specified employees who are likely to be in possession of unpublished price-sensitive information related to the Group and its activities must comply with the Employees Guidelines. For the year ended September 30, 2011, the Company had not found any non-compliance by any such employees.

### BOARD OF DIRECTORS

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

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

The Board is made up of seven Directors, including one executive Director, three non-executive Directors and three independent non-executive Directors (the "INEDs"). Biographical information of the Directors is set out in this annual report under the heading "Biographical Details of Directors and Senior Management" on pages 22 to 25.

## • CORPORATE GOVERNANCE REPORT

### BOARD OF DIRECTORS (Continued)

Two of the three INEDs, Mr. Chang Li Hsien, Leslie and Mr. Chen Huan-Chung, possess appropriate professional accounting qualifications and financial management expertise for the purpose of, in compliance with the requirements set out in Rule 3.10(2) of the Listing Rules.

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

<u>Name of Directors</u>	<u>Specific Position</u>
<b>Executive Director</b>	
Chang Karen Yi-Fen	Chief Executive Officer
<b>Non-executive Directors</b>	
Tsai David, Nai Fung	Chairman
Tsai Patty, Pei Chun	
Kuo, Li-Lien	
<b>Independent Non-executive Directors</b>	
Chen Huan-Chung*	Chairman of the Audit Committee
Hu Sheng-Yih	Chairman of the Remuneration Committee
Chang Li Hsien, Leslie**	

\* Mr. Chen Huan-Chung was appointed the chairman of the audit committee on September 7, 2011 replacing the vacancy of Mr. Mak Kin Kwong.

\*\* Mr. Chang Li Hsien, Leslie was appointed INED on March 7, 2011 replacing the vacancy of Mr. Cheng Ming Fun Paul.

*Note:* Mr. Mak Kin Kwong and Mr. Cheng Ming Fun Paul resigned as INED with effect from August 2, 2011 and March 1, 2011 respectively

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

## • CORPORATE GOVERNANCE REPORT

### BOARD OF DIRECTORS (Continued)

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

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

The Board believes that the four board meetings held for the year ended September 30, 2011 were adequate to cover all major issues during that period. In any event all Directors were available for consultation by management of the Group from time to time during the year.

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

<u>Name of Directors</u>	<u>Attendance</u>
<b>Executive Director</b>	
Chang Karen Yi-Fen	4/4
<b>Non-executive Directors</b>	
Tsai David, Nai Fung	2/4
Tsai Patty, Pei Chun	4/4
Kuo, Li-Lien	4/4
<b>Independent Non-executive Directors</b>	
Chen Huan-Chung	4/4
Hu Sheng-Yih	4/4
Chang Li Hsien, Leslie*	2/2

\* Mr. Chang Li Hsien, Leslie was appointed INED on March 7, 2011.



## • CORPORATE GOVERNANCE REPORT

### BOARD OF DIRECTORS (Continued)

#### Board Practices

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

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

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

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

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

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

## • CORPORATE GOVERNANCE REPORT

### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman of the Board is Mr. Tsai David, Nai Fung and the Chief Executive Officer is Ms. Chang Karen Yi-Fen.

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

### NON-EXECUTIVE DIRECTORS

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

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

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

### NOMINATION OF DIRECTORS

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

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

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

## • CORPORATE GOVERNANCE REPORT

### NOMINATION OF DIRECTORS (Continued)

As at September 30, 2011, the Company has not set up a nomination committee. However, one board meeting was held during the year ended September 30, 2011 for appointment of a new director, Mr. Chang Li Hsien, Leslie. The record of attendance of individual Director is listed below:

<u>Name of Directors</u>	<u>Attendance</u>
<b>Executive Director</b>	
Chang Karen Yi-Fen	1/1
<b>Non-executive Directors</b>	
Tsai David, Nai Fung	0/1
Tsai Patty, Pei Chun	1/1
Kuo, Li-Lien	1/1
<b>Independent Non-executive Directors</b>	
Chen Huan-Chung	1/1
Hu Sheng-Yih	1/1
Chang Li Hsien, Leslie*	0/0

\* Mr. Chang Li Hsien, Leslie was appointed INED on March 7, 2011.

## • CORPORATE GOVERNANCE REPORT

### AUDIT COMMITTEE

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

The Audit Committee consists of two INEDs, namely Mr. Chen Huan-Chung (who replaced the vacancy created by Mr. Mak Kin Kwong on September 7, 2011) (Chairman of the Audit Committee) and Mr. Chang Li Hsien, Lelsie (who replaced the vacancy created by Mr. Cheng Ming Fun Paul on March 7, 2011); and one non-executive Director, namely Ms. Tsai Patty, Pei Chun. In compliance with Rule 3.21 of the Listing Rules, Mr. Chen Huan-Chung, the chairman of the Audit Committee and Mr. Chang Li Hsien, Lelsie, a member of the Audit Committee possess the appropriate professional and accounting qualifications.

Four Audit Committee meetings were held during the year ended September 30, 2011 and the record of attendance of individual member is listed out below:

<u>Name of Directors</u>	<u>Attendance</u>
Chen Huan-Chung*(Chairman)	0/0
Tsai Patty, Pei Chun	4/4
Chang Li Hsien, Leslie**	2/2

\* Mr. Chen Huan-Chung was appointed Chairman of the audit committee on September 7, 2011

\*\* Mr. Chang Li Hsien, Leslie was appointed INED on March 7, 2011.

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

### Functions and Role

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

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

## • CORPORATE GOVERNANCE REPORT

### AUDIT COMMITTEE (Continued)

#### Functions and Role (Continued)

In discharging its responsibilities, the Audit Committee performed the following work during the year ended September 30, 2011:

- (i) reviewed the effectiveness of audit process in accordance with applicable standards;
- (ii) reviewed the quarterly, interim and annual results of the Group;
- (iii) reviewed the change in accounting principles and policies and assessment of potential impacts on the Group's financial statements;
- (iv) reviewed the Group's internal control system and discussed the relevant issues including financial, operational and compliance controls and risk management functions; and
- (v) ensured co-ordination between the internal and external auditors of the Group, and ensured that the internal audit function was adequately resourced and reviewed and monitored the effectiveness of the internal audit function etc.

### AUDITORS' REMUNERATION

During the year under review, the remuneration paid or to be payable to Messrs. Deloitte Touche Tohmatsu, the Company's external auditor, in respect of audit services rendered were approximately US\$526,000 and in respect of non-audit services for interim review rendered were approximately US\$141,000.



## • CORPORATE GOVERNANCE REPORT

### REMUNERATION OF DIRECTORS

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

Two meetings of the Remuneration Committee were held during the year ended September 30, 2011. None of the Directors were involved in determining his or her own remuneration. The record of attendance of individual member is listed out below:

<u>Name of Directors</u>	<u>Attendance</u>
Hu Sheng-Yih (Chairman)	2/2
Kuo, Li-Lien	1/2
Chen Huan-Chung	2/2

### Functions and Role

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

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

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

## • CORPORATE GOVERNANCE REPORT

### REMUNERATION OF DIRECTORS (Continued)

#### Functions and Role (Continued)

The following is a summary of the work performed by the Remuneration Committee during the year ended September 30, 2011:

1. reviewed and approved the remuneration packages of the Directors.
2. reviewed the adequacy of the terms of reference of the Remuneration Committee.
3. reviewed and approved the grant of share options to eligible employees under the Share Option Scheme.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

The report of the external auditors of the Company, Messrs. Deloitte Touche Tohmatsu, with regard to their reporting responsibilities on the Group's financial statements is set out in the Independent Auditor's Report on pages 47 and 48.

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

### INTERNAL CONTROLS AND RISKS MANAGEMENT

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

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

## • CORPORATE GOVERNANCE REPORT

### INVESTOR RELATIONSHIP AND COMMUNICATION

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

The Company has set up its own website as a means to provide information on the Company to the Shareholders and investors and to communicate with them directly and effectively. Further, the Company's investor relations department is responsible for handling general public relation and investor relation matters.

Shareholders are also encouraged to attend the Company's annual general meetings and general meetings for which notices would be served with at least 20 clear business days period and 10 clear business days' period respectively. The Chairman of the Company and/or the Directors is/are available to answer questions on the Group's business at the meetings.

## • INDEPENDENT AUDITOR'S REPORT

# Deloitte.

# 德勤

### TO THE MEMBERS OF POU SHENG INTERNATIONAL (HOLDINGS) LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pou Sheng International (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 49 to 153, which comprise the consolidated statement of financial position as at September 30, 2011, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 the 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 and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

## • INDEPENDENT AUDITOR'S REPORT

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

### **Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Group as at September 30, 2011 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

December 29, 2011



## • CONSOLIDATED INCOME STATEMENT

For the year ended September 30, 2011

	Notes	2011 US\$'000	2010 US\$'000
Revenue	5	1,589,802	1,323,845
Cost of sales		(1,107,456)	(926,790)
Gross profit		482,346	397,055
Other income and gains (losses)		37,694	12,830
Selling and distribution expenses		(366,718)	(294,960)
Administrative expenses		(71,244)	(71,397)
Operating profit		82,078	43,528
Interests on bank borrowings wholly repayable within five years		(9,984)	(11,510)
Finance income	6	5,845	3,708
Finance cost - net		(4,139)	(7,802)
Share of results of associates		697	851
Share of results of jointly controlled entities		(3,182)	9,890
Gain on deemed disposal of a jointly controlled entity	31	18,767	-
Gain on disposals of subsidiaries	32	-	1,776
Gain on deregistration of subsidiaries		341	122
Impairment losses of interests in associates	16	(500)	(1,300)
Impairment losses of interests in jointly controlled entities	17	(1,500)	(1,700)
Loss on disposals of jointly controlled entities	17	-	(8,203)
Impairment loss of an available-for-sale investment	19	(100)	(900)
Fair value changes on derivative financial instruments		(15,601)	(6,393)
Profit before taxation		76,861	29,869
Income tax expense	7	(22,051)	(9,702)
Profit for the year	8	54,810	20,167
Attributable to:			
Owners of the Company		53,670	21,287
Non-controlling interests		1,140	(1,120)
		54,810	20,167
Earnings per share	10		
- basic		US1.25 cents	US0.50 cent
- diluted		US1.25 cents	US0.50 cent

## • CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended September 30, 2011

	2011 US\$'000	2010 US\$'000
<b>Profit for the year</b>	54,810	20,167
<b>Other comprehensive income</b>		
Exchange difference arising on translation	30,755	13,765
<b>Total comprehensive income for the year</b>	85,565	33,932
Attributable to:		
Owners of the Company	83,718	34,408
Non-controlling interests	1,847	(476)
	85,565	33,932

## • CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At September 30, 2011

	Notes	2011 US\$'000	2010 US\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	117,173	143,680
Deposit paid for acquisition of property, plant and equipment		918	465
Prepaid lease payments	11	24,321	27,080
Rental deposits and prepayments		25,927	22,375
Deposit paid for proposed acquisition of a business	12	3,127	-
Intangible assets	13	111,882	70,612
Goodwill	14	42,226	27,622
Interests in associates	16	8,387	7,809
Loans to associates	16	7,536	7,659
Interests in jointly controlled entities	17	41,950	55,014
Loans to jointly controlled entities	17	45,878	58,042
Deposit paid for acquisition of the remaining interest in a jointly controlled entity	17	1,219	19,223
Long-term loan receivables	18	8,311	17,642
Available-for-sale investments	19	-	100
Derivative financial instruments	20	22,363	46,024
Pledged bank deposits	21	12,507	-
Deferred tax assets	22	1,978	2,293
		475,703	505,640
<b>CURRENT ASSETS</b>			
Inventories	23	400,806	262,049
Trade and other receivables	24	280,717	240,207
Prepaid lease payments	11	625	654
Taxation recoverable		1,369	1,978
Available-for-sale investments	19	-	8,227
Amounts due from related parties	25	3,693	14,307
Bank balances and cash	21	172,688	178,056
		859,898	705,478
Assets classified as held for sale	26	37,168	-
		897,066	705,478

## • CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At September 30, 2011

	Notes	2011 US\$'000	2010 US\$'000
<b>CURRENT LIABILITIES</b>			
Trade and other payables	27	279,512	158,960
Taxation payable		5,298	7,150
Amounts due to related parties	25	65	1,024
Bank borrowings	28	168,187	184,353
		453,062	351,487
<b>NET CURRENT ASSETS</b>			
		444,004	353,991
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		919,707	859,631
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings	28	-	33,611
Deferred tax liabilities	22	30,403	21,695
		30,403	55,306
<b>NET ASSETS</b>			
		889,304	804,325
<b>CAPITAL AND RESERVES</b>			
Share capital	29	5,513	5,504
Reserves		868,819	784,813
Equity attributable to owners of the Company		874,332	790,317
Non-controlling interests		14,972	14,008
<b>TOTAL EQUITY</b>			
		889,304	804,325

The consolidated financial statements on pages 49 to 153 were approved and authorised for issue by the Board of Directors on December 29, 2011 and are signed on its behalf by:

**Tsai David, Nai Fung**  
CHAIRMAN AND NON-EXECUTIVE DIRECTOR

**Chang Karen Yi-Fen**  
CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR

## • CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended September 30, 2011

	Equity attributable to owners of the Company											
	Share capital	Share premium	Special reserve	Other reserve	Revaluation reserve	Share-based compensation reserve	Non-distributable reserve	Translation reserve	Accumulated profits	Total	Non-controlling interests	Total
	US\$'000 (Note 29)	US\$'000	US\$'000 (note (i))	US\$'000 (note (ii))	US\$'000 (note (iii))	US\$'000	US\$'000 (note (iv))	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At October 1, 2009	5,504	692,681	96,269	(211,176)	8,108	-	15,275	34,141	113,529	754,331	16,245	770,576
Exchange difference arising on the translation of financial statements	-	-	-	-	-	-	-	13,121	-	13,121	644	13,765
Profit (loss) for the year	-	-	-	-	-	-	-	-	21,287	21,287	(1,120)	20,167
Total comprehensive income and expense for the year	-	-	-	-	-	-	-	13,121	21,287	34,408	(476)	33,932
Recognition of equity-settled share-based payments	-	-	-	-	-	1,578	-	-	-	1,578	-	1,578
Realised on deregistration of subsidiaries	-	-	-	-	-	-	-	(202)	202	-	(125)	(125)
Realised on disposal of subsidiaries	-	-	-	-	-	-	-	(770)	770	-	(1,222)	(1,222)
Realised on disposal of jointly controlled entities	-	-	-	-	-	-	-	(2,120)	2,120	-	-	-
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	(414)	(414)
Transfer	-	-	-	-	-	-	4,094	-	(4,094)	-	-	-
At September 30, 2010	5,504	692,681	96,269	(211,176)	8,108	1,578	19,369	44,170	133,814	790,317	14,008	804,325
Exchange difference arising on the translation of financial statements	-	-	-	-	-	-	-	30,048	-	30,048	707	30,755
Profit for the year	-	-	-	-	-	-	-	-	53,670	53,670	1,140	54,810
Total comprehensive income and expense for the year	-	-	-	-	-	-	-	30,048	53,670	83,718	1,847	85,565
Acquisition of subsidiaries	9	889	-	2,887	-	-	-	-	-	3,785	-	3,785
Recognition of equity-settled share-based payments	-	-	-	-	-	2,473	-	-	-	2,473	-	2,473
Realised on deregistration of subsidiaries	-	-	-	-	-	-	-	965	(965)	-	-	-
Realised on deemed disposal of a jointly controlled entity	-	-	-	-	-	-	-	(1,126)	1,126	-	-	-
Realised on disposal of a jointly controlled entity	-	-	-	-	-	-	-	(377)	377	-	-	-
Acquisition of additional interest in subsidiaries	-	-	-	(5,961)	-	-	-	-	-	(5,961)	(1,162)	(7,123)
Capital contribution by non-controlling interest of subsidiaries	-	-	-	-	-	-	-	-	-	-	590	590
Dividend paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	(311)	(311)
Transfer	-	-	-	-	-	-	6,454	-	(6,454)	-	-	-
At September 30, 2011	5,513	693,570	96,269	(214,250)	8,108	4,051	25,823	73,680	181,568	874,332	14,972	889,304



## ● CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended September 30, 2011

notes:

- (i) The special reserve represents the difference between the nominal value of the share capital issued by the Company and the share premium and the nominal value of the share capital of the subsidiaries comprising the Group prior to the group reorganisation in 2008.
- (ii) The other reserve represents (i) the difference between the fair value of the consideration paid and the relevant share of carrying value of the subsidiaries' net assets acquired from the non-controlling interests and (ii) the fair value of the share-settled consideration at the date of acquisition of subsidiaries that, less the amount already settled by the Company by the issue of 6,330,000 shares during the year, will be settled by the Company by the issue of a fixed number of its ordinary shares in certain future dates, as set out in Note 31.
- (iii) The revaluation reserve represents the fair value adjustments on intangible assets attributable to the equity interest previously held by the Group at the date of acquisition of subsidiaries. The amount recognised in the revaluation reserve will be transferred to accumulated profits upon disposals of these subsidiaries or the relevant assets, whichever is earlier.
- (iv) According to the relevant laws in the People's Republic of China (the "PRC"), wholly foreign-owned enterprises in the PRC are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. The non-distributable reserve fund can be used to offset the previous years' losses, if any. The non-distributable reserve fund is non-distributable other than upon liquidation.
- (v) No dividend was paid or proposed during the year (2010: nil), nor has any dividend been proposed since the end of the reporting period.

## • CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended September 30, 2011

	2011	2010
	US\$'000	US\$'000
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	76,861	29,869
Adjustments for:		
Depreciation of property, plant and equipment	27,380	28,935
Release of prepaid lease payments	620	797
Amortisation of intangible assets	5,746	4,627
Loss on disposal of property, plant and equipment	1,411	3,087
(Reversal of) allowance for inventories, net	(4,782)	1,815
(Reversal of) impairment loss recognised on trade receivables	(460)	422
Impairment loss recognised on other receivables	2,014	-
Interest expense	9,984	11,510
Interest income	(5,845)	(3,708)
Share of results of associates	(697)	(851)
Share of results of jointly controlled entities	3,182	(9,890)
Recognition of equity-settled share-based payments	2,473	1,578
Gain on deemed disposal of a jointly controlled entity	(18,767)	-
Gain on disposals of subsidiaries	-	(1,776)
Gain on deregistration of subsidiaries	(341)	(122)
Loss on disposals of jointly controlled entities	-	8,203
Impairment losses of interests in associates	500	1,300
Impairment losses of interests in jointly controlled entities	1,500	1,700
Impairment loss of an available-for-sale investment	100	900
Fair value changes on derivative financial instruments	15,601	6,393
Operating cash flows before movements in working capital	116,480	84,789
(Increase) decrease in rental deposits and prepayments	(11,242)	2,485
(Increase) decrease in inventories	(77,556)	42,169
(Increase) decrease in trade and other receivables	(31,823)	4,491
Increase in trade and other payables	58,096	8,473
Cash from operations	53,955	142,407
Income tax paid	(25,598)	(14,387)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>28,357</b>	<b>128,020</b>

## • CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended September 30, 2011

	Notes	2011 US\$'000	2010 US\$'000
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(30,439)	(18,214)
Increase in pledged bank deposits		(12,507)	-
Increase in deposit paid for proposed acquisition of a business		(3,127)	-
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	31	(1,608)	-
Increase in deposit paid for acquisition of the remaining interest in a jointly controlled entity		(1,219)	(19,223)
Repayment of advance to a non-controlling interest of a subsidiary		(962)	732
Increase in deposit paid for acquisition of property, plant and equipment		(142)	(456)
Repayment of advance to associates		464	-
Capital contribution by non-controlling interests of subsidiaries		590	-
Repayment of advance to jointly controlled entities		1,669	4,100
Proceeds from disposal of property, plant and equipment		2,326	1,405
Interest income		5,845	3,708
Proceeds from maturity of available-for-sale investment		8,227	-
Proceeds from disposal of jointly controlled entities		8,586	8,652
Proceeds from disposal of subsidiaries during the year ended September 30, 2010 (net of cash and cash equivalents disposed)	32	17,630	1,517
Decrease (increase) in loan receivables		25,942	(37,028)
Deposits received for sales of assets classified as held for sale		30,329	-
Investment in available-for-sale investment		-	(8,227)
Investment in a jointly controlled entity		-	(6,588)
Dividends received from jointly controlled entities		-	9,935
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>		<b>51,604</b>	<b>(59,687)</b>
<b>FINANCING ACTIVITIES</b>			
Repayment of bank borrowings		(237,361)	(377,176)
Interest paid		(9,984)	(11,510)
Acquisition of additional interest in subsidiaries		(4,425)	-
Dividend paid to a non-controlling interest of a subsidiary		(311)	(414)
New bank borrowings raised		164,585	317,382
Repayment of advances from non-controlling interests of subsidiaries		-	(87)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<b>(87,496)</b>	<b>(71,805)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(7,535)</b>	<b>(3,472)</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>		<b>2,167</b>	<b>1,698</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>178,056</b>	<b>179,830</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash</b>		<b>172,688</b>	<b>178,056</b>

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 1. GENERAL INFORMATION

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

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

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

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

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

HKFRSs (Amendments)	Amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 as part of Improvements to HKFRSs 2009
HKFRSs (Amendments)	Amendments to HKFRS 3 (as revised in 2008) and HKAS 27 (as revised in 2008) as part of Improvements to HKFRSs 2010
HKAS 32 (Amendments)	Classification of Rights Issues
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

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

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (as revised in 2008) and HKAS 27 (as amended in 2008) <sup>1</sup>
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>2</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>3</sup>
HKAS 19 (Revised)	Employee Benefits <sup>4</sup>
HKAS 24 (Revised 2009)	Related Party Disclosures <sup>1</sup>
HKAS 27 (Revised 2011)	Separate Financial Statements <sup>4</sup>
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures <sup>4</sup>
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>5</sup>
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets <sup>5</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HKFRS 10	Consolidated Financial Statements <sup>4</sup>
HKFRS 11	Joint Arrangements <sup>4</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>4</sup>
HKFRS 13	Fair Value Measurement <sup>4</sup>
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement <sup>1</sup>
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2011

<sup>2</sup> Effective for annual periods beginning on or after July 1, 2012

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2012

<sup>4</sup> Effective for annual periods beginning on or after January 1, 2013

<sup>5</sup> Effective for annual periods beginning on or after July 1, 2011

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



## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

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

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

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

The five new or revised standards on consolidation, joint arrangements and disclosures, including HKAS 27 (Revised 2011), HKAS 28 (Revised 2011), HKFRS 10, HKFRS 11 and HKFRS 12, were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted provided that all of these five new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group’s consolidated financial statements for financial year beginning on or after January 1, 2013 and the potential impact is described below.

HKFRS 10 replaces the parts of HKAS 27 “Consolidated and Separate Financial Statements” that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor’s returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires extensive judgement. The directors are in the process of determining the financial impacts of the application of HKFRS 10.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

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

HKFRS 11 replaces HKAS 31 “Interests in Joint Ventures”. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, there are two types of joint arrangements: joint ventures and joint operations. The classification in HKFRS 11 is based on parties’ rights and obligations under the arrangements. In contrast, under HKAS 31, there are three different types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting. All of the Group’s jointly controlled entities are currently accounted for using the equity method of accounting. The directors are in the process of determining the financial impacts of the application of HKFRS 11.

HKFRS 12 “Disclosures of Interests in Other Entities” is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities. HKFRS 12 establishes disclosure objectives and specifies minimum disclosures that entities must provide to meet those objectives, which laid down that entities should disclose information that help users of financial statements evaluate the nature of the risks associated with interests in other entities and the effects of those interests on financial statements. The disclosure requirements set out in HKFRS 12 are more extensive than those in the current standards. The directors of the Company consider that significant efforts may be required to collect the necessary information for the relevant disclosures.

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Basis of consolidation**

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

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

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

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

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

#### *Allocation of total comprehensive income to non-controlling interests*

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

#### *Changes in the Group's ownership interests in existing subsidiaries*

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

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Business combinations**

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

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

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that Standard.

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

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Business combinations (Continued)**

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arisen from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Goodwill**

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

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

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

#### **Non-current assets held for sale**

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.



## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Interests in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with its associate, profits and losses resulting the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Joint ventures**

##### *Jointly controlled entities*

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

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost as adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue recognition

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

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

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

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

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

#### Property, plant and equipment

Property, plant and equipment, including land and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised to write off the cost of items of property, plant and equipment, other than construction in progress less their residual values, over their estimated useful life, using the straight line method. The estimated useful life, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. The amortisation of land use rights provided for during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Such properties are classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Leasing

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

#### *The Group as lessor*

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

#### *The Group as lessee*

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below).

Contingent rentals are recognised as expenses in the periods in which they are incurred. Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### *Leasehold land and building*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Leasing (Continued)**

##### *Leasehold land and building (Continued)*

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

#### **Intangible assets**

##### *Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

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

#### **Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

##### *Financial assets*

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *Financial assets (Continued)*

##### Effective interest method

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

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

##### Loans and receivables

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

##### Financial assets at fair value through profit or loss

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

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

##### Available-for-sale financial assets

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

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



## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *Financial assets (Continued)*

##### Impairment of financial assets

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

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

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

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *Financial assets (Continued)*

##### *Impairment of financial assets (Continued)*

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

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

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

##### *Financial liabilities and equity*

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

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

##### *Effective interest method*

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

Interest expense is recognised on an effective interest basis.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Financial instruments (Continued)**

##### *Financial liabilities and equity (Continued)*

##### *Financial liabilities*

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

##### *Equity instruments*

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

##### *Derivative financial instruments*

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

##### *Financial guarantee contracts*

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

##### *Derecognition*

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

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Inventories**

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

#### **Foreign currencies**

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. USD) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

#### **Borrowing costs**

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

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

#### **Taxation**

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

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Taxation (Continued)

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Research and development expenditure

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

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

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

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

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

#### Retirement benefit costs

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



## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

#### **Share-based payment transactions**

##### *Equity-settled share-based payment transactions*

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

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

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

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Customer loyalty programmes

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

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

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

### 4. CAPITAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

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

#### **Critical judgements in applying the entity's accounting policies**

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

#### *Intangible assets with indefinite useful lives*

The directors consider that the brandnames with a carrying amount of US\$73,063,000 (2010: US\$32,408,000), as set out in Note 13, for all practical purposes have indefinite useful lives and are therefore not amortised until their useful lives are determined to be finite. The brandnames are tested for impairment annually.

#### **Key sources of estimation uncertainty**

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

#### (i) *Estimated impairment of goodwill and brandnames*

Determining whether goodwill and brandnames are impaired requires an estimation of the value in use of the CGU to which goodwill and brandnames have been allocated. This calculation requires the Group to estimate the present value of the future cash flows expected to arise from the CGU containing goodwill and brandnames using a suitable discount rate. Where the expected future cash flows arising from the relevant CGU differ from the original estimation, an impairment loss may arise. The carrying amounts of goodwill of approximately US\$42,226,000 (2010: US\$27,622,000) and brandnames of approximately US\$73,063,000 (2010: US\$32,408,000) as at September 30, 2011 were allocated to the retail business segment. Details of the recoverable amount calculation are disclosed in Note 15.

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

The Group tests whether intangible assets which have finite useful lives have suffered any impairment whenever there is any indication that the assets may have been impaired. The recoverable amounts of these intangible assets have been determined based on their value in use, which have been estimated using discounted cash flow method. The directors consider that the recoverable amount exceeded the carrying amount of the intangible assets and no impairment was recognised during the year. Where the actual future cash flows is different from the amounts estimated when applying the discounted cash flow method, an impairment loss may arise in future years. The carrying amount of intangible assets which have finite useful lives at the end of the reporting period was approximately US\$38,819,000 (2010: US\$38,204,000).

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

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

#### Key sources of estimation uncertainty (Continued)

(iii) *Impairment loss for inventories*

The management of the Group reviews the aging of the inventories at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production nor saleable in the market. The management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of the reporting period and makes allowance for obsolete items. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at September 30, 2011, the carrying amount of inventories was US\$400,806,000 (2010: US\$262,049,000) (net of allowance for inventories of US\$7,159,000 (2010: US\$10,503,000)).

(iv) *Estimated impairment of trade receivable*

When there is objective evidence of impairment loss, the Group takes into consideration the estimated future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at September 30, 2011, the carrying amount of trade receivable was US\$170,720,000 (2010: US\$122,780,000) (net of allowance for doubtful debts of US\$311,000 (2010: US\$771,000)).

(v) *Fair value of Call Options*

Measurements of the fair value of the Call Options require the use of variables and assumptions including (i) the underlying value of the relevant equity interests, (ii) the profitability of the Company and the relevant companies and (iii) the share price of the Company. The carrying amount of the derivative financial instruments is US\$22,363,000 (2010: US\$46,024,000). Details of the measurements of the fair value and assumptions used are disclosed in note 20.

(vi) *Income taxes*

As at September 30, 2011, a deferred tax asset of US\$1,978,000 (2010: US\$2,293,000) in relation to unused tax losses was recognised in the Group's consolidated statement of financial position. The realisability of the deferred tax asset arising from the unused tax losses is mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more or less than expected, a material provision or reversal of deferred tax asset may arise, which would be recognised in profit or loss for the period in which such a provision or reversal takes place.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 5. REVENUE AND SEGMENTAL INFORMATION

The Group's operating segments are determined based on information reported to the chief operating decision maker (the "CODM"), being the chief executive officer of the Company, for the purpose of resource allocation and performance assessment. In previous years, leasing of large scale commercial spaces to retailers and distributors was reported to the CODM as a stand-alone business unit and constituted a separate operating segment. Following a change in the Group's operating and reporting structure, starting from the current year, such business activities are combined with the Group's retail operation before being reported to the CODM. Accordingly, the CODM now reviews the Group's internal reporting based on three operating segments set out below for which discrete financial information is available.

- (i) retailing of sportswear products and footwear products and commissions from leasing of large scale commercial spaces to retailers and distributors for concessionaire sales ("Retail Business");
- (ii) distribution of licensed sportswear products and footwear products ("Brand Licensee Business"); and
- (iii) manufacturing and sales of OEM footwear products ("Manufacturing Business").

The following is an analysis of the Group's revenue and results by operating segment for the year. The corresponding segment information for the year ended September 30, 2010 have been restated to reflect the above changes.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 5. REVENUE AND SEGMENTAL INFORMATION (Continued)

#### Segment revenue and results

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

	Retail Business US\$'000	Brand Licensee Business US\$'000	Manufacturing Business US\$'000	Segment total US\$'000	Eliminations US\$'000	Consolidated US\$'000
<i>For the year ended September 30, 2011</i>						
<b>REVENUE</b>						
External sales - sportswear and footwear products	1,370,875	60,487	148,786	1,580,148	-	1,580,148
External sales - commissions from concessionaire sales	9,654	-	-	9,654	-	9,654
Inter-segment sales*	2,072	16,956	-	19,028	(19,028)	-
Total segment revenue	1,382,601	77,443	148,786	1,608,830	(19,028)	1,589,802
Segment profit	69,456	3,951	15,435	88,842	-	88,842
Reconciling items:						
Central administrative expenses						(6,764)
Finance costs - net						(4,139)
Share of results of associates						697
Share of results of jointly controlled entities						(3,182)
Gain on deemed disposal of a jointly controlled entity						18,767
Gain on deregistration of subsidiaries						341
Impairment losses of interests in associates						(500)
Impairment losses of interests in jointly controlled entities						(1,500)
Impairment loss of an available-for-sale investment						(100)
Fair value changes on derivative financial instruments						(15,601)
Profit before taxation						76,861



## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 5. REVENUE AND SEGMENTAL INFORMATION (Continued)

#### Segment revenue and results (Continued)

	Retail Business US\$'000	Brand Licensee Business US\$'000	Manufacturing Business US\$'000	Segment total US\$'000	Eliminations US\$'000	Consolidated US\$'000
<i>For the year ended September 30, 2010 (restated)</i>						
<b>REVENUE</b>						
External sales - sportswear and footwear products	1,140,901	44,782	128,825	1,314,508	-	1,314,508
External sales - commissions from concessionaire sales	9,337	-	-	9,337	-	9,337
Inter-segment sales*	2,831	7,371	-	10,202	(10,202)	-
<b>Total segment revenue</b>	<b>1,153,069</b>	<b>52,153</b>	<b>128,825</b>	<b>1,334,047</b>	<b>(10,202)</b>	<b>1,323,845</b>
<b>Segment profit</b>	<b>38,939</b>	<b>3,437</b>	<b>12,073</b>	<b>54,449</b>	<b>-</b>	<b>54,449</b>
Reconciling items:						
Central administrative expenses						(10,921)
Finance costs - net						(7,802)
Share of results of associates						851
Share of results of jointly controlled entities						9,890
Gain on disposal of subsidiaries						1,776
Gain on deregistration of subsidiaries						122
Loss on disposals of jointly controlled entities						(8,203)
Impairment losses of interests in associates						(1,300)
Impairment losses of interests in jointly controlled entities						(1,700)
Impairment loss of an available-for-sale investment						(900)
Fair value changes on derivative financial instruments						(6,393)
<b>Profit before taxation</b>						<b>29,869</b>

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

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 5. REVENUE AND SEGMENTAL INFORMATION (Continued)

#### Segment assets and liabilities

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

	2011	2010
	US\$'000	US\$'000 (restated)
<b>Segment assets</b>		
Retail business	900,165	675,258
Brand licensee business	35,875	22,001
Manufacturing business	104,399	94,553
Total segment assets	1,040,439	791,812
Interests in associates	8,387	7,809
Loans to associates	7,536	7,659
Interests in jointly controlled entities	41,950	55,014
Loans to jointly controlled entities	45,878	58,042
Loan receivables	11,461	37,028
Derivative financial instruments	22,363	46,024
Bank balances and cash and pledged bank deposits	185,195	178,056
Other unallocated assets	9,560	29,674
Consolidated assets	1,372,769	1,211,118
<b>Segment liabilities</b>		
Retail business	237,902	127,689
Brand licensee business	14,435	10,622
Manufacturing business	23,444	20,581
Total segment liabilities	275,781	158,892
Bank borrowings	168,187	217,964
Other unallocated liabilities	39,497	29,937
Consolidated liabilities	483,465	406,793

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 5. REVENUE AND SEGMENTAL INFORMATION (Continued)

#### Segment assets and liabilities (Continued)

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

- all assets are allocated to operating segments other than interests in associates and jointly controlled entities, loans to associates and jointly controlled entities, loan receivables, derivative financial instruments, available-for-sale investments, certain property, plant and equipment, deferred tax assets, taxation recoverable, amounts due from related parties, certain other receivables, pledged bank deposits and bank balances and cash; and
- all liabilities are allocated to operating segments other than accruals and other payables of the head office, taxation payable, amounts due to related parties, bank borrowings and deferred tax liabilities.

#### Other segment information

	Retail Business US\$'000	Brand Licensee Business US\$'000	Manufacturing Business US\$'000	Segment total US\$'000	Unallocated US\$'000	Consolidated US\$'000
<i>For the year ended September 30, 2011</i>						
Amounts included in the measure of segment profit or segment assets:						
Additions to non-current assets (note)	69,994	918	4,388	75,300	1,061	76,361
Depreciation of property, plant and equipment	20,615	204	5,899	26,718	662	27,380
Release of prepaid lease payments	594	-	26	620	-	620
Amortisation of intangible assets	5,746	-	-	5,746	-	5,746
Deposits paid for acquisition of property, plant and equipment	915	3	-	918	-	918
Deposit paid for proposed acquisition of a business	3,127	-	-	3,127	-	3,127
Pledged bank deposits	12,507	-	-	12,507	-	12,507
Loss on disposal of property, plant and equipment	1,367	-	33	1,400	11	1,411
Impairment loss (reversed) recognised on trade receivables	(497)	3	34	(460)	-	(460)
(Reversal of allowance) allowance for inventories	(5,580)	798	-	(4,782)	-	(4,782)
Impairment loss recognised on other receivables	2,014	-	-	2,014	-	2,014

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 5. REVENUE AND SEGMENTAL INFORMATION (Continued)

#### Other segment information (Continued)

	Retail Business US\$'000	Brand Licensee Business US\$'000	Manufacturing Business US\$'000	Segment total US\$'000	Unallocated US\$'000	Consolidated US\$'000
<i>For the year ended September 30, 2011 (Continued)</i>						
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:						
Interests in associates	8,387	-	-	8,387	-	8,387
Interests in jointly controlled entities	41,950	-	-	41,950	-	41,950
Share of results of associates	697	-	-	697	-	697
Share of results of jointly controlled entities	(3,182)	-	-	(3,182)	-	(3,182)
Gain on deemed disposal of a jointly controlled entity	18,767	-	-	18,767	-	18,767
Gain on deregistration of subsidiaries	341	-	-	341	-	341
Impairment losses of interests in associates	(500)	-	-	(500)	-	(500)
Impairment losses of interests in jointly controlled entities	(1,500)	-	-	(1,500)	-	(1,500)
Impairment loss of an available-for-sale investment	(100)	-	-	(100)	-	(100)

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 5. REVENUE AND SEGMENTAL INFORMATION (Continued)

#### Other segment information (Continued)

	Retail Business US\$'000	Brand Licensee Business US\$'000	Manufacturing Business US\$'000	Segment total US\$'000	Unallocated US\$'000	Consolidated US\$'000
<b>For the year ended September 30, 2010 (restated)</b>						
Amounts included in the measure of segment profit or segment assets:						
Additions to non-current assets (note)	16,673	667	4,770	22,110	430	22,540
Depreciation of property, plant and equipment	22,997	168	5,182	28,347	588	28,935
Release of prepaid lease payments	771	-	26	797	-	797
Amortisation of intangible assets	4,627	-	-	4,627	-	4,627
Deposits paid for acquisition of property, plant and equipment	465	-	-	465	-	465
Loss on disposal of property, plant and equipment	2,997	54	31	3,082	5	3,087
Impairment loss recognised (reversed) on trade receivables	489	-	(67)	422	-	422
Allowance (reversal of allowance) for inventories	1,848	(33)	-	1,815	-	1,815
Amounts regularly provided to the CODM but not included in the measure of segment profit or loss or segment assets:						
Interests in associates	7,809	-	-	7,809	-	7,809
Interests in jointly controlled entities	55,014	-	-	55,014	-	55,014
Share of results of associates	851	-	-	851	-	851
Share of results of jointly controlled entities	9,890	-	-	9,890	-	9,890
Gain on disposal of subsidiaries	1,776	-	-	1,776	-	1,776
Gain on deregistration of subsidiaries	122	-	-	122	-	122
Loss on disposals of jointly controlled entities	(8,203)	-	-	(8,203)	-	(8,203)
Impairment losses of interests in associates	(1,300)	-	-	(1,300)	-	(1,300)
Impairment losses of interests in jointly controlled entities	(1,700)	-	-	(1,700)	-	(1,700)
Impairment loss of an available-for-sale investment	(900)	-	-	(900)	-	(900)

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 5. REVENUE AND SEGMENTAL INFORMATION (Continued)

#### Information about major customers

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

#### Geographical information

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

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

	Revenue from external customers		Non-current assets (note)	
	Year ended September 30,			
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
PRC	1,527,689	1,268,979	322,259	310,636
Hong Kong	25,292	23,580	272	133
Other locations	36,821	31,286	1,135	288
	1,589,802	1,323,845	323,666	311,057

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

### 6. FINANCE INCOME

	2011	2010
	US\$'000	US\$'000
Interest income on:		
Banks deposits	2,381	1,349
Advances to associates	470	379
Advances to jointly controlled entities	1,345	1,116
Advances to former jointly controlled entities	1,649	864
	5,845	3,708

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 7. INCOME TAX EXPENSE

	2011 US\$'000	2010 US\$'000
Taxation attributable to the Company and its subsidiaries:		
Current tax charge		
Current year:		
Hong Kong Profits Tax (note i)	743	588
PRC Enterprise Income Tax ("EIT") (note ii)	20,788	9,687
Overseas income tax (note iii)	988	1,296
	22,519	11,571
Under (over) provision in prior years:		
PRC EIT	1,026	640
Overseas income tax	-	(246)
	1,026	394
	23,545	11,965
Deferred tax credit (Note 22)	(1,494)	(2,263)
	22,051	9,702



## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 7. INCOME TAX EXPENSE (Continued)

notes:

(i) Hong Kong

Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profit for the year.

(ii) PRC

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

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

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

- (b) Pursuant to 《財政部、國家稅務總局、海關總署關於西部大開發稅收優惠政策問題的通知》(Caishui【2001】No. 202), the relevant state policy and with approval obtained from tax authorities in charge, certain subsidiaries which are located in specified provinces of Western China and engaged in a specific state-encouraged industry were subject to a preferential tax rate of 15% during the period from 2001 to 2010 when the annual revenue from the encouraged business exceeded 70% of its total revenue in a fiscal year. Such preferential tax treatment is further extended for a period of ten years from 2011 to 2020 on the condition that the enterprise must be engaged in state-encouraged industries as defined under the "Catalogue of Encouraged Industries in the Western Region (the "Catalogue") pursuant to 《財政部、海關總署、國家稅務總局關於深入實施西部大開發戰略有關稅收政策問題的通知》(Caishui【2011】No. 58) issued during the current year. Since the Catalogue has not yet been issued, it is uncertain whether certain subsidiaries could continue to enjoy the preferential tax rate of 15% in 2011.

(iii) Overseas

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 7. INCOME TAX EXPENSE (Continued)

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

	2011	2010
	US\$'000	US\$'000
Profit before taxation	76,861	29,869
Tax at income tax rate of 25% (note)	19,215	7,467
Tax effect of share of results of associates and jointly controlled entities	621	(2,685)
Tax effect of expenses not deductible for tax purposes	9,033	8,082
Tax effect of income not taxable for tax purposes	(7,713)	(3,734)
Effect of tax holidays granted to PRC subsidiaries	(2,384)	(3,185)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(184)	(233)
Effect of tax loss not recognised	4,463	7,595
Utilisation of tax losses previously not recognised	(2,026)	(3,999)
Underprovision of tax in prior years	1,026	394
Tax charge for the year	22,051	9,702

note: The income tax rate in the jurisdiction where the operations of the Group substantially based is used.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 8. PROFIT FOR THE YEAR

	2011	2010
	US\$'000	US\$'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments (Note 9)	1,119	1,501
Retirement benefit scheme contributions, excluding directors	11,724	8,945
Equity-settled share-based payments, excluding directors	2,233	1,477
Other staff costs	124,246	120,310
<b>Total staff costs</b>	<b>139,322</b>	<b>132,233</b>
Auditor's remuneration	526	528
Depreciation of property, plant and equipment	27,380	28,935
Release of prepaid lease payment	620	797
Amortisation of intangible assets (included in selling and distribution expenses)	5,746	4,627
Loss on disposal of property, plant and equipment	1,411	3,087
(Reversal of) impairment loss recognised on trade receivables (included in other income and gains (losses))	(460)	422
Impairment loss recognised on other receivables (included in other income and gains (losses))	2,014	-
(Reversal of) allowance for inventories, net (included in other income and gains (losses)) (note)	(4,782)	1,815
Costs of inventories recognised as an expense	1,107,456	926,790
Research and development expenditure recognised as an expense	3,631	2,828
Subsidies, rebates and other income from suppliers (included in other income and gains (losses))	(19,783)	(7,180)
Net exchange gain	(4,083)	(522)
Share of taxation of associates (included in share of results of associates)	511	502
Share of taxation of jointly controlled entities (included in share of results of jointly controlled entities)	1,413	3,210

note: Certain of the write-down of inventories previously recognised was reversed during the year as evidenced by the subsequent disposal of the relevant inventories.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

#### (a) Directors' emoluments

Details of emoluments of each of the nine (2010: eleven) individual directors are set out as follows:

	Fees US\$'000	Salaries and other allowances US\$'000	Bonus US\$'000 (note i)	Retirement benefit scheme contributions US\$'000	Equity- settled share-based payment US\$'000	Total US\$'000
<b>For the year ended September 30, 2011</b>						
<i>Executive director:</i>						
Chang Karen Yi-Fen	-	247	434	2	240	923
<i>Non-executive directors:</i>						
Tsai David, Nai Fung	-	-	-	-	-	-
Kuo, Li-Lien	58	-	-	-	-	58
Tsai Patty, Pei Chun	-	-	-	-	-	-
<i>Independent non- executive directors:</i>						
Chen Huan-Chung	32	-	-	-	-	32
Hu Sheng-Yih	32	-	-	-	-	32
Chang Li Hsien Lesile (note ii)	22	-	-	-	-	22
Cheng Ming Fun Paul (note iii)	16	-	-	-	-	16
Mak Kin Kwong (note iv)	36	-	-	-	-	36
	196	247	434	2	240	1,119

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

#### (a) Directors' emoluments (Continued)

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

notes:

- (i) Bonus is recommended by the Remuneration Committee and is approved by the board of directors, having regard to the Group's operating results, individual performance and comparable market statistics.
- (ii) Mr. Chang Li Hsien Lesile was appointed as an independent non-executive director on March 7, 2011.
- (iii) Mr. Cheng Ming Fun Paul resigned as an independent non-executive director on March 1, 2011.
- (iv) Mr. Mak Kin Kwong resigned as an independent non-executive director on August 2, 2011.
- (v) Mr. Lu Ning resigned as an executive director on January 31, 2010.
- (vi) Mr. Lee Chung Wen and Mr. Huang Chun Hua retired at the annual general meeting of the Company held on March 3, 2010.
- (vii) Mr. Tsai David, Nai-Fung resigned as non-executive director and was redesignated as executive director on June 19, 2009 until January 1, 2010 when he was redesignated as non-executive director again.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

#### (b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group for the year ended September 30, 2011, one (2010: four) is/were a director/directors of the Company whose emoluments are set out above. The emoluments of the remaining four (2010: one) individual(s) for the year are as follows:

	2011	2010
	US\$'000	US\$'000
Salaries and other allowances	802	143
Bonus	290	274
Equity-settled share-based payment	465	32
	1,557	449

Their emoluments were within the following bands:

	2011	2010
	Number of employees	Number of employees
HK\$2,000,001 to HK\$2,500,000	2	-
HK\$2,500,001 to HK\$3,000,000	1	-
HK\$3,000,001 to HK\$3,500,000	-	1
HK\$4,500,001 to HK\$5,000,000	1	-
	4	1

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 10. EARNINGS PER SHARE

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

	2011	2010
	US\$'000	US\$'000
Earnings:		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	53,670	21,287

	2011	2010
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	4,309,485,163	4,290,495,163

The computation of diluted earnings per share for both years does not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price of the shares in the respective years.



## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 11. PROPERTY, PLANT AND EQUIPMENT/PREPAID LEASE PAYMENTS

#### (a) Property, plant and equipment

	Leasehold land and buildings	Office and shopping mall buildings	Factory buildings and warehouses	Plant and machinery	Leasehold improvements	Furniture, fixture and equipment	Motor vehicles	Construction in progress	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>COST</b>									
At October 1, 2009	8,817	38,687	82,201	18,912	79,425	28,439	2,916	2,629	262,026
Additions	-	5,252	-	2,201	11,435	2,648	657	347	22,540
Disposals	-	-	-	(30)	(14,475)	(2,281)	(329)	-	(17,115)
Disposals of subsidiaries	-	(3,498)	(30,042)	-	(298)	(247)	(24)	(3,039)	(37,148)
Exchange realignment	189	844	821	428	1,185	535	61	63	4,126
At September 30, 2010	9,006	41,285	52,980	21,511	77,272	29,094	3,281	-	234,429
Additions	-	577	-	3,914	22,181	3,182	796	-	30,650
Acquired on acquisition of subsidiaries (Note 31)	-	-	-	-	3,002	392	247	-	3,641
Transfer to assets classified as held for sale (Note 26)	-	(30,289)	-	-	(695)	(4,627)	-	-	(35,611)
Disposals	-	-	-	(75)	(9,782)	(1,206)	(583)	-	(11,646)
Exchange realignment	315	1,463	1,740	-	3,196	706	115	-	7,535
At September 30, 2011	9,321	13,036	54,720	25,350	95,174	27,541	3,856	-	228,998
<b>DEPRECIATION</b>									
At October 1, 2009	492	1,303	9,016	5,510	48,490	9,956	1,308	-	76,075
Provided for the year	196	873	3,505	1,593	17,889	4,489	390	-	28,935
Eliminated on disposals	-	-	-	(3)	(11,441)	(981)	(198)	-	(12,623)
Eliminated on disposals of subsidiaries	-	(167)	(2,498)	-	(124)	(101)	(14)	-	(2,904)
Exchange realignment	17	33	69	123	692	312	20	-	1,266
At September 30, 2010	705	2,042	10,092	7,223	55,506	13,675	1,506	-	90,749
Provided for the year	261	386	2,136	2,134	17,291	4,593	579	-	27,380
Transfer to assets classified as held for sale (Note 26)	-	(1,530)	-	-	-	(269)	-	-	(1,799)
Eliminated on disposals	-	-	-	(44)	(6,607)	(949)	(309)	-	(7,909)
Exchange realignment	40	83	42	4	2,805	372	58	-	3,404
At September 30, 2011	1,006	981	12,270	9,317	68,995	17,422	1,834	-	111,825
<b>CARRYING VALUE</b>									
At September 30, 2011	8,315	12,055	42,450	16,033	26,179	10,119	2,022	-	117,173
At September 30, 2010	8,301	39,243	42,888	14,288	21,766	15,419	1,775	-	143,680

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 11. PROPERTY, PLANT AND EQUIPMENT/PREPAID LEASE PAYMENTS (Continued)

#### (a) Property, plant and equipment (Continued)

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

At the end of the reporting period, office and shopping mall buildings with an aggregate carrying amount of approximately US\$3,868,000 (2010: US\$3,881,000) were pledged to secure general banking facilities granted to the Group.

All buildings, office and shopping mall buildings and factory buildings and warehouses are erected on land with medium-term land use rights in the PRC. As at September 30, 2010, the Group had not been granted formal titles to buildings with an aggregate carrying value of approximately US\$4,820,000. Formal titles to all buildings were obtained as at September 30, 2011.

The shopping mall buildings are held mainly for leasing for the Group's retail business.

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

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 11. PROPERTY, PLANT AND EQUIPMENT/PREPAID LEASE PAYMENTS (Continued)

#### (b) Prepaid lease payments

	2011	2010
	US\$'000	US\$'000
The carrying amount of the Group's prepaid lease payments are analysed as follows:		
Non-current assets	24,321	27,080
Current assets	625	654
	24,946	27,734

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

At the end of the reporting period, prepaid lease payments with an aggregate carrying amount of approximately US\$17,012,000 (2010: US\$16,669,000) were pledged to secure general banking facilities granted to the Group.

### 12. DEPOSIT PAID FOR PROPOSED ACQUISITION OF A BUSINESS

On September 30, 2011, the Group entered into a non-legally binding letter of intent with Shanghai Pengda Sports Goods Company Limited ("Pengda"), an independent third party, pursuant to which the Group would acquire, subject to completion of due diligence, negotiations and the entering into a formal agreement, the tangible assets (including but not limited to the shop operating assets, property, plant and equipment and inventories) and intangible assets (including but not limited to non-competing agreements and customer relationships) in the sportswear retailing business in the PRC owned by Pengda and its related parties. The entire balance as at September 30, 2011 arose during the year represents a refundable deposit paid to Pengda while the Group conducts its due diligence. No such balance is recognised as at September 30, 2010.

Subsequent to the end of the reporting period, the Company entered into a non-legally binding (save for provisions relating to treatment of deposit and exclusivity which are expressed to be binding) restated and amended letter of intent with Pengda superseding the above letter of intent dated September 30, 2011 under which a further refundable deposit was paid with a view to securing continuing discussion and extension of exclusivity of due diligence.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 13. INTANGIBLE ASSETS

	Customer relationship US\$'000	Non-complete agreements US\$'000	Brandnames US\$'000	Total US\$'000
<b>COST</b>				
At October 1, 2009	4,336	38,843	31,731	74,910
Exchange realignment	93	827	677	1,597
At September 30, 2010	4,429	39,670	32,408	76,507
Acquired on acquisition of subsidiaries (Note 31)	-	4,569	37,501	42,070
Exchange realignment	200	1,996	3,154	5,350
At September 30, 2011	4,629	46,235	73,063	123,927
<b>AMORTISATION</b>				
At October 1, 2009	132	1,022	-	1,154
Provided for the year	530	4,097	-	4,627
Exchange realignment	13	101	-	114
At September 30, 2010	675	5,220	-	5,895
Provided for the year	551	5,195	-	5,746
Exchange realignment	44	360	-	404
At September 30, 2011	1,270	10,775	-	12,045
<b>CARRYING VALUE</b>				
At September 30, 2011	3,359	35,460	73,063	111,882
At September 30, 2010	3,754	34,450	32,408	70,612

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 13. INTANGIBLE ASSETS (Continued)

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

Customer relationship	8 years
Non-compete agreements	5 to 10 years

Addition of the Group's intangible assets during the year arose from the acquisition of Zhejiang Yichuan Sports Goods Chain Company Limited ("Yichuan") on October 1, 2010 and were valued as of that date by American Appraisal China Limited ("American Appraisal"), a firm of independent professional valuers, on the following basis:

Non-compete agreement	The "With and Without" method under the Income Approach
Brandnames	The Relief from Royalty method under the Income Approach

Non-compete agreements were entered into by the Group with the relevant vendors in the relevant sale and purchase agreements that govern the non-competition activities by the relevant vendors upon business combinations with periods of time applied to amortise the relevant non-compete agreements.

Brandnames, representing the registered names of chains of retail stores of sportswear products and footwear products, were registered with the relevant vendors at the time of the acquisitions and whose titles were legally transferred to the Group upon completion of the relevant transactions. The Group considers the brandnames offer recognisability, profitability, versatility and an identification with positive attributes that distinguish itself from the competitors.

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

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 14. GOODWILL

	US\$'000
<b>COST</b>	
At October 1, 2009 and September 30, 2010	27,622
Arising on acquisition of subsidiaries (Note 31)	14,604
At September 30, 2011	42,226

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

### 15. IMPAIRMENT TESTING ON GOODWILL AND BRANDNAMES WITH INDEFINITE USEFUL LIVES

For the purpose of impairment testing, brandnames of the Group as set out in Note 13 are allocated to the CGUs of Retail Business that are expected to benefit from the brandnames to generate future economic benefits. The carrying amount of brandnames at the end of the reporting period allocated to these units are as follows:

	2011 US\$'000	2010 US\$'000
Retail business – Chains of stores in Hebei Province, Henan Province, Hunan Province, Jiangxi Province, and Shanghai, the PRC	33,870	32,408
Retail business – Chains of stores in Zhejiang Province, the PRC	39,193	–
	73,063	32,408

For the purpose of impairment testing, goodwill of the Group as set out in Note 14 is allocated to the group of CGUs in the Retail Business.

During the year ended September 30, 2011, management of the Group determined that the CGUs containing goodwill or brandnames had not suffered any impairment. The basis of recoverable amounts of the above CGUs and the major underlying assumptions are summarised below:

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 15. IMPAIRMENT TESTING ON GOODWILL AND BRANDNAMES WITH INDEFINITE USEFUL LIVES (Continued)

The recoverable amounts of the CGUs have been determined based on the value in use calculation as of the end of the reporting period by Vigers Appraisal & Consulting Limited, a firm of independent professional valuers. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 14% (2010: 13%) for each of the CGUs. The cash flows beyond the five-year period are extrapolated using a steady growth rate of 3% (2010: 3%) for each of the CGUs. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumption for the value in use calculation relates to the estimation of cash inflows/outflows which included budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the recoverable amount of the CGU to fall below its carrying amount.

### 16. INTERESTS IN ASSOCIATES/LOANS TO ASSOCIATES

	2011 US\$'000	2010 US\$'000
Cost of unlisted investments in associates	5,258	5,353
Share of post-acquisition profits, net of dividends received	3,819	3,027
Share of post-acquisition reserves	1,110	729
Impairment losses (note i)	(1,800)	(1,300)
	8,387	7,809
Loans to associates (note ii)	7,536	7,659



## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

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

notes:

- (i) During the year, impairment losses of US\$500,000 (2010: US\$1,300,000) were made in respect of the Group's interests in certain associates. The recoverable amounts of the relevant associates were estimated by reference to their expected disposal proceeds from the joint venture partners of the relevant associates from their anticipated disposals after the end of the respective reporting periods.
- (ii) The loans to associates are secured by the equity interests in the relevant associates held by the other major shareholders, interest bearing at the quoted lending rate of People's Bank of China ("PBOC") and have no fixed terms of repayment. Before offering any new loans to associates, the Group will assess the associates' credit qualities and the intended usages of the loans by the associates. The recoverability of the loans is reviewed throughout the year. In the opinion of the directors, the associates are of good credit qualities based on their regular assessments of such and the absence of any default record in the past. At September 30, 2011, the loans were neither past due nor impaired. The loans are not expected to be repaid within one year and are classified as non-current.

Details of the Group's associates at September 30, 2011 and 2010 are set out in Note 42.

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

	2011	2010
	US\$'000	US\$'000
Total assets	55,875	43,853
Total liabilities	(34,003)	(24,951)
Net assets	21,872	18,902
Group's share of net assets of associates	10,187	9,109
Revenue	46,224	47,377
Profit for the year	1,789	2,220
Group's share of results of associates for the year	697	851

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

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

	2011 US\$'000	2010 US\$'000
Cost of unlisted investments in jointly controlled entities (notes i and ii)	23,344	30,780
Share of post-acquisition profits, net of dividends received	15,660	21,945
Share of post-acquisition reserves	4,546	3,989
Impairment losses (note iii)	(1,600)	(1,700)
	41,950	55,014
Loans to jointly controlled entities (note iv)	45,878	58,042
Deposit paid for acquisition of the remaining interest in a jointly controlled entity (note v)	1,219	19,223

notes:

- (i) Included in cost of investments in jointly controlled entities is goodwill of approximately US\$2,119,000 (2010: US\$2,119,000) arising from the acquisition of 50% of the issued share capital of a jointly controlled entity. The movement of goodwill is set out as follows:

	US\$'000
<b>COST</b>	
At October 1, 2009	-
Arising on acquisition of a jointly controlled entity	2,119
At September 30, 2010 and September 30, 2011	2,119

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

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

notes: (Continued)

- (ii) Pursuant to the joint venture agreements, the initial investment made by the Group for certain jointly controlled entities were subject to a price adjustment mechanism which is determined by the financial performance achieved by the jointly controlled entities during the specified profit evaluation periods, which range from 2 to 3 years, and expired between December 31, 2008 and August 31, 2010, as appropriate. If the financial performance of these jointly controlled entities during the specified profit evaluation period did not meet certain benchmarks, the other joint venture partner of that jointly controlled entity had to compensate the Group for the price adjustment either by cash or by transferring a portion of its equity interest in such jointly controlled entity to the Group. If the financial performance of these jointly controlled entities during such profit evaluation period exceeded certain benchmarks, then the Group was required to make additional cash contribution to those jointly controlled entities. The directors of the Company considered that the fair values of the estimated compensation and/or contributions in respect of the price adjustment mechanism were not material.
- (iii) During the year, impairment losses of US\$1,500,000 (2010: US\$1,700,000) were made in respect of the Group's interests in certain jointly controlled entities which the Group expected to dispose of after the end of the respective reporting periods. Impairment losses of approximately US\$1,400,000 and US\$200,000 made during the year ended September 30, 2010 and 2011 respectively were derecognised upon the disposal of the jointly controlled entity during the year. The recoverable amounts of the relevant jointly controlled entities were estimated by reference to their expected disposal proceeds from the joint venture partners of the relevant jointly controlled entities from their anticipated disposals after the end of the respective reporting periods.

During the year ended September 30, 2011, the Group disposed of a jointly controlled entity at a consideration approximated to its then carrying amount of US\$2,085,000 and no gain or loss on disposal is recognised in the consolidated income statement for the year.

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

- (iv) The loans to jointly controlled entities are secured by the equity interests in the relevant jointly controlled entities held by the other venture partners, interest bearing at the quoted lending rate of PBOC and have no fixed terms of repayment. Before offering any new loans to jointly controlled entities, the Group will assess the jointly controlled entities' credit quality and the intended usages of the loans by the jointly controlled entities. The recoverability of the loans is reviewed throughout the year. In the opinion of the directors, the jointly controlled entities are of good credit qualities based on their regular assessments of such and the absence of any default record in the past. At September 30, 2011, the loans were neither past due nor impaired. The loans are not expected to be repaid within one year and are classified as non-current.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

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

notes: (Continued)

- (v) The entire amount as at September 30, 2011 represented the deposit paid for acquisition of the remaining 55% of the issued share capital of a jointly controlled entity, Hebei Zhanxin Sports Development Company Limited ("Zhanxin") not already held by the Group by exercising the call options granted by the Relevant Partners (as defined in Note 20) of Zhanxin. The call options were recognised on the consolidated statement of financial position of the Group as derivative financial instruments, as set out in Note 20. The principal activities of Zhanxin are retailing of sportswear and sports footwear in the PRC. The acquisition was completed in December, 2011, further details of which are set out in Note 44.

The entire amount as at September 30, 2010 represented the deposit paid for acquisition of the remaining 50% of the issued share capital of a jointly controlled entity, Yichuan, not already held by the Group by exercising the call options granted by the Relevant Partners (as defined in Note 20) of Yichuan. The call options were recognised on the consolidated statement of financial position of the Group as derivative financial instruments, as set out in Note 20. The acquisition was completed in October, 2010 and was accounted for as acquisition of subsidiaries during the year, further details of which are set out in Note 31.

Details of the Group's principal jointly controlled entities at September 30, 2011 and 2010 are set out in Note 43.

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

	2011	2010
	US\$'000	US\$'000
Non current assets	8,111	10,200
Current assets	121,634	155,329
Total assets	129,745	165,529
Current liabilities	(88,314)	(110,934)
Net assets	41,431	54,595
Revenue	199,272	373,484
Expense and income tax expense	(202,454)	(363,594)
(Loss) profit for the year	(3,182)	9,890

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 18. LONG-TERM LOAN RECEIVABLES

These related to loan receivables due from certain former jointly controlled entities which carry variable interests ranging from 5.31% to 6.67% per annum. The Group has assessed the counterparties' credit quality and the recoverability of these long-term loan receivables. In the opinion of the Directors, the borrowers are of good credit qualities based on their regular assessments of such and the absence of any default record in the past.

	2011	2010
	US\$'000	US\$'000
The loan receivables are expected to be repayable as follows:		
Within one year	3,150	19,386
More than one year, but not exceeding two years	7,506	9,156
More than two years, but not exceeding three years	805	8,486
	11,461	37,028
Less: amount due within one year shown under current assets (Note 24)	(3,150)	(19,386)
Amount due after one year	8,311	17,642
Analysed as:		
Secured	9,046	32,899
Unsecured	2,415	4,129
	11,461	37,028

The collaterals for the secured portion of these loans are certain property, plant and equipment of the relevant entities. The Group is not permitted to sell or repledge the collaterals in the absence of default by the borrowers.

The recoverability of the loans is reviewed and monitored by the Group closely throughout the year. No significant balance was past due at the end of the reporting period for which the Group has not provided for impairment loss. No provision for impairment loss for the balance not yet past due at the end of the reporting period was considered necessary since there has been no past default history in respect of those receivables. The Directors of the Company considered that the net balance of the receivables at the end of the reporting period is recoverable.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 19. AVAILABLE-FOR-SALE INVESTMENTS

	2011 US\$'000	2010 US\$'000
Available-for-sale investments comprise		
unlisted equity securities:		
Private entity (note i)	-	100
Unlisted funds (note ii)	-	8,227
	-	8,327
Analysed for reporting purposes as:		
Non-current assets	-	100
Current assets	-	8,227
	-	8,327

notes:

(i) Private entity

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

During each of the two years ended September 30, 2011, the entity experienced significant financial difficulties and impairment losses of US\$100,000 (2010: US\$900,000) were recognised in profit or loss.

(ii) Unlisted funds

Amount as at September 30, 2010 represented units in investment funds managed by financial institutions. The underlying assets of the funds comprise unlisted bonds issued in the PRC by government, central bank, banks and corporate entities. The funds matured during the year and the proceeds of the investment were refunded to the Group.

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 20. DERIVATIVE FINANCIAL INSTRUMENTS

	2011	2010
	US\$'000	US\$'000
Derivative financial assets, analysed for reporting purposes as non-current assets comprise:		
Call options for acquisition of additional interests in subsidiaries, associates and jointly controlled entities	22,363	46,024

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

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

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

The value of each of the Call Options at September 30, 2011 was valued by Savills Valuation and Professional Services Limited, an independent valuer, using the binomial model. The key inputs into the model include estimated earnings of the Relevant Companies and expected price earning ratio of the Company at the time of exercise of the options and further details are set out below.



## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 20. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

	2011	2010
Derivative financial assets - Call Options:		
Expected price earning ratio - the Company	12	24
Expected volatility - the Company	37%	53%
Expected volatility - the Relevant Companies	24%	34%
Risk free rate	3.74%	2.36%
Exercisable period	2.18 years	3.18 years
Expected dividend yield	Nil	Nil

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

During the year ended September 30, 2010, the Group exercised the call options granted by the Relevant Partners of Yichuan for their Relevant Equity Interests thereof. As at the completion date of the transaction, the carrying amount of the relevant call options of approximately US\$8,060,000 were derecognised and included as cost of investment in Yichuan. As set out in Note 31, the transaction was completed in October 2010 and the relevant Call Options was derecognised thereafter.

During the year ended September 30, 2011, the Group exercised the call options granted by the Relevant Partners of Zhanxin for their Relevant Equity Interests thereof. The carrying amount of the relevant call options as at September 30, 2011 was US\$1,171,000. As at the completion date of the transaction, the carrying amount of the relevant call options were derecognised and included as cost of investment in Zhanxin. As set out in Note 44, the transaction was completed in December 2011 and the relevant Call Options was derecognised thereafter.

### 21. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The pledged bank deposits are placed with a bank for certain banking facilities granted to a former subsidiary of the Group. The pledged bank deposits will be released upon the settlement or termination of the relevant banking facilities.

The bank balances are interest-bearing at market interest rates. All deposits have an original maturity of three months or less.

During the year, the bank deposits carried variable interest rates ranging from 0.01% to 3.30% (2010: 0.01% to 2.35%) per annum.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 21. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH (Continued)

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

	2011	2010
	US\$'000	US\$'000
USD	14,342	19,010
Hong Kong dollars ("HKD")	3,740	3,821
	18,082	22,831

### 22. DEFERRED TAXATION

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

	Tax losses	Undistributed earnings of PRC entities	Fair value adjustments of intangible assets on business combination	Total
	US\$'000	US\$'000	US\$'000	US\$'000
At October 1, 2009	(1,215)	4,458	18,422	21,665
Credit to the consolidated income statement (Note 7)	(1,078)	-	(1,185)	(2,263)
At September 30, 2010	(2,293)	4,458	17,237	19,402
Acquired on acquisition of subsidiaries (Note 31)	-	-	10,517	10,517
Charge (credit) to the consolidated income statement (Note 7)	315	(272)	(1,537)	(1,494)
At September 30, 2011	(1,978)	4,186	26,217	28,425

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 22. DEFERRED TAXATION (Continued)

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

	2011	2010
	US\$'000	US\$'000
Deferred tax assets	(1,978)	(2,293)
Deferred tax liabilities	30,403	21,695
	28,425	19,402

At the end of the reporting period, the Group had unused tax losses of US\$48.8 million (2010: US\$45.8 million) available for offset against future profits. A deferred tax asset has been recognised in respect of US\$7.9 million (2010: US\$9.2 million) of such losses. No deferred tax asset has been recognised in respect of the remaining unused tax loss of US\$40.9 million (2010: US\$36.6 million) due to the unpredictability of future profit streams.

The unused tax losses will expire as follows:

	2011	2010
	US\$'000	US\$'000
2012	6,357	7,435
2013	4,613	9,845
2014	19,752	28,524
2015	18,123	-
	48,845	45,804

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of PRC subsidiaries amounting US\$291.3 million (2010: US\$202.4 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Included in these accumulated profits of PRC subsidiaries are profits arising from PRC associates and jointly controlled entities that have been equity accounted for in the Group's consolidated financial statements amounting to US\$48.6 million (2010: US\$43.6 million). The Group is able to control the timing of the reversal of such temporary differences as these investments are made through PRC subsidiaries and it is probable that the temporary differences will not reverse in the foreseeable future.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 23. INVENTORIES

	2011	2010
	US\$'000	US\$'000
Raw materials	6,588	4,641
Work in progress	6,489	4,947
Finished goods	387,729	252,461
	400,806	262,049

### 24. TRADE AND OTHER RECEIVABLES

	2011	2010
	US\$'000	US\$'000
Trade receivables	170,720	122,780
Deposits, prepayments and other receivables	109,997	117,427
	280,717	240,207

	2011	2010
	US\$'000	US\$'000
Deposits, prepayments and other receivables represent:		
Rental deposits and prepaid rentals	30,467	15,958
Prepayments paid to suppliers	19,401	6,686
Value-added tax recoverable	16,291	6,413
Receivables of subsidies and rebates from suppliers	7,543	8,674
Consideration receivable for disposal of subsidiaries (Note 32)	7,397	25,027
Long-term loan receivables - due within one year (Note 18)	3,150	19,386
Consideration receivable for disposal of a jointly controlled entity (note)	-	6,404
Other prepaid expenses	4,334	4,554
Other deposits, prepayments and receivables	21,414	24,325
	109,997	117,427

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 24. TRADE AND OTHER RECEIVABLES (Continued)

note: Amount as at September 30, 2010 represented the consideration receivable from the buyer of the interests in a jointly controlled entity being disposed of by the Group during the year ended September 30, 2010. The directors assessed the credit quality of the buyer and continuously assessed the recoverability of such amount. The directors considered the buyer is of good credit quality based on their regular assessments of such and the absence of any default record in the past. The full amount was settled by the buyer during the year.

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

	2011	2010
	US\$'000	US\$'000
0 - 30 days	165,904	118,858
31 - 90 days	2,869	2,902
Over 90 days	1,947	1,020
	170,720	122,780

Included in trade receivables are trade balances with related companies of approximately US\$17,330,000 (2010: US\$12,473,000), details of the relevant transactions are set out in Note 38.

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of US\$3,724,000 (2010: US\$1,877,000) which were past due as at the reporting date and for which the Group has not provided for impairment loss because management is of the opinion the fundamental credit quality of these customers has not deteriorated. The Group does not hold any collateral over these balances.

The average age of these receivables is approximately 105 days for both years.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 24. TRADE AND OTHER RECEIVABLES (Continued)

Aging of trade receivables which are past due but not impaired

	2011	2010
	US\$'000	US\$'000
61 – 90 days	1,777	857
Over 90 days	1,947	1,020
	3,724	1,877

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

Movement in the allowance for doubtful debt

	2011	2010
	US\$'000	US\$'000
Balance at beginning of the year	771	349
(Reversal of) impairment losses recognised on trade receivables	(460)	422
Balance at the end of the year	311	771

### 25. AMOUNTS DUE FROM (TO) RELATED PARTIES

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

	2011	2010	Maximum amount outstanding for year ended September 30,	
			2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
Jointly controlled entities	3,693	14,307	14,307	14,307
Non-controlling interests of subsidiaries	-	-	-	732
	3,693	14,307		

The amounts are unsecured, interest-free and expected to be recovered within one year. The directors consider the related parties are of good credit qualities because none of them were past due and the counter-parties have no default payment history.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 25. AMOUNTS DUE FROM (TO) RELATED PARTIES (Continued)

(b) Particulars of the amounts due to related parties:

	2011	2010
	US\$'000	US\$'000
Non-controlling interests of subsidiaries	65	1,024

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

### 26. ASSETS CLASSIFIED AS HELD FOR SALE

	2011
	US\$'000
Amount comprises:	
Property, plant and equipment	33,812
Prepaid lease payments	3,356
	37,168

On November 10, 2010 and March 28, 2011, the Group entered into a sale and purchase agreement and a supplementary sale and purchase agreement, respectively, with a third party, pursuant to which the Group agreed to dispose of, and the third party agreed to acquire, a shopping mall building and the associated land use rights from the Group at an aggregate consideration of RMB285,000,000 (equivalent to US\$44,556,000).

As of September 30, 2011, the Group received from the buyer an amount of RMB194,000,000 (equivalent to US\$30,329,000) as a deposit for the acquisition, which is accounted for as a deposit received for sale of properties (included in trade and other payables) in the consolidated statement of financial position. The transaction is expected to be completed in early 2012. These assets are therefore classified as held for sale at the end of the reporting period.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 27. TRADE AND OTHER PAYABLES

	2011	2010
	US\$'000	US\$'000
Trade payables	147,266	89,987
Bills payables	614	483
Other payables	131,632	68,490
	279,512	158,960

	2011	2010
	US\$'000	US\$'000
Other payables represent:		
Accruals	37,058	28,234
Receipt in advance from customers	32,283	16,849
Deposits received for sale of properties (Note 26)	30,329	-
Consideration payable for acquisition of subsidiaries	3,280	-
Consideration payable for additional interests in subsidiaries (note)	2,698	-
Royalty payables	1,769	1,435
Others	24,215	21,972
	131,632	68,490

note: Amount as at September 30, 2011 represents the consideration payable to the vendors for the acquisition of additional interests in certain non-wholly owned subsidiaries not yet owned by the Group during the year. The aggregate consideration for the acquisition is US\$7,123,000, of which the excess of US\$5,961,000 of the consideration paid over the carrying amount of the non-controlling interests is recognised directly in other reserve in the consolidated statement of changes in equity.

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

	2011	2010
	US\$'000	US\$'000
0 - 30 days	145,627	88,474
31 - 90 days	1,231	1,138
Over 90 days	1,022	858
	147,880	90,470



## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 27. TRADE AND OTHER PAYABLES (Continued)

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

Included in trade payables are trade balances with related companies of approximately US\$1,840,000 (2010: US\$78,000). Details of the relevant transactions are set out in Note 38.

### 28. BANK BORROWINGS

	2011	2010
	US\$'000	US\$'000
The bank borrowings are repayable:		
Within one year	168,187	184,353
More than one year, but not exceeding two years	-	33,611
	168,187	217,964
Less: amount included in current liabilities	(168,187)	(184,353)
Amount due after one year	-	33,611
Analysed as:		
Secured	14,227	17,502
Unsecured	153,960	200,462
	168,187	217,964

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

	2011	2010
	US\$'000	US\$'000
Fixed rate borrowings	1,251	3,590
Variable rate borrowings	166,936	214,374
	168,187	217,964

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

The Group's variable rate borrowings carry interest at a margin over Hong Kong Interbank Offer Rate ("HIBOR"), London Interbank Offer Rate ("LIBOR") or prevailing rate quoted by the PBOC, as appropriate. Interest is repriced every one to six months.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 28. BANK BORROWINGS (Continued)

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

	2011	2010
Effective interest rate:		
Fixed rate borrowings	6.08%	6.08%
Variable rate borrowings	1.02% – 7.63%	1.02% – 5.67%

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

	2011	2010
	US\$'000	US\$'000
USD	53,998	56,000

### 29. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At October 1, 2009, September 30, 2010 and 2011	30,000,000,000	300,000
Issued and fully paid:		
At October 1, 2009 and September 30, 2010	4,290,495,163	42,905
Issue of shares upon acquisition of subsidiaries (note)	6,330,000	63
At September 30, 2011	4,296,825,163	42,968

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 29. SHARE CAPITAL (Continued)

	2011 US\$'000	2010 US\$'000
Shown in the consolidated financial statements	5,513	5,504

note: In October 2010, the Group completed the acquisition of the remaining 50% interest in Yichuan not already owned by the Group by the issue of a maximum of 33,990,000 ordinary shares of HK\$0.01 each as part of the consideration, of which 6,330,000 ordinary shares were issued during the year. Details of the acquisition are set out in Note 31.

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

	2011 US\$'000	2010 US\$'000
<b>ASSETS AND LIABILITIES</b>		
Property, plant and equipment	123	70
Investments in subsidiaries	169,569	167,426
Other receivables	482	894
Amounts due from subsidiaries	454,706	462,825
Bank balances and cash	6,932	10,979
<b>Total assets</b>	<b>631,812</b>	<b>642,194</b>
Other payables	1,319	1,416
Bank borrowings	39,498	49,500
<b>Total liabilities</b>	<b>40,817</b>	<b>50,916</b>
	590,995	591,278
<b>CAPITAL AND RESERVES</b>		
Share capital	5,513	5,504
Reserves (note i)	585,482	585,774
	590,995	591,278

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

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

notes:

(i) Reserves

	Share premium	Contributed surplus	Share-based compensation reserve	Accumulated losses	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
		(note ii)			
At October 1, 2009	440,432	166,010	-	(19,178)	587,264
Loss and total comprehensive expense for the year	-	-	-	(3,068)	(3,068)
Recognition of equity-settled share-based payment	-	-	1,578	-	1,578
At September 30, 2010	440,432	166,010	1,578	(22,246)	585,774
Loss and total comprehensive expense for the year	-	-	-	(3,654)	(3,654)
Issue of shares for acquisition of subsidiaries	889	-	-	-	889
Recognition of equity-settled share-based payment	-	-	2,473	-	2,473
At September 30, 2011	441,321	166,010	4,051	(25,900)	585,482

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 31. ACQUISITION OF SUBSIDIARIES

#### For the year ended September 30, 2011

Yichuan is a limited liability company established in the PRC and is principally engaged in the sportswear retailing business. In order to strengthen the Group's market position and geographical coverage in the PRC, the Group exercised a Call Option to acquire the remaining 50% equity interest in Yichuan not already held by the Group. The transaction was completed on October 1, 2010 and control over Yichuan passed to the Group on the same date. This acquisition has been accounted for using the acquisition method and resulted in the recognition of goodwill of US\$14,604,000, calculated as follows:

	US\$'000
Goodwill arising on acquisition:	
Consideration transferred (note i)	64,470
Less: net assets acquired (note ii)	(49,866)
	14,604

Goodwill arose in the acquisition of Yichuan because the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Yichuan. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 31. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended September 30, 2011 (Continued)

notes:

- (i) Consideration transferred

	US\$'000
The consideration for the acquisition comprises the following:	
Cash consideration (note a)	25,501
Consideration shares (note b)	2,693
Contingently issuable shares (note c)	1,092
Related call option (Note 20)	8,060
Fair value of previously held interest in Yichuan (note d)	27,124
<b>Total consideration</b>	<b>64,470</b>

notes:

- (a) A total cash consideration of US\$25,501,000, of which (i) US\$19,223,000 was paid as deposit as at September 30, 2010 as set out in Note 17, (ii) US\$3,139,000 was paid during the year and (iii) US\$3,139,000 is payable before September 30, 2012. The net present value of the total cash consideration approximates to the amount of cash paid and payable for the acquisition.
- (b) The issue and allotment of 6,330,000 shares of HK\$0.01 each in the Company each year for 3 years (in aggregate 18,990,000 shares of HK\$0.01 each in the Company). Such issue and allotment of shares are to be completed on or before September 30, 2011, September 30, 2012 and September 30, 2013, respectively. The fair value of these consideration shares has been determined by American Appraisal using the closing share price of the Company as at September 30, 2010.
- During the year, 6,330,000 shares of the Company have been issued to the vendors of Yichuan.
- (c) For each of the three fiscal years ending September 30, 2013, if the audited annual after-tax profits of Yichuan for each of the three years are not less than RMB54,710,000 (equivalent to approximately US\$8,400,000), the Company will be required to issue an additional 5,000,000 shares of HK\$0.01 each in the Company to the vendors in each of the years if the pre-determined level of after-tax profit is reached in that year. The fair value of these contingently issuable shares has been determined by American Appraisal, using the closing share price of the Company as at September 30, 2010 and with reference to management's best estimate of the likelihood that the profit target will be met.

The pre-determined profit level of Yichuan for the year ended September 30, 2011 was not reached, and no contingently issuable shares have been issued.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 31. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended September 30, 2011 (Continued)

notes: (continued)

- (i) Consideration transferred (continued)

notes: (continued)

- (d) The fair value of the 50% equity interest in Yichuan previously held by the Group has been re-measured as of the date of acquisition at US\$27,124,000 by American Appraisal resulting in a gain of US\$18,767,000. The fair value is determined using the discounted cash flow approach and the guideline companies method approach. The significant inputs into the model include earning to price multiples of comparable companies (in terms of products, market, competition, growth rate and capital structure), premium on control and market liquidity.

- (e) The acquisition-related costs of the above transaction amounting to US\$51,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year (included in administrative expenses) in the consolidated income statement.

- (ii) Assets acquired and liabilities recognised

	US\$'000
Assets acquired and liabilities recognised at the date of acquisition are as follows:	
Property, plant and equipment	3,641
Deposit paid for acquisition of property, plant and equipment	480
Intangible assets	42,070
Inventories	38,335
Trade and other receivables (note)	23,477
Bank balances and cash	1,531
Trade and other payables	(31,535)
Taxation payable	(638)
Bank borrowings	(16,978)
Deferred tax liabilities	(10,517)
	49,866

note: The fair value of trade and other receivables at the date of acquisition amounted to US\$23,477,000, which is the same as the gross contractual amounts of these trade and other receivables acquired. None of the contractual cash flows of the above amount is estimated to be uncollectible.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 31. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended September 30, 2011 (Continued)

notes: (continued)

(iii) Net cash outflow arising on acquisition

	US\$'000
Cash consideration paid	(3,139)
Less: bank balances and cash acquired	1,531
	(1,608)

The revenue and profit of Yichuan for the current year is US\$156,871,000 and US\$2,697,000, respectively. As the acquisition of Yichuan was completed on October 1, 2010, such revenue and profit have been consolidated in full in the consolidated income statement.



## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 32. DISPOSAL OF SUBSIDIARIES

#### For the year ended September 30, 2010

During the year ended September 30, 2010, the Group disposed of (i) the entire interest in Hubei Shengdao Sports Goods Company Limited and its subsidiaries to an independent third party; and (ii) the entire interest in Hong Kong Dragonlight Limited and its subsidiary to another independent third party.

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

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 32. DISPOSAL OF SUBSIDIARIES (Continued)

#### For the year ended September 30, 2010 (Continued)

Consideration receivables are unsecured, interest-free and will be recovered within one year. The directors of the Company have assessed the buyer's credit quality. The directors have continuously assessed the recoverability of consideration receivables. In the opinion of the directors, the buyer is of good credit quality based on their regular assessments of such and the absence of any default record in the past.

The subsidiaries disposed of during the year ended September 30, 2010 did not contribute significantly to the results and cash flows of the Group during the period prior to the disposal.

### 33. OPERATING LEASES

#### The Group as lessee

The Group made the following lease payments during the year:

	2011	2010
	US\$'000	US\$'000
Operating lease rentals in respect of:		
Minimum lease payments:		
– street level stores	26,952	22,696
– shopping mall stores	16,835	22,379
– other properties	9,558	7,295
	53,345	52,370
Contingent rentals:		
– street level stores	657	636
– shopping mall stores	130,151	97,362
– other properties	–	3,650
	130,808	101,648
	184,153	154,018

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 33. OPERATING LEASES (Continued)

#### The Group as lessee (Continued)

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

	2011	2010
	US\$'000	US\$'000
Within one year	43,033	36,204
In the second to fifth year inclusive	67,994	53,912
Over five years	23,095	14,542
	134,122	104,658

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

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

#### The Group as lessor

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

	2011	2010
	US\$'000	US\$'000
Within one year	2,288	2,191
In the second to fifth year inclusive	6,439	7,848
Over five years	8,379	6,524
	17,106	16,563

In addition to the basic rental receipts as disclosed above, the lease agreements with the tenants also include provision for the payment of contingent rents to the Group. In general, these contingent rents are calculated with reference to the revenue generated by the tenants operating in the Group's retailing complex using pre-determined formulae. It is not possible to estimate in advance the amount of such contingent rents receivable. Rental income received by the Group during the year amounted to US\$9,654,000 (2010: US\$9,337,000), included in which was contingent rental income arising from contingent lease contracts of US\$7,463,000 (2010: US\$8,130,000).

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 34. CAPITAL COMMITMENTS

	2011	2010
	US\$'000	US\$'000
Capital expenditures contracted for but not provided in the consolidated financial statements in respect of acquisition of the remaining interests in a jointly controlled entity	10,975	8,969
Other commitments contracted for but not provided in the consolidated financial statements in respect of capital investment in jointly controlled entities	1,626	1,556
	12,601	10,525

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

### 35. CONTINGENT LIABILITIES

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

	2011	2010
	US\$'000	US\$'000
Guarantee given to banks in respect of banking facilities granted to:		
(i) jointly controlled entities		
- amount guaranteed	11,647	20,494
- amount utilised	9,899	17,444
(ii) a former subsidiary		
- amount guaranteed	12,507	-
- amount utilised	12,507	-

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 36. SHARE-BASED PAYMENT TRANSACTIONS

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

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

Options are exercisable over the vesting periods to be determined by the Board of Directors, but in no case after the 10th anniversary of the date of grant. The exercise price is determined by the Board of Directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 36. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following tables disclose movements in the Company's share options under the Scheme during the two years ended September 30, 2011:

Date of grant	Exercise price	Exercisable period	Number of options outstanding at October 1, 2009	Granted during the year	Lapsed/ cancelled during the year	Number of options outstanding at October 1, 2010	Granted during the year	Lapsed/ cancelled during the year	Number of options outstanding at September 30, 2011
HK\$									
<b>Director</b>									
Chang Karen Yi-Fen									
21.1.2010	1.62	21.1.2011 - 20.1.2018	-	570,000	-	570,000	-	-	570,000
21.1.2010	1.62	21.1.2012 - 20.1.2018	-	570,000	-	570,000	-	-	570,000
21.1.2010	1.62	21.1.2013 - 20.1.2018	-	1,140,000	-	1,140,000	-	-	1,140,000
21.1.2010	1.62	21.1.2014 - 20.1.2018	-	1,520,000	-	1,520,000	-	-	1,520,000
20.1.2011	1.23	20.1.2012 - 19.1.2019	-	-	-	-	1,250,000	-	1,250,000
20.1.2011	1.23	20.1.2013 - 19.1.2019	-	-	-	-	1,250,000	-	1,250,000
20.1.2011	1.23	20.1.2014 - 19.1.2019	-	-	-	-	1,250,000	-	1,250,000
20.1.2011	1.23	20.1.2015 - 19.1.2019	-	-	-	-	1,250,000	-	1,250,000
			-	3,800,000	-	3,800,000	5,000,000	-	8,800,000
<b>Employees/Consultants</b>									
21.1.2010	1.62	21.1.2011 - 20.1.2018	-	9,105,000	(748,500)	8,356,500	-	(1,821,750)	6,534,750
21.1.2010	1.62	21.1.2012 - 20.1.2018	-	9,105,000	(748,500)	8,356,500	-	(1,821,750)	6,534,750
21.1.2010	1.62	21.1.2013 - 20.1.2018	-	18,210,000	(1,497,000)	16,713,000	-	(3,643,500)	13,069,500
21.1.2010	1.62	21.1.2014 - 20.1.2018	-	24,280,000	(1,996,000)	22,284,000	-	(4,858,000)	17,426,000
20.1.2011	1.23	20.1.2012 - 19.1.2019	-	-	-	-	12,500,000	-	12,500,000
20.1.2011	1.23	20.1.2013 - 19.1.2019	-	-	-	-	12,500,000	-	12,500,000
20.1.2011	1.23	20.1.2014 - 19.1.2019	-	-	-	-	12,500,000	-	12,500,000
20.1.2011	1.23	20.1.2015 - 19.1.2019	-	-	-	-	12,500,000	-	12,500,000
			-	60,700,000	(4,990,000)	55,710,000	50,000,000	(12,145,000)	93,565,000
Grand total			-	64,500,000	(4,990,000)	59,510,000	55,000,000	(12,145,000)	102,365,000
Exercisable as at September 30, 2010 and 2011						-			7,104,750

At September 30, 2011, the number of shares in respect of which options had been granted and remained outstanding under the Scheme represented 2.4% (2010: 1.4%) of the issued share capital at that date.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 36. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

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

Certain share options were granted during the year ended September 30, 2011. The fair values of the options determined at the date of grant using the Model was HK\$30,938,000 (equivalent to US\$3,982,000). The inputs into the Model and the estimated fair value of the share options are as follows:

	Share options with a vesting period of one year	Share options with a vesting period of two years	Share options with a vesting period of three years	Share options with a vesting period of four years
Exercise price	HK\$1.23	HK\$1.23	HK\$1.23	HK\$1.23
Share price at date of grant	HK\$1.23	HK\$1.23	HK\$1.23	HK\$1.23
Expected life of share options	4.5 years	5.0 years	5.5 years	6.0 years
Expected volatility	50% per annum	50% per annum	50% per annum	50% per annum
Expected dividend yield	0%	0%	0%	0%
Risk free rates	1.55% per annum	1.71% per annum	1.80% per annum	1.97% per annum
Fair value per share option	HK\$0.52	HK\$0.55	HK\$0.58	HK\$0.60

The closing price of the Company's shares immediately before the grant of the share options was HK\$1.28 per share.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 36. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

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

The Group recognised a total expense of US\$2,473,000 for the year ended September 30, 2011 (2010: US\$1,578,000) in relation to share options granted by the Company under the Scheme.

### 37. RETIREMENT BENEFIT PLANS

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

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

The total cost of US\$11,726,000 (2010: US\$8,949,000) charged to consolidated income statement represents contribution paid or payable to the above retirement benefit plans by the Group for the year.

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



## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 38. RELATED PARTY DISCLOSURES

#### (i) Transactions and trade balances

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

Relationship	Nature of transactions/balances	2011	2010
		US\$'000	US\$'000
Substantial shareholder of Yue Yuen (note a)	Purchase of sportswear products by the Group	125	256
<i>Associates and jointly controlled entities of the Group</i>			
Associates	Sales of sportswear products by the Group	4,860	2,886
	Purchase of sportswear products by the Group	1,840	-
	Interest income by the Group	470	379
	Management fee received by the Group	104	214
	Trade receivables of the Group at September 30,	6,637	4,902
	Trade payables of the Group at September 30,	1,840	-
Jointly controlled entities (note b)	Sales of sportswear products by the Group	36,362	25,700
	Purchase of sportswear products by the Group	-	215
	Interest income by the Group	1,345	1,116
	Management fee received by the Group	228	192
	Trade receivables of the Group at September 30,	10,693	7,571
	Trade payables of the Group at September 30,	-	78
<i>Other related parties</i>			
Joint venture partners of jointly controlled entities of the Group	Consideration paid and payable by the Group for acquisition of Yichuan (Note 31)	37,346	-
	Considerations received and receivable by the Group for disposals of jointly controlled entities	-	17,489

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 38. RELATED PARTY DISCLOSURES (Continued)

#### (i) Transactions and trade balances (Continued)

notes:

(a) The entity held as to 49.98% of the equity interest in Yue Yuen at the end of the reporting period.

(b) The amounts include transactions with Yichuan up to September 30, 2010.

#### (ii) Non-trade balances

Details of the Group's non-trade balances with related parties are set out on the consolidated statement of financial position and in Notes 16, 17 and 25.

#### (iii) Guarantees

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

	2011	2010
	US\$'000	US\$'000
Non-controlling interests of subsidiaries on a joint and several basis	4,252	3,775

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

In addition, the Company is a party to certain bank facilities that include conditions specifying the minimum equity interest of the Company to be held, directly or indirectly, by Yue Yuen and any breach of such obligation will cause a default in respect of the loans. At September 30, 2011, the aggregate balance of the bank borrowings under such facilities was approximately US\$19,998,000 (2010: US\$30,000,000).

#### (iv) Compensation of key management personnel

	2011	2010
	US\$'000	US\$'000
Short term benefits	2,626	2,633
Post employment benefits	2	6
Equity-settled share-based payments	906	375
	3,534	3,014

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 39. CAPITAL RISK MANAGEMENT

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

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

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

### 40. FINANCIAL INSTRUMENTS

#### (a) Categories of financial instruments

	2011 US\$'000	2010 US\$'000
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	433,672	465,403
Derivative financial instruments	22,363	46,024
Available-for-sale investments	-	8,327
<b>Financial liabilities</b>		
Amortised cost	343,992	325,412

#### (b) Financial risk management objectives

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 40. FINANCIAL INSTRUMENTS (Continued)

#### (b) Financial risk management objectives (Continued)

##### *Market risk*

##### (i) *Interest rate risk*

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances (Note 21), loans to associates (Note 16) and jointly controlled entities (Note 17), loan receivables (Note 18) and bank borrowings (Note 28). Management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

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

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

##### Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates of variable rate bank balances and borrowings. The analysis is prepared assuming all of the above amounts outstanding at the end of the reporting period were outstanding for the whole year. A 10 basis point increase or decrease for bank balances in the PRC and 50 basis points for loans to associates and jointly controlled entities, loan receivables and borrowings are used and represent management's assessment of the reasonably possible change in interest rates for each of the two years ended September 30, 2011.

If interest rates on interest bearing bank balances, loans to associates and jointly controlled entities, loan receivables and bank borrowings had been 10 or 50 basis points higher/lower, as appropriate, and all other variables were held constant, the Group's profit for the year would decrease/increase by approximately US\$261,000 (2010: US\$294,000).

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 40. FINANCIAL INSTRUMENTS (Continued)

#### (b) Financial risk management objectives (Continued)

##### *Market risk (Continued)*

##### (ii) *Foreign exchange risk*

Certain subsidiaries of the Company have foreign currency bank balances and bank borrowings as detailed in Notes 21 and 28, respectively, which expose the Group to foreign exchange risk, whilst over 96% (2010: over 90%) of the Group's sales and purchases are denominated in the respective group entities' functional currency.

##### Sensitivity analysis

The following is the Group's sensitivity to a 5% increase and decrease in RMB against USD. 5% is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis mainly includes the Group's USD bank balances and bank borrowings. Where RMB strengthens against USD by 5%, the Group's profit for the year would increase by US\$1,487,000 (2010: US\$1,387,000), while a 5% weakening of RMB against USD, there would be an equal and opposite impact on the profit and balances would be negative.

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

##### (iii) *Other price risk*

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

##### Sensitivity analysis

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

If the following inputs to the valuation model had been 10% higher/lower while all variables were held constant, the profit for each of the two years ended September 30, 2011 would have increased (decreased) as follows:

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 40. FINANCIAL INSTRUMENTS (Continued)

#### (b) Financial risk management objectives (Continued)

##### Market risk (Continued)

##### (iii) Other price risk (Continued)

Sensitivity analysis (Continued)

	2011		2010	
	Higher by 10% US\$'000	Lower by 10% US\$'000	Higher by 10% US\$'000	Lower by 10% US\$'000
Growth rate	371	(325)	689	(615)
Expected price earnings ratio - the Company	(240)	321	(978)	1,147

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

##### Credit risk

As at September 30, 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position; and
- the amount of contingent liabilities in relation to financial guarantees issued by the Group as disclosed in Note 35.

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 40. FINANCIAL INSTRUMENTS (Continued)

#### (b) Financial risk management objectives (Continued)

##### *Credit risk (Continued)*

In addition to the credit risk on trade debts, the Group is also exposed to concentration of credit risk on its advances to, and guarantees granted to banks on behalf of, two associates and eight jointly controlled entities, which account for over 12% (2010: 14%) of its loans and receivables. Such sums are secured by the equity interests of the other joint venture partners in these entities as collateral for the advances. In addition, because of the Group's involvement in the management of these entities, the Group is in a position to monitor their financial performance and would take timely actions to safeguard its assets and/or to minimise its losses. Accordingly, management believes that the Group's exposure to the credit risk associated with these loans is significantly reduced.

The Group's concentration of credit risk by geographical locations is mainly in PRC, which covered over 97% (2010: over 90%) of its total receivables as at September 30, 2011.

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

##### *Liquidity risk*

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

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

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 40. FINANCIAL INSTRUMENTS (Continued)

#### (b) Financial risk management objectives (Continued)

##### Liquidity risk (Continued)

	Weighted average interest rate	0 to 30 days	31 to 90 days	91 to 365 days	Over 1 year	Total undiscounted cash flows	Carrying amount
	%	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>As at September 30, 2011</b>							
Non-interest bearing	-	173,552	1,231	1,022	-	175,805	175,805
Fixed interest rate instruments	6.08%	1,251	-	-	-	1,251	1,251
Variable interest rate instruments	4.33%	84,707	40,610	43,400	-	168,717	166,936
		259,510	41,841	44,422	-	345,773	343,992
Financial guarantee contracts	-	24,154	-	-	-	24,154	-

	Weighted average interest rate	0 to 30 days	31 to 90 days	91 to 365 days	Over 1 year	Total undiscounted cash flows	Carrying amount
	%	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>As at September 30, 2010</b>							
Non-interest bearing	-	105,451	1,138	859	-	107,448	107,448
Fixed interest rate instruments	6.08%	3,590	-	-	-	3,590	3,590
Variable interest rate instruments	3.35%	142,540	-	39,179	34,737	216,456	214,374
		251,581	1,138	40,038	34,737	327,494	325,412
Financial guarantee contracts	-	20,494	-	-	-	20,494	-

The amounts included above for available interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

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



## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 40. FINANCIAL INSTRUMENTS (Continued)

#### (c) Fair value of financial instruments

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

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

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

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

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

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

Financial instruments that are measured subsequently to initial recognition at fair value, being the Group's derivative financial instruments, amounted to US\$22,363,000 (2010: US\$46,024,000), as set out in Note 20, is based on Level 3 measurements.

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 40. FINANCIAL INSTRUMENTS (Continued)

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

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

	Derivative financial instruments US\$'000
At October 1, 2009	55,321
Fair values changes, recognised in profit or loss	(6,393)
Derecognised upon disposals of certain jointly-controlled entities	(2,904)
At September 30, 2010	46,024
Fair values changes, recognised in profit or loss	(15,601)
Derecognised upon exercise of call options	(8,060)
At September 30, 2011	22,363

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 41. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries as at September 30, 2011 and 2010:

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i)		Principal activities
			2011	2010	
YY Sports Holdings Limited ("YY Sports") (note i)	BVI	US\$1	100%	100%	Investment holding
A - Grade Holdings Limited	BVI	US\$9,000	100%	100%	Investment holding
Baosheng Daoji (Beijing) Trading Company Limited 寶盛道吉(北京)貿易有限公司 (note ii)	PRC	US\$20,000,000	100%	100%	Retailing of sportswear
Baoxin (Chengdu) Trading Company Limited 寶信(成都)商貿有限公司 (note ii)	PRC	US\$5,000,000	100%	100%	Retailing of sportswear
Pou Yu (Chengdu) Trading Co., Ltd. 寶渝(成都)商貿有限公司 (note ii)	PRC	US\$7,400,000	100%	100%	Retailing of sportswear
Brightup Group Limited	HK	HK\$1	100%	100%	Investment holding
Charming Technology Limited	BVI	US\$200	100%	100%	Investment holding
Dailan Baoshun Sports Goods Company Limited 大連寶順體育用品有限公司 (note iv)	PRC	RMB2,000,000	100%	100%	Retailing of sportswear
Dalian Dongzhijie Sports Production Development Company Limited 大連東之杰運動產業發展有限公司 (note ii)	PRC	RMB200,000,000	100%	100%	Retailing of sportswear
Dedicated Group Limited	BVI	US\$1,000	100%	100%	Investment holding
Diodite Limited	BVI	US\$1	100%	100%	Investment holding

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 41. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i)		Principal activities
			2011	2010	
Diodite (China) Sports Good Co., Ltd. 笛亞泰(中國)體育用品有限公司 (note ii)	PRC	US\$20,000,000	100%	100%	Retailing of sportswear
Dragonlight Group Limited	BVI	US\$1	100%	100%	Investment holding
Dragon Light (China) Sporting Goods Co., Ltd. 龍光(中國)體育用品有限公司 (note ii)	PRC	US\$66,000,000	100%	100%	Investment holding
Farsighted International Limited	BVI	US\$100	100%	100%	Investment holding
Favour Mark Holdings Limited	HK	HK\$200	100%	100%	Investment holding
Fujian Baomin Sporting Goods, Co., Ltd. 福建寶閩體育用品有限公司(note ii)	PRC	US\$4,500,000	90%	90%	Retailing of sportswear
Guangzhou Baoyuen Trading Company Limited 廣州寶元貿易有限公司 (note ii)	PRC	US\$4,810,000	100%	100%	Retailing of sportswear
Guangzhou Shengdao Sports Goods Company Limited 廣州勝道體育用品有限公司 (note iv)	PRC	RMB20,000,000	100%	100%	Property leasing and management
Guangzhou Yangji Information Technology Company Limited 廣州市揚基信息科技有限公司 (note ii)	PRC	HK\$13,000,000	100%	100%	Retailing of sportswear
Guiyang Baoxin Sports Goods Company Limited 貴陽寶新體育用品有限公司(note ii)	PRC	US\$10,000,000	100%	100%	Retailing of sportswear
Guizhou Shengdao Sports Goods Development Company Limited 貴州勝道體育用品開發有限公司(note iv)	PRC	RMB70,000,000	100%	100%	Property leasing and management

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 41. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i)		Principal activities
			2011	2010	
Harbin Baosheng Sports Goods Company Limited 哈爾濱寶勝體育用品有限公司 (note iv)	PRC	RMB7,000,000	100%	100%	Retailing of sportswear
Hefei Baoxun Sports Goods Trading Company Limited 合肥寶勳體育用品商貿有限公司 (note iv)	PRC	RMB1,000,000	100%	100%	Retailing of sportswear
Nanning Pou Guan Sporting Goods Company Limited 南寧寶冠體育用品有限公司 (note ii)	PRC	US\$1,300,000	100%	100%	Retailing of sportswear
Nice Palace Investments Limited	HK	HK\$200	100%	100%	Investment holding
Pau Yuen Trading Corporation 寶原興業股份有限公司	Taiwan	NTD50,000,000	90%	90%	Distribution of licenced products
Pau Zhi Trading Corporation 寶智企業股份有限公司	Taiwan	NTD5,000,000	90%	90%	Retailing of sportswear
Profit Concept Group Limited	BVI	US\$100	51%	51%	Investment holding
Qingdao Baoruina Sports Goods Company Limited 青島寶瑞納體育用品有限公司 (note iii)	PRC	RMB20,000,000	72%	72%	Retailing of sportswear
Qujing Shengdao Sports Goods Co., Ltd. 曲靖勝道體育用品有限公司 (note iv)	PRC	RMB35,000,000	60%	60%	Property leasing and management
Rainbow Faith Investments Limited	HK	HK\$200	100%	100%	Investment holding
Richwin Management Limited	BVI	US\$1	100%	100%	Investment holding

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 41. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i)		Principal activities
			2011	2010	
Shanghai Baoyuen Sports Goods Company Limited 上海寶原體育用品商貿有限公司 (note ii)	PRC	US\$20,000,000	100%	100%	Retailing of sportswear
Shanghai Shengdao Sports Goods Company Limited 上海勝道體育用品有限公司 (note iv)	PRC	RMB5,100,000	100%	100%	Property leasing and management
Sheng Dao (Yangzhou) Sporting Goods Dev. Co., Ltd. 勝道(揚州)體育用品開發有限公司 (note ii)	PRC	US\$66,000,000	100%	100%	Investment holding
Selangor Gold Limited	BVI	US\$1,000	100%	100%	Investment holding
Taicang Yusheng Moulding Company Limited 太倉裕盛模具有限公司 (note ii)	PRC	US\$2,100,000	100%	100%	Manufacturing of shoe moulds
Tiqjian Baoxin Sports Goods Company Limited 天津寶信體育用品有限公司 (note iv)	PRC	RMB1,000,000	100%	100%	Retailing of sportswear
Treasure Chain International Limited	BVI	US\$1	100%	100%	Investment holding
Wellmax Business Group Limited	BVI	US\$9,000	100%	100%	Investment holding
Wuxi Baoyuen Sports Goods Trading Company Limited 無錫寶原體育用品商貿有限公司 (note iv)	PRC	RMB1,000,000	100%	100%	Retailing of sportswear
Xian Baoqin Trading Company Limited 西安寶泰貿易有限公司 (note ii)	PRC	US\$20,000,000	100%	100%	Retailing of sportswear
Yue-Shen (Taicang) Footwear Co., Ltd. 裕盛(太倉)鞋業有限公司 (note ii)	PRC	US\$15,000,000	100%	100%	Manufacturing of sportswear

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 41. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interests held (note i)		Principal activities
			2011	2010	
Yue Cheng (Kunshan) Sports Co., Ltd. 裕程(昆山)體育用品有限公司 (note ii)	PRC	US\$10,000,000	100%	100%	Retailing of sportswear
Yue Ming International Limited	HK	HK\$1	100%	100%	Distribution of licensed products
Yue Sheng (Kunshan) Sports Co., Ltd. 裕晟(昆山)體育用品有限公司 (note ii)	PRC	US\$4,200,000	100%	100%	Retailing of sportswear
Yunnan Orientsport Trading Co., Ltd. 雲南奧龍世博經貿有限公司 (note ii)	PRC	RMB56,100,000	51%	51%	Retailing of sportswear
Yunnan Shengdao Sports Goods Company Limited 雲南勝道體育用品有限公司 (note iv)	PRC	RMB87,500,000	60%	60%	Property leasing and management
Zhejiang Yichuan Sports Goods Chain Company Limited 浙江易川體育用品連鎖有限公司 (note v)	PRC	RMB92,000,000	100%	-	Retailing of sportswear

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 41. PRINCIPAL SUBSIDIARIES (Continued)

notes:

- (i) The Company directly holds the interest in YY Sports. All other interests shown are indirectly held by the Company.
- (ii) These companies are wholly-foreign owned enterprises established in the PRC.
- (iii) These companies are sino-foreign owned enterprises established in the PRC.
- (iv) These companies are wholly-domestic owned enterprises established in the PRC.
- (v) This company becomes a subsidiary of the Company on October 1, 2010. As at September 30, 2010, this company was a jointly controlled entity.

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

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

### 42. ASSOCIATES

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

Name of entity	Place of incorporation or establishment/ operation	Proportion of issued and fully paid up capital indirectly held by the Company		Principal activities
		2011	2010	
Shaanxi Wuhuan Shengdao Sports Production Development Company Limited 陝西五環勝道運動產業開發有限公司	PRC	40%	40%	Retailing of sportswear
Zhejiang Baohong Sports Goods Company Limited 浙江寶宏體育用品有限公司	PRC	49%	49%	Retailing of sportswear

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



## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 43. PRINCIPAL JOINTLY CONTROLLED ENTITIES

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

Name of entity	Place of incorporation or establishment/ operation	Proportion of issued and fully paid up capital indirectly held by the Company (note i)		Principal activities
		2011	2010	
Guiyang Baoshang Sports Goods Company Limited 貴陽寶尚體育用品有限公司	PRC	50%	50%	Retailing of sportswear
Hangzhou Baohong Sports Goods Company Limited 杭州寶宏體育用品有限公司	PRC	50%	50%	Retailing of sportswear
Hebei Zhanxin Sports Development Company Limited 河北展新體育發展有限公司	PRC	45%	45%	Retailing of sportswear
Heifei Tengrei Sports Goods Company Limited 合肥騰瑞體育用品有限公司	PRC	50%	50%	Retailing of sportswear
Jilin Lingpao Sporting Goods Co., Ltd. 吉林領跑體育用品有限公司	PRC	50%	50%	Retailing of sportswear
Jilin Xinfangwei Sports Goods Company Limited 吉林新方位體育用品有限公司	PRC	50%	50%	Retailing of sportswear
Shaanxi Jixian Longyue Sports Goods Company Limited 陝西極限龍躍體育用品有限公司	PRC	50%	50%	Retailing of sportswear

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 43. PRINCIPAL JOINTLY CONTROLLED ENTITIES (Continued)

Name of entity	Place of incorporation or establishment/ operation	Proportion of issued and fully paid up capital indirectly held by the Company (note i)		Principal activities
		2011	2010	
Suzhou Xinjun Trading Development Company Limited 蘇州信俊貿易發展有限公司	PRC	49%	49%	Retailing of sportswear
Wenzhou Baofeng Trading Company Limited 溫州寶豐商貿有限公司	PRC	50%	50%	Retailing of sportswear
Zhejiang Yichuan Sports Goods Chain Company Limited 浙江易川體育用品連鎖有限公司 (note ii)	PRC	-	50%	Retailing of sportswear

notes:

- (i) Under the relevant shareholders' agreements, decisions on operating and financing activities of each of these entities require unanimous consent from all of the relevant joint venture partners. Accordingly, neither the Group nor the other relevant joint venture partners has the ability to control the respective entities unilaterally and each of these entities is therefore considered as jointly controlled by the Group and the relevant joint venture partners. Therefore, the above entities are accounted for as jointly controlled entities of the Group.
- (ii) This company becomes a subsidiary on October 1, 2010. As at September 30, 2010, it was a jointly controlled entity.

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

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

## • NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2011

### 44. EVENT AFTER THE END OF REPORTING PERIOD

#### Acquisition of remaining interest in Zhanxin

As set out in Note 20, during the year ended September 30, 2011, the Company exercised the call options granted by the Relevant Partners of Zhanxin for the acquisition of the 55% equity interest in Zhanxin not already held by the Group in order to expand the store network and geographical coverage of the Group in the PRC. The control of Zhanxin has been passed to the Group in December 2011 and the transaction was accounted for using purchase method.

#### Consideration transferred

	US\$'000
Cash	12,194
Call option for acquisition of additional interests in Zhanxin (Note 20)	1,171
	13,365

#### Net assets recognised

Provisional fair value of assets and liabilities, based on their carrying amounts recorded in the unaudited financial statements of Zhanxin as at December 1, 2011 prepared by the management and subject to an audit, recognised at the date of acquisition, are as follow:

	US\$'000
Property, plant and equipment (note)	1,404
Inventories (note)	12,060
Trade and other receivables	8,869
Bank balances and cash	2,176
Trade and other payables	(13,144)
Tax payables	(56)
Bank borrowings	(7,383)
	3,926

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

## • FINANCIAL SUMMARY

### RESULTS

	Year ended September 30,				
	2007	2008	2009	2010	2011
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenue	555,903	959,548	1,142,293	1,323,845	1,589,802
Profit (loss) for the year	43,934	79,701	(6,250)	20,167	54,810
Attributable to:					
Owners of the Company	31,927	70,024	(3,696)	21,287	53,670
Non-controlling interests	12,007	9,677	(2,554)	(1,120)	1,140
	43,934	79,701	(6,250)	20,167	54,810

### ASSETS AND LIABILITIES

	As at September 30,				
	2007	2008	2009	2010	2011
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Total assets	553,930	1,137,406	1,266,502	1,211,118	1,372,769
Total liabilities	(366,541)	(475,097)	(495,926)	(406,793)	(483,465)
	187,389	662,309	770,576	804,325	889,304
Equity attributable to:					
Owners of the Company	138,417	645,716	754,331	790,317	874,332
Non-controlling interests	48,972	16,593	16,245	14,008	14,972
	187,389	662,309	770,576	804,325	889,304

note: The financial information for the year ended September 30, 2007 has been extracted from the Company's prospectus dated May 26, 2008.