

Financial Statements

**China Sports International Limited  
and its subsidiaries**

For the financial period ended 30 September 2015

# Company information

|                                    |  |
|------------------------------------|--|
| <b>Company registration number</b> | 39798  |
| <b>Registered office</b>           | Clarendon House<br>2 Church Street<br>Hamilton HM 11<br>Bermuda  |
| <b>Directors</b>                   | Lin Shaoxiong<br>Lin Shaoqin<br>Ang Wei Chuan (Lead Independent Director), appointed on 14 January 2016<br>Tham Hock Chee (Independent Director)<br>Lim Kim Huat (Independent Director)<br>Lai Chin Yee (Independent Director), retired on 30 April 2015 |
| <b>Audit Committee</b>             | Ang Wei Chuan (Chairman)<br>Tham Hock Chee<br>Lim Kim Huat   |
| <b>Remuneration Committee</b>      | Tham Hock Chee (Chairman)<br>Ang Wei Chuan<br>Lim Kim Huat   |
| <b>Nominating Committee</b>        | Lim Kim Huat (Chairman)<br>Ang Wei Chuan<br>Tham Hock Chee   |
| <b>Secretary</b>                   | Shirley Tan Sey Liy  |
| <b>Share Transfer Agent</b>        | B.A.C.S. Private Limited<br>63 Cantonment Road<br>Singapore 089758   |
| <b>Principal Bankers</b>           | Agricultural Bank of China<br>Bank of Communications<br>Bank of East Asia<br>Industrial and Commercial Bank of China   |
| <b>Independent Auditor</b>         | RT LLP<br>Certified Public Accountants<br>1 Raffles Place #17-02<br>One Raffles Place<br>Singapore 048616<br><br>Partner-in-charge: Mr Su Chun Keat<br>(since financial year 2013)   |

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## **Statement by directors**

**Financial period ended 30 September 2015**

In the opinion of the directors, the consolidated financial statements of the Group and the statement of financial position of the Company are drawn up so as to give a true and fair view of the state of affairs of the Group and the Company as at 30 September 2015 and of the results, changes in equity and cash flows of the Group for the financial period then ended; and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Directors

  
.....  
LIN SHAOXIONG

  
.....  
LIN SHAOQIN

Dated: 16 March 2016

## Independent auditor's report to the members of China Sports International Limited

### Report on the consolidated financial statements

We were engaged to audit the accompanying financial statements of China Sports International Limited ("the Company") and its subsidiaries ("the Group") which comprise the statements of financial position of the Group and the Company as at 30 September 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial period then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair of financial statements and to maintain accountability of assets.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

#### **RT LLP** **Chartered Accountants**

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#17-02 One Raffles Place  
Singapore 048616

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## **Independent auditor's report to the members of China Sports International Limited (Cont'd)**

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 of the Group and the statement of financial position of the Company are properly drawn up in accordance with the International Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Company as at 30 September 2015, and the financial performance, changes in equity and cash flows of the Group for the financial period ended on that date.

### Emphasis of Matter

We draw attention to Note 2(a) to the financial statements which states that the Group has recorded a loss before taxation of approximately RMB 560,321,000 for the financial period ended 30 September 2015 and recorded a net operating cash outflow of approximately RMB 374,915,000.

The above conditions indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group and the Company to continue as going concerns and to realise their assets and discharge their liabilities in the ordinary course of business. Nevertheless, the directors of the Company believe that the use of going concern assumption in the preparation and presentation of the financial statements for the financial period ended 30 September 2015 is appropriate after taking into consideration the factor that the Group continues to implement measures to tighten cost controls over various operating expenses in order to improve profitability and generate positive cash flows from operations. In this regard, Management has provide cash flow projections of the Group's future operations including information such as the current and expected profitability, debt repayment schedules, potential sources of replacement financing and future business plans etc. which shows the Group will have adequate working capital for its operation and will be able to meet its obligations as and when they fall due and considered as sufficient evidence regarding the appropriateness of using going concern assumption in the preparation of the financial statements for the financial period ended 30 September 2015.

If the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to the financial statements to reflect the situation that assets may need to realised other than in the normal course of business and at amounts which could differ from the amounts at which they are currently recorded in the statement of financial position. In addition, the Group and the Company may have to provide for further liabilities which may arise, and to reclassify non-current assets as current assets. No such adjustments have been made to these financial statements. Our opinion is not qualified in respect of this matter.

**Independent auditor's report to the members of  
China Sports International Limited (Cont'd)**

RT LLP

RT LLP  
Public Accountants and  
Chartered Accountants

Singapore, 16 March 2016

# Statements of financial position

As at 30 September 2015

|  |      | The Company    |                | The Group      |                  |
|--|------|----------------|----------------|----------------|------------------|
|  |      | 30 September   | 31 December    | 30 September   | 31 December      |
|  |      | 2015           | 2014           | 2015           | 2014             |
|  | Note | RMB'000        | RMB'000        | RMB'000        | RMB'000          |
| <b>ASSETS</b>                          |      |                |                |                |                  |
| <b>Non-Current Assets</b>              |      |                |                |                |                  |
| Land use rights                        | 4    | -              | -              | 15,550         | 15,822           |
| Intangible assets and rights           | 5    | -              | -              | 820            | 1,248            |
| Property, plant and equipment          | 6    | 1              | 13             | 105,718        | 113,749          |
| Subsidiaries                           | 7    | 459,986        | 459,986        | -              | -                |
| Deferred tax asset                     | 8    | -              | -              | 44,244         | 44,244           |
|  |      | <b>459,987</b> | <b>459,999</b> | <b>166,332</b> | <b>175,063</b>   |
| <b>Current Assets</b>                  |      |                |                |                |                  |
| Inventories, at cost                   | 9    | -              | -              | 15,573         | 26,111           |
| Trade and other receivables            | 10   | 9              | 10             | 215,230        | 550,595          |
| Amount due from subsidiaries           | 11   | 90,047         | 90,018         | -              | -                |
| Pledged fixed deposits                 | 12   | -              | -              | 35,163         | 45,875           |
| Cash and bank balances                 | 13   | 16             | 19             | 157,723        | 532,506          |
|  |      | <b>90,072</b>  | <b>90,047</b>  | <b>423,689</b> | <b>1,155,087</b> |
| <b>Total assets</b>                    |      | <b>550,059</b> | <b>550,046</b> | <b>590,021</b> | <b>1,330,150</b> |
| <b>EQUITY AND LIABILITIES</b>          |      |                |                |                |                  |
| <b>Capital and Reserves</b>            |      |                |                |                |                  |
| Share capital                          | 14   | 36,570         | 36,570         | 36,570         | 36,570           |
| Treasury shares                        | 15   | (226)          | (226)          | (226)          | (226)            |
| Reserves                               | 16   | 481,073        | 483,721        | 435,697        | 996,191          |
| <b>Total equity</b>                    |      | <b>517,417</b> | <b>520,065</b> | <b>472,041</b> | <b>1,032,535</b> |
| <b>Non-Current Liabilities</b>         |      |                |                |                |                  |
| Deferred tax liability                 | 8    | -              | -              | 7,377          | 7,377            |
| <b>Current Liabilities</b>             |      |                |                |                |                  |
| Trade and bills payables               | 17   | -              | -              | 17,664         | 147,534          |
| Accrued liabilities and other payables | 18   | 8,967          | 7,127          | 70,439         | 68,004           |
| Amount due to subsidiaries             | 11   | 23,675         | 22,854         | -              | -                |
| Bank borrowings                        | 19   | -              | -              | 22,500         | 74,700           |
|  |      | <b>32,642</b>  | <b>29,981</b>  | <b>110,603</b> | <b>290,238</b>   |
| <b>Total equity and liabilities</b>    |      | <b>550,059</b> | <b>550,046</b> | <b>590,021</b> | <b>1,330,150</b> |

The annexed notes form an integral part of and should be read in conjunction with these financial statements.



## Consolidated statement of comprehensive income

For the financial period ended 30 September 2015

|  | Note | 30 September 2015<br>RMB'000 | 30 September 2014<br>RMB'000<br>(Unaudited) |
|--|------|------------------------------|---|
| Revenue  | 3    | 191,160                      | 614,511                                     |
| Cost of sales  |      | (156,040)                    | (493,903)                                   |
| Gross profit   |      | 35,120                       | 120,608                                     |
| Other income   | 3    | 675                          | 2,947                                       |
| Selling and distribution costs                                       | 20   | (87,969)                     | (33,194)                                    |
| Administrative expenses  |      | (502,765)                    | (17,066)                                    |
| Finance costs  | 21   | (5,382)                      | (5,838)                                     |
| (Loss)/Profit before taxation  | 22   | (560,321)                    | 67,457                                      |
| Taxation   | 23   | -                            | (17,525)                                    |
| <b>Total (loss)/profit for the year</b>                              |      | <b>(560,321)</b>             | <b>49,932</b>                               |
| <b>Other comprehensive income</b>                                    |      |                              |   |
| <b>Items that may be reclassified subsequently to profit or loss</b> |      |                              |   |
| (Loss)/Gain in currency translation differences                      | 24   | (173)                        | (216)                                       |
| <b>Other comprehensive income for the year, net of tax</b>           |      | <b>(173)</b>                 | <b>(216)</b>                                |
| <b>Total comprehensive income/ (loss) for the year</b>               |      | <b>(560,494)</b>             | <b>49,716</b>                               |
| <b>Earnings/(Loss) per share (RMB cents)</b>                         |      |                              |   |
| 25   |      |                              |   |
| - Basic and diluted  |      | (58.29)                      | 5.19  |

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

## Consolidated statement of changes in equity

For the financial period ended 30 September 2015

|  | Share<br>capital<br>RMB'000 | Treasury<br>shares<br>RMB'000 | Share<br>Premium<br>(Note 16 a)<br>RMB'000 | Merger<br>reserve<br>(Note 16 c)<br>RMB'000 | Paid-in<br>capital from<br>exchange<br>differences<br>(Note 16 d)<br>RMB'000 | Currency<br>translation<br>reserve<br>(Note 16 e)<br>RMB'000 | Statutory<br>reserve<br>(Note 16 b)<br>RMB'000 | Retained<br>profits<br>RMB'000 | Total<br>equity<br>RMB'000 |
|--|-----------------------------|-------------------------------|--|---|--|--|--|--------------------------------|----------------------------|
| Balance at 1 January 2014                  | 36,570                      | (226)                         | 560,135                                    | 801   | 330  | 3,903  | 87,938   | 332,904                        | 1,022,355                  |
| Total comprehensive income<br>for the year | -                           | -                             | -  | -   | -  | (216)  | -  | 49,932                         | 49,716                     |
| Transfer to statutory reserve              | -                           | -                             | -  | -   | -  | -  | -  | -                              | -                          |
| Balance at 30 September 2014               | 36,570                      | (226)                         | 560,135                                    | 801   | 330  | 3,687  | 87,938   | 382,836                        | 1,072,071                  |
| Total comprehensive income<br>for the year | -                           | -                             | -  | -   | -  | (203)  | -  | (39,333)                       | (39,536)                   |
| Transfer to statutory reserve              | -                           | -                             | -  | -   | -  | -  | -  | -                              | -                          |
| Balance at 31 December 2014                | 36,570                      | (226)                         | 560,135                                    | 801   | 330  | 3,484  | 87,938   | 343,503                        | 1,032,535                  |
| Total comprehensive income<br>for the year | -                           | -                             | -  | -   | -  | (173)  | -  | (560,321)                      | (560,494)                  |
| Transfer to statutory reserve              | -                           | -                             | -  | -   | -  | -  | -  | -                              | -                          |
| Balance at 30 September 2015               | 36,570                      | (226)                         | 560,135                                    | 801   | 330  | 3,311  | 87,938   | (216,818)                      | 472,041                    |

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

## Consolidated statement of cash flows

For the financial period ended 30 September 2015

|   | 30 September 2015<br>RMB'000 | 30 September 2014<br>RMB'000<br>(Unaudited) |
|---|------------------------------|---|
| <b>Cash Flows from Operating Activities</b>             |                              |   |
| (Loss)/ Profit before taxation                          | (560,321)                    | 67,457                                      |
| Adjustments for:  |                              |   |
| Depreciation of property, plant and equipment           | 8,031                        | 9,011                                       |
| Amortisation of land use rights                         | 272                          | 273   |
| Amortisation of intangible assets and rights            | 428                          | 428   |
| Impairment loss of trade receivables                    | 480,585                      | -   |
| Unrealised exchange differences                         | (306)                        | (362)                                       |
| Interest expense  | 5,332                        | 5,838                                       |
| Interest income   | (490)                        | (2,621)                                     |
| Operating (loss)/ profit before working capital changes | (66,469)                     | 80,024                                      |
| Change in operating assets and liabilities:             |                              |   |
| - inventories   | 10,538                       | 997   |
| - trade and other receivables                           | (145,219)                    | (29,954)                                    |
| - trade payables and bill payables                      | (129,870)                    | 11,311                                      |
| - other payables  | (91)                         | (11,467)                                    |
| Cash (used in)/ generated from operations               | (331,111)                    | 50,911                                      |
| Interest received                                       | 490                          | 2,621                                       |
| Interest paid   | (5,332)                      | (5,838)                                     |
| Net cash (used in)/ generated from operating activities | (335,953)                    | 47,694                                      |
| <b>Cash Flows from Investing Activities</b>             |                              |   |
| Refunds from investments                                | -                            | 43,713                                      |
| Acquisition of intangible assets and rights             | -                            | -   |
| Acquisition of property, plant and equipment            | -                            | (132)                                       |
| Net cash generated from investing activities            | -                            | 43,581                                      |
| <b>Cash Flows from Financing Activities</b>             |                              |   |
| Decrease / (Increase) in fixed deposit pledged          | 10,712                       | (34,870)                                    |
| Increase in amount owing to director                    | 2,526                        | 173   |
| Proceeds from bank borrowings                           | 22,500                       | 101,400                                     |
| Repayment of bank borrowings                            | (74,700)                     | (102,600)                                   |
| Net cash used in financing activities                   | (38,962)                     | (35,897)                                    |
| Net (decrease)/ increase in cash and cash equivalents   | (374,915)                    | 55,378                                      |
| Cash and cash equivalents at beginning of year          | 532,506                      | 694,301                                     |
| Effect of exchange rates fluctuation                    | 132                          | 152   |
| Cash and cash equivalents at end of period              | 157,723                      | 749,831                                     |

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

# **Notes to the consolidated financial statements**

## **For the financial period ended 30 September 2015**

### **1 General information**

The financial statements of the Company and of the Group for the financial period ended 30 September 2015 were authorised for issue in accordance with a resolution of the directors on the date of the Statement By Directors.

The Company is incorporated in Bermuda under the name of China Sports International Limited on 27 March 2007 as an exempted company with limited liability under the Bermuda Companies Act 1981. The Company was admitted to the Official List of the Singapore Exchange Mainboard ("SGX-ST") on 18 July 2007 pursuant to an Initial Public Offering ("IPO").

The Company is domiciled in Bermuda. The registered office is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The principal activity of the Company is that of an investment holding. The principal activities of the subsidiaries are stated in Note 7.

### **2(a) Basis of preparation**

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") including related Interpretations promulgated by the IFRS Interpretation Committee ("IFRIC") applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The financial statements are presented in Renminbi which is the Company's functional currency. All financial information are presented in Renminbi (to the nearest thousand), unless otherwise stated.

### **Going concern**

The Group has recorded a loss before taxation of approximately RMB 560,321,000 for the financial period ended 30 September 2015 and recorded a net operating cash outflow of approximately RMB 374,915,000. The financial statements have been prepared on the assumption that the Company and the Group will continue as going concern as the management believe that the Group continues to implement measures to tighten cost controls over various operating expenses in order to improve profitability and generate positive cash flows from operations. In this regard, Management has provide cash flow projections of the Group's future operations including information such as the current and expected profitability, debt repayment schedules, potential sources of replacement financing and future business plans etc. which shows the Group will have adequate working capital for its operation and will be able to meet its obligations as and when they fall due and considered as sufficient evidence regarding the appropriateness of using going concern assumption in the preparation of the financial statements for the financial period ended 30 September 2015.

## **2(a) Basis of preparation (Cont'd)**

### Going concern (Cont'd)

If the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to the financial statements to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ from the amounts at which they are currently recorded in the statement of financial position. In addition, the Group and the Company may have to provide for further liabilities which may arise, and to reclassify non-current assets as current assets. No such adjustments have been made to these financial statements.

### Significant accounting estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the end of the reporting period and the reported amounts of revenue and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The critical accounting estimates and assumptions used and areas involving a high degree of judgement are described below:

### Critical assumptions used and accounting estimates in applying accounting policies

#### Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of property, plant and equipment to be within 2 to 20 years. The carrying amounts of the Company's and the Group's property, plant and equipment as at 30 September 2015 are RMB 963 and RMB 105,718,000 (2014- RMB 13,000 and RMB 113,749,000) respectively. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

## 2(a) Basis of preparation (Cont'd)

### Critical assumption used and accounting estimates in applying accounting policies (cont'd)

#### Allowance for inventory obsolescence

The Group reviews the aging analysis of inventories at each reporting date, and makes provision for obsolete and slow moving inventory items that are no longer suitable for sale. The carrying amounts of the Company's and the Group's inventory as at 30 September 2015 are RMB Nil and RMB 15,573,000 (2014 - RMB Nil and RMB 26,111,000) respectively. The net realisable value for such inventories are estimated based primarily on the latest invoice prices and current market conditions. Possible changes in these estimates could result in revisions to the valuation of inventories.

#### Allowance for bad and doubtful debts

Allowances for bad and doubtful debts are based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The carrying amounts of the Company's and the Group's trade and other receivable as at 30 September 2015 are RMB 9,732 and RMB 215,230,000 (2014 - RMB 10,000 and RMB 550,595,000) respectively. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the expected outcome is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

#### Impairment of investment in subsidiary

Determining whether investment in subsidiary is impaired requires an estimation of the value-in-use of that investment. The value-in-use calculation requires the Group to estimate the future cash flows expected from the cash-generating units and an appropriate discount rate in order to calculate the present value of the future cash flows. Management has evaluated the recoverability of the investment based on such estimates. As at year ended 30 September 2015, cost of investment in subsidiaries amounting to RMB 459,986,000 (2014 - RMB 459,986,000).

#### Income taxes

The Group has exposure to income taxes in the People's Republic of China (PRC). Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business.

According to the Corporate Income Tax Law and its Implementation Rules, withholding tax is imposed on dividends declared in respect of profit earned by PRC subsidiaries from 1 January 2008 onward. For the Group, the applicable rate for the withholding tax rate is 10%.

The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The accounting policies used by the Company and Group have been applied consistently to all periods presented in these financial statements.

## **2(b) Interpretations and amendments to published standards effective in 2015**

On 1 January 2015, the Company and the Group adopted the new or amended IFRS and IFRIC interpretations that are mandatory for application from that date. Changes to the Company's and the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective IFRSs and IFRIC interpretations.

The adoption of these new or amended IFRS and IFRIC Interpretations did not result in substantial changes to the Company's and the Group's accounting policies and had no material effect on the amounts reported for the current or prior financial years.

## **2(c) IFRSs and IFRICs issued but not yet effective**

Below are the mandatory new or amended IFRS and IFRIC interpretations that have been published, and are relevant for the Company's and the Group's accounting periods beginning on or after 1 January 2016 and which the Company and the Group have not early adopted:

### **Effective for the Company's and the Group's annual accounting period beginning on 1 January 2016**

- Amendments to IAS 1: Disclosure Initiative
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Various improvements to IFRSs (Annual Improvements 2012-2014)
  - Amendments to IFRS 7 Financial Instruments: Disclosures
  - Amendments to IAS 19 Employee Benefits
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

### **Effective for the Company's and Group's annual accounting period beginning on 1 January 2018**

- IFRS 9 (2014) Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

The directors do not anticipate that the adoption of the above new or amended IFRS in future periods will have a material impact on the financial statements of the Group and Company in the period of their initial adoption except for IFRS 15 and IFRS 9 (2014). Management is currently evaluating the potential impact of the application of IFRS 15 and IFRS 9 (2014) on the financial statements of the Group and of the Company in the period of their initial application.

## **2(d) Summary of significant accounting policies**

### **Consolidation**

The financial statements of the Group include the financial statements of the Company and its subsidiaries made up to the end of the financial period. Information on its subsidiaries is given in Note 7.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

The use of merger accounting principles has resulted in a balance on Group capital and reserves that have been classified as a merger reserve and included in the Group's shareholders' funds. The consolidated financial statements include the results of the Company and all its subsidiary undertakings made up to the same accounting date.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on that control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of assets transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Please refer to the paragraph "Subsidiaries" for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

### **Land use rights**

Land use rights represent up-front payment to acquire long-term interests in the usage of land and are stated at cost less accumulated amortisation and impairment losses, if any. Amortisation is charged so as to write off the cost of the land use rights, using the straight-line method, over the period of the grant of 50 years, which is the lease term.

### **Intangible assets and rights**

Intangible assets and rights are accounted for using the cost model. Capitalised costs are amortised on a straight-line basis over their estimated useful lives for those considered as finite useful lives as follows:

|                   |          |
|-------------------|----------|
| Patents           | 10 years |
| Computer software | 5 years  |
| Licensing rights  | 4 years  |

After initial recognition, they are carried at cost less accumulated amortisation and accumulated impairment losses, if any. In addition, they are subject to annual impairment testing. Indefinite life intangibles are not amortised but are subject to annual impairment testing.

Intangible assets and rights are written off where, in the opinion of the directors, no further future economic benefits are expected to arise.



## **2(d) Summary of significant accounting policies**

### **Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is computed using the straight-line method to write off the cost of these assets after deducting the residual values over their estimated useful lives as follows:

|  |               |
|--|---------------|
| Buildings                                | 20 years      |
| Plant and machinery                      | 5 to 10 years |
| Furniture, fixtures and office equipment | 3 to 20 years |
| Motor vehicles                           | 5 years       |
| Outlet fixtures                          | 2 years       |

No depreciation is provided on construction work-in-progress.

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Group and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial period in which it is incurred.

For acquisition and disposal during the period, with the exception of outlet fixtures, depreciation is provided from the month of acquisition and to the month before disposal respectively. In the case of outlet fixtures, depreciation is provided from the year of acquisition and to the year of disposal. Fully depreciated property, plant and equipment are retained in the books of accounts until they are no longer in use.

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at each reporting date as a change in estimates.

### **Subsidiaries**

In the Company's separate financial statements, shares in subsidiaries are stated at cost less allowance for any impairment losses on an individual subsidiary basis.

### **Inventories**

Inventories are carried at the lower of cost and net realisable value. Cost is determined on weighted average cost model, and include all costs in bringing the inventories to their present location and condition. Cost incurred in bringing each product to its present location and conditions are accounted as follows:

- (a) Raw materials at purchase cost on a weighted average basis; and
- (b) Finished goods and work-in-progress at cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

Provision is made for obsolete, slow-moving and defective inventories in arriving at the net realisable value.

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

## **2(d) Summary of significant accounting policies (Cont'd)**

### **Financial assets**

Financial assets, other than hedging instruments, can be divided into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the assets were acquired. The designation of financial assets is re-evaluated and classification may be changed at the reporting date with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

All financial assets are recognised on their trade date - the date on which the Company and the Group commit to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each reporting date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Non-compounding interest and other cash flows resulting from holding financial assets are recognised in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Loans and receivables include trade and other receivables and cash and bank balances (excluding advances to suppliers and prepayments). They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. If there is objective evidence that the asset has been impaired, the financial asset is measured at the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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. The impairment or write-back is recognised in profit or loss.

### **Provisions**

Provisions are recognised when the Company and the Group have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Present obligations arising from onerous contracts are recognised as provisions.

The directors review the provisions annually and where in their opinion, the provision is inadequate or excessive, due adjustment is made.

If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of the time is recognised as finance costs.

## **2(d) Summary of significant accounting policies (Cont'd)**

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and bank deposits which are readily convertible to cash and which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are presented net of fixed deposit pledged to the bank for banking facilities.

### **Share capital and treasury shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

When any entity within the Group purchases the Company's ordinary shares ("treasury shares"), the consideration paid including any directly attributable incremental cost is presented as a component within equity attributable to the Company's equity holders, until they are cancelled, sold or reissued.

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained earnings of the Company if the shares are purchased out of earnings of the Company.

When treasury shares are subsequently sold or reissued pursuant to the employee share option scheme, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised in the capital reserve of the Company.

### **Dividends**

Final dividends proposed by the directors are not accounted for in shareholders' equity as an appropriation of retained profits, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because of the bye-laws of the Company grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

### **Financial liabilities**

The Group's financial liabilities include borrowings, trade and bill payables, and accrued liabilities and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in "finance cost" in profit or loss. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Borrowings are recognised initially at the fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to profit or loss over the period of the borrowings using the effective interest method. The interest expense is chargeable on the amortised cost over the period of the borrowings using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

## **2(d) Summary of significant accounting policies (Cont'd)**

### **Financial liabilities (Cont'd)**

Borrowings which are due to be settled within twelve months after the reporting date are included in current borrowings in the statement of financial position even though the original terms was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date. Borrowings to be settled within the Group's normal operating cycle are classified as current. Other borrowings due to be settled more than twelve months after the end of the reporting period are included in non-current borrowings in the statement of financial position.

Trade and bill payables, other payables and accruals are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost, using the effective interest rate method.

### **Research costs**

Research costs are expensed as incurred, except for development costs which relates to the design and testing of new or improved materials, products or processes which are recognised as an asset to the extent that it is expected that such assets will generate future economic benefits.

### **Income tax**

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

The PRC corporate income tax is provided at rates applicable to an enterprise in the PRC on income for financial reporting purpose, adjusted for income and expenses items which are not assessable or deductible for income tax purposes.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period; and
- (ii) based on the tax consequence that will follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

### **Value added tax**

The Group's sales of goods in the PRC are subjected to Value-added tax ("VAT") at the applicable tax rate of 17% for PRC domestic sales. Input VAT on purchases can be deducted from output VAT. The net amount of VAT recoverable from, or payable to, the tax authority is included as part of "other receivables" or "other payables" in the statement of financial position. The Group's export sales are not subject to VAT. Revenues, expenses and assets are recognised net of the amount of VAT except:

## **2(d) Summary of significant accounting policies (Cont'd)**

### **Value added tax (Cont'd)**

- Where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of VAT included.

### **Borrowing cost**

Borrowing costs are recognised in profit or loss using the effective interest rate method.

### **Employee benefits**

#### Retirement benefits scheme

Pursuant to the relevant regulations of the PRC government, the Group participates in a local municipal government retirement benefits scheme (the “Scheme”), whereby the subsidiaries of the Company in the PRC are required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries of the Company. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to profit and loss as incurred.

There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

#### Employee leave entitlements

No provision has been made for employee leave entitlements as any unconsumed annual leave not utilised will be forfeited.

#### Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Directors (and certain general managers) are considered key management personnel.

### **Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered related if they are subject to common control. Related parties may be individuals or corporate entities.

### **Impairment of non-financial assets**

The carrying amounts of the Company’s and Group’s non-financial assets subject to impairment are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset’s recoverable amount is estimated.

If it is not possible to estimate the recoverable amount of the individual asset, then the recoverable amount of the cash-generating unit to which the assets belong will be identified.

## **2(d) Summary of significant accounting policies (Cont'd)**

### **Impairment of non-financial assets (Cont'd)**

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management controls the related cash flows.

Individual assets or cash-generating units that include goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount exceeds the recoverable amount of the asset or cash generating unit. The recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal and value-in-use, based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Any impairment loss is charged to profit or loss unless it reverses a previous revaluation in which case it is charged to equity.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decreases. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

### **Revenue recognition**

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes value added taxes and is arrived at after deduction of trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Interest income is recognised on a time-apportioned basis using the effective interest rate method.

### **Currency translation**

#### Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's presentation currency and the functional currency of the Company and principal operating subsidiaries of the Group.

#### Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the reporting date are recognised in profit or loss, unless they arise from borrowings in foreign currencies, other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations. Those currency translation differences are recognised in the currency translation reserve in the consolidated financial statements and transferred to the profit or loss as part of the gain or loss on disposal of the foreign operation.

## **2(d) Summary of significant accounting policies (Cont'd)**

### **Currency translation (Cont'd)**

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of translation.

### **Group entities**

The results and financial position of all the entities within the Group that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities are translated at the closing rate at the end of the reporting period;
- (ii) Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the translation dates, in which case income and expenses are translated using the exchange rates at the dates of the transaction); and
- (iii) All resulting currency translation differences are recognised in the currency translation reserve in equity.

### **Operating leases**

Leases of office and factory premises where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease.

Contingent rents are recognised as an expense in profit or loss when incurred.

### **Operating segments**

For management purposes, operating segments are organised based on their products which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers are directly accountable to the chief executive officer who regularly reviews the segment results in order to allocate resources to the segments and to assess segment performance.

## **3 Revenue and other income**

Revenue represents the net invoiced value of goods sold, after allowance for returns and trade discounts.

|                              | 30 September 2015<br>RMB'000 | 30 September 2014<br>RMB'000 |
|------------------------------|------------------------------|------------------------------|
| The Group                    |                              |                              |
| <u>Revenue</u>               |                              |                              |
| Sale of goods                | 191,160                      | 614,511                      |
| <u>Other income</u>          |                              |                              |
| Interest income              | 490                          | 2,621                        |
| Government subsidies/rewards | -                            | 50                           |
| Sundry income                | 185                          | 276                          |
|                              | 675                          | 2,947                        |

**4 Land use rights**

|  |               |
|--|---------------|
| The Group                              | RMB'000       |
| <u>Cost</u>                            |               |
| At 1 January 2014 and 31 December 2014 | 18,173        |
| <b>At 30 September 2015</b>            |               |
| <u>Accumulated amortisation</u>        |               |
| At 1 January 2014                      | 1,988         |
| Amortisation for the year              | 363           |
| At 31 December 2014                    | 2,351         |
| Amortisation for the year              | 272           |
| <b>At 30 September 2015</b>            | <b>2,623</b>  |
| <u>Net book value</u>                  |               |
| <b>At 30 September 2015</b>            | <b>15,550</b> |
| At 31 December 2014                    | 15,822        |

Land use rights held by the Group with net book value of RMB 2,196,000 (2014 - RMB 2,248,000) as at 30 September 2015 were pledged to a bank to secure bank borrowings granted to the Group (Note 19).



**5 Intangible assets and rights**

| The Group                       | Patents<br>RMB'000 | Licensing<br>rights<br>RMB'000 | Computer<br>Software<br>RMB'000 | Total<br>RMB'000 |
|---------------------------------|--------------------|--------------------------------|---------------------------------|------------------|
| <u>Cost</u>                     |                    |                                |                                 |                  |
| At 1 January 2014               | 77                 | 2,555                          | 219                             | 2,851            |
| Additions                       | -                  | -                              | -                               | -                |
| At 31 December 2014             | 77                 | 2,555                          | 219                             | 2,851            |
| Additions                       | -                  | -                              | -                               | -                |
| At 30 September 2015            | 77                 | 2,555                          | 219                             | 2,851            |
| <u>Accumulated amortisation</u> |                    |                                |                                 |                  |
| At 1 January 2014               | 72                 | 775                            | 185                             | 1,032            |
| Amortisation for the year       | 2                  | 547                            | 22                              | 571              |
| At 31 December 2014             | 74                 | 1,322                          | 207                             | 1,603            |
| Amortisation for the year       | 2                  | 414                            | 12                              | 428              |
| At 30 September 2015            | 76                 | 1,736                          | 219                             | 2,031            |
| <u>Net book value</u>           |                    |                                |                                 |                  |
| At 30 September 2015            | 1                  | 819                            | -                               | 820              |
| At 31 December 2014             | 3                  | 1,233                          | 12                              | 1,248            |

Licensing rights relates to trademark that were licensed by Group under a licensing agreement with a third party intellectual property owner which the Group can use on its kids footwear.

**6 Property, plant and equipment**

| The Company                     | Furniture, fixtures<br>and office<br>equipment<br>RMB'000 |
|---------------------------------|---|
| <u>Cost</u>                     |   |
| At 1 January 2014               | 193   |
| Additions                       | 20  |
| At 31 December 2014             | 213   |
| Additions                       | -   |
| At 30 September 2015            | 213   |
| <u>Accumulated depreciation</u> |   |
| At 1 January 2014               | 135   |
| Depreciation                    | 65  |
| At 31 December 2014             | 200   |
| Depreciation                    | 12  |
| At 30 September 2015            | 212   |
| <u>Net book value</u>           |   |
| At 30 September 2015            | 1   |
| At 31 December 2014             | 13  |

**6 Property, plant and equipment (Cont'd)**

| The Group                       | Buildings<br>RMB'000 | Plant and<br>machinery<br>RMB'000 | Furniture,<br>fixtures<br>and office<br>equipment<br>RMB'000 | Motor<br>vehicles<br>RMB'000 | Outlet<br>fixtures<br>RMB'000 | Total<br>RMB'000 |
|---------------------------------|----------------------|-----------------------------------|--|------------------------------|-------------------------------|------------------|
| <u>Cost</u>                     |                      |                                   |  |                              |                               |                  |
| At 1 January 2014               | 130,008              | 41,321                            | 5,254  | 1,672                        | 141,243                       | 319,498          |
| Additions                       | -                    | 30                                | 102  | -                            | -                             | 132              |
| Transfer                        | -                    | -                                 | -  | -                            | (141,243)                     | (141,243)        |
| At 31 December 2014             | 130,008              | 41,351                            | 5,356  | 1,672                        | -                             | 178,387          |
| Additions                       | -                    | -                                 | -  | -                            | -                             | -                |
| Disposal                        | -                    | -                                 | -  | -                            | -                             | -                |
| At 30 September 2015            | 130,008              | 41,351                            | 5,356  | 1,672                        | -                             | 178,387          |
| <u>Accumulated depreciation</u> |                      |                                   |  |                              |                               |                  |
| At 1 January 2014               | 24,440               | 23,720                            | 4,146  | 1,541                        | 140,299                       | 194,146          |
| Depreciation                    | 6,933                | 3,618                             | 240  | -                            | 944                           | 11,735           |
| Disposal                        | -                    | -                                 | -  | -                            | (141,243)                     | (141,243)        |
| At 31 December 2014             | 31,373               | 27,338                            | 4,386  | 1,541                        | -                             | 64,638           |
| Depreciation                    | 5,137                | 2,714                             | 180  | -                            | -                             | 8,031            |
| At 30 September 2015            | 36,510               | 30,052                            | 4,566  | 1,541                        | -                             | 72,669           |
| <u>Net book value</u>           |                      |                                   |  |                              |                               |                  |
| At 30 September 2015            | 93,498               | 11,299                            | 790  | 131                          | -                             | 105,718          |
| At 31 December 2014             | 98,635               | 14,013                            | 970  | 131                          | -                             | 113,749          |

Building held by the Group at net book value of RMB 30,854,000 (2014 - RMB 32,414,000) as at 30 September 2015 was pledged to a bank to secure bank borrowings granted to the Group (Note 19).

**7 Subsidiaries**

|   | 30 September 2015<br>RMB'000 | 31 December 2014<br>RMB'000 |
|---|------------------------------|-----------------------------|
| The Company   |                              |                             |
| Unquoted equity investment, at cost                     | 18,072                       | 18,072                      |
| Amounts due from subsidiaries on long-term loan account | 441,914                      | 441,914                     |
|   | <b>459,986</b>               | <b>459,986</b>              |

The amounts owing by subsidiaries on long-term loan account are an extension of the Company's net investment in the subsidiaries. These are unsecured, interest-free and are not expected to be repaid within one year. As they represent net investments with indeterminable repayments, fair value is not required to be disclosed.

Amount due from subsidiaries are denominated in the following currencies:

|                  | 30 September 2015<br>RMB'000 | 31 December 2014<br>RMB'000 |
|------------------|------------------------------|-----------------------------|
| The Company      |                              |                             |
| Renminbi         | 330,231                      | 330,231                     |
| Singapore dollar | 111,683                      | 111,683                     |
|                  | <b>441,914</b>               | <b>441,914</b>              |

The subsidiaries are:

| <u>Name</u>  | <u>Country of<br/>incorporation/<br/>principal place<br/>of business</u> | <u>Cost of<br/>investment</u> |                              | <u>Effective<br/>percentage<br/>of equity held</u> |                        | <u>Principal activities</u>   |
|--|--|-------------------------------|------------------------------|--|------------------------|---|
|  |  | <u>30/09/2015</u><br>RMB'000  | <u>31/12/2014</u><br>RMB'000 | <u>30/09/2015</u><br>%                             | <u>31/12/2014</u><br>% |   |
| <u>Held by the Company:</u>  |  |                               |                              |  |                        |   |
| Theme Way Limited <sup>(1)</sup>   | Hong Kong  | 18,072                        | 18,072                       | 100  | 100                    | Investment holding  |
| <u>Held by Theme Way Limited:</u>  |  |                               |                              |  |                        |   |
| Hengfa (Fujian) Light Industry Development Co., Ltd<br>恒发(福建)轻工业发展有限公司<br>("Hengfa Light Industry") <sup>(2)</sup> | The People's Republic of China   | -                             | -                            | 100  | 100                    | Design, manufacture and sale of sports fashion footwear             |
| YELI (Hong Kong) Company Limited ("YELI Hong Kong") <sup>(1)</sup>   | Hong Kong  | -                             | -                            | 100  | 100                    | Investment holding  |
| YELI Sports (China) Co., Ltd<br>野力体育(中国)有限公司<br>("YELI China") <sup>(2)</sup>                                      | The People's Republic of China   | -                             | -                            | 100  | 100                    | Design and sale of sports fashion footwear, apparel and accessories |

(1) No audit requirement in the country of incorporation for dormant company and subject to approval by local tax authority. Reviewed by RT LLP for Group reporting purposes.

(2) Audited by 福州鼓楼征安联合会计事务所 for statutory reporting in PRC and RT LLP for Group reporting purposes.

## 8 Deferred tax assets and liabilities

Deferred tax liabilities are offset against deferred tax assets when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the statement of financial position as follows:

|   | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 |
|---|---------------------------------|--------------------------------|
| The Group                                       |                                 |                                |
| <b>Deferred tax assets</b>                      |                                 |                                |
| Balance at beginning                            | (44,244)                        | (49,245)                       |
| (Charged)/ Credited to profit or loss (Note 23) | -                               | 5,001                          |
| <b>Balance at end</b>                           | <b>(44,244)</b>                 | <b>(44,244)</b>                |
| <b>Deferred tax liabilities</b>                 |                                 |                                |
| <b>Balance at beginning and at end</b>          | <b>7,377</b>                    | <b>7,377</b>                   |

Deferred tax liabilities represent withholding tax payable on dividend to be declared by PRC subsidiaries.

According to the Corporate Income Tax Law and its Implementation Rules, withholding tax is imposed on dividends declared in respect of profit earned by PRC subsidiaries from 1 January 2008 onward. For the Group, the applicable rate for withholding tax is 10%. In estimating the withholding taxes on dividends expected to be distributed by the subsidiaries established in PRC in respect of earnings generated from 1 January 2008, the directors have made an assessment based on the factors which included the dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future. No deferred tax liabilities has been recognized for current year as the PRC subsidiaries does not intend to declare dividend for the foreseeable future due to loss making in current period.

Deferred income tax assets are recognized for tax losses carried forward to the extent that the realization of the related tax benefits through taxable profit is probable. The related deferred tax benefits of tax losses for the financial period ended 30 September 2015 of RMB 560,321,000 (2014-RMB 175,567,000) have not been recognized in the financial statement which subject to approval by PRC Tax authority.

## 9 Inventories, at cost

|  | 30 September 2015<br>RMB'000 | 31 December 2014<br>RMB'000 |
|--|------------------------------|-----------------------------|
| The Group  |                              |                             |
| Raw materials  | 3,893                        | 7,130                       |
| Work-in-progress                                     | 5,550                        | 9,520                       |
| Finished goods                                       | 6,130                        | 9,461                       |
|  | <b>15,573</b>                | <b>26,111</b>               |
| <b>Cost of inventories included in cost of sales</b> | <b>126,720</b>               | <b>562,166</b>              |

## 10 Trade and other receivables

|                                       | The Company                     |                                | The Group                       |                                |
|---------------------------------------|---------------------------------|--------------------------------|---------------------------------|--------------------------------|
|                                       | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 |
| Trade receivables - third parties-net | -                               | -                              | 66,911                          | 429,904                        |
| Other receivables                     | -                               | -                              | 1,913                           | 275                            |
| Advances to suppliers                 | -                               | -                              | 26,301                          | 37,906                         |
| Prepayments                           | 9                               | 10                             | 120,105                         | 82,510                         |
|                                       | 9                               | 10                             | 215,230                         | 550,595                        |

Trade receivables generally have credit terms of 90days (2014 - 90 days).

Trade receivables amounting to RMB Nil (2014-RMB 8,247,151) is pledged to secure bank borrowings granted to the Group (Note 19).

Advances to suppliers relate to deposit given to suppliers to secure raw materials.

Prepayments relate to the prepaid advertising and e-commerce expenses amounting to RMB 20,100,000 (2014-RMB 27,510,000), prepayment made to an academic researcher to conduct a long term strategic course for key management and main distributors which included an on-going monitoring program amounting to RMB 45,000,000 (2014-RMB Nil) and refundable deposit amounting to RMB 55,000,000 (2014-RMB 55,000,000) paid to the Anhui(Province of PRC) government in relation to the proposed acquisition of land.

All trade receivables are located in the PRC.

|  | The Company                     |                                | The Group                       |                                |
|--|---------------------------------|--------------------------------|---------------------------------|--------------------------------|
|  | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 |
| Trade receivables - third parties                    | -                               | -                              | 547,496                         | 491,301                        |
| Less:  | -                               | -                              |                                 |                                |
| Allowance for impairment of receivables<br>(Note 23) | -                               | -                              | (480,585)                       | (61,397)                       |
| Trade receivables-net                                | -                               | -                              | 66,911                          | 429,904                        |

Trade and other receivables are denominated in Renminbi.

Allowance for impairment of receivables relate to thirty-seven trade receivables which management foresee cannot be recovered in the next twelve (12) months from the end of the reporting period.

## 11 Amount due from / (to) subsidiaries

Non-trade amount due from/(to) subsidiaries refer to payments made on behalf and are unsecured, interest-free and repayable on demand.

Amounts due from subsidiaries are denominated in the following currencies:

|                  | 30 September 2015<br>RMB'000 | 31 December 2014<br>RMB'000 |
|------------------|------------------------------|-----------------------------|
| The Company      |                              |                             |
| Singapore dollar | 25,134                       | 25,105                      |
| Renminbi         | 64,913                       | 64,913                      |
|                  | 90,047                       | 90,018                      |

### 11 Amount due from / (to) subsidiaries (Cont'd)

The amounts due to subsidiaries are denominated in the following currencies:

|                      | 30 September 2015<br>RMB'000 | 31 December 2014<br>RMB'000 |
|----------------------|------------------------------|-----------------------------|
| The Company          |                              |                             |
| United States dollar | 18,084                       | 17,330                      |
| Renminbi             | 5,591                        | 5,524                       |
|                      | <b>23,675</b>                | <b>22,854</b>               |

### 12 Pledged fixed deposits

The fixed deposits are pledged to a bank to secure a banking facility granted to subsidiaries (Note 17). The fixed deposits have an effective interest rate of 3.00% per annum (2014 - 3.00% per annum).

Fixed deposits are denominated in Renminbi.

### 13 Cash and bank balances

|   | The Company                     |                                | The Group                       |                                |
|---|---------------------------------|--------------------------------|---------------------------------|--------------------------------|
|   | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 |
| Fixed deposits with maturity less than 3 months | -                               | -                              | -                               | -                              |
| Cash at bank                                    | 1                               | 19                             | 157,704                         | 532,494                        |
| Cash on hand                                    | 15                              | -                              | 19                              | 12                             |
|   | <b>16</b>                       | <b>19</b>                      | <b>157,723</b>                  | <b>532,506</b>                 |

The Renminbi is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for foreign currencies through banks that are authorised to conduct foreign exchange business.

Cash and bank balances are denominated in the following currencies:

|                      | The Company                     |                                | The Group                       |                                |
|----------------------|---------------------------------|--------------------------------|---------------------------------|--------------------------------|
|                      | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 |
| Hong Kong dollar     | -                               | -                              | 1                               | 129                            |
| Renminbi             | -                               | -                              | 157,706                         | 532,358                        |
| Singapore dollar     | 16                              | 19                             | 16                              | 19                             |
| United States dollar | -                               | -                              | -                               | -                              |
|                      | <b>16</b>                       | <b>19</b>                      | <b>157,723</b>                  | <b>532,506</b>                 |

The effective interest rate for bank deposits is 0.35 % per annum (2014 - 0.35% per annum).

#### 14 Share capital

|                                      | ←--- No. of ordinary shares ---→ |                             | ←----- Amount -----→            |                                |
|--------------------------------------|----------------------------------|-----------------------------|---------------------------------|--------------------------------|
|                                      | 30 September<br>2015<br>'000     | 31 December<br>2014<br>'000 | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 |
| The Company and The Group            |                                  |                             |                                 |                                |
| <u>Issued and fully paid:</u>        |                                  |                             |                                 |                                |
| Balance at beginning and end of year | 962,125                          | 962,125                     | 36,570                          | 36,570                         |

The ordinary shares have par value of HK\$ 0.04 each.

According to Rule 723 of the Listing Manual of the SGX-ST, at least 10% of the Company's shares should be held in the hands of public. In the opinion of the directors, the Company has complied with the Rule 723.

Apart from the above, the Group is not subject to any other externally imposed capital requirements.

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

#### 15 Treasury shares

|                              | ←--- No. of ordinary shares ---→ |                             | ←----- Amount -----→            |                                |
|------------------------------|----------------------------------|-----------------------------|---------------------------------|--------------------------------|
|                              | 30 September<br>2015<br>'000     | 31 December<br>2014<br>'000 | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 |
| The Company and The Group    |                                  |                             |                                 |                                |
| At beginning and end of year | 587                              | 587                         | 226                             | 226                            |

#### 16 Reserves

|   | Note | The Company                     |                                | The Group                       |                                |
|---|------|---------------------------------|--------------------------------|---------------------------------|--------------------------------|
|   |      | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 |
| Share premium                             | (a)  | 560,135                         | 560,135                        | 560,135                         | 560,135                        |
| Statutory reserve                         | (b)  | -                               | -                              | 87,938                          | 87,938                         |
| Merger reserve                            | (c)  | -                               | -                              | 801                             | 801                            |
| Paid-in capital from exchange differences | (d)  | 330                             | 330                            | 330                             | 330                            |
| Currency translation reserve              | (e)  | 3,771                           | 3,829                          | 3,311                           | 3,484                          |
| (Accumulated losses)                      |      | (83,163)                        | (80,573)                       | (216,818)                       | 343,503                        |
| /Retained profits                         |      |                                 |                                |                                 |                                |
|   |      | 481,073                         | 483,721                        | 435,697                         | 996,191                        |
| Represented by:                           |      |                                 |                                |                                 |                                |
| Distributable                             |      | (83,163)                        | (80,573)                       | (216,818)                       | 343,503                        |
| Non-distributable                         |      | 564,236                         | 564,294                        | 652,515                         | 652,688                        |
|   |      | 481,073                         | 483,721                        | 435,697                         | 996,191                        |



## 16 Reserves (Cont'd)

- (a) Share premium  
Share premium represents the difference between the price paid for shares and the par value of the shares.
- (b) Statutory reserve  
In accordance with the accounting regulations of the PRC, the subsidiaries of the Company established in the PRC are required to transfer 10% of its profit after taxation prepared in accordance with the accounting regulation in the PRC to the statutory reserve until the reserve balance reaches 50% of the respective registered capital. Such reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital. The reserve is not available for distribution to the shareholders of the entity.
- (c) Merger reserve  
The merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired over the nominal value of the shares of the Company issued in exchange thereof.
- (d) Paid-in capital from exchange differences  
Paid-in capital from exchange differences represents the exchange differences between Hong Kong dollar equivalent to Renminbi as stated in the prospectus of the Group and the prevailing exchange rates at the dates when the capital was paid in.
- (e) Currency translation reserve  
Currency translation reserve arises from the translation of the financial statements of foreign subsidiaries' assets and liabilities whose functional currencies are different from the presentation currency of the Group and the different in carrying value of quasi-equity investment in the Company's book for the financial period ended 30 September 2015.

## 17 Trade and bills payables

|                | 30 September 2015<br>RMB'000 | 31 December 2014<br>RMB'000 |
|----------------|------------------------------|-----------------------------|
| The Group      |                              |                             |
| Trade payables | 16,222                       | 55,784                      |
| Bills payables | 1,442                        | 91,750                      |
|                | <b>17,664</b>                | <b>147,534</b>              |

Trade payables generally have credit terms of 30 days (2014 - 30 days).

Bills payables are secured by fixed deposits pledged to a bank (Note 12).

# 18 Accrued liabilities and other payables

|                          | The Company                     |                                | The Group                       |                                |
|--------------------------|---------------------------------|--------------------------------|---------------------------------|--------------------------------|
|                          | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 |
| Accrued liabilities      | 200                             | 1,899                          | 12,401                          | 10,230                         |
| Amount owing to director | 7,390                           | 4,195                          | 8,014                           | 5,488                          |
| Other payables           | 1,377                           | 1,033                          | 49,013                          | 48,042                         |
| VAT payable              | -                               | -                              | 1,011                           | 4,244                          |
|                          | 8,967                           | 7,127                          | 70,439                          | 68,004                         |

Amount owing to director and subsidiary's director are unsecured, interest free and repayable on demand.

Included in other payables is the royalties fee of RMB 38,239,000 (2014 - RMB 31,689,000) on technology license contract payable to a related party (parent of the subsidiary's directors).

Accrued liabilities and other payables are denominated in the following currencies:

|                  | The Company                     |                                | The Group                       |                                |
|------------------|---------------------------------|--------------------------------|---------------------------------|--------------------------------|
|                  | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 |
| Hong Kong dollar | 110                             | 510                            | 1,456                           | 1,439                          |
| Renminbi         | 3,511                           | 3,542                          | 63,634                          | 63,491                         |
| Singapore dollar | 5,346                           | 3,075                          | 5,349                           | 3,074                          |
|                  | 8,967                           | 7,127                          | 70,439                          | 68,004                         |

# 19 Bank borrowings

|                            | The Company                     |                                | The Group                       |                                |
|----------------------------|---------------------------------|--------------------------------|---------------------------------|--------------------------------|
|                            | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 |
| Bank borrowings (secured)  | -                               | -                              | 22,500                          | 74,700                         |
| Bank borrowing (unsecured) | -                               | -                              | -                               | -                              |
|                            | -                               | -                              | 22,500                          | 74,700                         |

Bank borrowings are denominated in RMB, repayable within one year, and are secured by:

- (i) Assets of the Group's subsidiaries and guaranteed by a director
- (ii) Mortgage of land use right (Note 4) and a factory building (Note 6); and

The outstanding bank borrowings of the Group exposed to interest rate risk are as follows:

|  | The Company                     |                                | The Group                       |                                |
|--|---------------------------------|--------------------------------|---------------------------------|--------------------------------|
|  | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 |
| At effective interest rate of 6.691 % per annum (2014 - 6.694 % per annum) | -                               | -                              | 22,500                          | 74,700                         |

Interest-bearing bank borrowings have a fixed interest rate of the contract period.

**20 Selling and distribution costs**

| The Group                       | 30 September 2015<br>RMB'000 | 30 September 2014<br>RMB'000 |
|---------------------------------|------------------------------|------------------------------|
| Salaries and related cost       | 2,165                        | 2,955                        |
| Advertisement                   | 10,810                       | 24,705                       |
| Subsidies to distributors       | 66,500                       | -                            |
| Depreciation of outlet fixtures | -                            | 707                          |
| Product sales tax supplement    | 983                          | 3,161                        |
| Others                          | 7,511                        | 1,666                        |
|                                 | <b>87,969</b>                | <b>33,194</b>                |

During the financial period ended 30 September 2015, the Group had provided RMB 66,500,000 to help to subsidise the distributors in closing their stores which mainly comprise of restoration fee. This was part of the Group's effort to reform its business for the future.

**21 Finance costs**

| The Group                           | 30 September 2015<br>RMB'000 | 30 September 2014<br>RMB'000 |
|-------------------------------------|------------------------------|------------------------------|
| Bank Borrowings handling fee        | 51                           | -                            |
| Interest charges on bank borrowings | 5,332                        | 5,838                        |
|                                     | <b>5,383</b>                 | <b>5,838</b>                 |

**22 (Loss)/Profit before taxation**

| The Group   | 30 September 2015<br>RMB'000 | 30 September 2014<br>RMB'000 |
|---|------------------------------|------------------------------|
| (Loss)/Profit before taxation is arrived at after charging/(crediting): |                              |                              |
| Amortisation of land use rights   | 272                          | 273                          |
| Amortisation of intangible assets and rights                            | 428                          | 428                          |
| Audit fees paid/payable to  |                              |                              |
| - auditors of the Company   | 828                          | -                            |
| Depreciation of property, plant and equipment                           | 8,031                        | 9,011                        |
| Directors' fees - directors of the Company                              | 1,436                        | 1,429                        |
| Exchange loss   | 54                           | 275                          |
| Minimum lease payments under operating leases                           | 480                          | 480                          |
| Impairment loss of trade receivables                                    | 480,585                      | -                            |
| Research expenses   | 3,331                        | 6,820                        |
| Staff costs:  |                              |                              |
| Directors' remuneration other than fee                                  |                              |                              |
| - directors of the Company  | 266                          | 266                          |
| - retirement scheme contribution  | 49                           | 49                           |
| Key management personnel (other than directors)                         |                              |                              |
| - salaries, wages and related costs                                     | 313                          | 315                          |
| - retirement scheme contribution  | 57                           | 60                           |
| Other than key management personnel                                     |                              |                              |
| - salaries, wages and related costs                                     | 29,331                       | 38,875                       |
| - retirement scheme contribution  | 6,746                        | 10,912                       |
|   | <b>36,762</b>                | <b>50,477</b>                |

## **23 Taxation**

Reconciliation between tax expense and accounting profit at applicable tax rates is as follows:

| The Group   | 30 September 2015<br>RMB'000 | 30 September 2014<br>RMB'000 |
|---|------------------------------|------------------------------|
| Current income tax on:  |                              |                              |
| Adjustments in respect of prior years                                     | -                            | -                            |
| Profit arising from operation in the PRC                                  | -                            | 17,525                       |
|   | -                            | 17,525                       |
| <br>(Loss)/Profit before taxation   | <br>(560,321)                | <br>67,457                   |
| Tax at statutory rate of 25% (2014 – 25%)                                 | (140,080)                    | 16,864                       |
| Tax effect on unutilised tax losses not recognized as deferred tax assets | 137,046                      | -                            |
| Tax effect on non-taxable income  | -                            | (350)                        |
| Tax effect on non-deductible expenses                                     | 3,034                        | 1,011                        |
|   | -                            | 17,525                       |

No provision for Singapore tax has been made as the Company did not derive taxable income in Singapore in the financial year. Wholly foreign-owned enterprises are subject to the PRC state and local income tax rates pursuant to the income tax laws of the PRC for foreign investment enterprises and foreign enterprises (the "Tax Laws").

The related deferred tax benefits of approximately RMB 137,046,000 (2014-RMB Nil) arising from the unutilised tax losses have not been recognised in the financial statements in accordance with Note 2 – Income tax to the financial statements. Deferred tax benefits have not been recognised in respect of the tax losses due to uncertainty of realisation.

## **24 Other comprehensive income after tax**

Disclosure of tax effects relating to each component of other comprehensive income:

| The Group                        | RMB'000<br>(Loss) / Profit Before tax | RMB'000<br>Tax expenses | RMB'000<br>Net of tax |
|----------------------------------|---------------------------------------|-------------------------|-----------------------|
| <b>30 September 2015</b>         |                                       |                         |                       |
| Currency translation differences | (173)                                 | -                       | (173)                 |
| <br>30 September 2014            |                                       |                         |                       |
| Currency translation differences | (216)                                 | -                       | (216)                 |

## **25 (Loss)/ Earnings per share**

The Group

The basic and diluted earnings per share are calculated based on the consolidated profits on the weighted average number of shares in issue of 961,538,000 shares (2014 - 961,538,000 shares) during the financial year. There is no potential dilution on earnings for the relevant financial years.

## **26 Dividends**

The Directors did not declare any dividend for the financial period ended 30 September 2015 (2014: Nil).

## **27 Related party transactions**

In addition to the related party information disclosed elsewhere in the financial statements, the following are significant transactions with related parties on negotiated rates:

|   | 30 September 2015<br>RMB'000 | 30 September 2014<br>RMB'000 |
|---|------------------------------|------------------------------|
| The Group   |                              |                              |
| Royalty fees on Technology License Contract payable to a related party (parent of the subsidiary's directors) | 38,239                       | 30,113                       |

## **28 Commitments**

Operating leases commitments

The total future minimum lease payments of the Group under non-cancellable operating leases are as follows:

|                              | 30 September 2015<br>RMB'000 | 31 December 2014<br>RMB'000 |
|------------------------------|------------------------------|-----------------------------|
| The Group                    |                              |                             |
| Within one year              | 960                          | 960                         |
| In the second to fifth years | 240                          | -                           |
|                              | 1200                         | 960                         |

The leases on the Group's office and hostel, and factory premises on which rentals are payable will expire on 31 December 2016. The current rent payable is RMB 80,000 per month.

## **29 Operating segments**

For management purposes, the Group is organised into two reportable operating segments, which are footwear as well as apparels and accessories. There are no operating segments that have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its operating segments for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as set out in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

Group's financing and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties, if any.

Insofar as to the analysis of major customers, the Group does not have a single customer whose revenue reports 10% of the Group's total revenue.

## 29 Operating segments (Cont'd)

The segment information provided to the management for the reportable segments is as follows:

|                                | Footwear              |                       | Apparel and accessories |                       | Total                 |                       |
|--------------------------------|-----------------------|-----------------------|-------------------------|-----------------------|-----------------------|-----------------------|
|                                | 30/09/2015<br>RMB'000 | 30/09/2014<br>RMB'000 | 30/09/2015<br>RMB'000   | 30/09/2014<br>RMB'000 | 30/09/2015<br>RMB'000 | 30/09/2014<br>RMB'000 |
| <b>Segment Revenue</b>         | <b>191,160</b>        | <b>573,741</b>        | <b>-</b>                | <b>40,770</b>         | <b>191,160</b>        | <b>614,511</b>        |
| <b>Segment Results</b>         | <b>(464,528)</b>      | <b>67,483</b>         |                         | <b>3,861</b>          | <b>(464,528)</b>      | <b>71,344</b>         |
| Interest income                |                       |                       |                         |                       | 490                   | 2,621                 |
| Unallocated other income       |                       |                       |                         |                       | 185                   | 326                   |
| Unallocated expenses           |                       |                       |                         |                       | (91,136)              | (996)                 |
| Finance cost                   |                       |                       |                         |                       | (5,332)               | (5,838)               |
| Operating (loss) / profit      |                       |                       |                         |                       | (560,321)             | 67,457                |
| Income tax credit / (expenses) |                       |                       |                         |                       | -                     | (17,525)              |
| <b>Net (loss) / profit</b>     |                       |                       |                         |                       | <b>(560,321)</b>      | <b>49,932</b>         |

### Other information

|   |           |         |   |      |           |         |
|---|-----------|---------|---|------|-----------|---------|
| Capital expenditures                            | -         | 123     | - | 9    | -         | (132)   |
| Depreciation of property, plant and Equipment   | (8,031)   | (8,959) | - | (52) | (8,031)   | (9,011) |
| Amortisation of land use rights and Intangibles | (700)     | (699)   | - | (2)  | (700)     | (701)   |
| Impairment loss on - trade receivables          | (480,585) | -       | - | -    | (480,585) | -       |
| - Interest receivables                          |           |         |   |      |           |         |

|                            | Footwear              |                       | Apparel and accessories |                       | Total                 |                       |
|----------------------------|-----------------------|-----------------------|-------------------------|-----------------------|-----------------------|-----------------------|
|                            | 30/09/2015<br>RMB'000 | 30/12/2014<br>RMB'000 | 30/09/2015<br>RMB'000   | 30/12/2014<br>RMB'000 | 30/09/2015<br>RMB'000 | 30/12/2014<br>RMB'000 |
| <b>Segment assets</b>      | <b>352,891</b>        | <b>668,079</b>        | <b>-</b>                | <b>39,446</b>         | <b>352,891</b>        | <b>707,525</b>        |
| <b>Segment liabilities</b> | <b>(88,103)</b>       | <b>(200,057)</b>      | <b>-</b>                | <b>(15,481)</b>       | <b>(88,103)</b>       | <b>(215,538)</b>      |

|           |                       |                       |
|-----------|-----------------------|-----------------------|
| The Group | 30/09/2015<br>RMB'000 | 30/12/2014<br>RMB'000 |
|-----------|-----------------------|-----------------------|

Reported segment assets are reconciled to total assets as follows:

|                        |                |                  |
|------------------------|----------------|------------------|
| Segment assets         | 352,891        | 707,525          |
| Cash and bank balances | 157,723        | 532,506          |
| Pledged fixed deposits | 35,163         | 45,875           |
| Deferred tax asset     | 44,244         | 44,244           |
| <b>Total assets</b>    | <b>590,021</b> | <b>1,330,150</b> |

Reported segment liabilities are reconciled to total liabilities as follows:

|                          |                |                |
|--------------------------|----------------|----------------|
| Segment liabilities      | 88,103         | 215,538        |
| Bank borrowings          | 22,500         | 74,700         |
| Deferred tax liability   | 7,377          | 7,377          |
| <b>Total liabilities</b> | <b>117,980</b> | <b>297,615</b> |

There is no geographical segment information presented as the Group is located and operates predominantly in the PRC.

### **30 Financial risk management objectives and policies**

The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk, including principally changes in interest rates and currency exchange rates. Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

As at 30 September 2015, the Group's financial instruments mainly consisted of cash and cash equivalents, trade and other receivables (excluding advances to suppliers and prepayments), trade and bill payables, accrued liabilities and other payables, and bank borrowings.

#### **30.1 Foreign currency risk**

Foreign currency risk is the risk that the value of a financial instrument that is denominated in a currency other than respective functional currencies of Group entities will fluctuate due to changes in foreign exchange rates.

The Group's businesses are principally conducted in Renminbi, except that interest income is mainly in Singapore dollar.

As at 30 September 2015, the non-Renminbi assets and liabilities of the Company and the Group are mainly bank deposits and non-trade payables in Singapore dollar. The Group has not entered into any forward exchange contract to hedge its exposure to foreign exchange risk.

#### Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in SGD exchange rates (against RMB), with all other variable held constant, of the Group's profit net of tax and equity.

|                               | As at 30 September 2015<br>RMB'000 | As at 31 December 2014<br>RMB'000 |
|-------------------------------|------------------------------------|-----------------------------------|
|                               | Profit<br>net of tax               | Profit<br>net of tax              |
|                               | Equity                             | Equity                            |
| SGD                           |                                    |                                   |
| - strengthened 5% (2014 - 5%) | +16                                | +30                               |
| - weakened 5% (2014 - 5%)     | -16                                | -30                               |

#### **30.2 Interest rate risk**

Interest rate risk is the risk that fair value or future cash flows of the Company's and the Group's financial instruments will fluctuate because of changes in market interest rates.

In respect of interest-bearing financial assets and financial liabilities, the following table indicates their effective interest rates at end of the reporting period and the periods in which they reprice or mature, whichever is earlier:

**30 Financial risk management objectives and policies (Cont'd)**

**30.2 Interest rate risk (Cont'd)**

| The Group                    |      |                                    |                  |                                |                            |  |
|------------------------------|------|------------------------------------|------------------|--------------------------------|----------------------------|--|
| 30 September 2015            | Note | Effective<br>interest<br>rate<br>% | Total<br>RMB'000 | Less than<br>1 year<br>RMB'000 | 1 to 5<br>years<br>RMB'000 |  |
| <b>Financial assets</b>      |      |                                    |                  |                                |                            |  |
| Pledged fixed deposits       | 12   | 3.00                               | 35,163           | 35,163                         | -                          |  |
| <b>Financial liabilities</b> |      |                                    |                  |                                |                            |  |
| Bank borrowings              | 19   | 6.69                               | 22,500           | 22,500                         | -                          |  |
| 31 December 2014             |      |                                    |                  |                                |                            |  |
| <b>Financial assets</b>      |      |                                    |                  |                                |                            |  |
| Pledged fixed deposits       | 12   | 3.00                               | 45,875           | 45,875                         | -                          |  |
| <b>Financial liabilities</b> |      |                                    |                  |                                |                            |  |
| Bank borrowings              | 19   | 6.69                               | 74,700           | 74,700                         | -                          |  |



**30 Financial risk management objectives and policies (Cont'd)**

**30.2 Interest rate risk (Cont'd)**

The Company and the Group are not exposed to any cash flows risk as they do not have any monetary financial instruments with variable interest rates.

**30.3 Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group's exposure to credit risk arises primarily from bank deposits and trade receivables.

For bank deposits, a majority of the cash at banks is held with reputable financial institutions in the PRC.

For trade receivables, management has a credit control policy in place. Credit evaluations are performed on all customers requiring credit over a certain amount. Transactions are conducted with customers with appropriate credit histories. The credit risk and amount outstanding is monitored on an on-going basis. With this credit evaluation process, credit control policies and collection procedures in place, the credit risk is mitigated substantially.

The Group performs on-going credit evaluation of its customers' financial condition and requires no collateral from its customers. The allowance for doubtful debts is based upon a review of the expected collectibility of all trade and other receivables.

There is no concentration of credit risk.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents, investment securities that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are past due but not impaired

The age analysis of trade receivables that are past due but not impaired is as follows. They are related to a number of independent customers for whom there is no recent history of default.

**30 Financial risk management objectives and policies (Cont'd)****30.3 Credit risk (Cont'd)**

Financial assets that are past due but not impaired (Cont'd)

|                    | The Group                       |                                |
|--------------------|---------------------------------|--------------------------------|
|                    | 30 September<br>2015<br>RMB'000 | 31 December<br>2014<br>RMB'000 |
| 90 to 120 days     | -                               | 94,587                         |
| More than 120 days | 39,945                          | 115,879                        |
|                    | <b>39,945</b>                   | <b>210,466</b>                 |

Further details of credit risks on trade receivables are disclosed in Note 10.

**30.4 Liquidity risk**

Liquidity risk is the risk that the Company or the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Company's and the Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The table below analyses the maturity profile of the Company's and the Group's financial liabilities based on contractual undiscounted cash flows:

**30 Financial risk management objectives and policies (Cont'd)**

**30.4 Liquidity risk (Cont'd)**

| The Group                       | Less than<br>1 year<br>RMB'000 | 1 to 5<br>years<br>RMB'000 | Total<br>RMB'000 |
|---------------------------------|--------------------------------|----------------------------|------------------|
| <b>At 30 September 2015</b>     |                                |                            |                  |
| Trade, bills and other payables | 88,103                         | -                          | 88,103           |
| Bank borrowings                 | 22,500                         | -                          | 22,500           |
|                                 | 110,603                        | -                          | 110,603          |
| <b>At 31 December 2014</b>      |                                |                            |                  |
| Trade, bills and other payables | 215,538                        | -                          | 215,538          |
| Guaranteed royalty payable      | -                              | -                          | -                |
| Bank borrowings                 | 74,700                         | -                          | 74,700           |
|                                 | 290,238                        | -                          | 290,238          |
| <b>The Company</b>              |                                |                            |                  |
| <b>At 30 September 2015</b>     |                                |                            |                  |
| Trade and other payables        | 32,642                         | -                          | 32,642           |
| <b>At 31 December 2014</b>      |                                |                            |                  |
| Trade and other payables        | 29,981                         | -                          | 29,981           |

The Group maintains sufficient level of cash and cash equivalents to meet its working capital requirements.

### 30 Financial risk management objectives and policies (Cont'd)

#### 30.5 Market price risk

The Group does not hold any quoted or marketable financial instruments; hence it is not exposed to any movement in market prices.

#### 30.6 Categories of financial instruments

|                                       | The Company          |                     | The Group            |                     |
|---------------------------------------|----------------------|---------------------|----------------------|---------------------|
|                                       | 30 September<br>2015 | 31 December<br>2014 | 30 September<br>2015 | 31 December<br>2014 |
|                                       | RMB'000              | RMB'000             | RMB'000              | RMB'000             |
| <b>Financial assets</b>               |                      |                     |                      |                     |
| Loans and receivables                 |                      |                     |                      |                     |
| Cash and bank balances                | 16                   | 19                  | 157,723              | 532,506             |
| Trade and other receivables           | 9                    | 10                  | 215,230              | 550,595             |
| Amounts owing by affiliated companies | 90,047               | 90,018              | -                    | -                   |
| <b>Financial liabilities</b>          |                      |                     |                      |                     |
| Amortised cost                        |                      |                     |                      |                     |
| Trade and other payables              | -                    | -                   | 17,664               | 147,534             |
| Bank borrowings                       | -                    | -                   | 22,500               | 74,700              |
| Amount owing to affiliated companies  | 23,675               | 22,854              | -                    | -                   |

### 31 Capital management

The Group's objectives when managing capital are:

- (a) To safeguard the Group's ability to continue as a going concern;
- (b) To support the Group's stability and growth;
- (c) To provide capital for the purpose of strengthening the Company's risk management capability; and
- (d) To provide an adequate return to shareholders.

**31 Capital management (Cont'd)**

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The Group also monitors its capital based on the net debt-to-adjusted capital ratio. Net debt is calculated as borrowings plus trade and other payables less cash and bank balances. Adjusted capital comprises all components of equity less restricted statutory reserve.

The Group's net debt to equity ratio as at 30 September 2015 and 31 December 2014 are as follows:

|                                    | <b>30 September<br/>2015</b> | <b>31 December<br/>2014</b> |
|------------------------------------|------------------------------|-----------------------------|
|                                    | <b>RMB'000</b>               | <b>RMB'000</b>              |
| The Group                          |                              |                             |
| Total debt                         | 110,603                      | 290,238                     |
| Less: Cash and bank balances       | (157,723)                    | (532,506)                   |
| Net cash                           | (47,120)                     | (242,268)                   |
| Total equity                       | 472,041                      | 1,032,535                   |
| Less: Statutory reserve            | (87,938)                     | (87,938)                    |
| Adjusted capital                   | 384,103                      | 944,597                     |
| Net debt-to-adjusted capital ratio | N/A                          | N/A                         |

In order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, buy back issued shares, obtain new borrowings or sell assets to reduce debt.

There were no changes in the Group's overall approach to capital management during the year. The Group currently does not adopt any formal dividend policy.

**32 Financial Instruments**

**Fair values**

The carrying amount of the financial assets and financial liabilities with a maturity of less than one year is assumed to approximate their fair values.

The Group does not anticipate that the carrying amounts recorded at end of reporting period would be significantly different from the values that would eventually be received or settled.

**33 Event after reporting date**

On 30 December 2015, the Company has entered into a subscription agreement (the “Subscription Agreement”) with four (4) individual subscribers. The Subscription Shares represents 192,000,000 number of shares which approximately 19.97% of the Existing Issued Share Capital as at the date of this financial statement and 16.64% of the Enlarged Issued Share Capital following the completion of the Proposed Subscription.

Except for the event disclosed above, there is no material subsequent event that occurred from the end of the reporting period till the date of authorization of these financial statements..

**34 Comparative figures**

The comparative figures presented in the consolidated statement of comprehensive income and consolidated statement of cash flows were extracted by the management for comparative purpose, and have not been audited.