361 DEGREES INTERNATIONAL LIMITED
STOCK CODE: 1361

Annual Report 2012

361°

CONTENTS

Company Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Yan Man Sing Frankie（甄文星）
Sun Xianhong（孫先紅）
Liu Jianxing（劉建興）
Tsui Yung Kwok（徐容國）

BOARD COMMITTEES

Audit Committee

Yan Man Sing Frankie（甄文星）*(Chairman)*
Sun Xianhong（孫先紅）
Liu Jianxing（劉建興）
Tsui Yung Kwok（徐容國）

Remuneration Committee

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

Nomination Committee

Liu Jianxing（劉建興）*(Chairman)*
Ding Wuhao（丁伍號）
Yan Man Sing Frankie（甄文星）
Tsui Yung Kwok（徐容國）

COMPANY SECRETARY

Choi Mun Duen（蔡敏端）*FCCA, HKICPA*

AUTHORISED REPRESENTATIVES

Ding Wuhao（丁伍號）
Choi Mun Duen（蔡敏端）

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

STOCK CODE

01361

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR

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

AUDITOR

KPMG

LEGAL ADVISERS

As to Hong Kong law:

Orrick, Herrington & Sutcliffe

As to Cayman Islands law:

Conyers Dill & Pearman

PRINCIPAL BANKERS

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

COMPANY WEBSITE

www.361sport.com

Financial Highlights
For 2012

Gross profit margin was dropped by
2.6 percentage points to 39.8%

Turnover decreased by
11.1% to RMB4,950.6 million

FINANCIAL PERFORMANCE

Turnover decreased by 11.1% to RMB4,950.6 million

Gross profit dropped by 16.5% to RMB1,972.3 million

Operating profit decreased by 37.6% to RMB864.4 million

Profit attributable to the equity shareholders was RMB707.2 million, representing a decrease of 37.6%

Gross profit margin decreased by 2.6 ppts to 39.8%

Basic earnings per share is RMB34.2 cents, representing a drop of 37.6%

Proposed to declare a final dividend of RMB7.0 cents per share

Profit attributable to the equity shareholders was **RMB707.2 million, representing a decrease of 37.6%**

BUSINESS PERFORMANCE

Total number of *361°* retail outlets increased from 7,865 to 8,082

Income from the sales of *361°* Kids products increased by 97.7% to RMB370.1 million

Supplementary Financial Information
– Financial Summary

	For the year ended 31 December		
	2012	2011	2010
Profitability data (RMB'000)			
Turnover	**4,950,578**	5,568,678	4,849,010
Gross profit	**1,972,312**	2,362,810	2,010,876
Operating profit	**864,413**	1,385,024	1,146,824
Profit attributable to equity shareholders	**707,208**	1,133,050	982,838
Earnings per share			
– basic (RMB cents)	**34.2**	54.8	47.6
– diluted (RMB cents)	**31.8**	54.6	47.3
Profitability ratios (%)			
Gross profit margin	**39.8**	42.4	41.5
Operating profit margin	**17.5**	24.9	23.7
Net profit margin	**14.3**	20.4	20.1
Effective income tax rate (Note 1)	**18.9**	18.3	17.5
Return on shareholders' equity (Note 2)	**15.8**	28.7	30.0
Operating ratios (as a percentage of turnover) (%)			
Advertising and promotion expenses	**10.6**	7.8	10.3
Rack subsidies	**4.1**	3.1	0.6
Staff costs	**6.9**	7.5	5.4
Research and development	**1.7**	1.5	1.2

Notes:

1) Effective income tax rate is equal to the current tax divided by the profit before taxation excluding the net change in fair value of derivatives embedded in convertible bonds.

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

	As at 31 December		
	2012	2011	2010
Assets and liabilities data (RMB'000)			
Non-current assets	**1,279,223**	1,181,172	938,604
Current assets	**5,932,987**	4,400,105	3,866,759
Current liabilities	**1,726,168**	1,274,945	1,148,370
Non-current liabilities	**755,579**	5,817	2,715
Equity attributable to equity shareholders	**4,678,060**	4,256,133	3,627,293
Non-controlling interests	**52,403**	44,382	26,985
Asset and Working Capital data			
Current asset ratios	**3.4**	3.5	3.4
Gearing ratios (%) (Note 3)	**11.0**	3.2	0.2
Net asset value per share (RMB) (Note 4)	**2.3**	2.1	1.8
Inventory turnover days (days) (Note 5)	**56**	40	22
Trade receivable turnover days (days) (Note 6)	**149**	108	91
Trade and bills receivable turnover days (days) (Note 7)	**165**	119	95
Trade and bills payable turnover days (days) (Note 8)	**112**	89	108
Working capital turnover days (days)	**109**	70	9

Notes:

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

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

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

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

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

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

Supplementary Financial Information

CONSOLIDATED INCOME STATEMENT

for the years ended 31 December 2012 and 2011

	2012 RMB'000	2011 RMB'000
Turnover	**4,950,578**	5,568,678
Cost of sales	**(2,978,266)**	(3,205,868)
Gross profit	**1,972,312**	2,362,810
Other revenue	**81,045**	72,230
Other net gain	**2,894**	3,437
Selling and distribution expenses	**(889,067)**	(753,890)
Administrative expenses	**(302,771)**	(299,563)
Profit from operations	**864,413**	1,385,024
Net change in fair value of derivatives embedded to convertible bonds	**32,936**	–
Finance costs	**(66,975)**	(833)
Profit before taxation	**830,374**	1,384,191
Income tax	**(115,145)**	(248,333)
Profit for the year	**715,229**	1,135,858
Attributable to:		
Equity shareholders of the Company	**707,208**	1,133,050
Non-controlling interests	**8,021**	2,808
Profit for the year	**715,229**	1,135,858
Earnings per share		
Basic (cents)	**34.2**	54.8
Diluted (cents)	**31.8**	54.6

CONSOLIDATED BALANCE SHEET

at 31 December 2012 and 2011

	2012 RMB'000	2011 RMB'000
Non-current assets		
Fixed assets		
– Property, plant and equipment	**958,049**	892,263
– Interests in leasehold land held for own use under operating leases	**99,754**	99,926
	1,057,803	992,189
Other financial asset	**17,550**	17,550
Deposits and prepayments	**142,140**	141,887
Deferred tax assets	**61,730**	29,546
	1,279,223	1,181,172
Current assets		
Inventories	**460,715**	451,264
Trade debtors	**1,928,040**	2,110,008
Bills receivable	**183,470**	244,800
Deposits, prepayments and other receivables	**567,223**	794,684
Pledged bank deposits	**95,730**	127,685
Deposits with banks	**590,791**	211,902
Cash and cash equivalents	**2,107,018**	459,762
	5,932,987	4,400,105
Current liabilities		
Trade and other payables	**1,591,474**	1,023,983
Bank loans	**42,315**	28,781
Other loan	**–**	150,000
Current taxation	**92,379**	72,181
	1,726,168	1,274,945
Net current assets	**4,206,819**	3,125,160
Total assets less current liabilities	**5,486,042**	4,306,332
Non-current liabilities		
Deferred tax liabilities	**2,517**	5,817
Convertible bonds	**753,062**	–
	755,579	5,817
NET ASSETS	**4,730,463**	4,300,515
CAPITAL AND RESERVES		
Share capital	**182,298**	182,298
Reserves	**4,495,762**	4,073,835
Total equity attributable to equity shareholders of the Company	**4,678,060**	4,256,133
Non-controlling interests	**52,403**	44,382
TOTAL EQUITY	**4,730,463**	4,300,515


361°

The Group actively coped with the challenges in the market by enhancing the distribution channel's efficiency

Chairman Statement

Chairman Statement

Dear Shareholders,

On behalf of the board of directors ("the Board") of 361 Degrees International Limited, I am pleased to present the audited annual results of the Company and its subsidiaries ("the Group") for the year ended 31 December 2012.

In 2012, the sportswear industry in China experienced substantial changes. Competition among the sportswear brands intensified because retail stocks piled up to excess following a continuing rapid expansion of sales channels while the economic slowdown affected the consumer market. Product-homogeneity also exacerbated the competition in the market. In order to improve inventory turnover, industry peers widely offered heavy discounts and aggressive price promotions, bringing the whole industry under severe pressure. Specifically, China's sportswear industry made their retail outlets react more promptly and flexibly to the market changes in addition to doing price promotions, aiming to improve the current situation through channel optimization.

During the year, the Group actively coped with the challenges in the market by enhancing the distribution channel's efficiency. It stepped up its effort in monitoring the sales network and providing guidance and training for the retail channels to reinforce operational management. At the same time, the Group accelerated the turnover of inventory by launching products that better fit consumer needs based on the findings from detailed market surveys, and helping stores adopt effective retail sales tactics. These measures aimed at maintaining the Group's channel inventory at a healthy and stable level.

The Group is optimistic about the long-term development of the sportswear industry.

As the industry has been facing a challenging business environment, the Group adopted a more prudent approach in assessing its plan for opening new stores according to the actual market conditions. It will also plan the sales network expansion under the principle of maintaining an organic growth. Second-to-fourth-tier cities will remain the focuses of the Group's development. The Group will expand its market in western and northern China and consolidate its presence in eastern and southern China to further optimize its nationwide network. The number of retail outlets of the Group as at 31 December 2012 amounted to 8,082, representing a net increase of 217 as compared with that at the end of 2011.

As the business highlight of 2012, *361°*Kids, the Group's kids' wear business, took off after two years of development, proving the great potential of the kids' wear market. The kids' wear business will be a growth driver of the Group's long-term development. As one of the first-movers of the sportswear industry to enter the kids' wear market, the Group recorded a rapid growth last year in the children's clothing business as its kids' wear points of sales increased by 433 to a total number of 1,590 by the end of 2012. It plans to open 150 stores in 2013. At the same time, the Group spearheaded cross-sector marketing. After products like "Batman" and "Spiderman" were highly welcomed in the market following their launches in 2012, the Group struck a deal with Warner Brothers in the third quarter of 2012 to obtain the franchise to use icons of the film "Man of Steel" to produce kids' and adults' lifestyle wear. We believe that all these projects will lay a solid foundation for the steady progress of the Group's kids' wear business.

For the year ended 31 December 2012, turnover amounted to RMB4,950.6 million. Revenue from the kid's wear business rose as a proportion of the Group's turnover and accounted for 7.5% for the year. Profit attributable to shareholders amounted to RMB707.2 million. Basic earnings per share were RMB34.2 cents (2011: RMB54.8 cents). The Board proposed a final dividend of RMB7.0 cents per share for 2012.

After engaging swimmer Sun Yang, London Olympic gold medallist of two events, and U.S. NBA basketball star Kevin Love as the spokespersons of its products, the Group, during the year, signed up Stephon Marbury, who was twice a member of the NBA All Star team, to use his image of a professional athlete in its market positioning and enhance the influence of the *361°* brand. For major sports events, the Group secured the capacity of a sportswear sponsor in "2014 Summer Youth Olympics", a world-class sports event for youths, during the year. It will provide apparel for volunteers, technicians and staff of the youth Olympics. To enhance the attractiveness of *361°* brand in the consumer market, the Group signed up a female pop singer, 吉克隽逸 (Jikejunji in Mandarin Chinese pinyin) as the spokesperson of its products during the year with an aim of boosting retail sales with her influence. 吉克隽逸 had brilliant performance in "The Voice of China", which was a well-known singing contest programme in China that had a high audience rating.

During the year, the Group continued to open official flagship stores to sell apparel, footwear and accessories on taobao.com（淘寶網）and 360buy.com（京東商城）, which are popular online retail platforms. The move aimed at meeting the ever-changing shopping needs of consumers. Meanwhile, the Group also sold its products to overseas markets, such as Middle East and South Africa through independent third-party distributors.

Looking ahead, the sportswear industry will continue to pursue reform and transformation amid the keen competition in the market. In the short term, improving inventory turnover will still be the key issue of the industry. Nevertheless, with the Central Government's policy to stimulate economic growth with domestic demand in 2013, the country's ongoing urbanization, improving living standards and the public's growing health consciousness, the Group is still optimistic about the long-term development of the sportswear industry.

The Group will continue to strengthen its inventory management through e-POS system to effectively maintain its inventory at a healthy level. In view of the current business environment, the Group's collaborations with distributors and retailers are getting more important. The Group will strengthen its cooperation with the said partners and flexibly adjust its tactic at the sales channel according to the changing market conditions. Besides, it will design and launch products that better fit consumer needs with thorough research and development, market research and feedbacks from the market, in order to increase same-store sales.

Meanwhile, the Group will innovate its business model in the existing channels. In large-scale shopping malls such as 萬達城市廣場 (Wanda City Mall), high performance-to-cost products that are suitable for all ages, such as adult and kids fashion casual wear, lifestyle and fashion sports series, are offered through "*361°* 時尚服飾集合店" (*361°* Family Fashion), in order to cater needs for future market development.

There is an increasingly higher requirement for brand and product value by consumers. The Group will keep putting more resources in the R&D on the functions and quality of the products. Moreover, it will build up the core competitiveness of the brand with its *361°* Asian Design Centre and through its collaboration with the Beijing Institute of Fashion Technology. In its marketing effort, the Group will actively seek sponsorship of major sports events and sign up professional athletes to promote its products as it did in the past to epitomize the spirit of "One Extra Degree of Passion".

Lastly, on behalf of the Board, I would like to express my sincere gratitude to our management and all our staff for their continuous efforts amid the hard times in the industry. We are also truly grateful to our shareholders and customers for their enormous support and trust.

Ding Huihuang
Chairman

Hong Kong, 5 March 2013


361°
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361°

We believe that our focus
on quality and design would set us apart
and help our brand stand out

Management Discussion and Analysis

INDUSTRY REVIEW

China's economic growth experienced a slow down in the first three quarters of 2012 but rebounded in the fourth quarter. The deceleration in the domestic economic growth was partly due to the impact of the Euro-zone sovereign debt crisis on the country's export industries, which engaged a considerable proportion of the country's labour and thus indirectly affected the domestic demand. In the financial year under review, China's domestic market for sportswear was intensely competitive and difficult because of oversupply, which drove down the products' average selling prices and gross profit margins. The sportswear industry was faced with high inventory following a period of rapid, volume-driven growth, and had to take measures to clear the market glut. Such measures included retailing goods at substantial discounts, cancelling some of the orders placed at trade fairs, curtailing the expansion of the retail outlets and increasing the marketing efforts. The sportswear companies were also developing new products and adjusting product mix to meet the changing needs of the market. As a result, the Group's profit attributable to its shareholders decreased by 37.6% in 2012 when compared with the year ended 31 December 2011.

To cope with the challenges and to consolidate its positions in the high-end markets of China's first and second-tier cities and its principal mid-priced and low-end markets of the country's third-tier and smaller cities, the Group continued to step up its effort in product research and development, brand building, marketing and controlling inventory in the sales channel. The Group's farsighted decision to launch *361°* Kids, the Group's children's wear product line, in 2010 to diversify its product portfolio, broaden its income source and bring huge value to the Group during the most difficult year of its history. The fledgling *361°* Kids product line grew rapidly as a proportion of the Group's turnover and in terms of sales value. The Board believe this product line will become a growth driver in the future. In addition, the Group also worked to control the inventory level at the sales channel by agreeing with its distributors to cancel some of the orders placed at the trade fairs for the not yet produced goods. It also helped retailers raise their store efficiency by providing them with training and rack subsidies to improve the presentation of goods and the shopping environment as well as by promoting the ePOS (electronic point-of-sale system).

BUSINESS REVIEW

Sales and distribution network

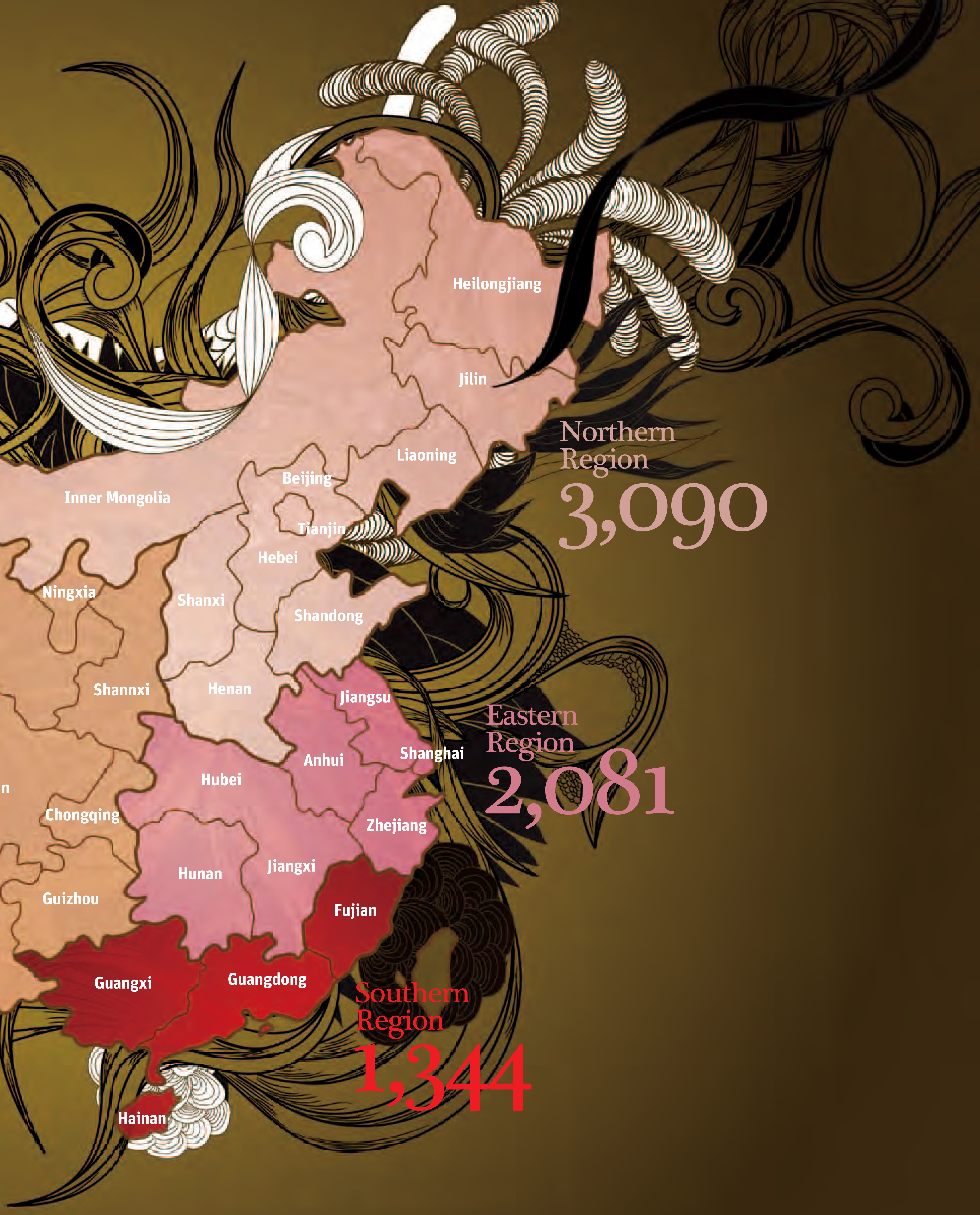
The Group and its distributors worked together to cope with the challenges posted by oversupply on the sportswear market, and continued with its exclusive distributorship business model, which brought such benefits as economies of scale, more cost-effective marketing and promotional campaigns and better inventory control.

The measures taken included controlling the inventory at the sales channel and enhancing the sales and marketing effort at the retail outlets. Specifically, the Group and its distributors agreed on cancelling some of the orders placed at the trade fairs for goods not yet produced. Every players in the industry took a prudent approach to placing and receiving the orders for sportswear. This was reflected by the year-on-year declines of 23% in the orders placed at the 2013 Spring/Summer trade fair.

The Group also assisted the retailers in raising their store efficiency by providing them with training and rack subsidies of approximately RMB203.0 million to improve the presentation of goods and renovate the shopping environment. For instance, pop-up displays featuring a monthly theme of different sports and related sports stars were put up in the retail stores to showcase the latest products. The move was aimed at raising awareness of the brand and boosting sales.

In the financial year under review, the number of exclusive distributors was 31. The distributors themselves oversaw 3,336 dealers, who in turn owned and managed a total of 8,082 retail outlets for adults' sportswear as at 31 December 2012, representing a net increase of 217 from 7,865 a year earlier. About 72% of the stores was located in the third tier and smaller cities where the Group had established brand influence. The majority of the stores remained in northern China (3,090 stores) and eastern China (2,081 stores). Of the total number of retail point of sales, 5,555 were standalone stores as at the end of December 2012, accounting for approximately 68.7% of the total retail sales outlets for adults' sportswear. The average size of a typical store increased to approximately 100.7 square metres (sq.m.).


Western
Region
1,567
Xinjiang
Gansu
Qinghai
Tibet
Sichuan
Yunnan


Heilongjiang
Jilin
Liaoning
Northern Region
3,090
Beijing
Inner Mongolia
Tianjin
Hebei
Ningxia
Shanxi
Shandong
Shannxi
Henan
Jiangsu
Eastern Region
Shanghai
Anhui
Hubei
2,081
Chongqing
Zhejiang
Hunan
Jiangxi
Guizhou
Fujian
Guangxi
Guangdong
Southern Region
1,344
Hainan

Management Discussion and Analysis

	As at 31 December 2012		As at 31 December 2011		
	Number of *361°* authorized retail outlets	**% of total number of *361°* authorized retail outlets**	Number of *361°* authorized retail outlets	% of total number of *361°* authorized retail outlets	Change (%)
Eastern region[1]	**2,081**	**25.8**	2,046	26.0	1.7
Southern region[2]	**1,344**	**16.6**	1,265	16.1	6.2
Western region[3]	**1,567**	**19.4**	1,505	19.1	4.1
Northern region[4]	**3,090**	**38.2**	3,049	38.8	1.3
Total	**8,082**	**100**	7,865	100	2.8

Notes:

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

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

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

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

As at 31 December 2012, there were four *361°* Towns operated by authorized retailers in Zhengzhou, Jinan, Wuhan and Harbin. These megastores, averaging 1,100 sq.m. in size, are designed to bolster the brand image of *361°*. They complemented the Group's wide distribution network by both strengthening brand-building and unifying brand image.

In view of the sportswear market glut which followed some years of the industry's rapid and volume-driven growth, the management of the Group deemed it appropriate to be prudent with the expansion of the points of sales for its adults' sportswear business, and decided not to set any target for the number of new stores to be added in 2013. Instead, the Group will focus on product development and marketing to reinforce its market position.

Amid market consolidation, the Group's same-store sales growth was decelerating throughout the first three quarters of 2012 (6.9%, 5.1% and 4.1%, respectively) and rebounded slightly to 4.3% in the fourth quarter. When compared with the same-store sales growth in 2011, that of 2012 was considerably smaller.

The channel inventories at the retail level were ranging between 4.1 to 4.3 times in 2012. By the end of the fourth quarter of 2012, the inventory level at the sales channel was 4.05 times the average monthly sales in that quarter, showing an improvement when compared with the 4.1 times at the end of third quarter of 2012 and the 4.2 times at end of the fourth quarter of 2011.

The average selling price of the adults' sports apparel decreased to RMB79.4 per item in 2012 from RMB94.7 in 2011 (six months ended 31 December 2011: RMB117.8), while the average selling price of the adults' footwear rose to RMB106.3 per item in 2012 from RMB102.6 in 2011 (six months ended 31 December 2011: RMB116.9).

361° Kids

The Group's *361°* Kids product line was a bright spot in its performance for the year under review. The fledgling business of children's outfit, footwear and accessories grew rapidly as a proportion of the Group's turnover and in terms of sales value as it began to achieve better economies of scale and its products gained traction in the domestic market. Its revenue surged by 97.7% to RMB370.1 million, accounting for 7.5% of the Group's turnover (year ended 31 December 2011: RMB187.1 million and six months ended 31 December 2011: RMB72.8 million). The growth was stimulated by the Group's success in obtaining the licensing rights to use the American comic icons of Batman and Spider Man respectively from Warner Bros. Consumer Products Inc. and Marvel Characters Inc. to design, produce and sell children's wear and accessories. In July, 2012, the Group struck another deal with Warner Bros. Consumer Products Inc to obtain a franchise to use the icon of Superman of the upcoming American superhero film Man of Steel in its kids' wear. The launch of the products with the comic icons into the market was an instant success, enhancing awareness of the *361°* Kids brand. The average selling price of a kids' product rose to RMB57.3 in 2012 from RMB54.0 and RMB45.6 for the six months ended 31 December 2011 and the year ended 31 December 2011, respectively.

The *361°* Kids points of sales totaled 1,590 as at 31 December 2012, representing a net addition of 433 points of sales from 31 December 2011. Of the 1,590 points of sales, 553 were counters at the department stores or hypermarket, while 735 were standalone stores, and 302 were booths at the adults' sportswear stores.

Operated separately from the Group's adults' sportswear business, *361°* Kids does its design, procurement and out-sourcing independently. The kids' wear business will continue with its plan of opening about 150 new *361°* Kids points of sales in 2013 as it is set on tapping China's huge, burgeoning kids' wear market for business growth. This line of business will develop into a growth driver.

ePOS gained traction among the retail outlets

As at 31 December 2012, 5116 stores, or 63.3% of the Group's total 8,082 retail outlets adopted an electronic point-of-sale system ("ePOS"), which is directly linked to the central servers of the Group's headquarters in Xiamen. The online and real-time ePOS enhanced the Group's ability to monitor sales, identify customer preferences, manage inventories and thus respond more promptly to market changes.

Brand promotion and marketing

The Group maintained its effort in building brand and marketing in order to differentiate itself from its peers and consolidate its foothold in the market. Such move was especially important when industry players could not rely on sales volume for growth amid the market glut.

With the *361°* positioned as a mass market brand targeting sports fans aged between 18 and 30, the Group developed a Chinese marketing slogan "多一度熱愛", which literally meant "One Extra Degree of Passion" for pursuing excellence. Our focus on excelling in quality and design of sportswear also echoed the athletes' passion for pursuing excellence in sports. By aligning the goals of the Group, the athletes and the sports fans, the Group has built a brand to foster customer loyalty.

Aiming at enhancing the recognition of the *361°* brand and the Group took a three-pronged strategy in promoting its brand and marketing. The strategy comprised major sports event sponsorship, strategic partnerships with a major state media and appointing celebrity athletes as spokespersons of the Group's products.

During the year under review, the Group stepped up its effort in sponsoring major sports events. A notable sports event which it sponsored was the 3rd Asian Beach Games held in June 2012. About 1,600 athletes from 45 countries and regions around Asia participated in the Asian Beach Games. As a co-sponsor of the event, *361°* provided the event's uniforms for the Chinese delegations, workers, volunteers and technicians to achieve maximum exposure for the brand. The "beach series" sportswear was offered for sale in the stores at Shandong Province where the Game was held and was also available for sale on popular online platforms such as Taobao and TMall. In 2011, the Group successfully secured the exclusive rights to be the official sports apparel sponsor for the Second Youth Olympic Games in Nanjing to be held in 2014.

In the year under review, the Group formed strategic partnership with China's national sports TV channel CCTV-5, which had broad coverage over a broad range of sports and exclusive rights to broadcast certain major sports events over nationwide television networks in the country. In 2012, CCTV-5 broadcasted the London Olympics, in which China's athletes performed with flying colours, making China to rank second in the Olympic medal tally. The nationwide broadcast coverage of China's national sports teams also allowed *361°* brand extensive media coverage.

For the year under review, the Group also appointed some famous sports stars as the spokespersons for its products. For instance, it hired London Olympics gold medalist of 400m and 1,500m freestyle swimming Sun Yang, U.S. NBA basketball star Kevin Love (Minnesota Timberwolves NBA All-Star), Stephon Marbury (a two-time NBA All-Star, now a point guard with the Beijing Ducks, the 2011/12 winner of the Chinese Basketball Association championships and voted Most Valuable Player) a few Jamaican hurdlers and runners, as the Group's spokespersons to promote the sports in which they excelled and to enhance the awareness of the *361°* brand. Apart from the athletic spokesmen, the Group also recently signed Jikejunji（吉克隽逸）, the second runner-up in the 2012 highly successful "Voice of China" talent show as the spokesman for the lifestyle brand – Shine. All these celebrities helped the Group project an image of a professional sportswear company.

During the year under review, the Group reached out to target consumers effectively by sponsoring a number of professional sports teams.

Sponsorship of professional sports teams

- China National Cycling Team
- China National Triathlon team
- China National Modern Pentathlon Team
- China National Handball Team
- China National Softball Team
- China National Hockey Team
- China National London 2012 Paralympic Games Delegation
- North Korea London 2012 Olympics Delegation
- Maldives London 2012 Olympics Delegation
- Belarus London 2012 Olympics Delegation
- Croatia London 2012 Olympics Delegation
- Latvia London 2012 Olympics Delegation
- Swedish National Curling Team

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

Sponsorships of professional sports events

TIME	EVENT	CAPACITY
2010-2015	*361°* Men/Women's National Volleyball Tournament series	Sole Title Sponsor
2007-2013	*361°* China University Basketball Super League	Designated Partner
2012	Haiyang 2012 3rd Asian Beach Games	Prestige Partner
2012	World Men's & Women's Curling Championship	Designated apparel sponsor
2009-2013	China Table Tennis Super League	Title Sponsor
2009-2013	CCTV Channel 5	Sportswear sponsor for hosts and journalists
2009-2013	Jinmen Marathon	Designated sports footwear and apparel sponsor
2011-2013	Chongqing Marathon	Designated sports footwear and apparel sponsor
2013-2014	World Women's Curling Championship	Designated apparel sponsor
2012	Asian Men's & Women's Championship (Handball)	Sportswear Sponsor for the referee and technical officials
2012-2013	Asian Club League (Handball)	Sportswear Sponsor for the referee and technical officials
2013	Asian Men's & Women's Beach Handball Championship	Sportswear Sponsor for the referee and technical officials
2014	Nanjing 2014 Youth Olympics	Sportswear sponsor

Product design and development

Maintaining an edge in product innovation and research and development is the key to differentiating the Group from its competitors in China's sportswear market.

In the year under review, the Group continued to cooperate with the Research and Development Centre in Guangzhou to develop performance sports shoes for the Chinese national sports teams which 361 Degrees sponsored. The athletes' feedback also served as valuable input for the research and development centre as it kept improving or upgrading the products in terms of functionality, comfort, and design. The cooperation yielded 30 patents as at 31 December 2012 including Trigrip, Oliga and NFO.

Meanwhile, the Group's partnership with Beijing Institute of Fashion Technology was making progress in developing quality sportswear with new fabrics and designs to enhance athletes' performance. As at 31 December 2012, 7 patents on the innovation of new fabrics and clothes designs were obtained. The partnership helps to nurture the design professional with the base of scientific research and innovation of high-technology fabric to help the Group keep abreast of the latest trends in fashion, fabrics and styles. The Group also set up a 10-year scholarship award program for the distinctive students of the Institute.

As of 31 December 2012, there were 116 research and development staff for footwear and 289 research and development staff for the apparel, accessories and children's wear. The Group's R&D spending amounted to about 1.7% of turnover for 2012. (for the year ended 31 December 2011: 1.5% and six months ended 31 December 2011: 1.5%.)

Production

As at the end of December 2012, the Group owned 23 footwear production lines in the Wuli Industrial Park and Jiangtou. The 23 footwear production lines provided an annual production capacity approximately 21 million pairs of footwear. The apparel factory in Wuli Industrial Park launched in 2010 with an annual production capacity of 10 million pieces. The Group try to maintain an optimum balance between in-house and outsourced production, considering the factors of production costs, labour and overheads. It has also provided all sorts of facilities and amenities e.g. kindergarten, supermarket, computer, library, mini-cinema, snookers, yoga class and fitness centre, to adhere every 361's worker.

Due to the severe market environment, the sales volume has been decreased, the Group rented 3 production lines to an OEM suppliers and considered that the rental of production lines could lower the cost of running spare machineries and save the cost on keeping excess labour. Continuous demand on the young labour from different markets and areas have increased pressure on keeping skilled workers. The annual production capacity for these 3 production lines are 3 million pairs of footwear and the rental period started from April 2012 to March 2013.

Distributorship Model

The Group adopts the distributorship model which is prevalent in the sportswear industry in China. Under this model, the Group sells products exclusively to its distributors at a uniform discount to the suggested retail price. The distributors in turn sell these products to the authorized retailers at a price which is a uniform discount to the suggested retail price which has been approved by the Company. The authorized retailers then sell the Group's products to consumers in authorized retail outlets. The Board considers such business model has the benefits of achieving the business growth by leveraging the resources of the distributors, as well as the expertise in retail distribution and retail management and local relationships of the distributors. It also enables the Group to focus on designing and developing new and innovative sportswear products, to allocate resources to developing the brand and marketing of the products. The Group's distributors are buyers of our *361°* products and they are not our agent. The Company enters into a distributorship agreement with each of our distributors annually which generally includes the following principal terms:

(i) Duration – The agreement has a term of one year;

(ii) Geographical exclusivity – Each distributor is exclusively authorised to sell our *361°* products within a specific geographic area and is not permitted to sell outside of such area;

(iii) Product exclusivity – Distributors are prohibited from distributing or selling any products that compete with our *361°* products;

(iv) Sales channel and network – Without permission from the Group, distributors are not allowed to sell the Company's product through the electronic commerce platform developed by itself or any third parties;

(v) Undertakings – Our distributors are required to comply with our sales policies, adhere to our pricing policies, and adopt our standardised outlet design and layout in the authorised retail outlets within their exclusive geographic area;

(vi) Pricing – We sell our products to our distributors at a uniform price across all distributors;

(vii) Protection of our intellectual property rights – Our distributors are only allowed to use our intellectual property in connection with the sale of our *361°* products and we require our distributors not to participate or assist in any activities that may infringe upon our intellectual property rights;

(viii) Renewal – Negotiations for renewal of the distributorship agreements will usually takes place 60 days prior to their expiry date;

(ix) Transportation insurance – Our distributors are responsible for making their own delivery arrangements with the risk of loss of or damage to products during transport being borne by the distributors;

(x) Returned goods arrangements – Our distributors will only be able to return the goods we sold to them if there are quality problems. There was no returned goods for the year ended 31 December 2012;

(xi) Termination rights – We are entitled to terminate the agreement in certain circumstances (for example: for breach of the agreement by the distributors, sale by the distributors of pirated products, material damages to our brand image caused by the distributors). Our distributors do not have termination rights under the agreements; and

(xii) Distributors who breach any of (i) to (iv) above must return all the relevant profit to the Group with an additional fine of RMB1 million.

Management Discussion and Analysis

The distribution agreements entered with our distributors do not contain any obsolete stock arrangement as we do not treat any of our stock as being obsolete. Authorized retailers with excess inventory may attempt to sell such excess inventory through regular and special end-of-season sales. The authorized retailer may also sell such excess inventory to a factory outlet in its own province.

Our sales return policies only allows the distributors to return products to the Group due to material quality defects. Distributors should inspect the products and, where defective products are found, may report the alleged defect to the Group. Such reports must be made within three days of delivery. The Group is not responsible for defects caused by improper storage by the distributors and improper use by consumers. For the year ended 31 December 2012, the Group did not receive any notifications with respect to quality defects or any sales return from customers. Our distributors are not allowed to return products to the Group by reason of such products being unsold.

Distributors are invoiced upon delivery of the Group's products and the Group recognize the sales of goods when the products leave the Group's warehouse. At that time, such distributor has accepted the risks and rewards of ownership. The Group generally provides a credit period between 30 and 180 days to the distributors, the exact term of which is determined based on such factors as past sales performance, credit history and the expansion plans. The distributorship agreements with our distributors do not specify minimum amount of purchases from us.

During the year under review, the Group is not aware of any of the distributors having committed any material breach of the distributorship agreements. The Group had renewed the annual distributorship agreements with all but one of our distributors for the year 2012. As the performance of the distributor covering Jiangsu province cannot meet the Group's expectation, the Group did not renew his contract and the area concerned has been assigned to be supervised by another existing distributor of the Company. As at 31 December 2012, the Group has 31 distributors. None of the Group's distributors are former employees of the Group or sales partners who traded under the Group's name.

During the year under review, total sales to our distributors amounted to approximately RMB4,950.6 million and no goods were returned from our distributors.

Pursuant to the distributorship agreements, our distributors are entitled to authorise a person to become an authorised retailer to sell our *361°* products and to use the *361°* logo in a *361°* authorised retail outlet. The distributorship agreements with our distributors do not set expansion targets in respect of number of retail outlets.

Distributors then enter into separate agreements with our authorised retailers for the sale and purchase of our *361°* products and other aspects of their commercial relationship. The distributors are responsible for ensuring that authorised retailers do not sell *361°* products outside of their respective territories. Authorised retailers breaching any of the terms stipulated in their separate agreements with the distributors will be subject to penalties, such as monetary fines and the termination of their authorisation to sell our *361°* products.

Maintaining an edge in product **innovation and research and development** is the key to differentiating the Group from its competitors in China's sportswear market.

FINANCIAL REVIEW

Turnover

During the year under review, turnover decreased by 11.1% because the retail sales at the Company's franchised network decreased amid the country's sportswear market glut. The decrease was mainly due to part of the 2012 autumn and winter trade fair products had to be curtailed in order not to build up inventories in a slowing market. The orders had been restated as a decrease of 10% and 26%, respectively when compared with the respective trade fairs in the last year. Follow to these two trade fairs, the orders placed at the 2013 spring/summer trade fair and autumn trade fair also recorded a decrease of 23% and 19%, respectively year on year and part of the 2013 spring/summer products have been delivered before 31 December 2012.

All the orders for the balance of 2012 spring/summer products which had not been delivered in 2011, the restated orders of the 2012 autumn and winter products were 100% executed during the year under review.

The Group broadened its product mix to accommodate diversified market needs and worked hard to boost sales and maintain profit margins amid the tough competition.

During the year under review, the sales of footwear was mainly attributable to the slight increase in price of the current range of products with volumes still low. The average wholesale selling price (the "ASP") of footwear recorded growth by 3.6% whereas the volume has decreased by 24.1% compared on a year to year basis. (the ASP for the six months ended 31 December 2011 was RMB116.9 and the sale volume was 10.2 million). On the other hand, the sales volume of apparel had increased by 2.8 million represented by a growth of 10.9% while the ASP had dropped from approximately RMB94.7 to RMB79.4 per piece (the ASP for the six months ended 31 December 2011 was RMB117.8 and the sale volume was 9.0 million). The downturn on the ASP of apparel was due to the decrease on sales of the 2012 Winter trade fair products as the seasonality factor influence on the ASP of apparel was much higher than footwear.

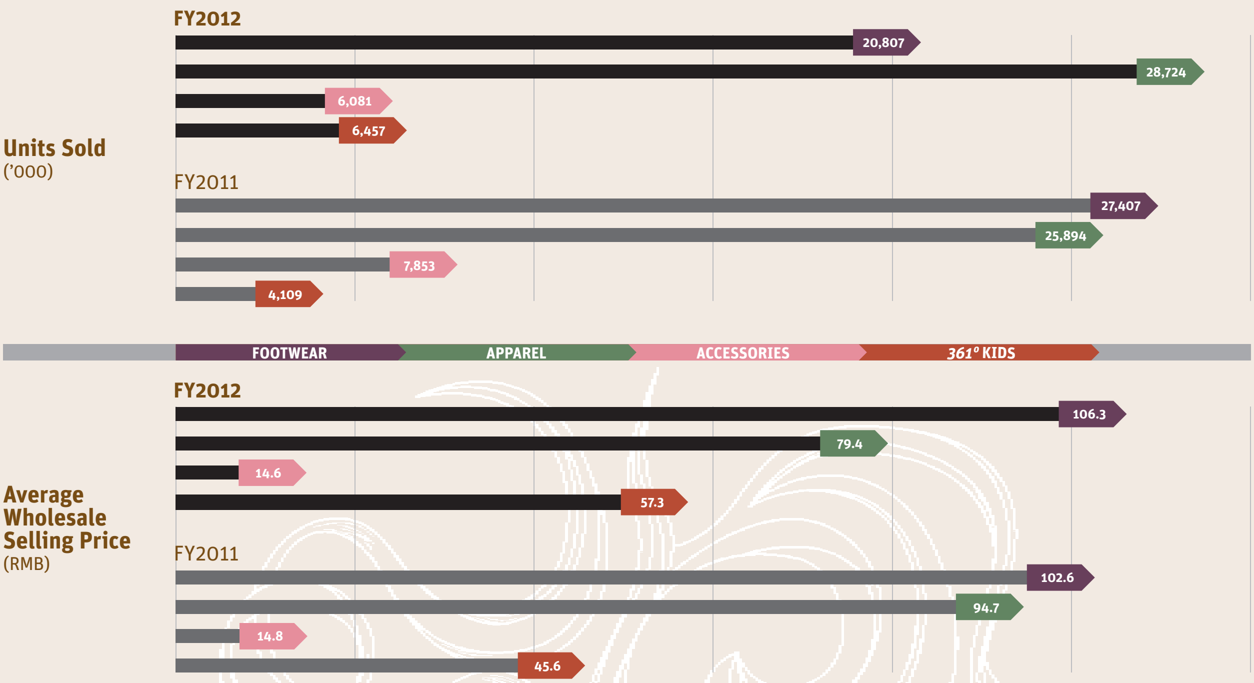
The *361°* Kids collection continued to perform well as its turnover increased by 97.7% to RMB370.1 million, accounting for 7.5% of the Group's turnover in 2012, up by nearly a double when compared with the year ended 31 December 2012. Both the ASP and volume recorded a growth by 25.7% and 57.1%, respectively (for the six month ended 31 December: the ASP was RMB54.0 and the sales volume was 1.3 million)

A table showing the number of units sold and the ASP of the Group's products during the year/period under review:

	For the year ended 31 December 2012 ("FY2012")		For the year ended 31 December 2011 ("FY2011")		For the six months ended 31 December 2011	
	Total units sold '000	**Average wholesale selling price[1] RMB**	Total units sold '000	Average wholesale selling price[1] RMB	Total units sold '000	Average wholesale selling price[1] RMB
By Volume and ASP						
***361°* Products – Adults**						
Footwear (pairs)	**20,807**	**106.3**	27,407	102.6	10,248	116.9
Apparel (pieces)	**28,724**	**79.4**	25,894	94.7	9,031	117.8
Accessories (pieces/pairs)	**6,081**	**14.6**	7,853	14.8	3,198	15.2
***361°* Products – Kids**	**6,457**	**57.3**	4,109	45.6	1,348	54.0

Note:

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

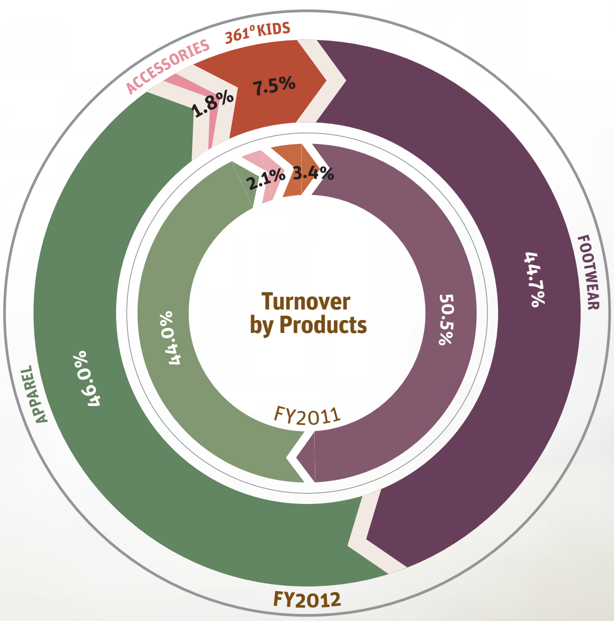


Management Discussion and Analysis

A breakdown by product categories for the year under review showed that footwear and apparel almost share equally comprised 44.7% and 46.0% of the total sales while accessories and kids' products made up the remaining 1.8 % and 7.5% respectively.

The following table sets forth a breakdown of the Group's turnover by products during the year/period under review:

	For the year ended 31 December 2012		For the year ended 31 December 2011		For the six months ended 31 December 2011	
	RMB'000	**% of Turnover**	RMB'000	% of Turnover	RMB'000	% of Turnover
By Products						
Turnover						
***361˚* Products – Adults**						
Footwear	**2,212,306**	**44.7**	2,813,015	50.5	1,197,684	50.3
Apparel	**2,279,433**	**46.0**	2,452,216	44.0	1,063,750	44.6
Accessories	**88,761**	**1.8**	116,296	2.1	48,561	2.0
***361˚* Products – Kids**	**370,078**	**7.5**	187,151	3.4	72,806	3.1
Total	**4,950,578**	**100**	5,568,678	100	2,382,801	100



As shown in the table below, the Northern region remains the strongest contributor of turnover to the Group for the year under review.

The following table set forth a breakdown of the Group's turnover by regions during the year/period under review:

	For the year ended 31 December 2012		For the year ended 31 December 2011		For the six months ended 31 December 2011	
	RMB'000	**% of Turnover**	RMB'000	% of Turnover	RMB'000	% of Turnover
By Regions						
Eastern region[1]	**1,356,767**	**27.4**	1,284,743	23.1	597,008	25.1
Southern region[2]	**1,195,534**	**24.2**	1,253,969	22.5	479,906	20.1
Western region[3]	**931,297**	**18.8**	1,007,115	18.1	464,176	19.5
Northern region[4]	**1,466,980**	**29.6**	2,022,851	36.3	841,711	35.3
Total	**4,950,578**	**100**	5,568,678	100	2,382,801	100

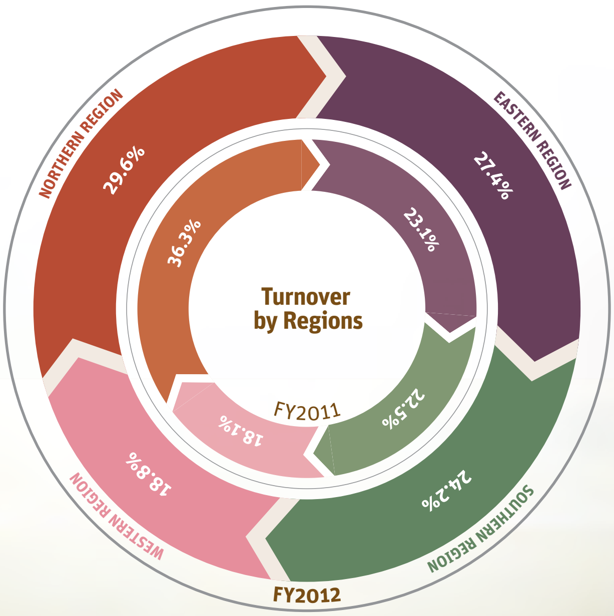
Notes:

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

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

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

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



Cost of sales

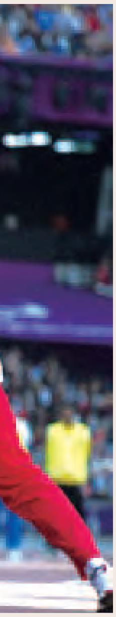
Cost of sales of the Group for the year ended 31 December 2012 decreased by 7.1% to RMB2,978.3 million. The percentage of decrease was much less than the decrease on the percentage of the turnover for the year under review.

The Group had curtailed the products of the 2012 autumn and winter trade fairs held in November 2011 and March 2012 by 10% and 26%, respectively in July 2012. Pursuant to the contracts with majority of the outsourced suppliers, prepayment was made at the time the Group placed orders with them. Although some of the good relationships outsourced suppliers allowed to withdraw the orders with the return of prepayment, majority of them had ordered raw materials and scheduled productions thus the orders could not be cancelled. In order to keep a good relationship with all these OEM suppliers and cope with the market change, the Group decided to cancel the high priced and sophisticated footwears produced by itself. Such change has increased the cost of internally produced products with excessive overhead cost for running spare production lines and also diminish the volume of internally produced footwear when compared with last year.

All the products for the aforesaid trade fairs were produced and delivered in the second half of this financial year. Therefore, the cost of footwear rose higher in these six months than the first half of the year.

Over these years, the demand for labour have continuous been in stress and intense competition from the sportswear sector, the cost pressure in running a factory has risen. In the year of 2012, the Group entered a contract with an OEM supplier to rent 3 footwear production lines out to increase the flexibility of running the 23 footwear production lines. The Group believed that such arrangement also helped to lower the labour demand.

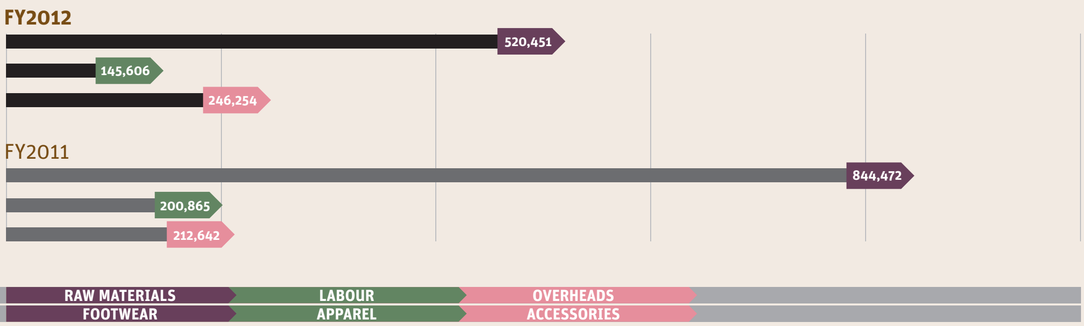
For apparel, the amount of internal production still limit, about 19% of the products sold was produced by itself in the year. The turnover rate for the labour was also high which increased the cost of production however the Group believed that such production lines could help to understand the cost structure of products and enhance the development on products design.



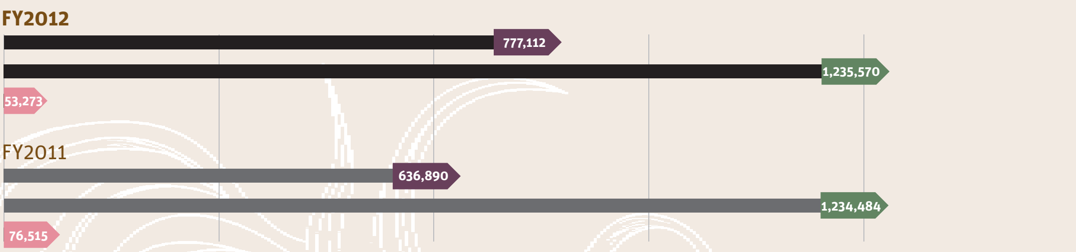
The following table sets forth a breakdown of cost of sales for *361°* products during the year/period under review:

	For the year ended 31 December 2012 RMB'000	For the year ended 31 December 2012 % of total costs of sales	For the year ended 31 December 2011 RMB'000	For the year ended 31 December 2011 % of total costs of sales	For the six months ended 31 December 2011 RMB'000	For the six months ended 31 December 2011 % of total costs of sales
***361°* Products**						
Footwear & Apparel (Internal Production)						
Raw materials	**520,451**	**17.4**	844,472	26.3	353,944	26.6
Labour	**145,606**	**4.9**	200,865	6.3	83,777	6.3
Overheads	**246,254**	**8.3**	212,642	6.6	105,239	7.9
	912,311	**30.6**	1,257,979	39.2	542,960	40.8
Outsourced Products						
Footwear	**777,112**	**26.1**	636,890	19.9	276,356	20.8
Apparel	**1,235,570**	**41.5**	1,234,484	38.5	481,579	36.2
Accessories	**53,273**	**1.8**	76,515	2.4	29,208	2.2
	2,065,955	**69.4**	1,947,889	60.8	787,143	59.2
Cost of sales for *361°* Products	**2,978,266**	**100**	3,205,868	100	1,330,103	100

Cost of Sales for *361°* Products
(Internal Production)
(RMB'000)



Cost of Sales for *361°* Products
(Outsoured Products)
(RMB'000)



Gross profit and gross profit margin

Gross profit for *361°* products was RMB1,972.3 million for the year under review. Gross profit margin was 39.8%, down by 2.6 percentage points compared to 2011.

In the 2013 spring/summer trade fair held in July 2012, the Group increased its discounts offered to its distributors from 58% to 60%. The Group adopts a uniform pricing system, with all retail prices of our products fixed at the time of sales to our distributors, and our sales to our distributors were calculated by a fixed discount given to our distributors and retailers.

Footwear recorded an increase of 3.6% in ASP which incorporated the changes of discounts to the distributors for the past trade fairs whereas the decrease in volume of sales by 24.1% had lowered the amount of gross profit for the year under review. The increment of cost from the products was higher than the rise in the ASP percentage, the gross profit margin was dropped from 42.2% to 40.4% for the year ended 31 December 2011 and 2012, respectively. (for the six months ended 31 December 2011: 44.2%)

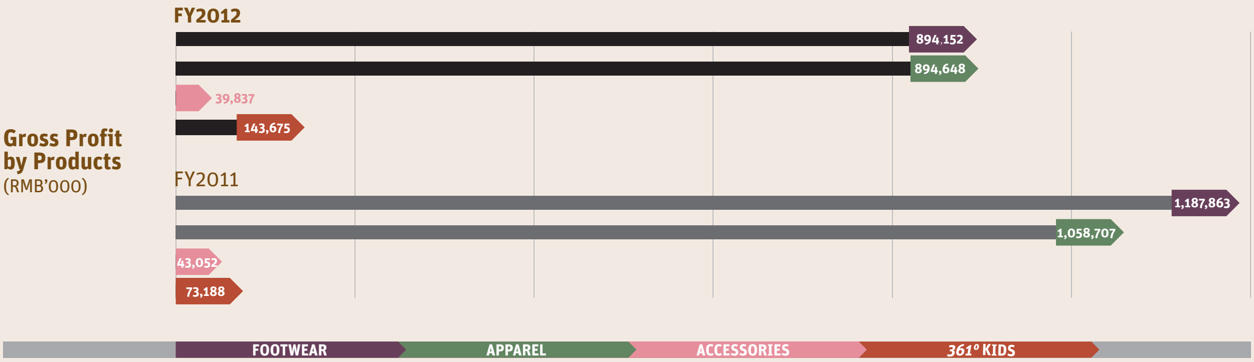
Although the volume of turnover of the apparel was 10.9% higher, the cutting of 10% autumn and 26% winter trade fairs' products had lowered the ASP by 16.2% when compared with the year ended 31 December 2011. The percentage on the decrease of the cost of outsourced products was less than the percentage decrease on the ASP, as well as, the cost for the internally produced products had increased which lowered the gross profit margin to 39.3% from 43.2% (for the six months ended 31 December 2011: 44.6%).

The ASP of accessories was still maintain at approximately RMB14 per piece but the cost of outsourced accessories was less competitive and could obtain a better gross profit margin at 44.9% than the 37.0% a year ago. (for the six months ended 31 December 2011: 43.0%)

The gross profit margin of the *361°* Kids products was pretty steady at 38.8%, 39.1% and 38.8% for the year of 2012, 2011 and six months ended 31 December 2011, respectively.

The following tables set forth a breakdown of the gross profit and gross profit margin for *361°* products during the financial year/period under review:

	For the year ended 31 December 2012		For the year ended 31 December 2011		For the six months ended 31 December 2011	
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
***361°* Products – Adults**						
Footwear	**894,152**	**40.4**	1,187,863	42.2	528,791	44.2
Apparel	**894,648**	**39.3**	1,058,707	43.2	474,812	44.6
Accessories	**39,837**	**44.9**	43,052	37.0	20,879	43.0
***361°* Products – Kids**	**143,675**	**38.8**	73,188	39.1	28,216	38.8
Total	**1,972,312**	**39.8**	2,362,810	42.4	1,052,698	44.2



Selling and distribution expenses

Selling and distribution expenses increased by 17.9% to RMB889.1 million during the year under review, primarily as a result of an increase in the percentage of advertising and promotional expenses of the total turnover from 7.8% to 10.6% for the year under review (for the six months ended 31 December 2011: 11.1%).

During the year under review, selling and distribution expenses represented approximately 18.0% of the Group's turnover. Included in the item of selling and distribution expenses was advertising and promotional expenses, which accounted for 10.6% of the turnover, up by 2.8 percentage points when compared with that in 2011 and dropped by 0.5 percentage points for the six months ended 31 December 2011.

The increase was due to the advertising and promotional expenses of the Haiyang 2012 Asian Beach Games, Nanjing 2014 Youth Olympic and the endorsements of star athletes.

Meanwhile, the Group continued to provide racks at "Shine", *361°* Kids stores and some of the adults' sportswear stores. The racks are part of the furniture and fixtures for displaying products to customers at retail outlets. In order to increase the competitiveness to fight for the intense competition, the Group encouraged both the distributors and retailers to upgrade their stores and some of those had received direct subsidy through the provision of furniture and fixtures from the Group. The Group provided racks in an amount of RMB203 million and accounted for about 4.1% of the turnover for the year under review. Such support will continue for the year of 2013.

Administrative expenses

Administrative expenses increased by 1.1% to RMB302.8 million for the year ended 31 December, 2012. It represented about 6.1% of the Group's turnover, compared to 5.4% in 2011(for the six months ended 31 December 2011: 6.4%).

The increase in the percentage was mainly due to the slight increase in the research and development expenses and depreciation expenses but with a decrease in the yearly turnover.

The research and development expenses was approximately 1.7% of the turnover for the year under review, compared with 1.5% for 2011 and also 1.5% for the six months ended 31 December 2011.

Depreciation expenses was increased from 0.8% to 1.0% of the total turnover year on year basis which was mainly due to the increase in the property, plant and equipment during the year.

Finance Costs

Finance costs increased to RMB67.0 million for the year ended 31 December 2012 of which RMB10.4 million was related to short-term bank borrowings incurred in the year and the balance of RMB56.6 million was the amortisation of relevant interest and cost in relation to the convertible bonds.

In April 2012, the Group issued US$150,000,000 4.5% Convertible Bonds due 2017. The net change in fair value as at 31 December 2012 and the cost and interest were accrued in the year. As at 31 December 2012, all the bank and other loans had fully or partly been repaid, except for a RMB25.0 million bank loan for the financing of a 51% owned subsidiary and a withdrawal of a new bank loan on 31 December 2012 amounting RMB17.3 million for the finance of an office acquired in Hong Kong.

The interest of the convertible bonds composed 1) an accrued interest of 4.5% per annum to the convertible bonds amounting to RMB31.7 million for the year ended 31 December 2012 of which RMB21.4 million had been paid in October 2012 and the remaining balance will be paid in April 2013 and; 2) the balance of the RMB24.9 million was the amortization cost of accrued interest and cost incurred for the issuance of convertible bonds over the tenor of 5 years.

Income tax expenses

During the year under review, income tax expenses of the Group amounted to RMB115.1 million (2011: RMB248.3 million, for the six months ended 31 December 2011: RMB78.2 million) It composed of the current tax of RMB150.6 million and a reversal of deferred tax of RMB35.5 million. The reversal of deferred tax was related to the recognition of deferred tax assets on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases regarding certain selling, advertising and promotional expenses which would be deductible on paid basis. The amount of current tax for the year of 2011 was RMB252.7 million and the reversal of the deferred tax was RMB4.4 million.

Excluding the amount for the net change in fair value of derivatives embedded in convertible bonds, the profit before taxation for the year of 2012 was RMB797.4 million and the effective income tax rate was 18.9% whereas 18.3% for the year of 2011. Started from 1 January 2010, the applicable tax rate for three out of the four of our PRC operating subsidiaries are at the standard rate of 25% whereas only one subsidiary could still enjoy 50% tax concession up to 31 December 2012.

Profit attributable to equity shareholders

As compared with the year of 2011, profit attributable to equity shareholders for the year under review decreased by 37.6% to RMB707.2 million. The decrease is principally attributable to the continued challenging conditions in China's sportswear industry such as high inventory level, retail discounting pressure, and intensified competition which affected the industry's performance throughout the year 2012. The Company's profit decreased because of a decrease in the general sales volume, a downward pressure on the gross profit margin and higher selling and distribution expenses as compared to the year ended 31 December 2011. Earnings per share for the year under review was RMB34.2 cents, down 37.6% when compared with the year of 2011.

DIVIDEND FOR THE YEAR

The Board recommended to declare a final dividend of RMB7.0 cents (equivalent to HK8.7 cents) per share, subject to approval by the shareholders at the forthcoming annual general meeting. Including the interim dividend of RMB7.0 cents (equivalent to HK8.5 cents) per share for the six months ended 30 June 2012 already paid, total payout for the year amounted to RMB14.0 cents (equivalent to HK17.2 cents) per share or RMB289.5 million in aggregate, representing 40.9% of the profit attributable to equity shareholders of the Company for the year ended 31 December 2012. It is expected that the final dividend, if approved by shareholders at the forthcoming annual general meeting of the Company, will be paid to shareholders on or about 9 May 2013.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2012, net cash inflow from operating activities of the Group amounted to RMB1,658.8 million. As at 31 December 2012, cash and cash equivalents, including bank deposits and cash in hand, and fixed deposits with original maturities not exceeding three months, amounted to RMB2,107.0 million, representing a net increase of RMB1,647.2 million as compared to the position as at 31 December 2011. The increase was attributed to the following items:

	For the year ended 31 December 2012 RMB'000	For the year ended 31 December 2011 RMB'000	For the six months ended 31 December 2011 RMB'000
Net cash generated from/(used in) operating activities	**1,658,777**	(80,840)	(1,344,082)
Net capital expenditure	**(150,566)**	(341,581)	(98,283)
Dividends paid	**(289,464)**	(479,719)	(332,884)
Proceeds from new bank loans	**241,128**	35,995	29,520
Proceeds from other loan	**–**	150,000	150,000
Repayment of bank loans	**(227,594)**	(18,384)	(13,955)
Repayment of other loan	**(150,000)**	–	–
Payment for purchase of other financial asset	**–**	(17,550)	(17,550)
Proceeds from issuance of convertible bonds	**922,894**	–	–
(Placement)/withdrawal of fixed deposits (with maturity over three months)	**(378,889)**	246,010	(76,532)
Other net cash inflow/(outflow)	**20,970**	12,555	(65,839)
Net increase/(decrease) in cash and cash equivalents	**1,647,256**	(493,514)	(1,769,605)

Firstly, the trade and bills receivable amounted of RMB2,111.5 million as at 31 December 2012 was 10.3% less than the amount as at 31 December 2011. The industry is in fierce competition, the Group has reduced the number of its stores opened. Its support to distributors and retailers in the form of extra credit for the new stores also decreased in the year. Secondly, the amount of prepayments has also been decreased by the reduction in the amount of trade fair orders held in the 2012 when compared with the balance as at 31 December 2011.

The Group had borrowed a few new bank loans of RMB241.1 million and other loan of RMB150.0 million which had fully or partly repaid before 31 December 2012. As at 31 December 2012, there were only a bank loan amounting RMB25.0 million for the financing of a 51% owned subsidiary and a withdrawal of a new bank loan on 31 December 2012 amounting RMB17.3 million for the finance of an office acquired in Hong Kong.

In order to bolster its working capital at a time when monetary conditions remained tight in the PRC, the Group successfully issued convertible bonds with principal amount of US$150.0 million in April 2012 with a coupon rate of 4.5% over a 5-year tenor. The net proceeds of RMB922.9 million were received in early April. The intended use of the net proceeds was for the general corporate development and working capital.

With the issuance of the convertible bonds, the Group's gearing ratio has increased to 11.0% as at 31 December 2012 (as at 31 December 2011: 3.2%).

During the year under review, the Group had not entered into any interest rate swap arrangements to hedge against interest rate risks.

FOREIGN EXCHANGE RISK

The Group mainly operates in the PRC with most of the transactions settled in renminbi. Part of the Group's cash and bank deposits are denominated in Hong Kong dollars. The Group also pays declared dividends in Hong Kong dollars. During the year under review, the Group did not carry out any hedging activity against foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against renminbi may have a financial impact on the Group.

PLEDGE OF ASSETS

As at 31 December 2012, a building with net book value of RMB45,423,000 (2011: RMB nil) was pledged as security for a banking facility of the Group of RMB21,646,000 (2011: RMB nil).

The aforesaid banking facility was for the finance of a newly acquired office unit in Hong Kong. The office unit is for the Group own use and not for any investment purpose.

Bills payable as at 31 December 2012 were secured by pledged bank deposits of RMB95.7 million.

WORKING CAPITAL MANAGEMENT

The average working capital cycle for the year ended 31 December 2012 was 109 days (year ended 31 December 2011: 70 days), which was much higher than a year ago. It was mainly due to the increase in trade and bills receivable days and inventory turnover days.

The average trade and bills receivable cycle increased to 165 days for the year ended 31 December 2012 (year ended 31 December 2011: 119 days). It showed an increase of 46 days whereas a decrease in the absolute amount by 10.3%. The balance was approximately RMB2,111.5 million as at 31 December 2012 (2011: RMB2,354.8 million). Over 92.9% of the trade debtors and bill receivable was considered as neither past due nor impaired. The Group had close contacts with all the distributors and believes that all the debts are traceable. On such basis, it does not intend to, and does not consider there is a need to make any bad debts or permanent impairment provisions over its receivables.

Over the past two years, sportswear industry still experienced severe competition from the price war among peers in reducing excess inventory and the fast retailing brand on the apparel market. All the factors slowed down the growth of industry in the years. Only the brand with strong foundation, long term development could win the competition and sustain in the industry. The Group believed that the supports to distributors and retailers in running their stores network are important. Although the accounts receivable turnover days was still high, the Group believed that the market will have a turnaround after 2013 and a new look on the numbers.

The average inventory turnover cycle increased to 56 days for the year ended 31 December 2012 (year ended 31 December 2011: 40 days). In terms of absolute amount, the inventories balance was RMB460.7 million as at 31 December 2012, which was RMB9.5 million more than 31 December 2011. About 68.7 % of the stock was finished goods and were mainly 2013 Spring/Summer products. As reported by the distributors in the third and fourth quarter of 2012, retail stores still suffered from stiff competition and resulted in higher channel inventory than usual although the ratio of channel inventories improved from 4.2 times to 4.05 times for the forth quarter of 2011 to 2012. This was fully reflected by the 23% and 19% drop on the amount of orders made by the distributors for the 2013 spring/summer trade fair products and 2013 autumn trade fair product held in July and November 2012, respectively. Distributors requested to postpone the delivery of 2013 spring/summer products and they can have a chance to fully digest the 2012 winter products before the Lunar Chinese New Year in January 2013.

As at 31 December 2012, prepayments to suppliers were RMB388.9 million, represented a 36.3% drop when compared with last year (as at 31 December 2011: RMB610.5 million), which represented an upfront deposit paid to suppliers for the acceptance of orders for the 2013 Spring/Summer and Autumn products. Since the amount of orders received by the Group had decreased which led to the relevant deposits paid was also decreased.

The average trade and bills payable cycle was 112 days for the year ended 31 December 2012 (year ended 31 December 2011: 89 days). It also represented an average trade payable cycle of 53 days (year ended 31 December 2011: 41 days) and 180 days credit for the issuance of bills payable to suppliers. Most of the OEM suppliers supported the Group to fight for the downturn of industry and extended credit terms particularly at the time of the Lunar Chinese New Year.

CONVERTIBLE BONDS

Given the recent headwinds in the China sportswear industry, the Group believed it was prudent to maintain a strong cash position although it is in net cash position for the year under review. On 13 March 2012, US$150 million 4.5% Convertible Bonds due 2017 ("the Convertible Bonds") was launched. It was then issued and listed on the Singapore Exchange Securities Trading Limited in Singapore on 3 April 2012. The Board considered that the issue of Convertible Bonds provided an opportunity to broaden the capital base of the Company and also gained immediate access to funding on attractive terms.

The Convertible Bonds can be converted into the ordinary shares of the Company (the "Shares") from 14 May 2012 to 3 April 2017 and the initial conversion price was HK$3.81 and subsequently adjusted to HK$3.53 after a declaration of the interim dividend on 11 September 2012. If the Convertible Bonds was fully converted into Shares, the number of Shares will be increased by 329,694,051, representing about 13.8% of the issued share capital as enlarged.

At any time after 3 April 2015 but prior to 3 April 2017, being the date of maturity of the Convertible Bonds, the Company can redeem the whole Convertible Bonds subject to certain terms and condition. On the other hand, the holders of the Convertible Bonds can also request the Company to make a full or partial redemption on 3 April 2015.

The valuation of the Convertible Bonds for the period has been divided into two parts: 1) the derivative component and 2) the liability component. As the value for the conversion options of the bondholder as at 31 December 2012 was still higher than the time of issuance, it incurred a net gain on the fair value change to the Group amounting to RMB32.9 million after deducting the changes derived from the valuation for both the redemption option of the issuer and bondholder.

USE OF PROCEEDS

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

Net proceeds from the global offering (HKD million)

Use of net proceeds	Available to utilise	Utilised (as at 31 December 2012)	Unutilised (as at 31 December 2012)
Developing and increasing brand awareness	741.2	457.2	284.0
Developing new production facilities	613.5	613.5	–
Developing children's footwear and apparel sub-brand	171.5	160.0	11.5
Establishment of a new product testing and R&D laboratory	114.3	114.3	–
Establishment of an ERP system	74.3	7.6	66.7
General working capital	190.6	190.6	–
	1,905.4	1,543.2	362.2

EMPLOYEES AND EMOLUMENTS

As at 31 December 2012, the Group employed a total of 8,883 full time employees in the PRC which included management staff, technicians, salespersons and workers. For the 12 months ended 31 December 2012, the Group's total remuneration of employees was RMB343.1 million, representing 6.9% of the turnover of the Group. The Group's emolument policies, based on the performance of individual employees, are formulated to attract talent and retain quality staff. Apart from the provident fund scheme (operating in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance. The Group believes its strength lies in the quality of its employees and has placed a great deal of emphasis on fringe benefits

PROSPECTS

The year 2012 turned out to be the most difficult time for the sportswear industry since 361 Degree's establishment in 2002 as the sales channels suffered from a market glut and thus high inventory. It is expected that these unfavourable market conditions will last well into 2013.

The Group judges that the sportswear industry's development will not be driven by sales volume in the foreseeable future, following the rapid expansion in the past several years. Instead, a sportswear company will have to win market share with a distinctive brand image, innovative designs, good quality and high performance of the products, and a new product line.

Despite the temporary market glut, China's on-going urbanization, rising public awareness about health, the government's policy to encourage people to live a healthy life with more frequent physical exercise, the country's Twelfth Five-year Plan to boost domestic consumer spending, and increasing disposable income will foster the sportswear industry in the long term. The Group believes that competitive advantages such as a strong brand, effective marketing and product innovation will able to tide an industry player over until the market improves. The survivors of the difficult market will become stronger.

To get geared up for the opportunities and challenges in the future, the Group will continue with its effort in sponsoring major sports events, promoting its brand through partnership with the national sports TV channel CCTV-5, developing new products or improving existing models with its research and development partners in Guangzhou and Beijing, and fostering the development of its promising product line of *361°* Kids. *361°* Kids will work to develop into a growth-driver in the future.

It will also work closely with its distributors and retailers to boost sales. Specific measures will include helping the stores improve the presentation of goods and the shopping environment and raising their efficiency with the ePOS.

In 2013, the Group will continue with its passion for excellence as its brand 361 Degrees suggests, and work for better returns to its shareholders.

Report of the Directors

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2012.

Registered office and principal place of business in Hong Kong

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

Principal activities

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

Major customers and suppliers

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

	Percentage of the group's total	
	Sales	**Purchases**
The largest customer	14%	
Five largest customers in aggregate	36%	
The largest supplier		6%
Five largest suppliers in aggregate		24%

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

Financial statements

The profit of the group for the year ended 31 December 2012 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 62 to 118.

Transfer to reserves

Profits attributable to equity shareholders, before dividends, of RMB707,208,000 for the year ended 31 December 2012 (six months ended 31 December 2011: RMB359,692,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

An interim dividend of RMB7.0 cents per share (a final dividend for the year ended 30 June 2011: RMB16.1 cents per share) was paid on 18 September 2012. The directors recommend, subject to the shareholders' approval at the forthcoming annual general meeting, the payment of a final dividend of RMB7.0 cents per share (2011: RMB7.0 cents per share) for the year ended 31 December 2012.

Charitable donations

Charitable donations made by the Group during the year ended 31 December 2012 amounted to RMB745,000 (six months ended 31 December 2012: RMB200,000).

Fixed assets

Details of the movements in fixed assets during the year ended 31 December 2012 are set out in note 11 to the financial statements.

Convertible bonds

Details of the convertible bonds are set out in note 21 to the financial statements.

Share capital

Details of the movements in share capital of the Company during the year ended 31 December 2012 are set out in note 26(c) to the financial statements.

Purchases, sales or redemptions of the Company's shares

The Company or any of its subsidiaries did not make any purchase of shares of the Company for the year ended 31 December 2012.

Pre-emptive rights

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

Directors

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

Executive directors

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

Independent non-executive directors

Mr Yan Man Sing Frankie
Mr Sun Xianhong
Mr Liu Jianxing
Mr Tsui Yung Kwok *(appointed on 1 September 2012)*

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

By virtue to Articles 84 and 85 of the Articles, Mr Ding Wuhao, Mr Yan Man Sing Frankie and Mr Sun Xianhong will retire from office by rotation at the forthcoming annual general meeting. In addition, pursuant to Article 83 of the Articles, Mr. Tsui Yung Kwok, who was appointed by the Board as a Director to fill a causal vacancy on the Board in September 2012, will hold office until the AGM, being the first general meeting after this appointment, and will retire and subject to re-election from office at the AGM. Being eligible, each of them will offer themselves for re-election.

Directors' service contracts

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

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

As at 31 December 2012, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which were required to be notified to the company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the directors of Company (the "Model Code") contained in the Rules of Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") were as follows:

Long and Short position in the Company

Name of Director	Long/Short Position	Nature of Interest	Note	Number of Shares (ordinary shares)	Percentage
Mr Ding Wuhao	Long	Interest in controlled corporation	(1)	377,774,000	18.27%
	Short	Interest in controlled corporation		64,951,000	3.14%
Mr Ding Huihuang	Long	Interest in controlled corporation	(2)	360,000,000	17.41%
	Short	Interest in controlled corporation		64,795,000	3.13%
Mr Ding Huirong	Long	Interest in controlled corporation	(3)	360,000,000	17.41%
	Short	Interest in controlled corporation		64,795,000	3.13%
Mr Wang Jiabi	Long	Interest in controlled corporation	(4)	187,500,000	9.07%
	Short	Interest in controlled corporation		32,476,000	1.57%

Notes:

(1) Mr Ding Wuhao is deemed to be interested in 377,774,000 shares of the Company held by Dings International Company Limited by virtue of it being controlled by Mr Ding Wuhao. Mr Ding Wuhao is deemed to have short positions in 64,951,000 shares of the Company, which are subject to a stock lending deed dated 13 March 2012 entered into between Dings International Company Limited and an affiliate of Merrill Lynch Far East Limited, the sole lead manager and sole bookrunner of the Company's issue of the Convertible Bonds, in connection with such issue. He is the brother-in-law of both Mr Ding Huihuang and Mr Ding Huirong.

(2) Mr Ding Huihuang is deemed to be interested in 360,000,000 shares of the Company held by Ming Rong International Company Limited by virtue of it being controlled by Mr Ding Huihuang. Mr Ding Huihuang is deemed to have short positions in 64,795,000 shares of the Company, which are subject to a stock lending deed dated 13 March 2012 entered into between Ming Rong International Company Limited and an affiliate of Merrill Lynch Far East Limited, the sole lead manager and sole bookrunner of the Company's issue of the Convertible Bonds, in connection with such issue. He is the elder brother of Mr Ding Huirong and the brother-in-law of Mr Ding Wuhao.

(3) Mr Ding Huirong is deemed to be interested in 360,000,000 shares of the Company held by Hui Rong International Company Limited by virtue of it being controlled by Mr Ding Huirong. Mr Ding Huirong is deemed to have short positions in 64,795,000 shares of the Company, which are subject to a stock lending deed dated 13 March 2012 entered into between Hui Rong International Company Limited and an affiliate of Merrill Lynch Far East Limited, the sole lead manager and sole bookrunner of the Company's issue of the Convertible Bonds, in connection with such issue. He is the brother of Mr Ding Huihuang and the brother-in-law of Mr Ding Wuhao.

(4) Mr Wang Jiabi is deemed to be interested in 187,500,000 shares of the Company held by Jia Wei International Co, Ltd. by virtue of it being controlled by Mr Wang Jiabi. Mr Wang Jiabi is deemed to have short positions in 32,476,000 shares of the Company, which are subject to a stock lending deed dated 13 March 2012 entered into between Jia Wei International Co, Ltd. and an affiliate of Merrill Lynch Far East Limited, the sole lead manager and sole bookrunner of the Company's issue of the Convertible Bonds, in connection with such issue.

Apart from the foregoing, as at 31 December 2012, none of the directors or chief executive of the Company or any of their spouses or children under eighteen years of age had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company, or any of its holding companies, subsidiaries or other associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

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

Share option scheme

Pre-IPO Share Option Scheme

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

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

Exercise period

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

The vesting period of the share options granted under the Pre-IPO Share Option Scheme commenced from 30 June 2010 to 30 June 2014.

Details of movements of the options granted under the Pre-IPO Share Option Scheme as at 31 December 2012 are as follows:

			Number of Shares issuable under the options				
Grantees	Date of grant	Exercise price per share	as at 31 December 2011	exercised during the the year	lapsed during the year	cancelled during the year	as at 31 December 2012
Senior Management In aggregate	10/06/2009	2.89	5,743,000	–	–	–	5,743,000
Employees In aggregate	10/06/2009	2.89	7,147,000	–	–	–	7,147,000
Business Partners In aggregate	10/06/2009	2.89	4,400,000	–	–	–	4,400,000
			17,290,000	–	–	–	17,290,000

Save as disclosed above, no options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2012.

Share Option Scheme

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

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

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

(a) the nominal value of a share;

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

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

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

No options have been granted under the Share Option Scheme up to 31 December 2012.

Information on the accounting policy for share options granted and the weighted average value per option is provided in note 1(p)(ii) and note 24 to the financial statements respectively.

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

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

As at 31 December 2012, so far as is known to any director or chief executive of the company, the persons (other than the directors and the chief executive of the company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were directly or indirectly, interested in 10% of more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group were as follows:

Name of shareholders	Note	Long/Short position in ordinary shares held		Percentage of total issued shares
Dings International Company Limited	(2)	L	377,774,000	18.27%
		S	64,951,000	3.14%
Ming Rong International Company Limited	(3)	L	360,000,000	17.41%
		S	64,795,000	3.13%
Hui Rong International Company Limited	(4)	L	360,000,000	17.41%
		S	64,795,000	3.13%
Jia Wei International Co., Ltd.	(5)	L	187,500,000	9.07%
		S	32,476,000	1.57%
Jia Chen International Co., Ltd.	(6)	L	187,500,000	9.07%
		S	32,476,000	1.57%
Credit Suisse Group AG	(7)	L	125,389,443	6.06%
		S	42,826,428	2.07%
Bank of America Corporation	(8)	L	423,652,921	20.49%
		S	289,152,000	13.98%

Notes:

1. The letter "L" indicates long position whereas the letter "S" indicates short position.

2. The entire issued share capital of Dings International Company Limited is owned by Mr Ding Wuhao, an executive director and the president of the Company. Mr Ding Wuhao is the brother-in-law of Mr Ding Huihuang and Mr Ding Huirong. Please refer to Note 1 on P.43 for details of the long and short positions of Dings International Company Limited.

3. The entire issued share capital of Ming Rong International Company Limited is owned by Mr Ding Huihuang, an executive director and the chairman of the Company. Mr Ding Huihuang is the brother-in-law of Mr Ding Wuhao and the brother of Mr Ding Huirong. Please refer to Note 2 on P.43 for details of the long and short positions of Ming Rong International Company Limited.

4. The entire issued share capital of Hui Rong International Company Limited is owned by Mr Ding Huirong, an executive director. Mr Ding Huirong is the brother-in-law of Mr Ding Wuhao and the brother of Mr Ding Huihuang. Please refer to Note 3 on P.44 for details of the long and short positions of Hui Rong International Company Limited.

5. The entire issued share capital of Jia Wei International Co., Ltd. is owned by Mr Wang Jiabi, an executive director. Mr Wang Jiabi is the brother of Mr Wang Jiachen. Please refer to Note 4 on P.44 for details of the long and short positions of Jia Wei International Co., Ltd.

6. The entire issued share capital of Jia Chen International Co., Ltd. is owned by Mr Wang Jiachen, who is the brother of Mr Wang Jiabi. Jia Chen International Co., Ltd. is interested in 187,500,000 shares of the Company and have short positions in 32,476,000 shares of the Company, which are subject to a stock lending deed entered into between Jia Chen International Co., Ltd. and an affiliate of Merril Lynch Far East Limited, the sole lead manager and sole bookrunner of the Company's issue of the Convertible Bonds, in connection with such issue.

7. The interests held by Credit Suisse Group AG were interests of corporation controlled by Credit Suisse Group AG.

8. The interests held by Bank of America Corporation were interests of corporation controlled by Bank of America Corporation.

Sufficiency of public float

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

Directors' interests in contracts

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

Directors' interests in competing business

As at 31 December 2012, none of the directors or their respective associates had any business or interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group. Please also refer to the paragraph headed "Compliance with the Deed of Non-competition" below.

Compliance with the Deed of Non-competition

Each of Mr Ding Wuhao, Dings International Company, Mr Ding Huihuang, Ming Rong International Company Limited, Mr Ding Huirong and Hui Rong International Company Limited (collectively the "Covenantors" and each a "Covenantor") confirmed that, as at 31 December 2012, it is in compliance with the terms of the deed of non-competition ("Deed of Noncompetition") dated 10 June 2009 signed by each of them in favour of the Group.

To monitor the compliance of the terms of the Deed of Non-competition by the Covenantors, the independent non-executive directors have reviewed, among others, the business activities undertaken by the Covenantors (if any) outside of the Group. Based on the result of such review, the independent non-executive directors are satisfied that the Covenantors have complied with the terms of the Deed of Non-competition for the year ended 31 December 2012.

Bank loans and other borrowings

Particulars of bank loans and other borrowings of the Group as at 31 December 2012 are set out in notes 19 and 20 to the financial statements.

Financial summary

A summary of the results and of the assets and liabilities of the Group is set out on pages 119 and 120 of the annual report.

Retirement schemes

The Group operates a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 (HK$20,000 prior to June 2012). Contributions to the plan vest immediately.

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

The Group's total contributions to retirement schemes charged to the consolidated income statement during the year ended 31 December 2012 amounted to RMB17,296,000 (six months ended 31 December 2011: RMB8,812,000).

Confirmation of independence

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

Code on Corporate Governance Practices

In the opinion of the Directors, the Company has applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in the Appendix 14 of the Listing Rules during the year ended 31 December 2012.

Directors' securities transactions

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Upon enquiring by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2012.

Audit Committee

The Audit Committee has reviewed with management and the external auditor the accounting principles and policies adopted by the Group and the audited annual consolidated financial statements for the year ended 31 December 2012.

Auditors

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

By order of the board

DING HUIHUANG
Chairman

Hong Kong, 5 March 2013

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

CORPORATE GOVERNANCE CODE

The Stock Exchange of Hong Kong Limited has made various amendments to the Code on Corporate Governance Practices (the "Old Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and renamed it the Corporate Governance Code (the "New Code"). The New Code took effect on 1 April 2012.

The Company has adopted the New Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. For the year ended 31 December 2012, the Directors consider that our Company has complied with all the code provisions as set out in the Old Code for the period from 1 January 2012 to 31 March 2012, and those set out in the New Code for the period from 1 April 2012 to 31 December 2012.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

The overall management of the Group's business is vested in the Board. Key responsibilities include formulation of the Group's overall strategies and policies, setting of performance targets, evaluation of business performance, oversight of management, include designing, implementing and maintaining internal control relevant to the preparation and the true and the fair presentation of financial statement that are free from material misstatement. The management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group.

As at 31 December 2012, the Board comprises four executive Directors and four independent non-executive Directors. Biographical details of the current Directors and the relationships between the Directors (if any) are set out in the section headed "Directors and Senior Management" of this annual report.

On 1 September, the Board has appointed Mr. Tsui Yung Kwok as an independent non-executive director. The details of his biography is set out in the section headed "Director and Senior Management" of the annual report.

Among members of the Board, Mr. Ding Huihuang and Mr. Ding Huirong are brothers and Mr. Ding Wuhao is the brother-in-law of both Mr. Ding Huihuang and Mr. Ding Huirong.

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

	Training courses	Board Meeting *3*	Audit Committee *3*	Remuneration Committee *3*	Nomination Committee *3*
Executive Directors					
Mr. Ding Huihuang (Chairman)	*1*	15/15	N/A	N/A	N/A
Mr. Ding Wuhao (President)	*1, 2*	15/15	N/A	N/A	3/3
Mr. Ding Huirong (Vice President)	*1, 2*	15/15	N/A	N/A	N/A
Mr. Wang Jiabi (Vice President)	*1, 2*	14/15	N/A	2/2	N/A
Independent Non-executive Directors					
Mr. Yan Man Sing, Frankie	*1, 2*	9/15	4/4	N/A	3/3
Mr. Sun Xianhong	*1*	8/15	4/4	2/2	N/A
Mr. Liu Jianxing	*1*	8/15	4/4	2/2	3/3
Mr. Tsui Yung Kwok (appointed on 1 September 2012)	*2*	3/5	1/1	N/A	–

Notes:

1: Director who attended Corporate Governance training course organised by the Company's legal advisers during the year under review.

2: Director who attended courses organised by the Company's auditor during the year.

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

The Chairman has held one meeting with all the Independent Non-executive Directors without the presence of other executive Directors to discuss of the Company's business during the year under review.

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

The Board has developed and reviewed the Company's policies and practices on corporate governance. It includes the review and monitor of the training and continuous professional development of directors and senior management; the Company's policies and practices on compliance with legal and regulatory requirements; the development, review and monitor the code of conduct of the Company's employees and directors; and review the Company's compliance with the code and disclosure in the Corporate Governance Report.

THE ROLES OF THE CHAIRMAN AND PRESIDENT

The divisions of responsibilities between the Chairman of the Board, Mr. Ding Huihuang, and the President, Mr. Ding Wuhao, who effectively performs the functions of the chief executive officer of the Group, are clearly defined and have been approved by the Board.

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

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

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

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

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

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

Mr. Tsui Yung Kwok, who was appointed as an independent non-executive Director on 1 September 2012, will also be subject to re-election at the forthcoming general meeting of the Company.

TERMS OF APPOINTMENT OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 30 June 2009, renewable upon expiry. Mr. Sun Xianhong and Mr. Liu Jianxing, independent non-executive Directors, have both entered into a service contract with the Company for a term of three years also commencing from 30 June 2009, renewable upon expiry. Mr. Yan Man Shing, Frankie and Mr. Tsui Yung Kwok, the other independent non-executive Directors, have entered into a service contract with the Company for a term of three years commencing from 9 August 2011 and 1 September 2012, respectively, which are also renewable upon expiry.

No Director has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

COMPANY SECRETARY

Ms. Choi Mun Duen, the Company Secretary of the Company, reports to the President. The details of her biographical is set out in the section headed "Director and Senior Management" of the annual report. Ms. Choi also confirmed that she has taken no less than 15 hours relevant professional training during the financial year.

BOARD COMMITTEES

As an integral part of good corporate governance practices, the Board established the following Board committees to oversee particular aspects of the Group's affairs. These committees are governed by the respective written terms of reference approved by the Board.

Audit Committee

The audit committee of the Company ("Audit Committee") was established on 10 June 2009 with written terms of reference in compliance with the Code. The Audit Committee comprises four members, all are independent non-executive Directors, namely Mr. Yan Man Sing, Frankie, Mr. Tsui Yung Kwok, Mr. Sun Xianhong and Mr. Liu Jianxing. Mr. Yan Man Sing Frankie is the Chairman of the Audit Committee.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2012, including the accounting principles and practice adopted by the Group.

The primary duties of the Audit Committee are mainly to make recommendations to the board on the appointment, reappointment and removal of the external auditor, to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; to discuss with the external auditor regarding the nature and scope of the audit and reporting obligations before the audit commences; to develop and implement policy on engaging an external auditor to supply non-audit services, identifying and making recommendations on any matters where action or improvement is needed; to monitor integrity of the Company's financial statements, annual report, accounts and half-year report; and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the board, the Audit Committee has focused particularly on:–

(i) any changes in accounting policies and practices;

(ii) major judgmental areas;

(iii) significant adjustments resulting from audit;

(iv) the going concern assumptions and any qualifications;

(v) compliance with accounting standards; and

(vi) compliance with the Listing Rules and legal requirements in relation to financial reporting.

The duties of the Audit Committee also include the review of the arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee ensures that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and to act as the key representative body for overseeing the Company's relations with the external auditor.

The Audit Committee has held four meetings for the year ended 31 December 2012 with two meetings have been attended by external auditors. The meetings have discussed the auditing, internal controls and financial reporting matters of the Company. The Audit Committee has considered significant or unusual items that are, or may need to be, reflected in the report and accounts, has considered any matters that have been put in place by the Company's staff responsible for the accounting and financial reporting function, and external auditors; oversighted the Company's financial reporting system and internal control procedures to review the Company's financial controls, internal control and risk management systems; discussed with the management about internal control system of the Company to ensure that management has performed its duty to have an effective internal control system. The discussion has also included the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function; considered major investigation findings on internal control matters as delegated by the board or on its own initiative and management's response to these findings; reviewed the Group's financial and accounting policies and practices; reviewed the external auditor's management letter, material queries raised by the external auditor to management about accounting records, financial accounts or systems of control and management's response. For the details of members' attendance of the audit committee meeting, please refer to the table on P.51.

Remuneration Committee

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

The primary duties of the Remuneration Committee are to make recommendations to the board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; to make recommendation to the Board on the remuneration packages of individual executive Directors and senior management including benefits in kind, pension rights and compensation payments, to make recommendations to the board on the remuneration of non-executive Directors; taking into account salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group; to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; and to ensure that no director or any of his associates is involved in deciding his own remuneration.

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

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

The Remuneration Committee has held two meetings to review and approve the remuneration packages of Directors and senior management of the Group for the year ended 31 December 2012.

For the details of members' attendance of the Remuneration Committee Meeting, please refer to the table on P.51.

Nomination Committee

The nomination committee of the Company ("Nomination Committee") was established on 10 June 2009 with written terms of reference in compliance with the Code. During the reporting period, the Nomination Committee comprises four members, namely Mr. Ding Wuhao, Mr. Yan Man Sing Frankie, Mr. Tsui Yung Kwok (with effect from 1 September 2012) and Mr. Liu Jianxing.

Mr. Liu Jianxing, an independent non-executive Director, is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board annually and make recommendations on any proposed changes to the Board to complement the corporate's strategy; identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for Directorships; assess the independence of independent non-executive Directors; and make recommendations to the Board on the appointment or reappointment of Directors and succession planning for directors, in particular the Chairman and the President.

The Nomination Committee has held three meeting for the year ended 31 December 2012 to nominate the members of Board for retirement and re-election at the forthcoming Annual General Meeting, to review, the structure, size and composition of the Board and recommended to the Board on the appointment of Mr Tsui Yung Kwok as a new Independent Non-executive Director of the Company with effect from 1 September 2012. For the details of members' attendance of the Nomination Committee meeting, please refer to P.51.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the members of the senior management by band for the year ended 31 December 2012 is set out below:

Remuneration bands (HK$)	Number of persons
HK$Nil to HK$1,000,000	5
HK$1,000,001 to HK$1,500,000	2
HK$1,500,001 to HK$2,000,000	3
HK$2,000,001 to HK$2,500,000	4
HK$3,000,001 to HK$3,500,000	1

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 7 and 8 to the financial statements, respectively.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

Auditors' Remuneration

During the year ended 31 December 2012, the remuneration paid or payable to the Group's auditors, KPMG, in respect of their audit and non-audit services are as follows:

	For the year ended 31 December 2012	For the six months ended 31 December 2011
Statutory audit services	**RMB3,098,000**	RMB2,087,000

Internal Control

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

During the year, the Board has conducted reviews of the internal control system of the Company and considered the internal control system of the Company has implemented effectively. During the year ended 31 December 2012, the Board reviewed the effectiveness of the Group's internal control system. The review covered all material controls, including financial, operational and compliance controls and risk management functions. The Board also considered the Group's adequacy of resources, qualifications and experience of staff in its accounting and financial reporting functions, and their training programmes and budget.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

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

Voting by Poll

Resolutions put to vote at the general meetings of the Company (other than on procedural and administrative matters) are taken by poll. Procedures regarding the conduct of the poll are explained to the shareholders at the commencement of each general meeting, and questions from shareholders regarding the voting procedures are answered. The results of the voting by poll would be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively.

Convening of extraordinary general meeting on requisition by Shareholders

Pursuant to Articles 57 of the Articles of Association of the Company, each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

The Board may whenever it thinks fit call extraordinary general meetings. Any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for putting forward proposals at general meetings

Any Shareholder who wish to put forward proposals at general meetings of the Company shall submit such proposals to the Board in writing for the Board's consideration not less than 7 days prior to the date of a general meeting through the Company Secretary whose contact details are set out in the paragraph "Procedures for directing shareholder' enquiries to the Board" below.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

The Company Secretary
361 Degrees International Limited
Unit 3901, 39/F, COSCO Tower, 183 Queen's Road Central, Hong Kong
Email: 361@361sportshk.com
Tel No.: +852 2907 7088
Fax No.: +852 2907 7198

The Company Secretary shall forward the shareholders' enquiries and concerns to the Board and/or relevant Board committees of the Company, where appropriate, to respond to such enquires.

Constitutional Documents

As at 31 December 2012, the Group confirmed that there was not any change on the Memorandum and Articles of Association of the Company.

DIRECTORS

Executive Directors

Mr. Ding Wuhao（丁伍號）, aged 47, was appointed as an executive Director in August 2008 and is the president of the Company. He is primarily responsible for the Group's overall strategies, planning and business development. He has over 15 years of experience in the PRC sportswear industry. Since December 2006, he has been a member of the Chinese People's Political Consultative Conference ("CPPCC") Fujian Province Jinjiang City Committee（中國人民政治協商會議福建省晉江市委員會）. In October 2008, he received the award of the "2008 Most Socially Responsible Entrepreneur in China" (2008年度中國最具社會責任企業家）by the Annual Selection Organising Committee of China Human Resources Management（中國人力資源管理年度評選組委會）. In May 2009, he received the "Contribution Award for China TV Sports Programmes"(中國體育電視貢獻獎）by CCTV Sports Channel（中央電視台體育頻道）. In 2010, he was awarded "Top Ten Chinese Entrepreneur of Integrity of the Year（創業中國年度十大誠信人物獎）" by "Example for China (《榜樣中國》)", "Outstanding Contribution Award for Asian Games（亞運突出貢獻獎）" by 16th Asian Games Organizing Committee（第十六屆亞運會組委會）, and "Outstanding Contribution Award of Asian Games（亞洲體育杰出貢獻獎）" by Olympic Council of Asia（亞洲奧林匹克理事會）. In 2011, he was awarded "The Most Caring Chinese Entrepreneur on Staff's Development（中國最關注員工發展企業家）" at the eighth session of China Human Resource Management Innovation Summit（第八屆中國人力資源管理創新高峰會）and "Top Ten Youth Business Leader in Asia（亞洲十大青年商業領袖）" by Forbes. Mr. Ding is the brother-in-law of Mr. Ding Huihuang and Mr. Ding Huirong. He completed a CEO in China's Enterprise/Finance program at the Cheung Kong Graduate School of Business in August 2012.

Mr. Ding Huihuang（丁輝煌）, aged 47, was appointed as an executive Director in August 2008 and is the chairman of the Company. He is primarily responsible for overall strategies, operation planning and footwear production. He has over 15 years of experience in the PRC sportswear industry. He was awarded the "Top Ten Outstanding Youths in China Industrial Economy" （中國工業經濟十大傑出青年）by the Organising Committee of China Industry Forum（中國工業論壇組委會）in January 2008 and the "Top Ten Outstanding Youth Entrepreneurs of Quanzhou City" （泉州市十大傑出青年企業家）jointly issued by 18 governmental and commercial institutions in Quanzhou City, Fujian Province, the PRC in February 2007. He has been a standing member of the third committee of Quanzhou City Shoe Commercial Association（泉州市鞋業商會）and a vice chairman of Fujian Province Shoe Industry Association（福建省鞋業行業協會）since January 2006 and January 2007 respectively. Mr. Ding is the elder brother of Mr. Ding Huirong and the brother-in-law of Mr. Ding Wuhao.

Mr. Ding Huirong（丁輝榮）, aged 41, was appointed as an executive Director in August 2008 and is a vice president of the Company. He is primarily responsible for financial management and infrastructure construction management of the Company, more specifically the construction of the new production facility and warehouse of the Group at the Wuli Industrial Park. He has over 15 years of experience in financial management. Mr. Ding is the younger brother of Mr. Ding Huihuang and the brother-in-law of Mr. Ding Wuhao.

Mr. Wang Jiabi（王加碧）, aged 55, was appointed as an executive Director in August 2008 and is a vice president of the Company. He is primarily responsible for the human resources and external public relationship. Mr. Wang has over 15 years of experience in the PRC sportswear industry. He has completed an EMBA programme offered by Peking University（北京大學）in January 2010.

Independent non-executive Directors

Mr. Yan Man Sing Frankie（甄文星）, aged 54, joined the Group in August 2011 and is an independent non-executive Director. Mr. Yan has over 20 years of experience in financial management, corporate governance, corporate finance, corporate and financial advisory, restructuring, mergers and acquisitions. He is currently a director of the corporate finance department of a securities company. He is also a fellow member of the Association of Chartered Certified Accountants (the "ACCA"), a certified public accountant of the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and a member of the Election Committee of the Hong Kong Special Administrative Region.

Mr. Tsui Yung Kwok（徐容國）, aged 44, joined the Group in September 2012 and is an independent non-executive Director. Mr. Tsui has over 20 years of experience in accounting and finance. He was awarded a bachelor degree in Business (Accounting) from Curtin University of Technology, Australia and a master degree in Corporate Governance from The Hong Kong Polytechnic University. He is currently the chief financial officer, the company secretary and an executive director of Ju Teng International Holdings Limited (Stock code: 03336). He is also an independent non-executive director of Shenguan Holdings (Group) Limited (Stock Code: 00829) and SITC International Holdings Limited (Stock Code: 01308). Mr. Tsui is a member of the Institute of Chartered Accountants in Australia, CPA Australia, the Hong Kong Institute of Chartered Secretaries and a certified public accountant of the HKICPA.

Mr. Sun Xianhong（孫先紅）, aged 50, is an independent non-executive Director of the Company. Mr. Sun joined the Group in September 2008 and has over 20 years of experience in the media and marketing industries. Since April 2002, he has been a member of the CPPCC of Huhhot City, Inner Mongolia Autonomous Region（中國人民政治協商會議內蒙古呼和浩特市委員會）. Mr. Sun was graduated from Taiyuan University of Technology (formerly known as Shanxi Mining College（山西礦業學院）) in July 1985.

Mr. Liu Jianxing（劉建興）, aged 37, is an independent non-executive Director of the Company. Mr. Liu joined the Group in September 2008 and has over seven years of experience in macroeconomics and policy research. Mr. Liu is currently the head of the research department of International Cooperation Centre of National Development and Reform Commission ("NDRC")（中華人民共和國國家發展和改革委員會）. Mr. Liu received his bachelor's degree in management engineering from Nanchang University（南昌大學）in July 1997, a master's degree and a doctor's degree in national economics from Peking University（北京大學）in July 2002 and July 2005 respectively.

SENIOR MANAGEMENT

Mr. Chen Yongling（陳永靈）, aged 39, is the vice president of capital market of the Group and is primarily responsible for the Group's overall capital operation management. He joined the Group in August 2005. Mr. Chen has over 17 years of experience in finance, operation and business management. Mr. Chen received his diploma in business management from Zhejiang University（浙江大學）in January 2007. Mr. Chen holds a qualification certificate for accounting（中國會計師）and national secretary qualification (second class)（秘書資格國家二級）conferred by the Ministry of Finance of the PRC, a qualification certificate for economics（經濟師）of the PRC, a qualification certificate for finance management（財務管理師）and received the Certificate of Qualification for International Certified Senior Accountant（國際註冊高級會計師）awarded by the International Profession Certification Association（國際認證協會）and was awarded the "2011 Chinese Year of the Chief Accountant" (2011中國總會計師年度人物獎）.

Ms. Choi Mun Duen（蔡敏端）, aged 44, joined the Group in October 2008 and is the chief financial officer, an authorized representative and the company secretary of the Company. She has over 16 years of experience in auditing, finance and accounting. She received her bachelor's degree in accounting and finance from University of Glamorgan in the U.K. She is a certified public accountant of the HKICPA and a fellow member of the ACCA.

Mr. Chen Zhicheng（陳志誠）, aged 54, is the general manager of children's wear business of the Group and is primarily responsible for the Group's daily operation and management of children's wear series. He possesses over 17 years of experience in managing renowned international children's wear brands in the children's wear industry of China and Taiwan. He joined the Group in May 2009 and received his bachelor's degree in business administration from National Cheng Kung University in Taiwan in 1981.

Mr. Chen Yuen Feng（陳遠逢）, aged 58, is the vice-president of investor relations and is primarily responsible for the Group's investor relationship. He joined the Group in November 2009. Mr. Chen was admitted as an associate member of the Institute of Chartered Accountants in England and Wales in 1980.

Mr. Hsu Morrison Mao Chun（徐懋淳）, aged 48, is the vice president of product center of the Group and primarily responsible for the strategies, product planning and design of the Group. He has over 25 years experience in managing international renowned sportswear brands. He joined the Group in May 2012. Mr. Hsu received his bachelor's degree in international business and marketing from the University of California, Berkeley in 1986.

Directors and Senior Management

Mr. Feng Chao Mu（馮朝牧）, aged 49, is the vice president of footwear business and is primarily responsible for the overall daily operation and management of the Group's footwear business. He possesses over 18 years working experience in a renowned footwear manufacturer. He joined the Group in March 2012 and gained his bachelor's degree in Sociology from Tunghai University in Taiwan in 1991.

Mr. Deng Wei（鄧巍）, aged 40, is the vice president of apparel business of the Group and primarily responsible for the overall daily operation and management of the Group's apparel business. He possess over 20 years of experience in managing renowned international sportswear brand. He joined the Group in December 2012. Mr. Deng received his diploma at Jiangxi Apparel School in 1993.

Mr. Wang Hongzheng（王宏征）, aged 47, is the vice president of operation department of the Group and primarily responsible for daily operation and management in the operation department of the Group. He has over 20 years of experience in managing international and local renowned brands. He joined the Group in October 2010. Mr. Wang received his MBA from Heriot-Watt University in United Kingdom in 2002.

Ms. Zhu Chenye（朱晨曄）, aged 38, is the vice president of brand management center of the Group and primarily responsible for daily operation and management in the brand management center of the Group. She has over 12 years of experience in managing international renowned sportswear brands. She joined the Group in November 2010. Ms. Zhu received her MBA from China Europe International Business School（中歐國際工商學院）and her bachelor's degree in science from Shanghai Jiao Tong University（上海交通大學）in 2008 and 1995 respectively.

Mr. Chen Jian Ci（陳建次）, aged 42, is the vice president of supply chain management center and primarily responsible for overall planning in warehouse, logistics and network, integrating data stream and managing enterprise information system deployment of the Group. He has over 15 years of experience in information system related works and has worked in world renowned enterprises. He joined the Group in December 2011. Mr. Chen received his bachelor's degree in information management from Tamkang University in 1995.

Mr. Sui Jian（隋健）, aged 47, is the vice president of human resources centre of the Group and is primarily responsible for overall human resources management, training and administration in the Group. He has over 17 years of relevant experience in managing international renowned enterprises. He joined the Group in March 2011. Mr. Sui was graduated from the Department of English of Shanghai Normal University（上海師範大學）in 1994.

Mr. Wang Zhiqian（王志謙）, aged 40, is the head of the research and development department for the Group's footwear business. Mr. Wang has over 16 years of experience in the PRC sportswear industry. He joined the Group in October 2003. Mr. Wang received his diploma from Jilin Second Light Industry School（吉林省二輕工業學校）in July 1992.

Mr. Ling Jun（凌雋）, aged 37, is the head of the Group's brand department and is primarily responsible for the Group's overall brand management. Mr. Ling has over 5 years of experience in brand management. He joined the Group in April 2008. He received his diploma in the advance program of study in business communication and management from California State University of Sacramento in September 2002. He received his master's degree in business administration from American National University in April 2003.

Mr. Li Xiang（李翔）, aged 38, is the chief supervisor and head of the equipment and accessories business of the Group and is primarily responsible for the overall management of equipment and accessories. Mr. Li joined the Group in October 2007. Mr. Li has over 10 years of experience in marketing and product management. Mr. Li received his bachelor's degree in art from Hua Zhong Normal University（華中師範大學）in September 1997.

Ms. Lin Meiyun（林美雲）, aged 42, is the head of shoes production department and primarily responsible for the Group's footwear production management. She has more than 19 years of experience in footwear production management in China and joined the Group in October 2009.

Independent Auditor's Report

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

We have audited the consolidated financial statements of 361 Degrees International Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 62 to 118, which comprise the consolidated and company balance sheets as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

5 March 2013

Consolidated Income Statement

for the year ended 31 December 2012
(Expressed in Renminbi)

	Note	**Year ended 31 December 2012 RMB'000**	Six months ended 31 December 2011 RMB'000
Turnover	3	**4,950,578**	2,382,801
Cost of sales		**(2,978,266)**	(1,330,103)
Gross profit		**1,972,312**	1,052,698
Other revenue	4	**81,045**	15,631
Other net gain	4	**2,894**	1,738
Selling and distribution expenses		**(889,067)**	(477,768)
Administrative expenses		**(302,771)**	(152,311)
Profit from operations		**864,413**	439,988
Net change in fair value of derivatives embedded to convertible bonds	21	**32,936**	–
Finance costs	5(a)	**(66,975)**	(543)
Profit before taxation	5	**830,374**	439,445
Income tax	6(a)	**(115,145)**	(78,216)
Profit for the year/period		**715,229**	361,229
Attributable to:			
Equity shareholders of the Company	9	**707,208**	359,692
Non-controlling interests		**8,021**	1,537
Profit for the year/period		**715,229**	361,229
Earnings per share	10		
Basic (cents)		**34.2**	17.4
Diluted (cents)		**31.8**	17.4

The notes on pages 70 to 118 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year/period are set out in note 26(b).

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2012
(Expressed in Renminbi)

	Year ended 31 December 2012 RMB'000	Six months ended 31 December 2011 RMB'000
Profit for the year/period	**715,229**	361,229
Other comprehensive income for the year/period		
Exchange differences on translation of financial statements	**3,226**	(7,564)
Total comprehensive income for the year/period	**718,455**	353,665
Attributable to:		
Equity shareholders of the Company	**710,434**	352,128
Non-controlling interests	**8,021**	1,537
Total comprehensive income for the year/period	**718,455**	353,665

The notes on pages 70 to 118 form part of these financial statements. There was no tax effect relating to the components of other comprehensive income.

Consolidated Balance Sheet

at 31 December 2012
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Non-current assets			
Fixed assets	11		
– Property, plant and equipment		**958,049**	892,263
– Interests in leasehold land held for own use under operating leases		**99,754**	99,926
		1,057,803	992,189
Other financial asset	13	**17,550**	17,550
Deposits and prepayments	15	**142,140**	141,887
Deferred tax assets	25(b)	**61,730**	29,546
		1,279,223	1,181,172
Current assets			
Inventories	14	**460,715**	451,264
Trade debtors	15	**1,928,040**	2,110,008
Bills receivable	15	**183,470**	244,800
Deposits, prepayments and other receivables	15	**567,223**	794,684
Pledged bank deposits	16&17	**95,730**	127,685
Deposits with banks	17	**590,791**	211,902
Cash and cash equivalents	17	**2,107,018**	459,762
		5,932,987	4,400,105
Current liabilities			
Trade and other payables	18	**1,591,474**	1,023,983
Bank loans	19	**42,315**	28,781
Other loan	20	**–**	150,000
Current taxation	25(a)	**92,379**	72,181
		1,726,168	1,274,945
Net current assets		**4,206,819**	3,125,160
Total assets less current liabilities		**5,486,042**	4,306,332
Non-current liabilities			
Deferred tax liabilities	25(b)	**2,517**	5,817
Convertible bonds	21	**753,062**	–
		755,579	5,817
NET ASSETS		**4,730,463**	4,300,515

	Note	2012 RMB'000	2011 RMB'000
CAPITAL AND RESERVES			
Share capital	26(c)	**182,298**	182,298
Reserves		**4,495,762**	4,073,835
Total equity attributable to equity shareholders of the Company		**4,678,060**	4,256,133
Non-controlling interests		**52,403**	44,382
TOTAL EQUITY		**4,730,463**	4,300,515

Approved and authorised for issue by the board of directors on 5 March 2013

Ding Huihuang
Director

Ding Huirong
Director

The notes on pages 70 to 118 form part of these financial statements.

Balance Sheet

at 31 December 2012
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Non-current asset			
Investment in subsidiary	12	**1**	1
Current assets			
Amounts due from subsidiaries	22	**1,069,929**	798,449
Other receivables	15	**18,584**	1,903
Deposits with banks	17	**184,941**	–
Cash and cash equivalents	17	**180,664**	46,730
		1,454,118	847,082
Current liabilities			
Amounts due to subsidiaries	22	**26,932**	22,967
Other payables	18	**186,183**	8,560
		213,115	31,527
Net current assets		**1,241,003**	815,555
Total assets less current liabilities		**1,241,004**	815,556
Non-current liability			
Convertible bonds	21	**753,062**	–
NET ASSETS		**487,942**	815,556
CAPITAL AND RESERVES	26(a)		
Share capital		**182,298**	182,298
Reserves		**305,644**	633,258
TOTAL EQUITY		**487,942**	815,556

Approved and authorised for issue by the board of directors on 5 March 2013

Ding Huihuang
Director

Ding Huirong
Director

The notes on pages 70 to 118 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2012
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company										
	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 July 2011		182,298	1,082,251	156,252	82,724	451,019	10,938	(34,140)	2,304,583	4,235,925	42,845	4,278,770
Changes in equity for the six months ended 31 December 2011:												
Profit for the period		–	–	–	–	–	–	–	359,692	359,692	1,537	361,229
Other comprehensive income		–	–	–	–	–	–	(7,564)	–	(7,564)	–	(7,564)
Total comprehensive income		–	–	–	–	–	–	(7,564)	359,692	352,128	1,537	353,665
Equity-settled share-based transactions		–	–	–	–	–	964	–	–	964	–	964
Appropriation to statutory reserve		–	–	–	–	7,782	–	–	(7,782)	–	–	–
Dividends declared and paid during the period	26(b)	–	(332,884)	–	–	–	–	–	–	(332,884)	–	(332,884)
Balance at 31 December 2011		182,298	749,367	156,252	82,724	458,801	11,902	(41,704)	2,656,493	4,256,133	44,382	4,300,515
Balance at 1 January 2012		182,298	749,367	156,252	82,724	458,801	11,902	(41,704)	2,656,493	4,256,133	44,382	4,300,515
Changes in equity for the year ended 31 December 2012:												
Profit for the year		–	–	–	–	–	–	–	707,208	707,208	8,021	715,229
Other comprehensive income		–	–	–	–	–	–	3,226	–	3,226	–	3,226
Total comprehensive income		–	–	–	–	–	–	3,226	707,208	710,434	8,021	718,455
Equity-settled share-based transactions		–	–	–	–	–	957	–	–	957	–	957
Appropriation to statutory reserve		–	–	–	–	14,857	–	–	(14,857)	–	–	–
Dividends declared and paid during the year	26(b)	–	(289,464)	–	–	–	–	–	–	(289,464)	–	(289,464)
Balance at 31 December 2012		182,298	459,903	156,252	82,724	473,658	12,859	(38,478)	3,348,844	4,678,060	52,403	4,730,463

The notes on pages 70 to 118 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2012
(Expressed in Renminbi)

	Note	Year ended 31 December 2012 RMB'000	Six months ended 31 December 2011 RMB'000
Operating activities			
Profit before taxation		**830,374**	439,445
Adjustments for:			
Depreciation	5(c)	**77,998**	36,397
Amortisation of land lease premium	5(c)	**1,996**	1,102
Adjustment on amortisation of land lease premium		**(1,183)**	–
Finance costs	5(a)	**66,975**	543
Interest income	4	**(23,535)**	(12,267)
Net change in fair value of derivatives embedded to convertible bonds		**(32,936)**	–
Net loss on disposal of fixed assets	4	**307**	54
Equity-settled share-based payment expenses	5(b)	**957**	964
Effect of foreign exchange rates changes		**(6,453)**	(7,558)
Changes in working capital:			
Increase in inventories		**(9,451)**	(254,009)
Decrease/(increase) in trade debtors		**181,968**	(551,450)
Decrease/(increase) in bills receivable		**61,330**	(221,700)
Decrease/(increase) in deposits, prepayments and other receivables		**248,921**	(488,650)
Increase/(decrease) in trade and other payables		**391,940**	(127,542)
Cash generated from/(used in) operations		**1,789,208**	(1,184,671)
People's Republic of China ("PRC") income tax paid		**(130,431)**	(159,411)
Net cash generated from/(used in) operating activities		**1,658,777**	(1,344,082)
Investing activities			
Payment for the purchase of fixed assets		**(150,566)**	(98,383)
Proceeds from disposal of fixed assets		**2,315**	100
Payment for the purchase of other financial asset		**–**	(17,550)
Decrease/(increase) in pledged bank deposits		**31,955**	(76,845)
Increase in deposits with banks		**(378,889)**	(76,532)
Interest received		**18,533**	11,549
Net cash used in investing activities		**(476,652)**	(257,661)

	Note	Year ended 31 December 2012 RMB'000	Six months ended 31 December 2011 RMB'000
Financing activities			
Proceeds from new bank loans		**241,128**	29,520
Repayment of bank loans		**(227,594)**	(13,955)
Proceeds from other loan		**–**	150,000
Repayment of other loan		**(150,000)**	–
Proceeds from issuance of convertible bonds		**922,894**	–
Finance charges on convertible bonds paid		**(21,409)**	–
Interest paid		**(10,424)**	(543)
Dividends paid	26(b)	**(289,464)**	(332,884)
Net cash generated from/(used in) financing activities		**465,131**	(167,862)
Net increase/(decrease) in cash and cash equivalents		**1,647,256**	(1,769,605)
Cash and cash equivalents at the beginning of the year/period		**459,762**	2,229,367
Cash and cash equivalents at the end of the year/period	17	**2,107,018**	459,762

The notes on pages 70 to 118 form part of these financial statements.

Notes to the Financial Statements

(Expressed in thousands of Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The Company changed its financial year end date from 30 June to 31 December in the last financial period. Accordingly, the comparative figures (which cover a period of six months from 1 July 2011 to 31 December 2011) for the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes are therefore not entirely comparable with those of the current year.

The consolidated financial statements for the year ended 31 December 2012 comprise the Company and its subsidiaries.

The Company and other investment holding subsidiaries incorporated in the British Virgin Islands (the "BVI") and Hong Kong have their functional currency in Hong Kong dollars and subsidiaries established in the PRC have their functional currency in Renminbi ("RMB"). As the Group mainly operates in the PRC, RMB is used as the presentation currency of the Group's financial statements. All financial information presented is rounded to the nearest thousand except otherwise stated. The measurement basis used in the preparation of the financial statements is the historical costs basis except for derivative financial instruments which are stated at their fair value as explained in the accounting policy set out in note 1(f).

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Change in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfer of financial assets* is relevant to the Group's financial statements.

The amendments to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

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

(d) Subsidiaries and non-controlling interests

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

(e) Other investments in equity securities

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(i)).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(f) Derivative financial instruments

Derivatives financial instruments are recognised initially at fair value. At the balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(g) Property, plant and equipment

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

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

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

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

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.
- Plant and machinery — 5 – 10 years
- Office equipment and other fixed assets — 2 – 10 years
- Motor vehicles — 5 years

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Operating lease charges

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

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

(i) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

- For investments in subsidiaries, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(i)(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(i) Impairment of investments in equity securities and other receivables *(Continued)*

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

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

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

(ii) Impairment of other assets

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

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

– Calculation of recoverable amount

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(ii) Impairment of other assets *(Continued)*

– Recognition of impairment losses

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

– Reversals of impairment losses

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

(j) Inventories

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

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

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

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

(k) Trade and other receivables

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Convertible bonds

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition the derivative components of the convertible bonds is measured at fair value and presented as part of derivative financial instruments (see note 1(f)). Any excess of proceeds over the amount initially recognised as the derivative components is recognised as the liability component. Transaction costs that relate to the issue of the convertible bond are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative components is recognised immediately in profit or loss.

The derivative components are subsequently remeasured in accordance with note 1(f). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(m) Interest-bearing borrowings

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

(n) Trade and other payables

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

(o) Cash and cash equivalents

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

(p) Employee benefits

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Employee benefits *(Continued)*

(ii) Share-based payments

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

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

(q) Income tax

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax *(Continued)*

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

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

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

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

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

  - the same taxable entity; or

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

(r) Provisions and contingent liabilities

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Revenue recognition

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

(i) Sale of goods

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

(ii) Interest income

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

(iii) Government grants

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

(t) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

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

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

(u) Borrowing costs

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Research and development and advertising

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

(w) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Segment reporting

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

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

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

2 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgement in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgement:

(i) Investment property

The Group has temporarily sub-let an office but has decided not to treat this property as an investment property because it is not the Group's intention to hold this property in the long-term for capital appreciation or rental income. Accordingly, this property is still treated an item of property, plant and equipment.

(b) Sources of estimation uncertainty

Notes 24 and 27 contain information about the assumptions and their risk factor relating to fair value of share option granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Useful lives of fixed assets

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

(ii) Impairment losses on trade debtors and bills receivable

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

(Expressed in thousands of Renminbi unless otherwise indicated)

2 ACCOUNTING JUDGEMENT AND ESTIMATES *(Continued)*

(b) Sources of estimation uncertainty *(Continued)*

(iii) Other impairment losses

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

(iv) Net realisable value of inventories

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

(v) Income taxes

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

3 TURNOVER AND SEGMENT REPORTING

(a) Turnover

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

	Year ended 31 December 2012 RMB'000	Six months ended 31 December 2011 RMB'000
Footwear	**2,321,681**	1,225,819
Apparel	**2,532,908**	1,105,888
Accessories	**95,989**	51,094
	4,950,578	2,382,801

3 TURNOVER AND SEGMENT REPORTING *(Continued)*

(a) Turnover *(Continued)*

The Group's customer base is diversified and has only two customers with whom transactions have exceeded 10% of the Group's revenues for each of the year ended 31 December 2012 and six months ended 31 December 2011. During the year ended 31 December 2012, revenues from sales of footwear, apparel and accessories to each of the two customers, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately RMB843 million (six months ended 31 December 2011: RMB342 million) and RMB514 million (six months ended 31 December 2011: RMB284 million) respectively. These sales arose in both reportable segments (see note 3(b)). Details of concentrations of credit risk arising from these customers are set out in 27(a)(i).

Further details regarding the Group's principal activities are disclosed below:

(b) Segment reporting

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- *361°* Products – Adults: this segment derives turnover from manufacturing and trading of adults sporting goods.
- *361°* Products – Kids: this segment derives turnover from trading of kids sporting goods.

The Group's revenue and results were derived from sales in the PRC and the principal assets employed by the Group were located in the PRC during the year. Accordingly, no analysis by geographical segments has been provided for the year. In addition, no information on segment assets and liabilities was prepared for review by the Group's most senior executive management for the year for the purpose of resource allocation and performance assessment.

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and expenses incurred by these segments. The measure used for reporting segment profit is gross profit.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2012 and six months ended 31 December 2011 is set out below.

	***361°* Products – Adults**		***361°* Products – Kids**		**Total**	
	Year ended 31 December 2012 RMB'000	Six months ended 31 December 2011 RMB'000	**Year ended 31 December 2012 RMB'000**	Six months ended 31 December 2011 RMB'000	**Year ended 31 December 2012 RMB'000**	Six months ended 31 December 2011 RMB'000
Reportable segment revenue	**4,580,500**	2,309,995	**370,078**	72,806	**4,950,578**	2,382,801
Cost of sales	**(2,751,863)**	(1,285,513)	**(226,403)**	(44,590)	**(2,978,266)**	(1,330,103)
Reportable segment profit (gross profit)	**1,828,637**	1,024,482	**143,675**	28,216	**1,972,312**	1,052,698

(Expressed in thousands of Renminbi unless otherwise indicated)

3 TURNOVER AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

(ii) Reconciliations of reportable segment revenues and profit or loss

	Year ended 31 December 2012 RMB'000	Six months ended 31 December 2011 RMB'000
Revenue		
Reportable segment revenue and consolidated turnover (note 3(a))	**4,950,578**	2,382,801
Profit		
Reportable segment profit	**1,972,312**	1,052,698
Other revenue	**81,045**	15,631
Other net gain	**2,894**	1,738
Selling and distribution expenses	**(889,067)**	(477,768)
Administrative expenses	**(302,771)**	(152,311)
Net change in fair value of derivatives embedded to convertible bonds	**32,936**	–
Finance costs	**(66,975)**	(543)
Consolidated profit before taxation	**830,374**	439,445

4 OTHER REVENUE AND NET GAIN

	Year ended 31 December 2012 RMB'000	Six months ended 31 December 2011 RMB'000
Other revenue		
Bank interest income	**23,535**	12,267
Government grants	**40,028**	1,140
Others	**17,482**	2,224
	81,045	15,631
Other net gain		
Net loss on disposal of fixed assets	**(307)**	(54)
Net foreign exchange gain	**3,201**	1,792
	2,894	1,738

Government grants of RMB40,028,000 (six months ended 31 December 2011: RMB1,140,000) were received from several local government authorities for the Group's contribution to local economies, of which the entitlement was unconditional and under the discretion of the relevant authorities.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		Year ended 31 December 2012 RMB'000	Six months ended 31 December 2011 RMB'000
(a)	***Finance costs***		
	Interest on bank and other borrowings wholly repayable within five years	**10,424**	543
	Finance charges on convertible bonds (note 21)	**56,551**	–
		66,975	543
(b)	***Staff costs***		
	Contributions to defined contribution retirement plans	**17,296**	8,812
	Equity-settled share-based payment expenses (note 24)	**957**	964
	Salaries, wages and other benefits	**324,893**	205,869
		343,146	215,645
(c)	***Other items***		
	Auditors' remuneration	**3,637**	2,087
	Amortisation of land lease premium	**1,996**	1,102
	Depreciation	**77,998**	36,397
	Operating lease charges in respect of properties	**14,736**	4,398
	Research and development costs *	**86,560**	35,767
	Cost of inventories **	**2,978,266**	1,330,103

* Research and development costs include RMB31,882,000 (six months ended 31 December 2011: RMB15,924,000) relating to staff costs of employees in the research and development department, which amount is also included in the total staff costs as disclosed in note 5(b).

** Cost of inventories include RMB228,589,000 (six months ended 31 December 2011: RMB161,060,000) relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

(Expressed in thousands of Renminbi unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

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

	Year ended 31 December 2012 RMB'000	Six months ended 31 December 2011 RMB'000
Current tax – PRC income tax		
Provision for the year/period	**147,656**	93,807
Under provision in respect of prior years	**2,973**	–
	150,629	93,807
Deferred tax		
Origination and reversal of temporary differences	**(35,484)**	(15,591)
	115,145	78,216

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

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

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

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

	Year ended 31 December 2012 RMB'000	Six months ended 31 December 2011 RMB'000
Profit before taxation	**830,374**	439,445
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**215,291**	112,619
Tax effect of non-deductible expenses	**10,894**	8,889
Tax effect of non-taxable income	**(1,184)**	(967)
Tax effect of utilisation of tax losses not recognised in prior years	**(2,443)**	–
Tax effect of profits entitled to tax exemption in the PRC	**(110,386)**	(42,325)
Under provision in prior years	**2,973**	–
Actual tax expense	**115,145**	78,216

7 DIRECTORS' REMUNERATION

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

	Year ended 31 December 2012				
	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Discretionary bonus RMB'000	Total RMB'000
Executive directors					
Ding Wuhao	–	1,490	4	–	1,494
Ding Huihuang	–	1,201	4	–	1,205
Ding Huirong	–	1,201	4	–	1,205
Wang Jiabi	–	720	5	–	725
Independent non-executive directors					
Yan Man Sing	455	–	–	–	455
Sun Xianhong	320	–	–	–	320
Liu Jianxing	210	–	–	–	210
Tsui Yung Kwok	114	–	–	–	114
	1,099	4,612	17	–	5,728

	Six months ended 31 December 2011				
	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Discretionary bonus RMB'000	Total RMB'000
Executive directors					
Ding Wuhao	–	990	3	–	993
Ding Huihuang	–	791	3	–	794
Ding Huirong	–	791	3	–	794
Wang Jiabi	–	441	3	–	444
Independent non-executive directors					
Yan Man Sing	191	–	–	–	191
Sun Xianhong	160	–	–	–	160
Liu Jianxing	105	–	–	–	105
Mak Kin Kwong (note)	38	–	–	–	38
	494	3,013	12	–	3,519

Note: Mr. Mak Kin Kwong resigned as independent non-executive director on 2 August 2011.

(Expressed in thousands of Renminbi unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the directors is the five individuals with the highest emoluments (six months ended 31 December 2011: Nil). The aggregate of the emoluments in respect of the five (six months ended 31 December 2011: five) individuals are as follows:

	Year ended 31 December 2012 RMB'000	Six months ended 31 December 2011 RMB'000
Salaries and other emoluments	**10,254**	5,176
Retirement scheme contributions	**355**	221
	10,609	5,397

The emoluments of the five (six months ended 31 December 2011: five) individuals with the highest emoluments are within the following bands:

	Year ended 31 December 2012 Number of individuals	Six months ended 31 December 2011 Number of Individuals
HK$1,000,001 to HK$1,500,000	**–**	5
HK$2,000,001 to HK$2,500,000	**4**	–
HK$3,000,001 to HK$3,500,000	**1**	–

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB38,340,000 (2011: RMB9,162,000) which has been dealt with in the financial statements of the Company.

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB707,208,000 (six months ended 31 December 2011: RMB359,692,000) and the weighted average number of shares in issue during the year of 2,068 million (six months ended 31 December 2011: 2,068 million).

10 EARNINGS PER SHARE *(Continued)*

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB730,823,000 (six months ended 31 December 2011: RMB359,692,000) and the weighted average number of ordinary shares of 2,295 million (six months ended 31 December 2011: 2,071 million) adjusted for the potential dilutive effect caused by the conversion of convertible bonds (note 21) and share options granted under Pre-IPO share option scheme (note 24(a)), calculated as follows:

(i) Profits attributable to ordinary equity shareholders of the Company (diluted)

	Year ended 31 December 2012 RMB'000	Six months ended 31 December 2011 RMB'000
Profit attributable to ordinary equity shareholders	**707,208**	359,692
After tax effect of effective interest on the liability component of convertible bonds (note 21)	**56,551**	–
After tax effect of net gain recognised on the derivative components of convertible bonds (note 21)	**(32,936)**	–
Profit attributable to ordinary equity shareholders (diluted)	**730,823**	359,692

(ii) Weighted average number of ordinary shares (diluted)

	Year ended 31 December 2012 '000	Six months ended 31 December 2011 '000
Weighted average number of ordinary shares at 31 December	**2,067,602**	2,067,602
Effect of conversion of convertible bonds (note 21)	**227,847**	–
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 24)	**–**	3,706
Weighted average number of ordinary shares (diluted) at 31 December	**2,295,449**	2,071,308

Notes to the Financial Statements

(Expressed in thousands of Renminbi unless otherwise indicated)

11 FIXED ASSETS

The Group

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment and other fixed assets RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:								
At 1 July 2011	626,017	155,742	100,889	14,681	44,366	941,695	88,478	1,030,173
Exchange adjustments	–	–	(26)	–	–	(26)	–	(26)
Additions	–	27,723	13,425	5,109	36,060	82,317	18,037	100,354
Disposals	–	(290)	–	(9)	–	(299)	–	(299)
Transfer from construction in progress	22,837	–	–	–	(22,837)	–	–	–
At 31 December 2011	648,854	183,175	114,288	19,781	57,589	1,023,687	106,515	1,130,202
Accumulated depreciation and amortisation:								
At 1 July 2011	25,382	31,578	33,455	4,777	–	95,192	5,487	100,679
Exchange adjustments	–	–	(20)	–	–	(20)	–	(20)
Charge for the period	14,224	7,440	13,173	1,560	–	36,397	1,102	37,499
Written back on disposals	–	(145)	–	–	–	(145)	–	(145)
At 31 December 2011	39,606	38,873	46,608	6,337	–	131,424	6,589	138,013
Net book value:								
At 31 December 2011	609,248	144,302	67,680	13,444	57,589	892,263	99,926	992,189
Cost:								
At 1 January 2012	648,854	183,175	114,288	19,781	57,589	1,023,687	106,515	1,130,202
Exchange adjustments	–	–	(8)	–	–	(8)	–	(8)
Additions	45,423	14,826	889	10,510	74,758	146,406	17,178	163,584
Disposals	–	(807)	(3,379)	–	–	(4,186)	–	(4,186)
Adjustment	–	–	–	–	–	–	(16,537)	(16,537)
Transfer from construction in progress	5,000	–	1,283	–	(6,283)	–	–	–
At 31 December 2012	699,277	197,194	113,073	30,291	126,064	1,165,899	107,156	1,273,055
Accumulated depreciation and amortisation:								
At 1 January 2012	39,606	38,873	46,608	6,337	–	131,424	6,589	138,013
Exchange adjustments	–	–	(8)	–	–	(8)	–	(8)
Charge for the year	36,010	16,954	20,563	4,471	–	77,998	1,996	79,994
Written back on disposals	–	(336)	(1,228)	–	–	(1,564)	–	(1,564)
Adjustment	–	–	–	–	–	–	(1,183)	(1,183)
At 31 December 2012	75,616	55,491	65,935	10,808	–	207,850	7,402	215,252
Net book value:								
At 31 December 2012	623,661	141,703	47,138	19,483	126,064	958,049	99,754	1,057,803

11 FIXED ASSETS *(Continued)*

The Group *(Continued)*

As at 31 December 2012, a property with net book value of RMB45,423,000 (2011: RMB nil) was pledged as security for a banking facility of the Group of RMB21,646,000 (2011: RMBnil).

The Group leases out the property under operating leases temporarily for an initial period of one year starting on 1 January 2013, with an option to renew the lease for another year. The lease does not include contingent rental. The Group's total future minimum lease payment under non-cancellable operating leases of RMB1,123,000 (2011: RMBnil) are receivable within one year.

The analysis of net book value of properties is as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
In Hong Kong – medium-term leases	**45,423**	–
In PRC – medium-term leases	**677,992**	709,174
	723,415	709,174
Representing:		
Buildings carried at cost	**623,661**	609,248
Interest in leasehold land held for own use under operating leases	**99,754**	99,926
	723,415	709,174

12 INVESTMENT IN SUBSIDIARY

	The Company	
	2012	2011
	RMB'000	RMB'000
Unlisted share, at cost	**1**	1

(Expressed in thousands of Renminbi unless otherwise indicated)

12 INVESTMENT IN SUBSIDIARY *(Continued)*

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

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Sanliuyidu Holdings Company Limited	BVI	US$100	100%	100%	–	Investment holding
361 Enterprise Company Limited	Hong Kong	HK$1	100%	–	100%	Investment holding
361 Investment Company Limited	Hong Kong	HK$1	100%	–	100%	Investment holding
361 Degrees (HK) Investment Limited	Hong Kong	HK$1	100%	–	100%	Investment holding
Sanliuyidu (Fujian) Sports Goods Co., Ltd 三六一度(福建)體育用品有限公司 (Notes (i) and (iv))	PRC	HK$280,000,000	100%	–	100%	Manufacture and trading of sporting goods
Sanliuyidu (China) Co., Ltd 三六一度(中國)有限公司 (Notes (i) and (iv))	PRC	HK$560,000,000	100%	–	100%	Manufacture and trading of sporting goods
Sanliuyidu Xiamen Industry & Trade Co., Limited 三六一度(廈門)工貿有限公司 (Notes (ii) and (iv))	PRC	RMB100,000,000	100%	–	100%	Trading of sporting goods
Sanliuyidu (Fujian) Shoes and Plastics Technology Co., Ltd 三六一度(福建)鞋塑科技有限公司 (Notes (iii) and (iv))	PRC	HK$86,000,000	51%	–	51%	Manufacture and trading of shoes soles
Sanliuyidu (Guangdong) Industry & Trade Co., Limited 三六一度(廣東)工貿有限公司 (Notes (i) and (iv))	PRC	HK$10,000,000	100%	–	100%	Inactive
361 Degrees Children's Clothing Co., Ltd. 三六一度童裝有限公司 (Note (i))	PRC	HK$40,000,000	100%	–	100%	Trading of children sporting goods

Notes:

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

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

(iii) The entity is a co-operative joint venture registered in the PRC.

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

13 OTHER NON-CURRENT FINANCIAL ASSET

	The Group	
	2012	2011
	RMB'000	RMB'000
Unlisted available-for-sale equity securities	**17,550**	17,550

14 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	2012	2011
	RMB'000	RMB'000
Raw materials	**28,077**	31,352
Work in progress	**116,075**	60,064
Finished goods	**316,563**	359,848
	460,715	451,264

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

	The Group	
	Year ended	Six months ended
	31 December	31 December
	2012	2011
	RMB'000	RMB'000
Carrying amount of inventories sold	**2,978,266**	1,330,103

(Expressed in thousands of Renminbi unless otherwise indicated)

15 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade debtors				
Trade debtors	**1,967,560**	2,149,528	**–**	–
Less: Allowance for doubtful debts (note 15(b))	**(39,520)**	(39,520)	**–**	–
	1,928,040	2,110,008	**–**	–
Bills receivable	**183,470**	244,800	**–**	–
Deposits, prepayments and other receivables				
Current				
Deposits	**3,586**	1,790	**–**	–
Prepayments	**495,295**	719,915	**–**	579
Other receivables	**51,884**	72,979	**2,126**	1,324
Derivative financial instruments (note 21)	**16,458**	–	**16,458**	–
	567,223	794,684	**18,584**	1,903
Non-current				
Deposits and prepayments	**142,140**	141,887	**–**	–

Included in prepayments are amounts prepaid to suppliers of RMB388,906,000 (2011: RMB610,515,000).

All of the trade debtors and bills receivable and current portion of deposits, prepayments and other receivables are expected to be recovered within one year, except that the Group's current deposits of RMB3,586,000 (2011: RMB1,790,000) are expected to be recovered or recognised as expenses after more than one year.

(a) Ageing analysis

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

	The Group	
	2012	2011
	RMB'000	RMB'000
Within 90 days	**1,088,602**	1,663,756
Over 90 days but within 180 days	**1,022,723**	609,612
Over 180 days but within 365 days	**185**	81,440
	2,111,510	2,354,808

Trade debtors and bills receivable are due within 30-180 days from the date of billing. Further details on the Group's credit policy are set out in note 27(a).

15 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(i)(i)). There are no movements in the allowance for doubtful debts during the year ended 31 December 2012 and six months ended 31 December 2011.

At 31 December 2012, the Group's trade debtors of RMB39,520,000 (2011: RMB39,520,000) were individually determined to be impaired. The individually impaired receivables related to a number of customers and management assessed that the receivables were not recoverable. Consequently, specific allowances for doubtful debts were recognised. The Group does not hold any collateral over these balances.

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

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

	The Group	
	2012	2011
	RMB'000	RMB'000
Neither past due nor impaired	**1,961,452**	1,941,518
Within 30 days past due	**75,930**	245,302
Over 30 days but within 90 days past due	**70,414**	167,988
Over 90 days but within 180 days past due	**3,714**	–
Amount past due	**150,058**	413,290
	2,111,510	2,354,808

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

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

16 PLEDGED BANK DEPOSITS

The Group

Bank deposits are pledged to banks as security for certain banking facilities (see note 19).

(Expressed in thousands of Renminbi unless otherwise indicated)

17 CASH AND BANK DEPOSITS

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Pledged bank deposits	**95,730**	127,685	**–**	–
Deposits with banks				
– More than three months to maturity when placed	**590,791**	211,902	**184,941**	–
– Within three months to maturity when placed	**585,133**	103,761	**–**	46,176
Cash at bank and in hand	**1,521,885**	356,001	**180,664**	554
Cash and bank deposits	**2,793,539**	799,349	**365,605**	46,730
Represented by:				
Pledged bank deposits	**95,730**	127,685	**–**	–
Deposits with bank	**590,791**	211,902	**184,941**	–
Cash and cash equivalents	**2,107,018**	459,762	**180,664**	46,730
	2,793,539	799,349	**365,605**	46,730

At 31 December 2012, the balances that were placed with banks or on hand in the PRC and included in the cash and bank deposits amounted to RMB2,670,561,000 (2011: RMB776,525,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

18 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade creditors	**548,936**	315,539	**–**	–
Bills payable	**491,140**	474,810	**–**	–
Receipts in advance	**43,217**	447	**–**	–
Other payables and accruals	**335,205**	233,187	**13,207**	8,560
Derivative financial instruments (note 21)	**172,976**	–	**172,976**	–
	1,591,474	1,023,983	**186,183**	8,560

18 TRADE AND OTHER PAYABLES *(Continued)*

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

Bills payable as at 31 December 2012 and 2011 were secured by pledged bank deposits as disclosed in note 16.

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

	The Group	
	2012	2011
	RMB'000	RMB'000
Due within 1 month or on demand	**420,644**	190,690
Due after 1 month but within 3 months	**328,764**	357,324
Due after 3 months but within 6 months	**290,668**	242,335
	1,040,076	790,349

19 BANK LOANS

As at 31 December 2012, the bank loans were repayable within one year or on demand and secured as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
Bank loans		
– secured	**17,315**	–
– unsecured	**25,000**	28,781
	42,315	28,781

(Expressed in thousands of Renminbi unless otherwise indicated)

19 BANK LOANS *(Continued)*

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

	The Group	
	2012	2011
	RMB'000	RMB'000
Facilities amount	**3,922,544**	1,395,000
Utilisation at the balance sheet date		
– Bills payable	**491,140**	474,810
– Bank loans	**42,315**	28,781
	533,455	503,591

At 31 December 2012, bank loan and bills payable of the Group were secured by a property and pledged bank deposits (see notes 11 and 16).

As at 31 December 2011, covenants in relation to the current ratio and debt to asset ratio of a subsidiary in respect of bank loans of RMB10,000,000 were breached. The creditor bank granted the subsidiary a waiver from complying with the aforesaid financial covenants on 29 February 2012. As at 31 December 2012, the Group's bank loans were not subject to any covenants.

20 OTHER LOAN

The Group

As at 31 December 2011, other loan represents a loan from a third party and was unsecured, interest-bearing at 7.54% per annum. The other loan was repaid during the year.

21 CONVERTIBLE BONDS

On 3 April 2012, the Company issued unsecured convertible bonds with principal amount of US$150,000,000 due 2017 (the "convertible bonds"). The convertible bonds are interest-bearing at 4.5% per annum and payable semi-annually in arrears. The maturity date of the convertible bonds is 3 April 2017. The convertible bonds can be converted to shares of the Company at HK$3.81 per share, subject to anti-dilutive and dividend protection adjustments, from 14 May 2012 to 3 April 2017.

In addition to the above, the Company may early redeem all the convertible bonds from 3 April 2015 to 3 April 2017 plus any accrued but unpaid interest thereon the redemption date, provided that the closing price of the shares of the Company for each of the thirty consecutive trading days, the last of which occurs within the five trading days prior to the date upon which the redemption notice is given by the Company, is at least 130% of the prevailing conversion price.

21 CONVERTIBLE BONDS *(Continued)*

The holders of the convertible bonds can require the Company to early redeem all or partial of the convertible bonds on or about 3 April 2015 plus any accrued but unpaid interest thereon the redemption date.

The redemption call and redemption put and conversion options are separately accounted for at fair value at each balance sheet date as derivative financial instruments in accordance with the accounting policy set out in note 1(f) to the financial statements.

As a result of the declaration of final dividend for the six months ended 31 December 2011 and interim dividend for the six months ended 30 June 2012, the conversion price of the convertible bonds was adjusted to HK$3.53 per share with effective from 11 September 2012.

	Liability component of convertible bonds (note 21(a)) RMB'000	Redemption call option (note 15 and note 21(b)) RMB'000	Redemption put option (note 18 and note 21(c)) RMB'000	Conversion option (note 18 and note 21(d)) RMB'000	Total RMB'000
Issuance of the convertible bonds	753,885	(22,450)	40,473	173,059	944,967
Transaction costs (note (21(e))	(17,626)	–	–	–	(17,626)
Finance charges amortised during the year (note 5(a))	56,551	–	–	–	56,551
Interest paid and payable	(31,697)	–	–	–	(31,697)
Change in fair value	–	5,824	12,087	(50,847)	(32,936)
Exchange adjustments	(8,051)	168	(568)	(1,228)	(9,679)
At 31 December 2012	753,062	(16,458)	51,992	120,984	909,580

(a) Liability component of convertible bonds represents the contractually determined stream of future cash flows discounted at the rate of interest determined by the market instruments of comparable credit status taken into account the business risk and financial risk of the Company. The effective interest rate of the liability component is 10.2% per annum. At 31 December 2012, the liability component of the convertible bonds was repayable after two years but within five years.

(b) Redemption call option represents the fair value of the Company's option to early redeem all of the convertible bonds and is recorded as derivative financial instruments under "Trade and other receivables" (note 15).

(c) Redemption put option represents the fair value of the options of the holders of the convertible bonds to early redeem all of the convertible bonds and is recorded as derivative financial instruments under "Trade and other payables" (note 18).

(d) Conversion option represents the fair value of the options of the holders of the convertible bonds to convert the convertible bonds into shares and is recorded as derivative financial instruments under "Trade and other payables" (note 18).

(e) The transaction costs for the issue of the convertible bonds amounted to RMB22,073,000. An amount of RMB17,626,000 was offset with the liability component of the convertible bonds and the remaining amount of transaction costs is charged to the income statement.

Notes to the Financial Statements

(Expressed in thousands of Renminbi unless otherwise indicated)

22 AMOUNTS DUE FROM/TO SUBSIDIARIES

The Company

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

23 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the PRC municipal government authority in the Fujian Province whereby the Group is required to make contributions to the Scheme at rates which ranged from 14% to 18% of the eligible employees' relevant salaries. The local government authority is responsible for the entire pension obligations payable to retired employees.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 (HK$20,000 prior to June 2012). Contributions to the plan vest immediately.

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

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

(a) Pre-IPO share option scheme

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

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

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

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

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

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

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

	Year ended 31 December 2012		Six months ended 31 December 2011	
	Exercise price	**Number of options '000**	Exercise price	Number of options '000
Outstanding at the beginning and end of the year/period	**HK$2.89**	**17,290**	HK$2.89	17,290
Exercisable at the end of the year/period		**17,290**		9,138

The share options outstanding at 31 December 2012 had an exercise price of HK$2.89 (2011: HK$2.89) and a weighted average remaining contractual life of 1.5 years (2011: 2.5 years).

(Expressed in thousands of Renminbi unless otherwise indicated)

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

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

(iii) Fair value of share options and assumptions

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

	Options granted on 10 June 2009
Fair value of share options and assumptions	
Fair value at measurement date	HK$0.86
Share price	HK$2.14
Exercise price	HK$2.89
Expected volatility (expressed as weighted average volatility used in the modelling under binominal lattice model)	50.97%
Expected option life (expressed as weighted average life used in the modelling under binominal lattice model)	5 years
Expected dividends	2.80%
Risk-free interest rate	2.03%

(b) Share option scheme

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

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

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

No share option has been granted under the Share Option Scheme during the year ended 31 December 2012 (2011: Nil).

25 INCOME TAX IN THE BALANCE SHEET

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

	The Group	
	2012	2011
	RMB'000	RMB'000
Provision for PRC income tax for the year/period	**147,656**	93,807
Provisional income tax paid	**(121,941)**	(78,024)
	25,715	15,783
Balance of income tax provision relating to prior years	**66,664**	56,398
	92,379	72,181

(b) Deferred tax assets and liabilities recognised:

The Group

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

	Allowance for doubtful debts RMB'000	Withholding tax on dividends RMB'000	Expenses to be deductible on paid basis RMB'000	Total RMB'000
Deferred tax arising from:				
At 1 July 2011	9,880	(19,384)	17,642	8,138
Credited to profit or loss	–	–	15,591	15,591
At 31 December 2011	9,880	(19,384)	33,233	23,729
At 1 January 2012	9,880	(19,384)	33,233	23,729
Credited to profit or loss	–	–	35,484	35,484
At 31 December 2012	9,880	(19,384)	68,717	59,213

(Expressed in thousands of Renminbi unless otherwise indicated)

25 INCOME TAX IN THE BALANCE SHEET *(Continued)*

(b) Deferred tax assets and liabilities recognised: *(Continued)*

Reconciliation to the consolidated balance sheet

	The Group	
	2012	2011
	RMB'000	RMB'000
Net deferred tax assets recognised on the consolidated balance sheet	**61,730**	29,546
Net deferred tax liabilities recognised on the consolidated balance sheet	**(2,517)**	(5,817)
	59,213	23,729

(c) Deferred tax liabilities not recognised

At 31 December 2012, the Group has not recognised deferred tax liabilities of RMB146,793,000 (2011: RMB111,066,000) in respect of temporary differences relating to the undistributed profits of subsidiaries amounting to RMB2,935,852,000 (2011: RMB2,221,317,000) that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

26 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

The Company

	Note	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 July 2011		182,298	1,082,251	10,938	(79,977)	(18,161)	1,177,349
Changes in equity for the six months ended 31 December 2011:							
Loss for the period		–	–	–	–	(9,162)	(9,162)
Other comprehensive income		–	–	–	(20,711)	–	(20,711)
Total comprehensive income for the period		–	–	–	(20,711)	(9,162)	(29,873)
Equity-settled share-based transactions		–	–	964	–	–	964
Dividends declared and paid during the period	26(b)	–	(332,884)	–	–	–	(332,884)
Balance at 31 December 2011		182,298	749,367	11,902	(100,688)	(27,323)	815,556
Balance at 1 January 2012		182,298	749,367	11,902	(100,688)	(27,323)	815,556
Changes in equity for the year ended 31 December 2012:							
Loss for the year		–	–	–	–	(38,340)	(38,340)
Other comprehensive income		–	–	–	(767)	–	(767)
Total comprehensive income for the year		–	–	–	(767)	(38,340)	(39,107)
Equity-settled share-based transactions		–	–	957	–	–	957
Dividends declared and paid during the year	26(b)	–	(289,464)	–	–	–	(289,464)
Balance at 31 December 2012		182,298	459,903	12,859	(101,455)	(65,663)	487,942

(Expressed in thousands of Renminbi unless otherwise indicated)

26 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividends

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

	Year ended 31 December 2012 RMB'000	Six months ended 31 December 2011 RMB'000
Interim dividend declared and paid of RMB7.0 cents per ordinary share (2011: RMBnil per ordinary share)	**144,732**	–
Final dividend proposed after the balance sheet date of RMB7.0 cents per ordinary share (2011: RMB7.0 cents per ordinary share)	**144,732**	144,732
	289,464	144,732

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

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

	Year ended 31 December 2012 RMB'000	Six months ended 31 December 2011 RMB'000
Final dividend in respect of the previous financial period/year, approved and paid during the year/period, of RMB7.0 cents per ordinary share (2011: RMB16.1 cents per ordinary share)	**144,732**	332,884

26 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital

	2012 Number of shares '000	2012 Amount HK$'000	2011 Number of shares '000	2011 Amount HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	**10,000,000**	**1,000,000**	10,000,000	1,000,000

	Number of shares '000	Amount HK$'000	RMB'000
Ordinary shares, issued and fully paid:			
At 1 July 2011, 31 December 2011, 1 January 2012 and 31 December 2012	2,067,602	206,760	182,298

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

(d) At 31 December 2012, the outstanding options of the Company were:

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

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 24 to the financial statements.

26 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(e) Nature and purpose of reserves

(i) Share premium

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

(ii) Capital reserve

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

(iii) Other reserve

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

(iv) Statutory reserve

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

(v) Share option reserve

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

(vi) Exchange reserve

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

(f) Distributability of reserves

At 31 December 2012, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB292,785,000 (2011: RMB621,356,000). After the balance sheet date the directors proposed a final dividend of RMB7.0 cents (equivalent to HK$8.7 cents) (2011: RMB7.0 cents (equivalent to HK$8.6 cents)) per ordinary share, amounting to RMB144,732,000 (2011: RMB144,732,000). This dividend has not recognised as a liability at the balance sheet date.

26 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(g) Capital management

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

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

The Group monitors capital with reference to its debt position. The Group's strategy is to maintain the equity and debt in a balanced position and ensure there is adequate working capital to service its debt obligation. The Group's gearing ratio, being the Group's total liabilities over its total assets, as at 31 December 2012 was 34% (2011: 23%).

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

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate, commodity price and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity interests in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

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

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the balance sheet date, the Group has a certain concentration of credit risk as 22% (2011: 16%) of the total trade debtors and bills receivable were due from the Group's largest customer, and 57% (2011: 61%) of the total trade debtors and bills receivable were due from the Group's five largest customers as at 31 December 2012.

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

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 15.

(Expressed in thousands of Renminbi unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(a) Credit risk *(Continued)*

(ii) Deposits with banks

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

(b) Liquidity risk

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

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

The Group

	2012					2011				
	Contractual undiscounted cash outflow					Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years but within 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years but within 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Bank loans	43,316	–	–	43,316	42,315	30,091	–	–	30,091	28,781
Other loan	–	–	–	–	–	161,225	–	–	161,225	150,000
Convertible bonds	42,036	42,036	1,029,791	1,113,863	753,062	–	–	–	–	–
Trade and other payables	1,375,281	–	–	1,375,281	1,375,281	1,023,536	–	–	1,023,536	1,023,536
Total	1,460,633	42,036	1,029,791	2,532,460	2,170,658	1,214,852	–	–	1,214,852	1,202,317

The Company

	2012					2011				
	Contractual undiscounted cash outflow					Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years but within 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years but within 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Convertible bonds	42,036	42,036	1,029,791	1,113,863	753,062	–	–	–	–	–
Other payables	13,207	–	–	13,207	13,207	8,560	–	–	8,560	8,560
Amounts due to subsidiaries	26,932	–	–	26,932	26,932	22,967	–	–	22,967	22,967
Total	82,175	42,036	1,029,791	1,154,002	793,201	31,527	–	–	31,527	31,527

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) Interest rate risk

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

(i) Interest rate profile

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

The Group

	2012		2011	
	Effective interest rate %	**Amount RMB'000**	Effective interest rate %	Amount RMB'000
Fixed rate (deposits)/borrowings				
Deposits with banks	**1.12 – 5.70**	**(590,791)**	1.12 – 3.50	(211,902)
Cash and cash equivalents	**1.35 – 4.70**	**(585,133)**	1.98 – 2.14	(103,761)
Bank loans	**2.47 – 7.87**	**42,315**	5.30 – 7.87	28,781
Other loan	**–**	**–**	7.54	150,000
Convertible bonds	**10.18**	**753,062**	–	–
		(380,547)		(136,882)
Variable rate deposits				
Pledged bank deposits	**0.50 – 3.30**	**(95,730)**	0.10 – 3.30	(127,685)
Cash and cash equivalents	**0.001 – 1.31**	**(1,517,733)**	0.001 – 1.31	(349,513)
		(1,613,463)		(477,198)
Total net deposits		**(1,994,010)**		(614,080)

Notes to the Financial Statements

(Expressed in thousands of Renminbi unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) Interest rate risk *(Continued)*

(i) Interest rate profile *(Continued)*

The Company

	2012		2011	
	Effective interest rate %	**Amount RMB'000**	Effective interest rate %	Amount RMB'000
Fixed rate (deposits)/borrowings				
Deposits with banks	**1.96 – 5.70**	**(184,941)**	–	–
Cash and cash equivalents	**–**	**–**	3.53	(46,176)
Convertible bonds	**10.18**	**753,062**	–	–
		568,121		(46,176)
Variable rate deposits				
Cash and cash equivalents	**0.001**	**(180,664)**	0.001 – 0.5	(554)
Total net deposits		**387,457**		(46,730)

(ii) Sensitivity analysis

At 31 December 2012, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increased/decreased the Group's profit after tax and retained profits by approximately RMB12,587,300 (2011: RMB4,772,000). Other components of consolidated equity would not be affected by the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for the six months ended 31 December 2011.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Commodity price risk

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

(e) Currency risk

The Group is exposed to currency risk primarily through bank deposits and convertible bonds that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily Hong Kong dollars ("HKD") and United States dollars ("USD"). In respect of the convertible bonds denominated in USD issued by the Company, the Group considers the risk of movements in exchange rates between the HKD and the USD to be insignificant as the HKD is pegged to the USD.

(i) Exposure to currency risk

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

The Group

	2012 **RMB'000**	2011 RMB'000
Hong Kong dollars		
Cash and bank deposits	**2,326**	3,237
United States dollars		
Convertible bonds	**(753,062)**	–

The Company

	2012 **RMB'000**	2011 RMB'000
Renminbi		
Amounts due to subsidiaries	**(26,932)**	(22,967)
United States dollars		
Convertible bonds	**(753,062)**	–

(Expressed in thousands of Renminbi unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Currency risk *(Continued)*

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax and retained profits in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date, assuming all other risk variable remained constant. In this respect, it is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

	2012		2011	
	Increase/ decrease in foreign exchange rates	**Effect on profit after tax and retained profits RMB'000**	Increase/ decrease in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
Hong Kong dollars	**5%**	**87**	5%	126
	(5)%	**(87)**	(5)%	(126)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' profit after tax and retained profits measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for the six months ended 31 December 2011.

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(f) Equity price risk

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of derivatives or other financial liabilities of the Group. As at the balance sheet date the Group is exposed to this risk through the conversion rights attached to the convertible bonds issued by the Company as disclosed in note 21.

At 31 December 2012, it is estimated that an increase/(decrease) of 11% in the Company's own share price, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits as follows:

Group

		2012 Effect on profit after tax and retained profits RMB'000
Change in the relevant equity price risk variable:		
Increase	**11%**	**40,718**
Decrease	**(11)%**	**(36,946)**

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax and retained profits that would arise assuming that the changes in other relevant risk variables had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the balance sheet date.

(g) Fair values

(i) Financial instruments carried at fair value

HKFRS 7, Financial instruments: Disclosures requires disclosures relating to fair value measurements of financial instruments across three levels of a "fair value hierarchy". The fair value of each financial instrument is categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market date.
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

At 31 December 2012, the redemption call and put options and the conversion option embedded in the convertible bonds (see note 21) fall into Level 3 of the fair value hierarchy described above.

(Expressed in thousands of Renminbi unless otherwise indicated)

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(g) Fair values *(Continued)*

(ii) Estimation of fair values

The estimate of the fair value of the redemption call and put options and the conversion option embedded in the convertible bonds is measured using a binomial lattice model.

	At 31 December 2012	At 3 April 2012
Fair value of redemption call and put options and conversion options and assumptions		
Fair value at measurement date	**31 December 2012**	3 April 2012
Share price	**2.22**	2.38
Exercise price	**3.53**	3.81
Expected volatility	**46.70%**	49.26%
Option life	**4.26 years**	5 years
Expected dividends	**3.87%**	3.61%
Risk free interest rate	**0.29%**	0.59%

(iii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2012 and 2011.

(h) Business risk

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

28 COMMITMENTS

(a) Contractual commitments outstanding at 31 December 2012 not provided for in the financial statements were as follows:

	2012 RMB'000	2011 RMB'000
Advertising and marketing expenses	**650,240**	463,147

28 COMMITMENTS *(Continued)*

(b) Capital commitments outstanding at 31 December 2012 not provided for in the financial statements were as follows:

	2012 RMB'000	2011 RMB'000
Contracted for	**69,525**	28,971

(c) At 31 December 2012, the Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	2012 RMB'000	2011 RMB'000
Within 1 year	**11,865**	3,825
After 1 year but within 5 years	**19,088**	5,329
	30,953	9,154

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

29 MATERIAL RELATED PARTY TRANSACTIONS

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

Key management personnel remuneration

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

	Year ended 31 December 2012 RMB'000	Six months ended 31 December 2011 RMB'000
Short-term employee benefits	**34,148**	17,524
Equity-settled share-based payment	**441**	448
Post-employment benefits	**1,368**	663
	35,957	18,635

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

(Expressed in thousands of Renminbi unless otherwise indicated)

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKAS 27, *Separate financial statements* (2011)	1 January 2013
HKAS 28, *Investments in associates and joint ventures*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013
Annual improvements to HKFRSs 2009-2011 Cycle	1 January 2013
Amendments to HKFRS 7, *Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to HKAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
HKFRS 9, *Financial instruments*	1 January 2015

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

Five-Year Financial Summary

	For the year ended 31 December 2012	For the six months ended 31 December 2011	For the year ended 30 June 2011	2010	2009
Profitability data (RMB'000)					
Turnover	**4,950,578**	2,382,801	5,461,240	4,330,804	3,446,588
Gross profit	**1,972,312**	1,052,698	2,310,942	1,706,325	1,193,803
Operating profit	**864,413**	439,988	1,441,236	1,051,852	740,200
Profit attributable to equity shareholders	**707,208**	359,692	1,196,133	916,814	632,111
Earnings per share					
– basic (RMB cents)	**34.2**	17.4	57.9	44.5	42.1
– diluted (RMB cents)	**31.8**	17.4	57.6	44.3	42.1
Profitability ratios (%)					
Gross profit margin	**39.8**	44.2	42.3	39.4	34.6
Operating profit margin	**17.5**	18.5	26.4	24.3	21.5
Net profit margin	**14.3**	15.2	21.9	21.2	18.3
Effective tax rate (Note 1)	**18.9**	21.4	16.9	15.1	11.9
Return on shareholders' equity (Note 2)	**15.8**	8.5	31.3	31.0	44.7
Operating ratios (as a percentage of turnover) (%)					
Advertising and promotion expenses	**10.6**	11.1	8.5	8.9	8.2
Rack subsidies	**4.1**	5.3	1.0	0.4	–
Staff costs	**6.9**	9.0	6.8	3.6	3.1
Research and development	**1.7**	1.5	1.5	0.9	0.4

Notes:

1) Effective income tax rate is equal to the current tax divided by the profit before taxation excluding the net change in fair value of derivatives embedded in convertible bonds.

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

Five-Year Financial Summary

	As at 31 December 2012	2011	2011	As at 30 June 2010	2009
Assets and liabilities data (RMB'000)					
Non-current assets	**1,279,223**	1,181,172	1,109,397	724,574	333,172
Current assets	**5,932,987**	4,400,105	4,499,806	3,839,443	3,745,678
Current liabilities	**1,726,168**	1,274,945	1,325,091	1,129,375	1,559,148
Non-current liabilities	**755,579**	5,817	5,342	3,125	9,504
Equity attributable to equity shareholders	**4,678,060**	4,256,133	4,235,925	3,396,423	2,510,198
Non-controlling interests	**52,403**	44,382	42,845	35,094	–
Asset and Working Capital data					
Current asset ratios	**3.4**	3.5	3.4	3.4	2.4
Gearing ratios (%) (Note 3)	**11.0**	3.2	0.2	–	6.5
Net asset value per share (RMB) (Note 4)	**2.3**	2.1	2.1	1.7	1.3
Inventory turnover days (days) (Note 5)	**56**	45	19	15	21
Trade receivable turnover days (days) (Note 6)	**149**	142	82	97	102
Trade and bills receivable turnover days (days) (Note 7)	**165**	152	83	97	103
Trade and bills payable turnover days (days) (Note 8)	**112**	111	82	111	118
Working capital turnover days (days)	**109**	86	20	1	6

Notes:

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

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

5) Inventory turnover days is equal to the average opening and closing inventory divided by costs of sales and multiplied by 366/365/184 days.

6) Trade receivable turnover days is equal to the average opening and closing trade receivables after allowance of doubt debts dividend by turnover multiplied by 366/365/184 days.

7) Trade and bills receivable turnover days is equal to the average opening and closing trade and bills receivables after allowance of doubtful debts divided by turnover multiplied by 366/365/184 days.

8) Trade and bills payable turnover days is equal to the average opening and closing trade and bills payables divided by cost of sales and multiplied by 366/365/184 days.

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