361 Degrees International Limited
361度國際有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1361)

2013 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") of 361 Degrees International Limited (the "Company") is pleased to announce the audited results of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2013. This announcement, containing the full text of the 2013 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of annual results.

361 DEGREES INTERNATIONAL LIMITED
STOCK CODE: 1361

Ready to Run

Annual Report 2013

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）*(Resigned and effective from 2 September 2013)*
Tsui Yung Kwok（徐容國）

BOARD COMMITTEES

Audit Committee

Yan Man Sing Frankie（甄文星）*(Chairman)*
Sun Xianhong（孫先紅）
Tsui Yung Kwok（徐容國）
Liu Jianxing（劉建興）*(Resigned and effective from 2 September 2013)*

Remuneration Committee

Sun Xianhong（孫先紅）*(Chairman)*
Wang Jiabi（王加碧）
Yan Man Sing Frankie（甄文星）*(since 2 September 2013)*
Liu Jianxing（劉建興）*(Resigned and effective from 2 September 2013)*

Nomination Committee

Tsui Yung Kwok（徐容國）*(Chairman) (since 2 September 2013)*
Ding Wuhao（丁伍號）
Yan Man Sing Frankie（甄文星）
Liu Jianxing（劉建興）*(Resigned and effective from 2 September 2013)*

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 (Cayman) Limited

PRINCIPAL BANKERS

China Construction Bank Corporation
Industrial Bank Co., Ltd.
Xiamen International Bank
Industrial and Commercial Bank of China
Citic Bank International Limited

COMPANY WEBSITE

www.361sport.com

Results Highlights for 2013

FINANCIAL PERFORMANCE

Turnover decreased by 27.6% to RMB3,583.5 million

Gross profit dropped by 28.2% to RMB1,417.1 million

Operating profit decreased by 59.3% to RMB352.2 million

Profit attributable to the equity shareholders was RMB211.3 million, representing a decrease of 70.1%

Gross profit margin dropped by 0.3 percentage point to 39.5%

Basic earnings per share is RMB10.2 cents, representing a drop of 70.2%

BUSINESS PERFORMANCE

Total number of *361°* retail adults' outlets decreased from 8,082 to 7,299

Total number of *361°* retail kids' wear outlets increased from 1,590 to 1,858 of which 646 were counters in *361°* adults' outlets

361° Kids revenue accounted for 11.7% of the Group's turnover

Financial Summary

	For the year ended 31 December			
	2013	2012	2011	2010
Profitability data (RMB'000)				
Turnover	**3,583,477**	4,950,578	5,568,678	4,849,010
Gross profit	**1,417,099**	1,972,312	2,362,810	2,010,876
Operating profit	**352,210**	864,413	1,385,024	1,146,824
Profit attributable to equity shareholders	**211,261**	707,208	1,133,050	982,838
Earnings per share				
– basic (RMB cents)	**10.2**	34.2	54.8	47.6
– diluted (RMB cents)	**10.2**	31.8	54.6	47.3
Profitability ratios (%)				
Gross profit margin	**39.5**	39.8	42.4	41.5
Operating profit margin	**9.8**	17.5	24.9	23.7
Margin of profit attributable to equity shareholders	**5.9**	14.3	20.4	20.1
Effective income tax rate (Note 1)	**36.7**	14.4	17.9	15.0
Return on shareholders' equity (Note 2)	**4.5**	15.8	28.7	30.0
Operating ratios (as a percentage of turnover) (%)				
Advertising and promotion expenses	**11.4**	10.6	7.8	10.3
Rack subsidies	**4.8**	4.1	3.1	0.6
Staff costs	**8.3**	6.9	7.5	5.4
Research and development	**2.4**	1.7	1.5	1.2

Notes:

1) Effective income tax rate is equal to the income 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			
	2013	2012	2011	2010
Assets and liabilities data (RMB'000)				
Non-current assets	**1,303,183**	1,279,223	1,181,172	938,604
Current assets	**5,816,122**	5,932,987	4,400,105	3,866,759
Current liabilities	**1,605,653**	1,726,168	1,274,945	1,148,370
Non-current liabilities	**772,971**	755,579	5,817	2,715
Equity attributable to equity shareholders	**4,676,346**	4,678,060	4,256,133	3,627,293
Non-controlling interests	**64,335**	52,403	44,382	26,985
Asset and working capital data				
Current asset ratios	**3.6**	3.4	3.5	3.4
Gearing ratios (%) (Note 3)	**11.0**	11.0	3.2	0.2
Net asset value per share (RMB) (Note 4)	**2.3**	2.3	2.1	1.8
Inventory turnover days (days) (Note 5)	**73**	56	40	22
Trade receivable turnover days (days) (Note 6)	**191**	149	108	91
Trade and bills receivable turnover days (days) (Note 7)	**205**	165	119	95
Trade and bills payable turnover days (days) (Note 8)	**158**	112	89	108
Working capital turnover days (days)	**120**	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 365/366 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 365/366 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 365/366 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 365/366 days.


As a visionary industry player, the Group has already clearly positioned itself as a professional sportswear firm

Chairman's Statement

Chairman's 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 (which are together referred to as "the Group") for the year ended 31 December 2013.

China's sportswear industry was on a firmer footing in 2013 and showed signs of recovery towards the end of the year. Tremendous efforts were made to clear the market glut and reduce excessive retail outlets. Sportswear manufacturers and distributors continued to work together to clear their stocks by offering discounts, controlling the volume of orders placed, and re-arranging delivery schedules by reference to actual sales in the previous seasons. With substantial clearance of inventory, leaner sales networks, stricter cost control measures and a prudent approach in placing and accepting orders, the stronger sportswear manufacturers are now in better shape. Yet, the country's sportswear market became more competitive as strong foreign brands made their inroads into to second-and third-tier cities from first-tier cities. Weaker demand amid the nation's decelerating economic growth, oversupply and high inventory issues still haunted the industry for most of the year.

During the year, the Group adopted both defensive and offensive business strategies to address the challenges in the market. On one hand, it set a clear goal in clearing channel inventory and enhancing operating efficiency. The Group controlled the inventory in sales channels, optimized the planning of points of sales, and raised efficiency of retail outlets to regain a firm footing. It also encouraged authorized retailers to close underperforming retail outlets and streamlined its product offerings to focus on high-margin and best-selling products. On the other hand, it differentiated itself from the competition by diversifying its business and product. A new store format was established, integrating the merchandise of all of the Group's brands, including *361°* Kids and its lifestyle brand, Innofashion, in stores with an average floor area of over 100 sq.m.. The Group also announced new initiatives to enter new market segments and stepped up its efforts in strengthening its brand portfolio. Overall, the Group consolidated its position in its principal mid-priced and mass markets of the country's third-tier and smaller cities, whilst developing niche markets for children's wear and premium sportswear and sports products.

For the year ended 31 December 2013, turnover amounted to RMB3,583.5 million. Revenue from the kid's wear business rose by 13.6% and accounted for 11.7% of the Group's revenue for the year. Profit attributable to shareholders amounted to RMB211.3million.

The Group's decision to enter the promising market of children's wear by establishing *361°* Kids in 2010 proved to be a correct move. In addition to broadening income source, this operation set the Group's foothold in the lucrative children's wear market. During the year, the Group further expanded its business's presence with a net increase of 268 points of sales to 1,858 as at the end of 2013. It also

continued to take full advantage of the licensed American comic icons, which proved to be a huge success and enhanced the brand's market recognition. The Group further leveraged this business segment and sponsored a hugely popular children's singing contest programme on the Hunan Broadcasting System – Aniworld Satellite TV（湖南廣播電視台－金鷹卡通衛視）, one of the top three TV channels for children in mainland China. The Group will continue to foster the development of this business segment.

In order to develop a niche market for premium sporting goods, the Group formed a joint venture with a Finnish premium sporting goods company, One Way Sport Oy, in October 2013. Such move enables the Group to gain access to technological knowhow of One Way Sport in Nordic and outdoor sporting goods and help to diversify the Group's business and product portfolio. The first batch of new products are expected to be launched at the next winter trade fair in April 2014 and a self-owned branch is tentatively scheduled to be set up in 2014.

It was also crucial to maintain the visibility and influence of the Group's core brand *361°* in the highly competitive market. During the year, the Group continued to execute its three-pronged brand promotion and marketing strategy, which comprised major event sponsorships, strategic partnerships with a major state media and celebrity athlete endorsements. In addition to continuing the appointment of sports stars as spokespersons to enhance its image as a professional sportswear company, the Group also continued the appointment of the female pop singer Jikejunyi (吉克隽逸) as the spokesperson of its products under its lifestyle brand – Innofashion, to boost retail sales with her influence. For major sports events, the Group secured rights to sponsor China's national swimming team and 2014 Incheon Asian Games, and the rights to be the exclusive official sportswear sponsor for the Second Youth Olympic Games in Nanjing in 2014.

as a professional sports company

The Group continued to leverage the online sales channel to sell apparel, footwear and accessories on "淘寶網 (taobao.com)", "天貓網 (tmall.com)" and "京東商城 (360buy.com)", which are popular online retail platforms. The move was aimed at meeting the ever-changing shopping needs of consumers. Meanwhile, the Group also set up a branch office in Taiwan to facilitate the operation of overseas business, targeting markets including the USA, South America, Southeast Asia and Europe.

The sportswear industry showed signs of improvement by the end of 2013, as evidenced by the healthier level of inventory at retail channels and the shift from volume-driven business expansion to differentiation through products and brand images. The government's policies of encouraging people to lead a healthy lifestyle will continue to provide support for the long-term healthy growth of the sportswear industry.

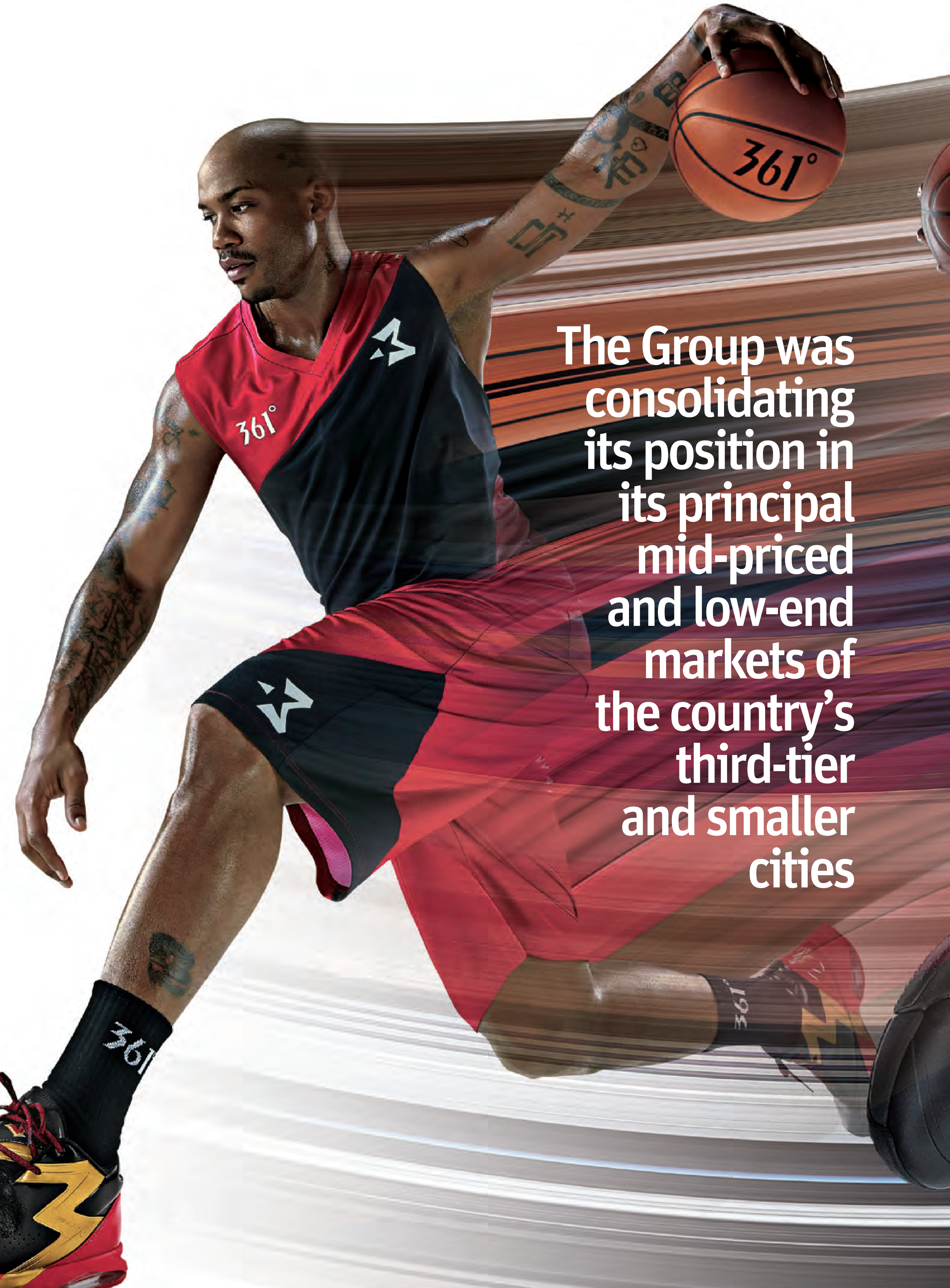
As a visionary industry player, the Group has positioned itself as a professional sportswear company. Over the years, it has developed and established its competitive edge with a distinct brand image, innovative designs and high performance products, as well as new product line for children. In 2014, the Group will step up its differentiation efforts by opening up a new niche market for premium Nordic sportswear and sports products through its joint venture with One Way Sport Oy.

The Group will continue to implement its strategy of product differentiation. It will continue to step up efforts in product innovation by increasing application of special fabrics and enhancing functionality of the products through cooperation with its research and development partners. While developing its *361°* Kids into a growth driver, the Group will promote its brand image by various means to cultivate the future market for its adults' wear. Meanwhile, it will work closely with distributors and retailers to boost sales, control inventory and raise the efficiency of the stores. All the measures are aimed at generating better returns for our shareholders.

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, 17 March 2014



The Group was consolidating its position in its principal mid-priced and low-end markets of the country's third-tier and smaller cities

Management Discussion and Analysis

Management Discussion and Analysis

INDUSTRY REVIEW

China's sportswear industry was on relatively firmer ground in 2013 and showed signs of recovery towards the end of the year. This came after tremendous efforts to clear the market glut and reduce the number of retail outlets. The oversupply and high inventory issues which resulted from the rapid and volume-driven expansion and lasted for several years since the market was gripped by the Beijing 2008 Olympics fever, still haunted the industry, especially in the first half of 2013. The weaker demand amid the country's decelerating economic growth also affected the industry. As in 2012, sportswear manufacturers and distributors worked together in 2013 to substantially clear stocks by offering discounts, controlling the volume of orders placed, and re-arranging the schedule of their delivery with reference to the actual sales in the previous seasons. With substantial clearance of inventory, leaner sales networks, stricter cost control measures and a prudent approach to placing and accepting orders, the stronger sportswear manufacturers are in now better shape for the improved prospects. In the case of 361 Degrees International Limited ("361 Degrees" or the "Company"), the Company saw signs of slow down in deterioration in the form of decreases in both channel inventory and retail discounts as well as deceleration in the decline of trade fair orders as compared to the previous year. Nevertheless, a significant decrease in the orders that the Company received for the whole of 2013 and higher costs of production and intense competition affected its operating results. The other two factors that also impacted the operating results were: an increase in the effective tax rate due to the expiration of all tax concessions previously enjoyed by the Company and a substantial increase in impairment loss during the second half of 2013 for overdue account receivables.

The country's sportswear market became more competitive as strong foreign brands stepped up business expansion and made their inroads from the first-tier down to second and third-tier cities. To take on the challenge, domestic sportswear manufacturers had to differentiate themselves from their competitors with innovative products, niche markets and distinctive brand image. 361 Degrees has adopted both defensive and offensive business strategies. On one hand, it controlled the inventory in the sales channels, optimized the planning of points of sales, and raised the efficiency of retail outlets. On the other hand, it diversified its business and product portfolio to children's wear business, *361°* Kids, since 2010, and to outdoor sporting goods through the formation of a joint venture with a Finnish premium sporting goods company, One Way Sport

Oy, in October 2013 to develop mainland China's market. The Group also reinforced its existing business of adults' sportswear by enhancing the quality and functionality of its products and continuing its effort in product research and development, brand building and marketing. Overall, the Group was consolidating its position in its principal mid-priced and low-end markets of the country's third-tier and smaller cities, and at the same time developing its niche markets for children's wear and premium sportswear and sporting goods products with an aim of differentiating itself from the competitors.

BUSINESS REVIEW

Sales and distribution network

To clear the inventory and reduce certain operating costs amid the weaker consumer demand, the Group optimized the planning of its points of sales and product offerings, enhanced the sales and marketing effort at retail outlets and controlled inventory at the sales channel during the year under review.

The Group took a two-pronged approach to the stock clearance: it streamlined the number of product offerings from about 1,400 in the past to about 1,000 at the trade fairs in 2013, focused on high-margin and best-selling products, and worked with its distributors to control the volume of orders for the products. At the same time, it assisted its retailers in boosting sales and in tiding over the difficult market. In its 2014 spring/summer trade fair, the Group increased the wholesale discount from 60% to 65% for the distributors, who would then be able to pass on the discounted pricing to retailers who were struggling with weak footfall at their shops and the rising operating costs. The effect of the endeavors was reflected by the year-on-year decline of 17% in the value of the orders placed at the 2013 winter trade fair held in April of 2013, and the year-on-year decline of 8% in value of the total orders placed at the 2014 spring/summer trade fair held in August 2013. A breakdown of the orders placed in the 2014 spring/summer trade fair showed that the value of the orders placed for its *361°* brand adult's products decreased by 11% year-

on-year, while the value of the orders for the children's wear of *361°* Kids rose by 21% year-on-year. As a prudent practice, the Group accepted orders from distributors by reference to actual sales in previous seasons and would accept replenishment orders in the future if needed. Meanwhile, in order to boost sales at the retail outlets, the Group continued to provide rack subsidies in the total amount of approximately RMB170.4 million to improve the presentation of goods and shopping environment. The support was aimed at raising awareness of the brand and boosting sales.

The Group modified its business model in the existing channels by establishing integrated stores with average floor area of over 100 square metres (sq.m.) which can display the merchandise of all of the Group's brands, including *361°*, Kids and its lifestyle brand, Innofashion. Meanwhile, it encouraged authorized retailers to close underperforming retail outlets.

In 2013, the Group continued to leverage the online sales channel by selling apparel, footwear and accessories through an independent third party on taobao.com（淘寶網）, tmall.com（天貓網）and 360buy.com（京東商城）, which are popular online retail platforms. Meanwhile, the Group set up a branch office in Taiwan to facilitate the operation of its overseas business, targeting markets including the USA, South America, Southeast Asia and Europe.

During the year under review, the Group continued with its exclusive distributorship business model, which brought benefits such as economies of scale, more cost-effective marketing and promotional campaigns and better inventory control. As at 31 December 2013, the number of exclusive distributors was 31, and the distributors themselves oversaw 3,229 authorized retailers, who in turn owned and managed a total of 7,299 retail outlets for adults' sportswear, representing a net decrease of 783 from 8,082 at the end of 2012.

About 71.3% of the stores were located in the third tier and smaller cities where the Group had established brand influence. The majority of stores remained in northern China (2,834 stores) and eastern China (1,821 stores). Of the total number of retail point of sales, 4,783 were standalone stores as at the end of December 2013, accounting for approximately 65.5% of the total retail sales outlets for adults' sportswear. The average size of a typical store increased to approximately 101.6 square metres (sq.m.).

The Group's same-store sales showed sequential improvement in 2013, progressing on an uptrend from minus 1.5% year-on-year for the first quarter to minus 0.8% year-on-year for the second quarter. This was followed by a turnaround as the same-store sales was same as last year for the third quarter and then grew by 1.5% year-on-year for the fourth quarter.

The channel inventories at the retail level stayed stable at 4.3 times of the monthly sales for the first quarter of 2013, 4.4 times throughout the second to third quarter and improved to 4.2 times at the fourth quarters of the year. Although the overall channel inventory in 2013 was higher than that in 2012, the level is gradually improving in the fourth quarter of 2013 and considered as acceptable from market perspective.

The following table sets forth a breakdown of the Group's authorized retail outlets by regions during the year under review:

	As at 31 December 2013		As at 31 December 2012		
	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]	**1,821**	**25.0**	2,081	25.8	(12.5)
Southern region[2]	**1,153**	**15.8**	1,344	16.6	(14.2)
Western region[3]	**1,491**	**20.4**	1,567	19.4	(4.9)
Northern region[4]	**2,834**	**38.8**	3,090	38.2	(8.3)
Total	**7,299**	**100**	8,082	100	(9.7)

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.

Western Region

1,491

Number of 361° authorized retail outlets

The Group's same-store sales showed gradual improvement during 2013, progressing on an uptrend from minus 1.5% year-on-year for the first quarter to minus 0.8% year-on-year for the second quarter.

Northern Region

2,834

Number of 361° authorized retail outlets

Eastern Region

1,821

Number of 361° authorized retail outlets

Southern Region

1,153

Number of 361° authorized retail outlets

361° Kids

The Group entered the promising market for children's wear by establishing *361°* Kids in 2010. The move broadened its income source and brought huge value to the Group since.

In 2013, the revenue of *361°* Kids increased by 13.6% year-on-year to RMB 420.4 million, and accounted for 11.7% of the Group's turnover, up from the 7.5% in 2012.

As at 31 December 2013, *361°* Kids' points of sales increased to 1,858, representing a net increase of 268 from the 1,590 at the end of 2012. Of the 1,858 points of sales, 486 were counters at department stores or hypermarket, 726 were standalone stores, and 646 were booths at the adults' sportswear stores.

The Group continued to take full advantage of the licensed American comic icons to design, produce and sell children's outfit, footwear and accessories. It launched *361°* Kids' products that bore the American comic icons of Batman, Spider Man and Superman into the market, and the move proved to be success and enhanced the market's recognition of *361°* Kids' brand. It also tried to enhance the brand image of *361°* Kids by sponsoring a children's singing contest programme "Let's Sing Kids" ("中國新聲代"), which is broadcasting on Hunan Broadcasting System – Aniworld Satellite TV（湖南廣播電視台－金鷹卡通衛視）, one of the top three TV channels for children in mainland China.

The Group will continue to foster the development of *361°* Kids in the target markets of third-tier and smaller cities as the business of children's wear product line will be developed into a growth driver in the future.

Joint venture with One Way Sport Oy

In order to develop a niche market for premium sporting goods, thus differentiating itself from competitors, the Group formed a joint venture with a Finnish premium sporting goods company, One Way Sport Oy, in October 2013. 361 Degrees Investment Limited will contribute RMB12 million in cash for a 70% equity stake in the joint venture, One Way International Enterprise Limited, and One Way Sport Oy will contribute its trademarks registered and under registration in the People's Republic of China, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan ("the Greater China Region") for the remaining 30% equity stake. 361 Degrees Investment Limited will be responsible for designing, producing and distributing such products as garment, accessories, brand footwear, bicycles which bear One Way Sport Oy's trademarks in the Greater China Region. One Way Sport Oy will provide support to the joint venture's efforts in product research and development and technical innovation, and will also provide it with marketing strategies and concepts in the Greater China Region. New products will be launched at the next winter trade fair in April 2014 and a self-owned branch is targeted to be set up in 2014.

Increased use of ePOS among retail outlets

The Group continued its effort to promote the use of electronic point-of-sale ("ePOS") system at the Group's point of sales in the year under review. As at 31 December 2013, 4,847 stores, or 66.4% of the Group's total 7,299 retail outlets for adults' wear adopted ePOS system. Continuous effort will be made to upgrade and improve our system to cope with business development and expansion.

Brand promotion and marketing

The competitive landscape of China's sportswear market has become intense, and it is especially so as strong foreign sportswear brands are expanding their presence in the country. Domestic competitors are also trying to find a way out of the homogeneity of their products. As such, it is crucial to build and promote a distinct brand in order to succeed in the highly competitive sportswear market. Positioned as a mass market brand which was aimed at the sports fans of the 18-30 age group, the Group continued its three-pronged strategy in brand promotion and marketing during the year under review. The strategy comprised of major sports event sponsorship, strategic partnerships with a major state media and appointing celebrity athletes as spokespersons of the Group's products.

In 2013, the Group secured the rights to sponsor China's national swimming team and 2014 Incheon Asian Games. Moreover, back in 2011, the Group obtained the exclusive rights to be the official sportswear sponsor for the Second Youth Olympic Games in Nanjing to be held in 2014. The Group also secured the sponsorship of the Second Asian Youth Games held in Nanjing in 2013, which served as a full-scale dress rehearsal for the Youth Olympic Games.

The Group continued its strategic partnership with China's national sports TV channel CCTV-5 in 2013, 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.

The Group also continued its agreements of appointing celebrity athletes as spokespersons of the Group's products of their respective fields and its *361°* brand. Such famous sports stars included London Olympics gold medalist of 400m and 1,500m freestyle swimming Sun Yang, U.S. NBA basketball star Kevin Love of the Minnesota Timberwolves, and a NBA All-Star player, Stephon Marbury, who is a two-time NBA All-Star player, now player with the Beijing Ducks, the 2011/12 winner of the Chinese Basketball Association championships and the Most Valuable Player, and a few Jamaican hurdlers and runners. The sports stars helped the Group project an image of a professional sportswear company. In addition to the athletes, the Group had also signed up a female pop singer, Jikejunyi（吉克雋逸） as the spokesperson of its products under its lifestyle brand – "Innofashion"（"尚"）, to boost retail sales with her influence. Jikejunyi was the second runner-up in the highly successful "Voice of China" talent show, which was a popular singing contest programme in China that had a high audience rating of 2012.

The Group also organized a very successful charity campaign named "One cares one" ("買一善一") at the retail stores in which for every pair of selected sport shoes purchased by customers, the Group would donate a pair of sport shoes suitable to mountainous and rural areas to a child who lives and studies in the remote areas of mainland China. During the year of 31 December 2013, the charity programme itself covered about 44 schools at Daifong County in Guizhou（貴州省大方縣）and about 8,255 students received the donated footwear products. The Group has also invited other corporates to join the charity programme, such as reputable fashion magazine publisher and a renowned international bank, for designing and sending volunteers together with the Group's volunteers to deliver the footwear products to the children's schools at Meigu County（美姑縣）and Zhaojue County（昭覺縣）in Sichuan（四川）province in September and November 2013.

Sponsorship of professional sports teams

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

Sponsorship of professional sports teams
China National Cycling Team
China National Handball Team
China National Softball Team
China National Hockey Team
China National Swimming Team
Sweden National Curling Team

Sponsorships of professional sports events

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

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
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	Asian Club League (Handball)	Sportswear Sponsor for the referees and technical officials
2013	Asian Men's & Women's Beach Handball Championship	Sportswear Sponsor for the referees and technical officials
2013-2014	World Women's Curling Championship	Designated apparel sponsor
2013-2014	17th Asian Games Incheon 2014	Prestige Partner
2013-2014	World Wushu Championship	Prestige Partner
2014	Nanjing 2014 Youth Olympics	Sportswear sponsor

Product design and development

In order to stand out in China's highly competitive sportswear market, the Group has been developing products with special materials and design, with emphasis on functionality. Positioned as a professional sportswear company, the Group maintains an edge in product innovation and research and development to differentiate itself from its competitors.

In the year under review, the Group increased the use of special fabrics in its products to enhance their functionality for specific sports. For examples, it adopted Teflon, a special material which is resistant to extreme temperatures and erosion and is water–proof and grease-proof in its apparels. It also used other special materials such as Sorona, which is warm, light and porous, and Shine-warm, which applies the principle of heat reflection to maintain body heat under extreme climates. In its footwear products, the Group adopted technologies such as SAC-air and NFO.

Although the move had increased the cost and squeezed the gross margin of the products, it is essential to maintain the Group's competitiveness.

In order to boost sales, the Group bundled the apparel and footwear in sportswear collections with themes of different sports. This also helped enhance the Group's image of a professional sportswear brand.

Besides, the Group continued to improve or upgrade the products in terms of functionality, comfort, and design, and the efforts yielded 50 patents of footwear as at 31 December 2013 including Engulf, Archlock, NFO, Tri-Grip and Rubest Tech.

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 2013, the Group obtained 37 patents on the innovation of new fabrics, clothes designs and accessories. The partnership helped foster a crop of design professionals who specialized in scientific research and innovation of high-technology fabric. This helped the Group keep abreast of the latest trends in fashion, fabrics and styles. The Group had also established a 10-year scholarship award program for the distinguished students of the Institute.

As at 31 December 2013, there were 100 research and development staff for footwear and 167 research and development staff for apparel, accessories and children's wear. The Group's research and development spending accounted for about 2.4% of turnover for the year under review, compared with the 1.7% for the year ended 31 December 2012.

Production

As at 31 December 2013, the Group owned 23 footwear production lines in the Wuli Industrial Park and Jiangtou. The 23 footwear production lines provided a combined annual production capacity of approximately 21 million pairs of footwear. The apparel factory in Wuli Industrial Park, which started operation in 2010, had an annual production capacity of 10 million pieces. The Group tried to maintain an optimum balance between in-house and outsourced production, considering such factors as costs of production and labour and the competition for skilled workers. At the factories, the Group provided comprehensive facilities and amenities including kindergarten, supermarket, computers, library, mini-cinema, snookers, yoga class and fitness centre, in order to retain its workers.

Due to the market weakness and the reduction in production, the Group rented 3 production lines to an OEM supplier and considered the rental could lower the cost of running spare machineries and save the cost on keeping excess labour. Continuous demand on young labour from different markets and districts increased the pressure in 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 2013 to March 2014.

The Group established a 51% owned subsidiary in 2010 with a leading Taiwan-based specialist for the manufacture of soles to ensure the supply of this key component of footwear in a cost-efficient manner. During the year under review, about 47.1% of the soles used for the Group's in-house manufacturing of footwear under its own brand were supplied by that subsidiary.

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 business growth by leveraging on the resources of 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 authorized 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 standardized outlet design and layout in the authorized 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 take 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 issues. There were no returned goods for the year ended 31 December 2013;

(xi) Termination rights – We are entitled to terminate the agreement in certain circumstances (for example: 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.

The distribution agreements entered into 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 policy 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 2013, 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 recognizes 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 of the distributors. The distributorship agreements with our distributors do not specify minimum amount of purchases from us.

During the period under review, the Group was not aware of any of the distributors having committed any material breach of the distributorship agreements. As at 31 December 2013, the Group had 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 RMB3,583.5 million and no goods were returned from our distributors.

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

Distributors then enter into separate agreements with our authorized retailers for the sale and purchase of our *361°* products and other aspects of their commercial relationship. The distributors are responsible for ensuring that authorized retailers do not sell *361°* products outside of their respective territories. Authorized 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 authorization to sell our *361°* products.

Principal risks and uncertainties

In addition to the industry risks and uncertainties faced by the Group as disclosed in "Management Discussion and Analysis – Industry review" on pages 12 to 13 of this report, the Group also faces others principal risks and uncertainties in its business.

For instance, the Group adopts the distributorship model whereby the Group's distributors will sell the group's products to authorized retailers, who will then sell the Group's products to the customers. As such, the Group has limited control over the authorized retailers to ensure their compliance with the policies, including operational requirements, exclusivity, customer service, store image and pricing. Non-compliance of the Group's policies may cause unfair competitions among the authorized retailers, erosion of goodwill, a decrease in market value of the Group's products and unfavorable public perception about the quality of the Group's products, which may result in a material adverse effect on the business, financial condition, results of operations and prospects of the Group. During the year under review, the Group was not aware of any material non-compliance of the Group's policies by the authorized retailers which resulted in a material adverse effect on the business, financial condition, results of operations and prospects of the Group.

Enhancing competitiveness with a distinct brand image, innovative designs, good quality and high performance products

Further, the Group's business is subject to laws and regulations applicable to foreign investment in the PRC as well as laws and regulations applicable to foreign-invested enterprises. These laws and regulations are subject to change and their interpretation and enforcement involves uncertainties that could limit the legal protections available to the Group. In addition, the PRC legal system is based in part on government policies that may have retrospective effect, which could cause uncertainties to the Group's business as it will not be possible to predict the effect of future developments in the PRC legal system, including promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. If any of the Group's past operations are deemed to be non-compliant with PRC law, the Group may be subject to penalties and the Group's business and operations may be adversely affected. During the year under review, the Group has not experienced any material adverse effect on the business, financial condition, results of operations and prospects of the Group due to the change in laws and regulations in the PRC.

FINANCIAL REVIEW

Turnover

During the year under review, turnover decreased by 27.6% as attempts to clear inventory with aggressive discounts at retail channel affected distributors' demand for new products. Meanwhile, the Group worked with its distributors to control the volume of orders placed and increased the wholesale discount from 58% to 60% for the distributors since the 2013 spring/summer trade fair and further adjusted the wholesale discount from 60% to 65% in 2014 spring/summer trade fair in view of the market glut and weaker demand. The bigger wholesale discounts and the move to control the volume of orders placed resulted in year-on-year decline of 23%, 19% and 17% respectively in the value of orders placed at the 2013 spring/summer, autumn and winter trade fairs held in 2012 and 2013. The decline further narrowed to 8% and 7% in value of the total orders placed at the 2014 spring/summer and autumn trade fairs held in August and December of 2013, respectively.

The Group also reduced the number of product offerings from about 1,400 in the past to about 1,000 at the trade fairs in 2013, focusing on high-margin and best-selling products. In addition, it worked hard to boost sales and to mitigate the impact on the profit margins amid the tough competition.

During the year under review, the turnover of the business of footwear, apparel and accessories decreased by 31.2%, 30.9% and 25.3% respectively. Average wholesale selling price (the "ASP") of the footwear products decreased by 11.9% to RMB93.7, while that of apparel fell by 14.5% to RMB67.9. The decreases were mainly due to the adjustment of discount to the distributors at the trade fair. The ASP of accessories decreased by 14.4% to RMB12.5.

The sales volume of footwear and apparel recorded a decrease by 22.0% and 19.2% to 16.2 million pairs and 23.2 million pieces, respectively. The decreases were due to a decline in the sales orders received from the distributors. The sales volume of accessories also decreased from 6.1million to 5.3 million pieces.

The revenue of *361°* Kids in 2013 increased by 13.6% to RMB420.4 million, and continued to increase in importance as it accounted for 11.7% of the Group's turnover, up from the 7.5% in 2012. The increase in revenue reflected the strong retail base established for the kids wear business in a segment that has continued to show potential for further growth.

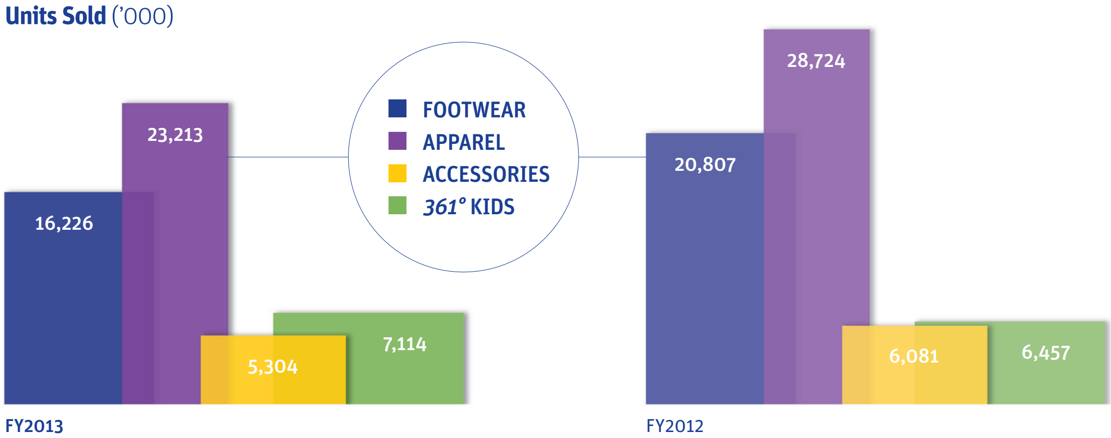
During the year ended 31 December 2013, all the 2013 spring/summer products and autumn/winter products were delivered on schedule.

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

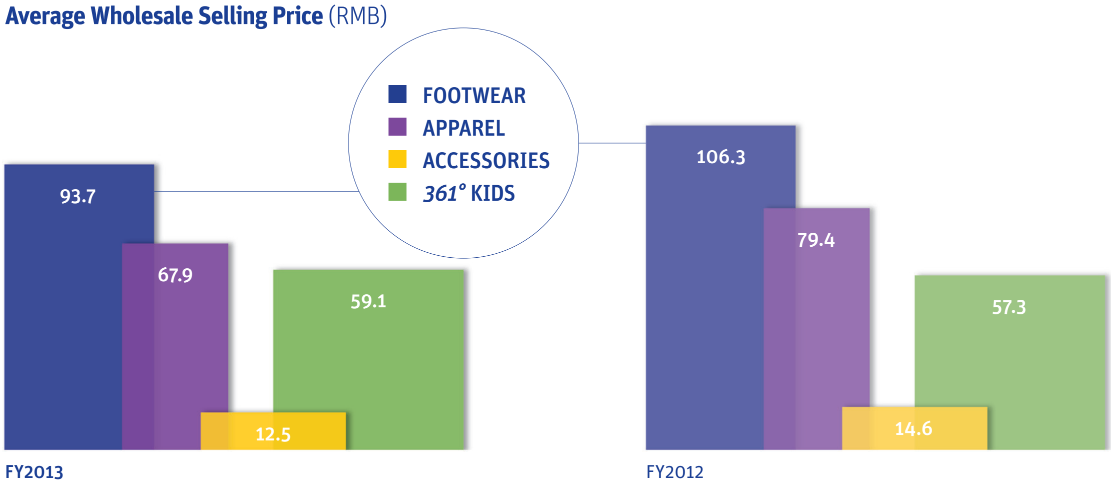
	For the year ended 31 December 2013 ("FY2013")		For the year ended 31 December 2012 ("FY2012")	
	Total units sold '000	Average wholesale selling price[1] RMB	Total units sold '000	Average wholesale selling price[1] RMB
By Volume and ASP				
***361˚* Products – Adults**				
Footwear (pairs)	**16,226**	**93.7**	20,807	106.3
Apparel (pieces)	**23,213**	**67.9**	28,724	79.4
Accessories (pieces/pairs)	**5,304**	**12.5**	6,081	14.6
***361˚* Products – Kids**	**7,114**	**59.1**	6,457	57.3

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

Units Sold ('000)



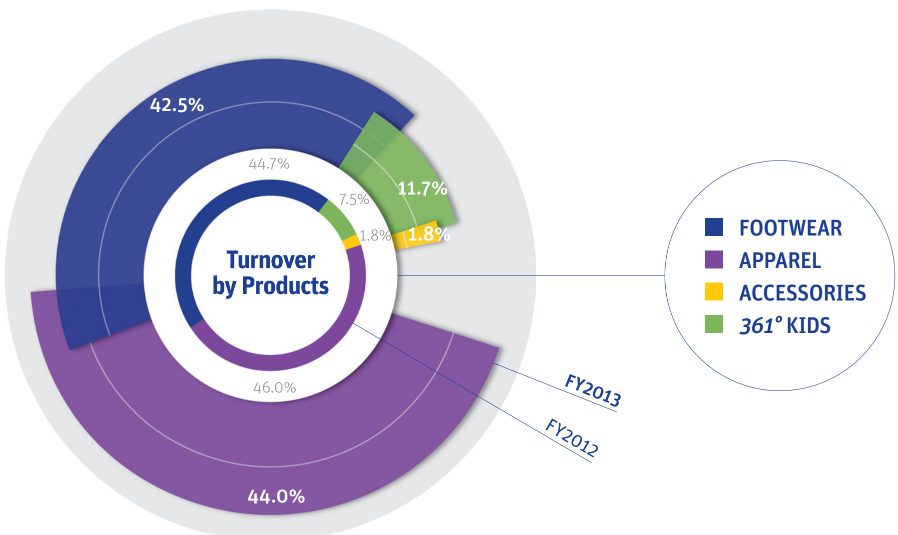
Average Wholesale Selling Price (RMB)



A breakdown by product categories for the year under review showed that footwear and appearl accounted for roughly equal share of 42.5% and 44.0%, respectively, of the total sales, while accessories and kids' products made up the remaining 1.8 % and 11.7% respectively.

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

	For the year ended 31 December 2013 **RMB'000**	**% of Turnover**	For the year ended 31 December 2012 RMB'000	% of Turnover
By Products				
Turnover				
***361°* Products – Adults**				
Footwear	**1,521,032**	**42.5**	2,212,306	44.7
Apparel	**1,575,784**	**44.0**	2,279,433	46.0
Accessories	**66,286**	**1.8**	88,761	1.8
***361°* Products – Kids**	**420,375**	**11.7**	370,078	7.5
Total	**3,583,477**	**100**	4,950,578	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 under review:

	For the year ended 31 December 2013		For the year ended 31 December 2012	
	RMB'000	**% of Turnover**	RMB'000	% of Turnover
By Regions				
Eastern region[1]	**932,893**	**26.0**	1,356,767	27.4
Southern region[2]	**764,421**	**21.3**	1,195,534	24.2
Western region[3]	**801,792**	**22.4**	931,297	18.8
Northern region[4]	**1,084,371**	**30.3**	1,466,980	29.6
Total	**3,583,477**	**100**	4,950,578	100

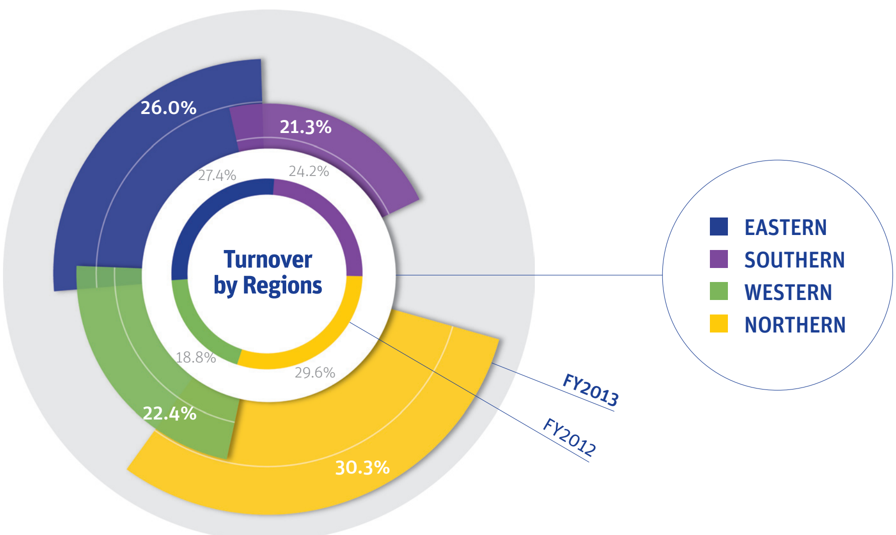
Notes:

(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 2013 decreased by 27.3% to RMB2,166.4 million, and accounted for 60.5% of the Group's turnover. The rate of decrease in cost of sales was slightly less than the percentage decrease of Group's turnover for the year under review.

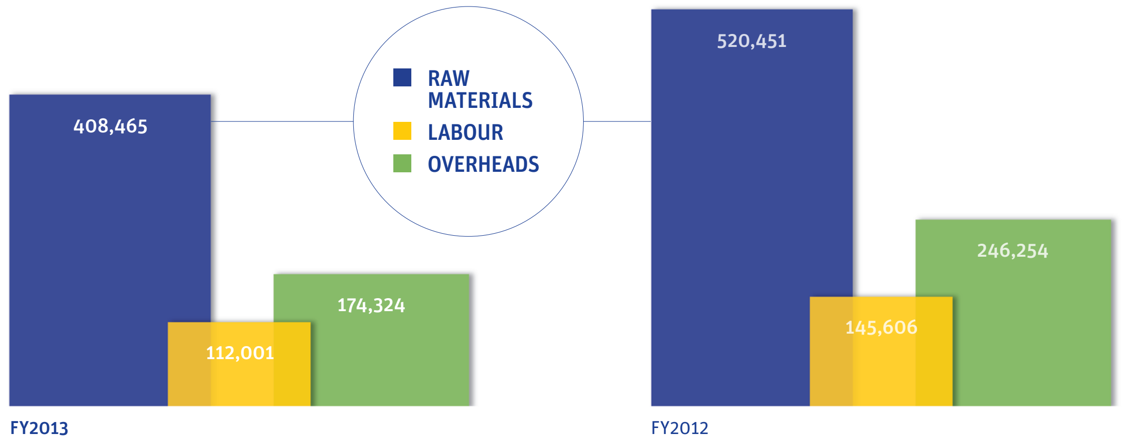
As the excess capacity in the OEM (Original Equipment Manufacturer) market led to competitive pricing, the percentage decrease on the cost of outsourced footwear was more than the percentage decrease of the ASP of outsourced footwear. Although the self-produced footwear suffered from lower volume and higher overhead cost absorption, the total cost of footwear could still be marginally reduced.

On the other hand, the pricing on the outsourced apparel was much more competitive because the use of better materials to differentiate from casual brands and size of orders has reduced. As a result, the relative percentage on the reduction of its cost was much less than the decrease of its ASP. This increased the total cost of apparel although self-produced apparel became mature through better experience and concentration on a smaller range of SKU (Stock-keeping unit), the improvement was insignificant to fill the difference.

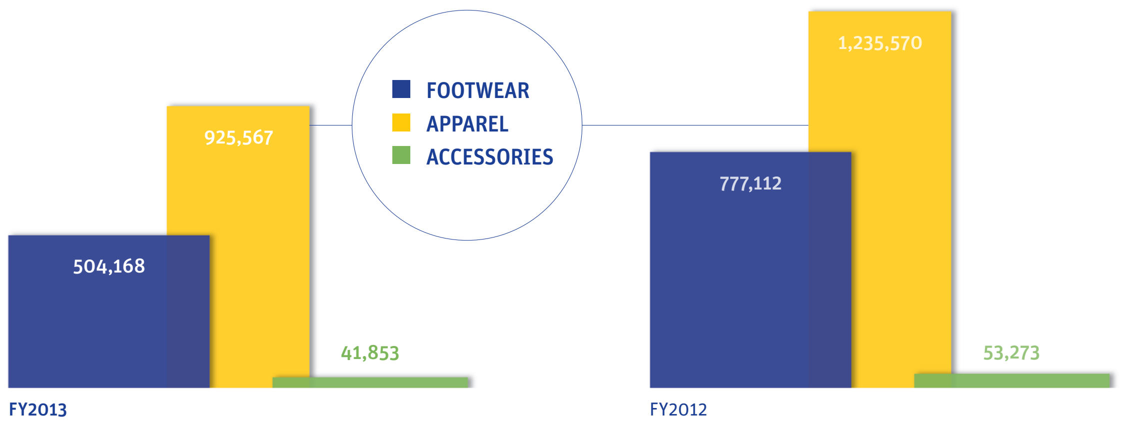
The following table sets forth a breakdown of cost of sales for *361°* products during the year under review:

	For the year ended 31 December 2013		For the year ended 31 December 2012	
	RMB'000	**% of total costs of sales**	RMB'000	% of total costs of sales
***361°* Products**				
Footwear & Apparel (Internal Production)				
Raw materials	**408,465**	**18.9**	520,451	17.4
Labour	**112,001**	**5.2**	145,606	4.9
Overheads	**174,324**	**8.0**	246,254	8.3
	694,790	**32.1**	912,311	30.6
Outsourced Products				
Footwear	**504,168**	**23.3**	777,112	26.1
Apparel	**925,567**	**42.7**	1,235,570	41.5
Accessories	**41,853**	**1.9**	53,273	1.8
	1,471,588	**67.9**	2,065,955	69.4
Cost of sales for *361°* Products	**2,166,378**	**100**	2,978,266	100

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



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



Gross profit and gross profit margin

Gross profit was RMB1,417.1 million for 2013 and gross profit margin was 39.5%, down by 0.3 percentage points when compared to that for 2012.

Starting from the 2013 spring/summer trade fair held in July of 2012, the Group increased the discounts offered to its distributors from 58% to 60%. It later increased the discounts from 60% to 65% in the 2014 spring/summer trade fair held in August of 2013.

The adjustment on discount did not have significant effect on the gross profit and the percentage decrease of the gross profit was in line with the decrease on turnover. The reason for the gross profit margin could still be sustainable was mainly due to the cost reduction on the bargain pricings from the outsourced footwear suppliers and internally produced apparel.

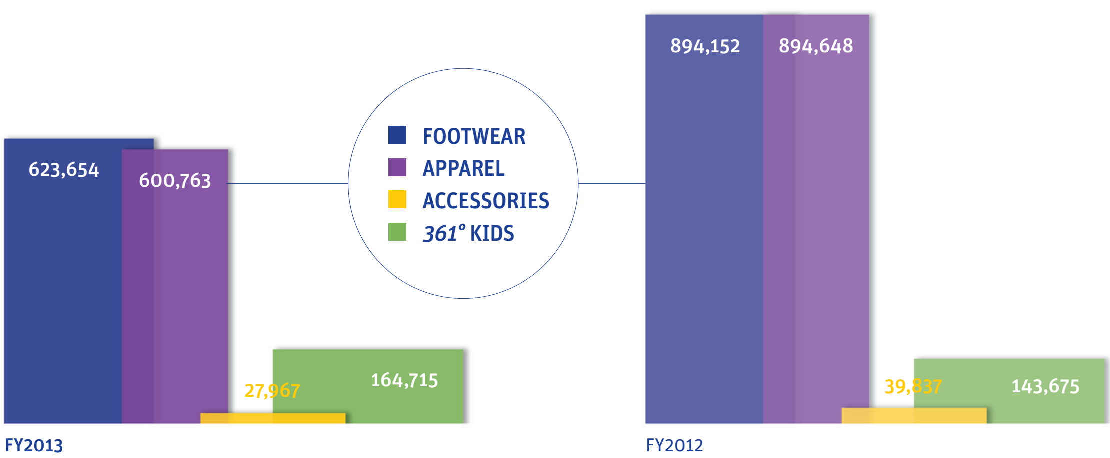
The total gross profit of footwear (RMB623.7 million) outweighed apparel (RMB600.8 million) products although the turnover of apparel (RMB1,575.8 million) was slightly higher than footwear (RMB1,521.0 million). The gross profit margin of footwear and kids wear business reported a growth to 41.0% and 39.2% while that of apparel and accessories dropped to 38.1% and 42.2%, respectively.

All in all, the cost savings nearly covered the decrease in ASP, thus maintained the gross profit margin for the year under review at similar level as the previous year.

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

	For the year ended 31 December 2013		For the year ended 31 December 2012	
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %
***361°* Products – Adults**				
Footwear	**623,654**	**41.0**	894,152	40.4
Apparel	**600,763**	**38.1**	894,648	39.3
Accessories	**27,967**	**42.2**	39,837	44.9
***361°* Products – Kids**	**164,715**	**39.2**	143,675	38.8
Total	**1,417,099**	**39.5**	1,972,312	39.8

Gross Profit by Products (RMB'000)



Selling and distribution expenses

Selling and distribution expenses decreased by 18.0% to RMB729.3 million during the year under review which was less than the percentage decrease on the year-on-year turnover of 2013 and 2012, primarily as a result of the increase in the proportion of rack subsidies in the Group's turnover to 4.8% in 2013 from 4.1% in 2012 as well as some contracted advertising and promotional expenses which could not be reduced. The advertising and promotional expenses accounted for 11.4% of the Group's turnover in 2013 and 10.6% in 2012.

Rack subsidies were given to 2,053 retail stores in 2013 and amounted to RMB170.4 million. Racks are part of the fixtures and fittings for displaying products to customers at retail outlets. The Group believed that the provision of such subsidies would be a direct assistance for retailers to upgrade the retail stores and improve their competitive strength in the tough market.

During the year under review, the amount of advertising and promotional expenses decreased by 22.6% as the Group cautiously cancelled some of the promotion projects but still incurred expenses for important sponsorships for the promotion of the brand. During the year under review, the Group newly commenced the sponsorship program with the China National Swimming Team, successfully renewed the spokesman contract with the London Olympic Double Gold Medalist – Sun Yang and obtained the sponsorship for the 2014 Incheon Asian Games. The Group believes that these endeavours, together with the sponsorships entered in the past years, would be able to maintain its brand image despite the reduction in the advertising and promotional expenses.

Administrative expenses

Administrative expenses increased by 40.2% to RMB424.5 million for the year ended 31 December 2013 and represented about 11.8% of the Group's turnover.

The increase was due to the impairment losses recognized during the year for overdue receivables which amounted to RMB152.0 million. The Group will take all necessary measures to tighten its credit control to improve the recovery of its account receivable in the future.

Research and development expenses were RMB85.8 million, or 2.4% of the turnover for the year under review, compared with the RMB86.6 million for 2012. The Group would maintain this expense and believes that the expense is necessary for enhancing the Group's competitiveness.

Finance Costs

For the year ended 31 December 2013, finance costs increased to RMB79.1 million, of which RMB2.2 million was related to short-term bank borrowings and a mortgage loan borrowing incurred in the year. The balance of RMB76.9 million was the relevant interest and cost in relation to the convertible bonds amortized over the years.

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 2013 and the cost and interest were accrued for the year. The short-term bank borrowing of RMB15.9 million was a mortgage bank loan for financing the purchase of an office in Hong Kong on 31 December 2012.

The interest of the convertible bonds comprised 1) an interest of 4.5% per annum to the convertible bonds amounting to RMB41.4 million for the year ended 31 December 2013 and 2) the balance of RMB35.5 million, which was the adjustment for the amortization cost of accrued interest and cost incurred for the issuance of convertible bonds over the tenor of five years.

Income tax expenses

During the year under review, income tax expenses of the Group amounted to RMB100.2 million (2012:RMB115.1 million) and the effective tax rate for the year was 36.7% (2012: 14.4%). The percentage had excluded the effect of the profit before taxation from the net change in fair value of derivatives embedded in convertible bonds.

Starting from 1 January 2013, all of the Group's four PRC-based operating subsidiaries are subject to the standard corporate income rate of 25% whereas all of the Group's subsidiaries in Hong Kong are not subject to taxation because they did not generate any operating income in the city. As the interest of the convertible bonds was paid by a Hong Kong subsidiary, the expenses was not allowed to be deducted from the taxable income of the PRC subsidiaries, and this affected the amount of tax paid and the effective tax rate at the Group level.

Profit attributable to equity shareholders

Profit attributable to equity shareholders of 2013 decreased by 70.1% to RMB211.3 million. This was mainly attributable to the increases in the administrative expenses, which in turn squeezed the operating profit margin to 9.8% in 2013 from 17.5% in 2012. Earnings per share for 2013 decreased by 70.2% to RMB10.2 cents.

DIVIDEND FOR THE YEAR

The Board resolved not to declare any final dividend for the year ended 31 December 2013 in view of the need to cope with the difficult market and to foster new businesses to differentiate itself from the competitors. The Company paid an interim dividend of RMB4.0 cents (equivalent to HK5.1 cents) per share for the six months ended 30 June 2013. The dividend, amounted to RMB82.7 million, represented 39.1% of the profit attributable to equity shareholders of the Company for the year ended 31 December 2013.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2013, net cash inflow from operating activities of the Group amounted to RMB323.2 million. As at 31 December 2013, cash and cash equivalents, including bank deposits and cash in hand, and fixed deposits with original maturities not exceeding three months, amounted to RMB2,494.3 million, representing a net increase of RMB389.1 million as compared to the position as at 31 December 2012 and a net decrease of foreign exchange rate changes in the year of RMB1.8 million. The increase was attributable to the following items:

	For the year ended 31 December	
	2013	2012
	RMB '000	RMB '000
Net cash generated from operating activities	**323,156**	1,658,777
Net capital expenditure	**(43,965)**	(150,706)
Dividends paid	**(227,436)**	(289,464)
Proceeds from new bank loans	**–**	241,128
Repayment of bank loans	**(26,417)**	(227,594)
Repayment of other loans	**–**	(150,000)
Proceeds from issuance of convertible bonds	**–**	922,894
Withdrawal/(placement) of deposits (with maturity over three months)	**261,901**	(378,889)
Interest received	**52,996**	18,533
Other net cash inflow	**48,854**	2,577
Net increase in cash and cash equivalents	**389,089**	1,647,256

Due to the decrease in orders received at trade fairs, the amount of inventories, the trade and bills receivable decreased to RMB409.4 million and RMB1,916.0 million as at 31 December 2013 from RMB460.7 million and 2,111.5 million as at 31 December 2012, respectively. The other payables and accruals also increased to RMB515.4 million from RMB335.2 million. The increase mainly resulted from the increase on accrued expenses of the advertising contracts. Although the trade and bills payable reduced by RMB204.9 million and the prepayment to suppliers has increased to RMB468.8 million, both were largely offset by the reduction of inventories, trade and bills receivable and the increase in other payables which helped to generate a positive operating cash inflow to the Group.

During the year ended 31 December 2013, the Group had repaid RMB26.4 million for a bank loan of the 51% owned subsidiary and a mortgage bank loan for financing the acquisition of a Hong Kong office on 31 December 2012. As at 31 December 2013, the bank loan was been paid in full and the balance of the mortgage loan was RMB15.9 million.

The Group's gearing ratio was 11.0% as at 31 December 2013, which was the same as 2012.

During the year under review, the Group did 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 ended 31 December 2013, 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 2013, a building with net book value of RMB43,286,000 (31 December 2012: RMB45,423,000) was pledged as security for a banking facility of the Group of RMB21,047,000 (31 December 2012: RMB21,646,000).

The aforesaid banking facility was used to finance the acquisition of an office unit in Hong Kong. The office unit is for the Group's own use and not for any investment purpose.

Bills payable as at 31 December 2013 were secured by pledged bank deposits of RMB37.9million.

WORKING CAPITAL MANAGEMENT

The average working capital cycle for the year ended 31 December 2013 was 120 days (2012: 109 days). It was mainly due to the increase in trade and bills receivable days and inventory turnover days.

With an additional impairment loss on trade receivables of RMB152.0 million in the year, the average trade and bills receivable cycle was 205 days as at 31 December 2013 (31 December 2012: 165 days), which could be even higher but for the provision made. It showed an increase of 40 days. The trade and bills receivable reduced by 9.3% to RMB1,916.0 million, the percentage decrease was less than the 27.6% on the turnover compared to a year ago. Over 73.1% of the trade debtors and bill receivable were neither considered as past due nor impaired. The Group has been staying in touch with all the distributors and will continue to monitor all the debts.

Over the past three years, the sportswear industry experienced severe price competition and market glut. Although the duration of the accounts receivable turnover was still long, the Group believed that providing support to its distributors and retailers in running their stores network is important. We had estimated that the sportswear market may rebound as the market glut was substantially cleared by the end of 2013.

The average inventory turnover cycle increased to 73 days for the year ended 31 December 2013 (year ended 31 December 2012: 56 days). The inventories amounted to RMB409.4 million, down by 11.1% when compared to the RMB460.7 million as at 31 December 2012. About 77.0% of the stock were finished goods and were mainly the products of the spring/summer seasons of 2014. As reported by the distributors, retail stores were still facing tough competition. The channel inventory level was 4.3 times of the monthly sales in the first quarter of 2013, 4.4 times throughout the second and third quarters and adjusted to 4.2 times in the fourth quarter of the year. Although retail discounts narrowed, distributors were still cautious about the prospect and took a prudent approach to placing orders. This is reflected by the decline in the orders placed at the Group's trade fairs held in 2013.

For the year ended 31 December 2013, prepayments to suppliers were RMB468.8 million, representing a 20.5% increase compared with the RMB388.9 million for the year ended 31 December 2012. The prepayments were upfront deposits paid to suppliers for the acceptance of orders for the products of the spring/summer and autumn of 2014. The increase was due to the pricing of outsourced apparel was competitive and supplier requested to have higher percentage of deposit for the purchase of functional materials.

The balance of other prepayments decreased by 16.9% to RMB88.4 million as at 31 December 2013 from the RMB106.4 million as at 31 December 2012. The prepayments in 2013 were mainly the prepaid expenses in relation to the advertising and promotion contracts and other selling and distribution expenses.

The average trade and bills payable cycle was 158 days for the year ended 31 December 2013, compared with 112 days for the year ended 31 December 2012. The average trade payable cycle was 99 days, compared with 53 days for the year ended 31 December 2012. The credit term received from banks for the issuance of bills payable to suppliers was 180 days. The extra credit was mainly granted by the OEM suppliers to attract orders in short term, thus increasing the chance of the clients' survival and tiding them over until the turnaround of the industry.

CONVERTIBLE BONDS

On 13 March 2012, the Group launched the US$150 million 4.5% convertible bonds due 2017 ("the Convertible Bonds"). The Convertible Bonds were then issued and listed on the Singapore Exchange Securities Trading Limited in Singapore on 3 April 2012.

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$3.31 after a declaration of the interim dividend on 9 September 2013. The conversion price would remain unchanged as no final dividend for the financial year of 2013 would be declared.

On 23, 24, 27 and 29 January 2014, 4 to 7, 10 and 12 February 2014, the Company repurchased Convertible Bonds having an aggregate principal amount of US$14,300,000 (the "Repurchased Bonds"), representing approximately 9.5% of the aggregate principal amount of the US$150,000,000 outstanding Convertible Bonds, by way of over-the-counter purchases. Immediately following the cancellation of the Repurchased Bonds, the aggregate principal amount of the remaining outstanding Convertible Bonds amounted to US$135,700,000.

If the Convertible Bonds was fully converted into Shares, the number of Shares will be increased by 318,087,359, representing about 13.3% 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 conditions. 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 year 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 2013 was still higher than the time of issuance, it incurred a net gain in the fair value change to the Group amounting to RMB 41.8 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 underwriting commissions and related expenses were deducted). As at 31 December 2013, the utilized net proceeds from the listing amounted to HK$1,838.7 million.

In view of the prevailing market conditions, the Group announced on 22 April 2013 that it has decided to change the use of the unutilized net proceeds from its listing. Instead of using the proceeds to open directly-owned flagship stores and directly-owned retail outlets for *361°* Kids. It would spend the proceeds on advertising and promotion of its products for adults and kids.

The following table sets forth a breakdown of the use of net proceeds from the global offing during the year under review:

Net proceeds from the global offering (HKD million)

Use of net proceeds	Available to utilise	Utilised (as at 31 December 2013)	Unutilised (as at 31 December 2013)
Developing and increasing brand awareness	741.2	741.2	–
Developing new production facilities	613.5	613.5	–
Developing children's footwear and apparel sub-brand	171.5	171.5	–
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	1,838.7	66.7

EMPLOYEES AND EMOLUMENTS

As at 31 December 2013, the Group employed a total of 8,406 full time employees in the PRC which included management staff, technicians, salespersons and workers. For the year ended 31 December 2013, the Group's total remuneration of employees was RMB298.1 million, representing 8.3% of the Group's turnover. The Group's emolument policies, based on the performance of individual employees, are formulated to attract talent and retain quality staff. Apart from the mandatory provident fund scheme, which is operating in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees, the state-managed retirement pension scheme for the PRC-based 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 emphasis on fringe benefits.

PROSPECTS

China's sportswear market remained difficult in 2013 but showed signs of improvement by the end of the year as the inventories at the retail channels were substantially cleared and industry players were shifting from volume-driven business expansion to differentiation with innovative products and distinctive brand images.

On the supply side, the sportswear manufacturers are more prudent about accepting orders in trade fairs and focusing more on optimizing the sales and distribution network and product differentiation. This is pressing for the domestic industry players to take such initiatives because strong foreign brands are stepping up efforts to develop mainland China's market. Those who can differentiate or even distinguish themselves from their peers with good products and distinctive brand images will emerge as the winners in the market.

On the demand side, the government's policies of encouraging people to live a healthy life with more frequent physical exercise will continue to provide support for the long-term healthy growth of the sportswear industry. Meanwhile, the reduced market glut will provide more room for the sportswear manufacturers to manoeuvre. Nevertheless, they will become more prudent when developing their business.

As a visionary, the Group has already clearly positioned itself as a professional sportswear firm. It has been developing and enhancing its competitiveness with a distinctive brand image, innovative designs, good quality and high performance of the products, as well as a new product line for children. In 2014, the Group will branch out to a niche market for premium Nordic sportswear and sport products through a joint venture with the Finnish premium sports goods company, One Way Sport Oy.

The Group will continue its product innovation through cooperation with its research and development partners and will increase the application of special fabrics in its products to enhance their functionality for specific sports. It will keep developing the *361°* Kids to capture the opportunities in the promising market for children's wear and thus cultivate the future market for its adults' wear. *361°* Kids will become a growth driver in the future. The Group will also continue to promote its brand image by sponsoring major sports events and through partnership with the national sports TV channel CCTV-5. Meanwhile, it will work closely with its distributors and retailers to boost sales and control inventory. Specific measures will include helping the stores improve the presentation of goods and the shopping environment and raising their efficiency with the ePOS. All these measures are aimed at generating better returns to the shareholders.

Report of the Directors

The directors of 361 Desgrees International Limited ("the Directors") have the pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2013.

BUSINESS REVIEW

General

For the review of the business of 361 Degrees International Limited (the "Company"), please refer to the section headed "Management Discussion and Analysis – Business review" on pages 13 to 26 of this report.

Principal risks and uncertainties facing the Company

For details of the principal risks and uncertainties facing the Company, please refer to the section headed "Management Discussion and Analysis – Business review – Principal risks and uncertainties" on pages 24 to 26 of this report.

Post year end events

Except as disclosed in this annual report, since 31 December 2013, being the end of the financial year under review, no important event has occurred affecting the Group.

Analysis of key financial performance indicators

For details of the key financial performance indicators to the performance the Group's business, please refer to "Financial Summary" on pages 4 and 5 of this report.

Environmental policies and performance

The Group continues to update the requirements of the relevant environmental laws and regulations applicable to it to ensure compliance. During the year under review, the Group has complied with the relevant environmental laws and regulations applicable to it in all material respects.

Account of the Group's key relationships

The Group's success and ability to expand its operations depend heavily on its ability to retain and motivate qualified key personnel, such as the chairman of the board of Directors ("the Board"), Mr. Ding Huihuang, and president of the Company, Mr. Ding Wuhao, for their expertise in developing business strategies, product design and development, business operations and sales and marketing. If the Group loses the services of any of these key personnel without securing adequate replacement in a timely manner, such event could limit the Group's competitiveness and the business and prospects of the Group may be material and adversely affected.

On the other hand, the Group's success in selling its products depends on its distributors, who then sell the products to the authorized retailers. Hence, the ability of the authorized retailers to sell the Group's products to customers, the relationship with their distributors and the Group's relationship with the distributors will have an impact on the profit generated by the Group. If the authorized retailers are unable to sell the Group's products to the customers, or that the relationship between the authorized retailers and the distributors or between the Group and the distributors deteriorates, the business and prospectus of the Group may be materially and adversely affected.

Registered office and principal place of business in Hong Kong

The Company is a company incorporated in the 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 is at Rm 3901, 39/F, COSCO Tower, 183 Queen's Road Central, Hong Kong.

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 on pages 100 to 102 of this annual report.

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	11%	
Five largest customers in aggregate	32%	
The largest supplier		4%
Five largest suppliers in aggregate		19%

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

Financial statements

The profit of the Group for the year ended 31 December 2013 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 64 to 132 of this annual report.

Transfer to reserves

Profits attributable to equity shareholders, before dividends, of RMB211,261,000 (2012: RMB707,208,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

An interim dividend of RMB4.0 cents per share (2012: RMB7.0 cents per share) was paid on 17 September 2013. The Directors do not recommend to pay any final dividend (2012: RMB7.0 cents per share) for the year ended 31 December 2013.

Charitable donations

Charitable donations made by the Group during the financial year amounted to RMB8,225,000 (2012: RMB745,000).

Fixed assets

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

Convertible bonds

Details of the convertible bonds are set out in note 20 to the financial statements.

Share capital

Details of the movements in share capital of the Company during the year are set out in note 25(c) to the financial statements.

Purchases, sales or buy-backs 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 2013.

Details of the buy-backs in Convertible Bonds are set out on page 37 of this annual report.

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 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 *(resigned and effective from 2 September 2013)*
Mr Tsui Yung Kwok

Pursuant to Article 84 of the articles of 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 Huihuang, Mr Ding Huirong and Mr Wang Jiabi will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Director's 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 2013, 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		44,927,030	2.17%
Mr Ding Huihuang	Long	Interest in controlled corporation	(2)	360,000,000	17.41%
	Short	Interest in controlled corporation		44,819,124	2.17%
Mr Ding Huirong	Long	Interest in controlled corporation	(3)	360,000,000	17.41%
	Short	Interest in controlled corporation		44,819,124	2.17%
Mr Wang Jiabi	Long	Interest in controlled corporation	(4)	187,500,000	9.07%
	Short	Interest in controlled corporation		22,463,861	1.09%

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 44,927,030 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 44,819,124 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 44,819,124 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 22,463,861 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 2013, 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 ("the Pre-IPO Share Option Scheme"). 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 2013 are as follows:

			Number of Shares issuable under the options				
Grantees	Date of grant	Exercise price per share	as at 31 December 2012	exercised during the the year	lapsed during the year	cancelled during the year	as at 31 December 2013
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 financial year.

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 Share Option Scheme").

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 of Directors 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 of Directors 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 2013.

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 23 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 2013, 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	Nature of interest	Long/Short position in ordinary shares held[1]		Percentage of total issued shares
Dings International Company Limited	(2)	Beneficial owner	L	377,774,000	18.27%
			S	44,927,030	2.17%
Ming Rong International Company Limited	(3)	Beneficial owner	L	360,000,000	17.41%
			S	44,819,124	2.17%
Hui Rong International Company Limited	(4)	Beneficial owner	L	360,000,000	17.41%
			S	44,819,124	2.17%
Jia Wei International Co., Ltd.	(5)	Beneficial owner	L	187,500,000	9.07%
			S	22,463,861	1.09%
Jia Chen International Co., Ltd.	(6)	Beneficial owner	L	187,500,000	9.07%
			S	22,463,861	1.09%
Wang Jiachen	(6)	Interest in controlled corporation	L	187,500,000	9.07%
			S	22,463,861	1.09%
Credit Suisse Group AG	(7)	Interest in controlled corporation	L	123,714,990	5.98%
			S	30,960,815	1.50%
Bank of America Corporation	(8)	Interest in controlled corporation	L	415,279,203	20.09%
			S	205,990,203	9.96%

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 page 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 page 44 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 page 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 page 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 22,463,861 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 held by various entities directly and indirectly controlled by it.

8. The interests held by Bank of America Corporation were held by various entities directly and indirectly controlled by it.

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Directors are satisfied that the Company has maintained the prescribed minimum public float under Rule 8.08 of 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 or at any time during the year.

Directors' interests in competing business

As at 31 December 2013, 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 2013, it is in compliance with the terms of the deed of non-competition ("Deed of Non-competition") dated 10 June 2009 signed by each of them in favour of the Group.

To monitor the compliance of the terms of the Deed of Non-competition by the Covenantors, the independent non-executive Directors have reviewed, among others, the business activities undertaken by the Covenantors (if any) outside of the Group. Based on the result of such review, the independent non-executive Directors are satisfied that the Covenantors have complied with the terms of the Deed of Non-competition for the year ended 31 December 2013.

Bank loans

Particulars of bank loans of the Group as at 31 December 2013 are set out in note 19 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 4 and 5 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 of the Company in the PRC 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 2013 amounted to RMB18,450,000 (2012: RMB17,296,000).

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.

Corporate Governance Code 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 Corporate Governance Code (the "CG Code") contained in the Appendix 14 of the Listing Rules during the financial year.

Directors' securities transactions

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Upon enquiring by the Company, all the Directors have confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2013.

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 2013.

Auditors

KPMG will 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 and on behalf of the board of Directors

DING HUIHUANG
Chairman

Hong Kong, 17 March 2014

Corporate Governance Report

361 Degrees International Limited (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

In the opinion of the directors of the Company (the "Directors"), the Company has applied the principles and complied with all the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in the Appendix 14 of the Listing Rules during the year ended 31 December 2013.

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 business of the Company and its subsidiaries (the "Group")is vested in the board of Directors (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 2013, the Board comprises four executive Directors and three independent non-executive Directors. Biographical details of the current Directors and the relationships between the Directors (if any) are set out in the section headed "Directors and Senior Management" of this annual report.

On 2 September, one of the independent non-executive Directors, Mr. Liu Jianxing ("Mr. Liu") has resigned from his position in order to spend more time on his personal affairs.

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.

Corporate Governance

The Board is entrusted with the overall responsibility of developing and reviewing the Company's policies and practices on corporate governance and make recommendations to the Board; reviewing and monitoring the training and continuous professional development of the Company's Directors and senior management; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to the Company's employees and Directors; and reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the year under review, the Board has reviewed and monitored the training and continuous professional development of the Directors and company secretary of the Company to comply with the CG Code and the Listing Rules. Further, the Board has also reviewed and monitored the Group's policies and practices on compliance with legal and regulatory requirements and noted that the Group has complied with the relevant legal and regulatory requirements in all material respects for the year under review. The Board has also reviewed the employees manual applicable to the employees of the Company. Lastly, the Board has reviewed the Company's compliance with the CG Code and the disclosure of the Corporate Governance Report included in this report.

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	Annual General Meeting	Audit Committee	Remuneration Committee	Nomination Committee
		3	*3*	*3*	*3*	*3*
Executive Directors						
Mr. Ding Huihuang (Chairman)	*1*	4/4	1/1	N/A	N/A	N/A
Mr. Ding Wuhao (President)	*1*	4/4	0/1	N/A	N/A	1/1
Mr. Ding Huirong (Vice President)	*1*	4/4	1/1	N/A	N/A	N/A
Mr. Wang Jiabi (Vice President)	*1*	4/4	1/1	N/A	1/1	N/A
Independent Non-executive Directors						
Mr. Yan Man Sing, Frankie	*1, 2*	4/4	1/1	3/3	1/1	1/1
Mr. Sun Xianhong	*1*	4/4	0/1	3/3	1/1	N/A
Mr. Liu Jianxing (resigned and effective from on 2 September 2013)	*N/A*	2/3	0/1	1/2	–	–
Mr. Tsui Yung Kwok	*2*	4/4	1/1	3/3	N/A	1/1

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 Stock Exchange of Hong Kong Limited 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 Rule 3.13 of 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.

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, which were renewed on 30 June 2012. Mr. Sun Xianhong, Mr. Yan Man Sing, Frankie and Mr. Tsui Yung Kwok, independent non-executive Directors, have entered into a service contract with the Company for a term of three years also commencing from 30 June 2009, 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 Mr. Ding Wuhao, the president of the Company. 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 Board ("Audit Committee") was established on 10 June 2009 with written terms of reference in compliance with the Code. The Audit Committee comprised of four members, up to 1 September 2013 and since 2 September 2013, comprised of three 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. On 2 September 2013, Mr. Liu resigned as an independent non-executive Director and ceased to be the member of the Audit Committee. The number of members became three from four.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2013, 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 three meetings for the year ended 31 December 2013 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 Board ("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 comprised of three members, namely Mr. Wang Jiabi, Mr. Sun Xianhong and Mr. Liu Jianxing from 1 January 2013 to 1 September 2013, and Mr. Wang Jiabi, Mr. Sun Xianhing and Mr. Yan Man Sing Frankie from 2 September 2013 to 31 December 2013. Mr. Sun Xianhong, an independent non-executive Director, is the chairman of the Remuneration Committee. Mr. Liu resigned as an independent non-executive Director effective from 2 September 2013 and ceased to be the member of the Remuneration Committee. His role was replaced by Mr. Yan Man Sing Frankie from 2 September 2013.

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 one meeting to review and approve the remuneration packages of Directors and senior management of the Group for the year ended 31 December 2013.

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 Board ("Nomination Committee") was established on 10 June 2009 with written terms of reference in compliance with the Code. During the reporting year, the Nomination Committee comprised of four members, from 1 January 2013 to 1 September 2013 namely Mr. Ding Wuhao, Mr. Yan Man Sing Frankie, Mr. Tsui Yung Kwok and Mr. Liu Jianxing. Mr. Liu, the Chairman of the Committee, resigned as an independent non-executive Director and effective on 2 September 2013 and ceased to be the Chairman and member of the Nomination Committee. His role was replaced by Mr. Tsui Yung Kwok from 2 September 2013 and the number of members become three from four.

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 of the Company.

The Nomination Committee has held one meeting for the year ended 31 December 2013 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. For the details of members' attendance of the Nomination Committee meeting, please refer to P.51.

The Company has adopted the board diversity policy on 29 August 2013. The purpose of the policy is to set out the basic principles to be followed to ensure that the Board has appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. Under the policy, the selection of Board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited gender, race, language, cultural background, educational background, industry experience and professional experience, which are the measurable objectives for implementing the policy.

The Nomination Committee has primary responsibility for identifying suitably qualified candidates to become members of the Board and shall give adequate consideration to this policy in selection of Board candidates. Board nomination and appointments will continue to be made on merit basis based on its business needs from time to time while taking into account diversity.

The Nomination Committee is also responsible for reviewing the policy, developing and reviewing measureable objectives for implementing the policy and monitoring the progress on achieving these measurable objectives. The review of the policy and the measureable objectives shall be carried out at least annually to ensure the continued effectiveness of the Board.

During the year under review, the Nomination Committee has considered the board diversity policy and whether the Board has the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. After due consideration, the Nomination Committee has concluded that based on the Company's existing business model and specific needs, the current composition of the Board satisfies the board diversity policy for the year under review.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the members of the senior management by band for the year ended 31 December 2013 is set out below:

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

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 2013, the remuneration paid or payable to the external auditors, in respect of their audit and non-audit services are as follows:

	2013
Statutory audit services	**RMB3,336,000**

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 2013, 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 of the Company 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 2013, the Group confirmed that there was not any change on the memorandum and articles of association of the Company.

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Ding Wuhao（丁伍號）, aged 48, 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. He completed a CEO in China's Enterprise/Finance program at the Cheung Kong Graduate School of Business in August 2012. Mr. Ding is the brother-in-law of Mr. Ding Huihuang and Mr. Huirong, both executive Directors. Mr. Ding is the sole director and sole shareholder of Dings International Company Limited, a substantial shareholder of the Company.

Mr. Ding Huihuang（丁輝煌）, aged 48, 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, both executive Directors. Mr. Ding is the sole director and sole shareholder of Ming Rong International Company Limited, a substantial shareholder of the Company.

Mr. Ding Huirong（丁輝榮）, aged 42, 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, both executive Directors. Mr. Ding is the sole director and sole shareholder of Hui Rong International Company Limited, a substantial shareholder of the Company.

Mr. Wang Jiabi（王加碧）, aged 56, 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. Mr. Wang is the sole director and sole shareholder of Jia Wei International Co., Ltd., a substantial shareholder of the Company.

Independent non-executive Directors

Mr. Yan Man Sing Frankie（甄文星）, aged 56, 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 financial advisory, mergers and acquisitions. He is currently a Deputy Managing Director of the corporate finance department of a state-owned PRC securities house's Hong Kong office. He holds a fellowship of the Hong Kong Institute of Certified Public Accountants (the"HKICPA") and the Association of Chartered Certified Accountants (the "ACCA"). His public services include (i) a membership of the Election Committee of the Hong Kong Special Administrative Region, (ii) the treasurer of the Vascular and Interventional Radiology Foundation（透視微創治療基金）and (iii) the Secretary and the Financial Services Spokesman of a think tank which conducts research into Hong Kong's public policies.

Mr. Tsui Yung Kwok（徐容國）, aged 45, 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), SITC International Holdings Limited (Stock code: 01308) and Cabbeen Fashion Limited (Stock code: 2030). 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 51, 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.

SENIOR MANAGEMENT

Mr. Chen Yongling（陳永靈）, aged 40, 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）. He received the awards of the "2011 Chinese Year of the Chief Accountant" (2011中國總會計師年度人物獎）and "2013 Chinese Economist"(2013中國經濟人物）by the "China Association of Chief Financial Officer"(中國總會計師協會）and the "Committee of China Economic Development Forum"(中國經濟發展論壇組委會）, respectively.

Lu Ning（盧寧）, aged 46, is the executive vice president of the Group in charge of the footwear business, apparel business, product centre and operation department of the Group. He has over 20 years experiences in managing international renowned sportswear brands. He joined the Group in March 2013. Mr. Lu received his bachelor's degree in Economic Investment from the Nanjing University（南京大學）in 1996 and enrolled the Executive Master of Business Administration (EMBA) at the China Europe International Business School（中歐國際工商學院）in March 2011.

Ms. Choi Mun Duen（蔡敏端）, aged 45, 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 55, 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 59, 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. Lin Bing Huang（林炳煌）, aged 56, is the general manager of International Business Department of the Group and primarily responsible for the development and daily operation of the Group's overseas business. He has over 20 years experiences in managing international renowned sportswear brands. He joined the Group in July 2013. Mr. Lin received his bachelor's degree in International Trade from Tunghai University（東海大學）in Taiwan.

Mr. Feng Chao Mu（馮朝牧）, aged 50, 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（東海大學）in Taiwan in 1991.

Mr. Deng Wei（鄧巍）, aged 41, 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 Institute of Fashion Technology（江西服裝學院）in 1993.

Mr. Chen Jian Ci（陳建次）, aged 43, 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（淡江大學）in Taiwan in 1995.

Mr. Wang Zhiqian（王志謙）, aged 41, 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 38, 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 39, is the general manager of One Way International Enterprise Limited, a subsidiary of the Group, and primarily responsible for the development and management of the product series of "One Way" Brand. 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 43, 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 64 to 132, which comprise the consolidated and company statements of financial position as at 31 December 2013, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other 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 2013 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

17 March 2014

Consolidated statement of profit or loss

for the year ended 31 December 2013 (Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Turnover	3	**3,583,477**	4,950,578
Cost of sales		**(2,166,378)**	(2,978,266)
Gross profit		**1,417,099**	1,972,312
Other revenue	4	**83,766**	81,045
Other net gain	4	**5,101**	2,894
Selling and distribution expenses		**(729,300)**	(889,067)
Administrative expenses		**(424,456)**	(302,771)
Profit from operations		**352,210**	864,413
Net change in fair value of derivatives embedded to convertible bonds	20	**41,841**	32,936
Finance costs	5(a)	**(79,127)**	(66,975)
Profit before taxation	5	**314,924**	830,374
Income tax	6(a)	**(100,193)**	(115,145)
Profit for the year		**214,731**	715,229
Attributable to:			
Equity shareholders of the Company	9	**211,261**	707,208
Non-controlling interests		**3,470**	8,021
Profit for the year		**214,731**	715,229
Earnings per share	10		
Basic (cents)		**10.2**	34.2
Diluted (cents)		**10.2**	31.8

The notes on pages 72 to 132 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 25(b).

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2013 (Expressed in Renminbi)

	2013 RMB'000	2012 RMB'000
Profit for the year	**214,731**	715,229
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements	**6,696**	3,226
Total comprehensive income for the year	**221,427**	718,455
Attributable to:		
Equity shareholders of the Company	**217,957**	710,434
Non-controlling interests	**3,470**	8,021
Total comprehensive income for the year	**221,427**	718,455

The notes on pages 72 to 132 form part of these financial statements. There was no tax effect relating to the components of other comprehensive income.

Consolidated statement of financial position

at 31 December 2013 (Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Non-current assets			
Fixed assets	11		
– Property, plant and equipment		**974,627**	958,049
– Interests in leasehold land held for own use under operating leases		**97,602**	99,754
		1,072,229	1,057,803
Other financial asset	13	**17,550**	17,550
Deposits and prepayments	15	**121,148**	142,140
Deferred tax assets	24(b)	**92,256**	61,730
		1,303,183	1,279,223
Current assets			
Inventories	14	**409,358**	460,715
Trade debtors	15	**1,831,184**	1,928,040
Bills receivable	15	**84,780**	183,470
Deposits, prepayments and other receivables	15	**636,873**	567,223
Pledged bank deposits	16 & 17	**37,900**	95,730
Deposits with banks	17	**321,747**	590,791
Cash and cash equivalents	17	**2,494,280**	2,107,018
		5,816,122	5,932,987
Current liabilities			
Trade and other payables	18	**1,469,179**	1,591,474
Bank loans	19	**15,898**	42,315
Current taxation	24(a)	**120,576**	92,379
		1,605,653	1,726,168
Net current assets		**4,210,469**	4,206,819

	Note	2013 RMB'000	2012 RMB'000
Total assets less current liabilities		**5,513,652**	5,486,042
Non-current liabilities			
Deferred tax liabilities	24(b)	**5,432**	2,517
Convertible bonds	20	**767,539**	753,062
		772,971	755,579
NET ASSETS		**4,740,681**	4,730,463
CAPITAL AND RESERVES			
Share capital	25(c)	**182,298**	182,298
Reserves		**4,494,048**	4,495,762
Total equity attributable to equity shareholders of the Company		**4,676,346**	4,678,060
Non-controlling interests		**64,335**	52,403
TOTAL EQUITY		**4,740,681**	4,730,463

Approved and authorised for issue by the board of directors on 17 March 2014

Ding Huihuang
Director

Ding Huirong
Director

The notes on pages 72 to 132 form part of these financial statements.

Statement of financial position

at 31 December 2013 (Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Non-current asset			
Investment in subsidiary	12	**1**	1
Current assets			
Amounts due from subsidiaries	21	**992,892**	1,069,929
Other receivables	15	**1,599**	18,584
Deposits with banks	17	**121,268**	184,941
Cash and cash equivalents	17	**8,881**	180,664
		1,124,640	1,454,118
Current liabilities			
Amounts due to subsidiaries	21	**27,683**	26,932
Other payables	18	**124,281**	186,183
		151,964	213,115
Net current assets		**972,676**	1,241,003
Total assets less current liabilities		**972,677**	1,241,004
Non-current liability			
Convertible bonds	20	**767,539**	753,062
NET ASSETS		**205,138**	487,942
CAPITAL AND RESERVES	25(a)		
Share capital		**182,298**	182,298
Reserves		**22,840**	305,644
TOTAL EQUITY		**205,138**	487,942

Approved and authorised for issue by the board of directors on 17 March 2014

Ding Huihuang
Director

Ding Huirong
Director

The notes on pages 72 to 132 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2013 (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 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/paid during the year	25(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
Balance at 1 January 2013		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
Changes in equity for the year ended 31 December 2013:												
Profit for the year		-	-	-	-	-	-	-	211,261	211,261	3,470	214,731
Other comprehensive income		-	-	-	-	-	-	6,696	-	6,696	-	6,696
Total comprehensive income		-	-	-	-	-	-	6,696	211,261	217,957	3,470	221,427
Capital contribution received from non-controlling interests		-	-	-	7,765	-	-	-	-	7,765	8,462	16,227
Appropriation to statutory reserve		-	-	-	-	30,569	-	-	(30,569)	-	-	-
Dividends declared and paid during the year	25(b)	-	(227,436)	-	-	-	-	-	-	(227,436)	-	(227,436)
Balance at 31 December 2013		182,298	232,467	156,252	90,489	504,227	12,859	(31,782)	3,529,536	4,676,346	64,335	4,740,681

The notes on pages 72 to 132 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2013 (Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Operating activities			
Profit before taxation		**314,924**	830,374
Adjustments for:			
Depreciation	5(c)	**65,442**	77,998
Amortisation of land lease premium	5(c)	**2,152**	1,996
Adjustment on amortisation of land lease premium		**–**	(1,183)
Finance costs	5(a)	**79,127**	66,975
Interest income	4	**(53,169)**	(23,535)
Net change in fair value of derivatives embedded to convertible bonds		**(41,841)**	(32,936)
Net loss on disposal of fixed assets	4	**40**	307
Equity settled share-based payment expenses	5(b)	**–**	957
Impairment loss on trade receivables	5(c)	**152,001**	–
Effect of foreign exchange rates changes		**(7,804)**	(6,453)
Changes in working capital:			
Decrease/(increase) in inventories		**51,357**	(9,451)
(Increase)/decrease in trade debtors		**(55,145)**	181,968
Decrease in bills receivable		**98,690**	61,330
(Increase)/decrease in deposits, prepayments and other receivables		**(85,578)**	248,921
(Decrease)/increase in trade and other payables		**(97,433)**	391,940
Cash generated from operations		**422,763**	1,789,208
People's Republic of China ("PRC") income tax paid		**(99,607)**	(130,431)
Net cash generated from operating activities		**323,156**	1,658,777
Investing activities			
Payment for the purchase of fixed assets		**(43,965)**	(150,706)
Decrease in non-current prepayments		**18,625**	140
Proceeds from disposal of fixed assets		**164**	2,315
Decrease in pledged bank deposits		**57,830**	31,955
Decrease/(increase) in deposits with banks		**261,901**	(378,889)
Interest received		**52,996**	18,533
Net cash generated from/(used in) investing activities		**347,551**	(476,652)

	Note	2013 RMB'000	2012 RMB'000
Financing activities			
Capital contribution received from non-controlling interests		**16,225**	–
Proceeds from new bank loans		**–**	241,128
Repayment of bank loans		**(26,417)**	(227,594)
Repayment of other loan		**–**	(150,000)
Proceeds from issuance of convertible bonds		**–**	922,894
Finance charges on convertible bonds paid		**(41,786)**	(21,409)
Interest paid		**(2,204)**	(10,424)
Dividends paid	25(b)	**(227,436)**	(289,464)
Net cash (used in)/generated from financing activities		**(281,618)**	465,131
Net increase in cash and cash equivalents		**389,089**	1,647,256
Cash and cash equivalents at 1 January		**2,107,018**	459,762
Effect of foreign exchange rate changes		**(1,827)**	–
Cash and cash equivalents at 31 December	17	**2,494,280**	2,107,018

The notes on pages 72 to 132 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 consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group").

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 that derivative financial instruments 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 a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- *Annual Improvements to HKFRSs 2009-2011 Cycle*
- Amendments to HKFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of new or amended HKFRSs are discussed below:

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly. In addition, the Group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Change in accounting policies *(Continued)*

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 12.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 26. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. The amendments do not have material impacts on the Group's consolidated financial statements.

Amendments to HKFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on these financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7 during the periods presented.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

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, transactions and cash flows 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 the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position 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 statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position 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 joint venture.

In the Company's statement of financial position, 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Other investments in equity securities

Investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position 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 the end of each reporting period 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) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) 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 the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

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

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

- 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.

- For trade and other current 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that property, plant and equipment, interests in leasehold land held for own use under operating leases, non-current deposits and prepayments and investment in subsidiary 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 of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

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

– Reversals of impairment losses

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Employee benefits *(Continued)*

(ii) Share-based payments *(Continued)*

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

(q) Income tax

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

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

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

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax *(Continued)*

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

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

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits 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.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(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 goods and 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 statement of financial position 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 income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Translation of foreign currencies

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

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

The results of subsidiaries 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. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

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 23 and 26 contain information about the assumptions and their risk factors relating to fair value of share options 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.

2 ACCOUNTING JUDGEMENT AND ESTIMATES *(Continued)*

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

(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.

(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, non-current deposits and prepayments and other financial assets 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. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2013	2012
	RMB'000	RMB'000
Footwear	**1,674,956**	2,321,681
Apparel	**1,836,272**	2,532,908
Accessories	**72,249**	95,989
	3,583,477	4,950,578

The Group's customer base is diversified and has only two customers with whom transactions have exceeded 10% of the Group's revenues. In 2013, 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 RMB538 million (2012: RMB843 million) and RMB423 million (2012: RMB514 million) respectively and arose in both reportable segments (see note 3(b)). Details of concentrations of credit risk arising from these customers are set out in note 26(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.

(Expressed in thousands of Renminbi unless otherwise indicated)

3 TURNOVER AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

(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 the expenses incurred by those 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 years ended 31 December 2013 and 2012 is set out below.

	361° Products – Adults		*361°* Products – Kids		Total	
	2013	2012	**2013**	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Reportable segment revenue	**3,163,102**	4,580,500	**420,375**	370,078	**3,583,477**	4,950,578
Cost of sales	**(1,910,718)**	(2,751,863)	**(255,660)**	(226,403)	**(2,166,378)**	(2,978,266)
Reportable segment profit (gross profit)	**1,252,384**	1,828,637	**164,715**	143,675	**1,417,099**	1,972,312

3 TURNOVER AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

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

	2013 RMB'000	2012 RMB'000
Revenue		
Reportable segment revenue and consolidated turnover (note 3(a))	**3,583,477**	4,950,578
Profit		
Reportable segment profit	**1,417,099**	1,972,312
Other revenue	**83,766**	81,045
Other net gain	**5,101**	2,894
Selling and distribution expenses	**(729,300)**	(889,067)
Administrative expenses	**(424,456)**	(302,771)
Net change in fair value of derivatives embedded to convertible bonds	**41,841**	32,936
Finance costs	**(79,127)**	(66,975)
Consolidated profit before taxation	**314,924**	830,374

4 OTHER REVENUE AND NET GAIN

	2013 RMB'000	2012 RMB'000
Other revenue		
Bank interest income	**53,169**	23,535
Government grants	**6,889**	40,028
Others	**23,708**	17,482
	83,766	81,045
Other net gain		
Net loss on disposal of fixed assets	**(40)**	(307)
Net foreign exchange gain	**5,141**	3,201
	5,101	2,894

Government grants of RMB6,889,000 (2012: RMB40,028,000) 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.

(Expressed in thousands of Renminbi unless otherwise indicated)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		2013 RMB'000	2012 RMB'000
(a)	**Finance costs**		
	Interest on bank and other borrowings wholly repayable within five years	**2,204**	10,424
	Finance charges on convertible bonds (note 20)	**76,923**	56,551
		79,127	66,975
(b)	**Staff costs**		
	Contributions to defined contribution retirement plans	**18,450**	17,296
	Equity settled share-based payment expenses (note 23)	**–**	957
	Salaries, wages and other benefits	**279,685**	324,893
		298,135	343,146
(c)	**Other items**		
	Auditors' remuneration	**3,336**	3,637
	Amortisation of land lease premium	**2,152**	1,996
	Depreciation	**65,442**	77,998
	Impairment loss on trade receivables (note 15(b))	**152,001**	–
	Operating lease charges in respect of properties	**13,342**	14,736
	Research and development costs *	**85,764**	86,560
	Cost of inventories **	**2,166,378**	2,978,266

* Research and development costs include RMB31,613,000 (2012: RMB31,882,000) 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 RMB202,218,000 (2012: RMB228,590,000) 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.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Income tax in the consolidated statement of profit or loss represents:

	2013 RMB'000	2012 RMB'000
Current tax – PRC income tax		
Provision for the year	**131,090**	147,656
(Over)/under-provision in respect of prior years	**(3,286)**	2,973
	127,804	150,629
Deferred tax		
Origination and reversal of temporary differences	**(27,611)**	(35,484)
	100,193	115,145

(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 did not earn any income subject to Hong Kong Profits Tax during the year.

(iii) Pursuant to the income tax rules and regulations of the PRC, provision for PRC corporate income tax is calculated based on a statutory rate of 25% of the assessable profits of the PRC subsidiaries. During the year ended 31 December 2012, a PRC subsidiary was subject to tax at 50% of the standard tax rate under the relevant PRC tax rules and regulations.

(Expressed in thousands of Renminbi unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS *(Continued)*

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

	2013 **RMB'000**	2012 RMB'000
Profit before taxation	**314,924**	830,374
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**91,909**	215,291
Tax effect of non-deductible expenses	**13,119**	10,894
Tax effect of non-taxable income	**(1,549)**	(1,184)
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)
(Over)/under-provision in prior years	**(3,286)**	2,973
Actual tax expense	**100,193**	115,145

7 DIRECTORS' REMUNERATION

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

	2013			
	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors				
Ding Wuhao	–	1,200	11	1,211
Ding Huihuang	–	1,000	11	1,011
Ding Huirong	–	1,000	11	1,011
Wang Jiabi	–	645	17	662
Independent non-executive directors				
Yan Man Sing	444	–	–	444
Sun Xianhong	320	–	–	320
Liu Jianxing (note)	140	–	–	140
Tsui Yung Kwok	333	–	–	333
	1,237	3,845	50	5,132

Note: Mr Liu Jianxing resigned as independent non-executive director on 2 September 2013.

(Expressed in thousands of Renminbi unless otherwise indicated)

7 DIRECTORS' REMUNERATION *(Continued)*

	2012			
	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions 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

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the directors is the five individuals with the highest emoluments (2012: Nil). The aggregate of the emoluments in respect of the five individuals are as follows:

	2013 RMB'000	2012 RMB'000
Salaries and other emoluments	7,858	10,254
Retirement scheme contributions	146	355
	8,004	10,609

The emoluments of the five individuals with the highest emoluments are within the following bands:

	2013 Number of individuals	2012 Number of individuals
HK$1,500,001 to HK$2,000,000	3	–
HK$2,000,001 to HK$2,500,000	2	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 RMB46,523,000 (2012: RMB38,340,000) 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 RMB211,261,000 (2012: RMB707,208,000) and the weighted average of 2,068 million ordinary shares (2012: 2,068 million ordinary shares) in issue during the year.

(Expressed in thousands of Renminbi unless otherwise indicated)

10 EARNINGS PER SHARE *(Continued)*

(b) Diluted earnings per share

For the year ended 31 December 2013, diluted earnings per share is the same as basic earnings per share as the Company did not have dilutive potential shares outstanding during the year. For the year ended 31 December 2012, the calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB730,823,000 and the weighted average number of ordinary shares of 2,295 million adjusted for the potential dilutive effect caused by the conversion of convertible bonds (note 20), calculated as follows:

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

	2012 RMB'000
Profit attributable to ordinary equity shareholders	707,208
After tax effect of effective interest on the liability component of convertible bonds (note 20)	56,551
After tax effect of net gain recognised on the derivative components of convertible bonds (note 20)	(32,936)
Profit attributable to ordinary equity shareholders (diluted)	730,823

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

	2012 '000
Weighted average number of ordinary shares at 31 December	2,067,602
Effect of conversion of convertible bonds (note 20)	227,847
Weighted average number of ordinary shares (diluted) at 31 December	2,295,449

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 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
Cost:								
At 1 January 2013	699,277	197,194	113,073	30,291	126,064	1,165,899	107,156	1,273,055
Exchange adjustments	–	–	(1,283)	–	–	(1,283)	–	(1,283)
Additions	–	13,624	4,969	1,340	63,540	83,473	–	83,473
Disposals	–	(534)	–	–	–	(534)	–	(534)
At 31 December 2013	699,277	210,284	116,759	31,631	189,604	1,247,555	107,156	1,354,711
Accumulated depreciation and amortisation:								
At 1 January 2013	75,616	55,491	65,935	10,808	–	207,850	7,402	215,252
Exchange adjustments	–	–	(34)	–	–	(34)	–	(34)
Charge for the year	29,357	18,460	12,965	4,660	–	65,442	2,152	67,594
Written back on disposals	–	(330)	–	–	–	(330)	–	(330)
At 31 December 2013	104,973	73,621	78,866	15,468	–	272,928	9,554	282,482
Net book value:								
At 31 December 2013	594,304	136,663	37,893	16,163	189,604	974,627	97,602	1,072,229

(Expressed in thousands of Renminbi unless otherwise indicated)

11 FIXED ASSETS *(Continued)*

The Group *(Continued)*

As at 31 December 2013, a property with net book value of RMB43,286,000 (2012: RMB45,423,000) was pledged as security for a banking facility of the Group of RMB21,047,000 (2012: RMB21,646,000).

The Group leased out the property under operating leases temporarily for an initial period of one year starting on 1 January 2013. The lease did not include contingent rental and the lease payment received during the year under non-cancellable operating leases was RMB1,106,000. The lease expired as at 31 December 2013 with no renewal.

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

	The Group	
	2013	2012
	RMB'000	RMB'000
In Hong Kong – medium-term leases	**43,286**	45,423
In PRC – medium-term leases	**648,620**	677,992
	691,906	723,415
Representing:		
Buildings carried at cost	**594,304**	623,661
Interest in leasehold land held for own use under operating leases	**97,602**	99,754
	691,906	723,415

12 INVESTMENT IN SUBSIDIARY

	The Company	
	2013	2012
	RMB'000	RMB'000
Unlisted share, at cost	**1**	1

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 business	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) and (iv))	PRC	HK$40,000,000	100%	–	100%	Trading of children sporting goods
Yue Lei International Limited 宇彌國際有限公司	Hong Kong	HK$100,000	100%	–	100%	Trading of sporting goods
One Way International Enterprise Limited 萬唯國際實業有限公司	Hong Kong	HK$10,000	70%	–	70%	Investment holding
361 Degrees Kids Wear Holdings Limited	BVI	US$1	100%	–	100%	Investment holding
361 Degrees Kids Wear Limited	Cayman Islands	HK$10,000	87%	–	87%	Investment holding
361 Degrees Kids Wear Investment Limited	BVI	US$1	87%	–	100%	Investment holding

(Expressed in thousands of Renminbi unless otherwise indicated)

12 INVESTMENT IN SUBSIDIARY *(Continued)*

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	
	2013	2012
	RMB'000	RMB'000
Unlisted available-for-sale equity securities	**17,550**	17,550

14 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	The Group	
	2013	2012
	RMB'000	RMB'000
Raw materials	**18,530**	28,077
Work in progress	**75,710**	116,075
Finished goods	**315,118**	316,563
	409,358	460,715

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

	The Group	
	2013	2012
	RMB'000	RMB'000
Carrying amount of inventories sold	**2,166,378**	2,978,266

15 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade debtors				
Trade debtors	**2,022,705**	1,967,560	**–**	–
Less: allowance for doubtful debts (note 15(b))	**(191,521)**	(39,520)	**–**	–
	1,831,184	1,928,040	**–**	–
Bills receivable	**84,780**	183,470	**–**	–
Deposits, prepayments and other receivables				
Current				
Deposits	**3,885**	3,586	**–**	–
Prepayments	**557,209**	495,295	**–**	–
Other receivables	**75,424**	51,884	**1,244**	2,126
Derivative financial instruments (note 20)	**355**	16,458	**355**	16,458
	636,873	567,223	**1,599**	18,584
Non-current				
Deposits and prepayments	**121,148**	142,140	**–**	–

Included in prepayments are amounts prepaid to suppliers of RMB468,765,000 (2012: RMB388,906,000).

All of the trade debtors, 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 RMB3,885,000 (2012: RMB3,586,000) are expected to be recovered or recognised as expenses after more than one year.

(Expressed in thousands of Renminbi unless otherwise indicated)

15 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable, based on the invoice date and net of allowance for doubtful debts, is as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Within 90 days	**947,799**	1,088,602
Over 90 days but within 180 days	**775,818**	1,022,723
Over 180 days but within 365 days (note)	**192,347**	185
	1,915,964	2,111,510

Note: The trade debtors and bills receivable aged over 180 days but within 365 days of RMB192,347,000 have been fully settled after the year end date.

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 26(a).

(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)).

The movement in the allowance for doubtful debts during the year is as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
At 1 January	**39,520**	39,520
Impairment loss recognised	**152,001**	–
At 31 December	**191,521**	39,520

At 31 December 2013, the Group's trade debtors of RMB191,521,000 (2012: RMB39,520,000) were individually determined to be impaired. The individually impaired receivables related to customers which management assessed that a portion of the receivables were doubtful. Consequently, specific allowances for doubtful debts of RMB191,521,000 (2012: RMB39,520,000) were recognised. The Group does not hold any collateral over these balances.

15 TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

	The Group	
	2013	2012
	RMB'000	RMB'000
Neither past due nor impaired	**1,400,718**	1,961,452
Within 30 days past due	**176,464**	75,930
Over 30 days but within 90 days past due	**318,257**	70,414
Over 90 days but within 180 days past due	**20,525**	3,714
Amount past due	**515,246**	150,058
	1,915,964	2,111,510

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	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Pledged bank deposits	**37,900**	95,730	**–**	–
Deposits with banks				
– More than three months to maturity when placed	**321,747**	590,791	**121,268**	184,941
– Within three months to maturity when placed	**102,203**	585,133	**–**	–
Cash at bank and in hand	**2,392,077**	1,521,885	**8,881**	180,664
Cash and bank deposits	**2,853,927**	2,793,539	**130,149**	365,605
Represented by:				
Pledged bank deposits	**37,900**	95,730	**–**	–
Deposits with banks	**321,747**	590,791	**121,268**	184,941
Cash and cash equivalents	**2,494,280**	2,107,018	**8,881**	180,664
	2,853,927	2,793,539	**130,149**	365,605

At 31 December 2013, the balances that were placed with banks or on hand in the PRC and included in the pledged bank deposits, deposits with banks and cash and cash equivalents amounted to RMB2,780,555,000 (2012: RMB2,670,561,000). 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	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade creditors	**621,748**	548,936	**–**	–
Bills payable	**213,452**	491,140	**–**	–
Receipts in advance	**7,289**	43,217	**–**	–
Other payables and accruals	**515,371**	335,205	**12,962**	13,207
Derivative financial instruments (note 20)	**111,319**	172,976	**111,319**	172,976
	1,469,179	1,591,474	**124,281**	186,183

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 2013 and 2012 were secured by pledged bank deposits as disclosed in note 16.

18 TRADE AND OTHER PAYABLES *(Continued)*

As of the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), is as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Due within 1 month or on demand	**409,598**	420,644
Due after 1 month but within 3 months	**227,810**	328,764
Due after 3 months but within 6 months	**197,792**	290,668
	835,200	1,040,076

19 BANK LOANS

At 31 December 2013, the bank loans were repayable within one year or on demand and secured as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Bank loans		
– secured	**15,898**	17,315
– unsecured	**–**	25,000
	15,898	42,315

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

	The Group	
	2013	2012
	RMB'000	RMB'000
Facilities amount	**3,627,899**	3,922,544
Utilisation at the end of the reporting period		
– Bills payable	**213,452**	491,140
– Bank loans	**15,898**	42,315
	229,350	533,455

For the years ended 31 December 2013 and 2012, bank loan and bills payable of the Group were secured by a property and pledged bank deposits (see notes 11 and 16). The Group's bank loans were not subject to any covenants.

20 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 at principal amount 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.

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, redemption put and conversion options are separately accounted for at fair value at the end of each reporting period as derivative financial instruments in accordance with the accounting policy set out in note 1(f) to the financial statements.

20 CONVERTIBLE BONDS *(Continued)*

As a result of the declaration of final dividend for the year ended 31 December 2012 and interim dividend for the six months ended 30 June 2013, the conversion price of the convertible bonds was adjusted to HK$3.31 per share with effective from 9 September 2013.

	Liability component of convertible bonds (note 20(a)) RMB'000	Redemption call option (notes 15 and 20(b)) RMB'000	Redemption put option (notes 18 and 20(c)) RMB'000	Conversion option (notes 18 and 20(d)) RMB'000	Total RMB'000
Issuance of the convertible bonds	753,885	(22,450)	40,473	173,059	944,967
Transaction costs (note (20(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
Finance charges amortised during the year (note 5(a))	76,923	–	–	–	76,923
Interest paid and payable	(41,440)	–	–	–	(41,440)
Change in fair value	–	15,865	(12,595)	(45,111)	(41,841)
Exchange adjustments	(21,006)	238	(1,250)	(2,701)	(24,719)
At 31 December 2013	767,539	(355)	38,147	73,172	878,503

(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 2013, the liability component of the convertible bonds was repayable after one year 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).

20 CONVERTIBLE BONDS *(Continued)*

(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 was charged to the statement of profit or loss during the year ended 31 December 2012.

21 AMOUNTS DUE FROM/TO SUBSIDIARIES

The Company

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

22 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.

23 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 one to three years commencing from the date of listing of the Company on the Hong Kong Stock Exchange and the options have a contractual life of about five years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

(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	3,024	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	17,290		

(Expressed in thousands of Renminbi unless otherwise indicated)

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

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

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

	2013		2012	
	Exercise price	**Number of options '000**	Exercise price	Number of options '000
Outstanding at the beginning and end of the year	**HK$2.89**	**17,290**	HK$2.89	17,290
Exercisable at the end of the year		**17,290**		17,290

The share options outstanding at 31 December 2013 had an exercise price of HK$2.89 (2012: HK$2.89) and a weighted average remaining contractual life of 0.5 years (2012: 1.5 years).

(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 granted. 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%

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

(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 2013 (2012: Nil).

24 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	The Group	
	2013	2012
	RMB'000	RMB'000
Provision for PRC income tax for the year	**131,090**	147,656
Provisional income tax paid	**(85,099)**	(121,941)
	45,991	25,715
Balance of income tax provision relating to prior years	**74,585**	66,664
	120,576	92,379

(Expressed in thousands of Renminbi unless otherwise indicated)

24 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION *(Continued)*

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year 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 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
At 1 January 2013	9,880	(19,384)	68,717	59,213
Credited/(charged) to profit or loss	38,000	–	(10,389)	27,611
At 31 December 2013	47,880	(19,384)	58,328	86,824

Reconciliation to the consolidated statement of financial position

	The Group	
	2013 **RMB'000**	2012 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**92,256**	61,730
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(5,432)**	(2,517)
	86,824	59,213

(c) Deferred tax liabilities not recognised

At 31 December 2013, the Group has not recognised deferred tax liabilities of RMB164,996,000 (2012: RMB146,793,000) in respect of temporary differences relating to the undistributed profits of subsidiaries amounting to RMB3,299,928,000 (2012: RMB2,935,852,000) 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.

25 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 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 January 2012		182,298	749,367	11,902	(100,688)	(27,323)	815,556
Changes in equity for 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	25(b)	–	(289,464)	–	–	–	(289,464)
Balance at 31 December 2012		182,298	459,903	12,859	(101,455)	(65,663)	487,942
Balance at 1 January 2013		182,298	459,903	12,859	(101,455)	(65,663)	487,942
Changes in equity for 2013:							
Loss for the year		–	–	–	–	(46,523)	(46,523)
Other comprehensive income		–	–	–	(8,845)	–	(8,845)
Total comprehensive income for the year		–	–	–	(8,845)	(46,523)	(55,368)
Dividends declared and paid during the year	25(b)	–	(227,436)	--	–	–	(227,436)
Balance at 31 December 2013		182,298	232,467	12,859	(110,300)	(112,186)	205,138

(Expressed in thousands of Renminbi unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividends

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

	2013 **RMB'000**	2012 RMB'000
Interim dividend declared and paid of RMB4.0 cents per ordinary share (2012: RMB7.0 cents per ordinary share)	**82,704**	144,732
Final dividend proposed after the end of the reporting period of RMBNil per ordinary share (2012: RMB7.0 cents per ordinary share)	**–**	144,732
	82,704	289,464

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

	2013 **RMB'000**	2012 RMB'000
Final dividend in respect of the previous financial year/period, approved and paid during the year, of RMB7.0 cents per ordinary share (2012: RMB7.0 cents per ordinary share)	**144,732**	144,732

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital

	2013		2012	
	Number of shares '000	**Amount HK$'000**	Number of shares '000	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	**10,000,000**	**1,000,000**	10,000,000	1,000,000

	Number of shares	**Amount**	
	'000	HK$'000	RMB'000
Ordinary shares, issued and fully paid:			
At 1 January 2012, 31 December 2012, 1 January 2013 and 31 December 2013	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.

(Expressed in thousands of Renminbi unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(d) Terms of unexpired and unexercised share options at the end of the reporting period:

Date of options granted	Exercise period	Exercise price	Number of options outstanding 2013 '000	2012 '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 23 to the financial statements.

(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.

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

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

(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".

On 23 December 2013, 361 Degrees Kids Wear Limited allotted shares to non-controlling interests, which represented 13% of its enlarged share capital, and received a total consideration of RMB16,225,000. The difference between the net assets shared by the non-controlling interests and consideration received was 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 2013, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB9,981,000 (2012: RMB292,785,000). The directors do not recommend the payment of a final dividend for the current year (2012: RMB7.0 cents (equivalent to HK$8.7 cents) per ordinary share, amounting to RMB144,732,000).

25 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 was to maintain the equity and debt in a balanced position and ensure there were 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 2013 was 33% (2012: 34%).

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

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate, commodity price and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from the 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. Individual 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. Normally, the Group does not obtain collateral from customers.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(Continued)*

(a) Credit risk *(Continued)*

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 18% (2012: 22%) and 44% (2012: 57%) of the total trade debtors and bills receivable were due from the Group's largest customer, and the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position 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.

(ii) Deposits with banks

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

(b) Liquidity risk

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

(Expressed in thousands of Renminbi unless otherwise indicated)

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

(b) Liquidity risk *(Continued)*

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

The Group

	2013				2012				
	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	Total RMB'000	Carrying amount at 31 Dec 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	Carrying amount at 31 Dec RMB'000
Bank loans	16,291	–	16,291	15,898	43,316	–	–	43,316	42,315
Convertible bonds	40,891	919,948	960,839	767,539	42,036	42,036	1,029,791	1,113,863	753,062
Trade and other payables	1,350,571	–	1,350,571	1,350,571	1,375,281	–	–	1,375,281	1,375,281
Total	1,407,753	919,948	2,327,701	2,134,008	1,460,633	42,036	1,029,791	2,532,460	2,170,658

The Company

	2013				2012				
	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	Total RMB'000	Carrying amount at 31 Dec 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	Carrying amount at 31 Dec RMB'000
Convertible bonds	40,891	919,948	960,839	767,539	42,036	42,036	1,029,791	1,113,863	753,062
Other payables	12,962	–	12,962	12,962	13,207	–	–	13,207	13,207
Amounts due to subsidiaries	27,683	–	27,683	27,683	26,932	–	–	26,932	26,932
Total	81,536	919,948	1,001,484	808,184	82,175	42,036	1,029,791	1,154,002	793,201

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

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans, 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. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's net borrowings (being interest-generating financial liabilities less cash at bank and in hand and pledged bank deposits) at the end of the reporting period.

The Group

	2013		2012	
	Effective interest rate %	**Amount RMB'000**	Effective interest rate %	Amount RMB'000
Fixed rate (deposits)/ borrowings				
Deposits with banks	**1.50 – 2.86**	**(321,747)**	1.12 – 5.70	(590,791)
Cash and cash equivalents	**0.39 – 0.96**	**(102,203)**	1.35 – 4.70	(585,133)
Bank loans	**2.47**	**15,898**	2.47 – 7.87	42,315
Convertible bonds	**10.18**	**767,539**	10.18	753,062
		359,487		(380,547)
Variable rate deposits				
Pledged bank deposits	**0.50 – 3.30**	**(37,900)**	0.50 – 3.30	(95,730)
Cash and cash equivalents	**0.001– 1.31**	**(2,386,824)**	0.001 – 1.31	(1,517,733)
		(2,424,724)		(1,613,463)
Total net deposits		**(2,065,237)**		(1,994,010)

(Expressed in thousands of Renminbi unless otherwise indicated)

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

(c) Interest rate risk *(Continued)*

(i) Interest rate profile *(Continued)*

The Company

	2013		2012	
	Effective interest rate %	**Amount RMB'000**	Effective interest rate %	Amount RMB'000
Fixed rate (deposits)/ borrowings				
Deposits with banks	**1.96**	**(121,268)**	1.96 – 5.70	(184,941)
Convertible bonds	**10.18**	**767,539**	10.18	753,062
		646,271		568,121
Variable rate deposits				
Cash and cash equivalents	**0.001 – 1.00**	**(8,880)**	0.001	(180,664)
Total net borrowings		**637,391**		387,457

(ii) Sensitivity analysis

At 31 December 2013, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately RMB18,405,000 (2012: RMB12,587,000). 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 end of the reporting period 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 end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, 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 2012.

26 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 leathers, 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 currencies giving rise to this risk are 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 end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date.

The Group

	Exposure to foreign currencies (expressed in RMB)			
	2013		2012	
	Hong Kong dollars RMB'000	**United States dollars RMB'000**	Hong Kong dollars RMB'000	United States dollars RMB'000
Cash and bank deposits	**34,620**	**125,625**	2,326	127,776
Convertible bonds	**–**	**(767,539)**	–	(753,062)
Net exposure arising from recognised assets and liabilities	**34,620**	**(641,914)**	2,326	(625,286)

(Expressed in thousands of Renminbi unless otherwise indicated)

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

(e) Currency risk *(Continued)*

(i) Exposure to currency risk *(Continued)*

The Company

	Exposure to foreign currencies (expressed in RMB)			
	2013		2012	
	Renminbi RMB'000	**United States dollars RMB'000**	Renminbi RMB'000	United States dollars RMB'000
Amounts due to subsidiaries	**(27,683)**	**–**	(26,932)	–
Convertible bonds	**–**	**(767,539)**	–	(753,062)
Net exposure arising from recognised assets and liabilities	**(27,683)**	**(767,539)**	(26,932)	(753,062)

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax and retained profits that would arise if the foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that 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.

	2013		2012	
	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%**	**1,298**	5%	87
	(5)%	**(1,298)**	(5)%	(87)

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

(e) Currency risk *(Continued)*

(ii) Sensitivity analysis *(Continued)*

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 end of the reporting period 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 end of the reporting period. 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 2012.

(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 end of the reporting period the Group is exposed to this risk through the conversion rights attached to the convertible bonds issued by the Company as disclosed in note 20.

At 31 December 2013, it is estimated that an increase/(decrease) of 12% (2012: 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:

The Group

	2013		2012	
		Effect on profit after tax and retained profits RMB'000		Effect on profit after tax and retained profits RMB'000
Change in the relevant equity price risk variable:				
Increase	**12%**	**18,455**	11%	40,718
Decrease	**(12)%**	**(13,704)**	(11)%	(36,946)

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

(f) Equity price risk *(Continued)*

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 relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. The analysis is performed on the same basis for 2012.

(g) Fair values

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement.* The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

The Group engaged an external valuer to perform valuations for the financial instruments, including redemption call and put options and conversion option embedded in the convertible bonds which are categorised into Level 3 of the fair value hierarchy. The external valuer reports directly to the chief financial officer. A valuation report with analysis of changes in fair value measurement is prepared by external valuer at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer is held twice a year, to coincide with the reporting dates.

At 31 December 2013 and 2012, the only financial instruments of the Group and the Company carried at fair value were the redemption call and put options and the conversion option embedded in the convertible bonds (see note 20). These instruments are measured at fair value on a recurring basis and their fair value measurements fall into Level 3 of the fair value hierarchy described above.

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

(g) Fair values *(Continued)*

(i) Financial assets and liabilities measured at fair value *(Continued)*

Fair value hierarchy (Continued)

During the years ended 31 December 2013 and 2012, there were no transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurement

The fair values of the redemption call and put options and the conversion option embedded in the convertible bonds are determined using a binomial lattice model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2013, the expected volatility used in valuation is 41.9% (2012: 46.7%) and it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 5.0% would have increased/decreased the Group's profit after tax by RMB12,576,000 and RMB11,966,000 respectively (2012: RMB16,330,000 and RMB20,176,000 respectively).

The movements during the period in the balance of these Level 3 fair value measurement are disclosed in note 20.

The net unrealised gains arising from the remeasurement of the redemption call and put options and the conversion option embedded in the convertible bonds are recognised in the consolidated statement of profit or loss.

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

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2013 and 2012.

(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.

(Expressed in thousands of Renminbi unless otherwise indicated)

27 COMMITMENTS

(a) Contractual commitments outstanding at 31 December 2013 not provided for in the financial statements were as follows:

	2013 RMB'000	2012 RMB'000
Advertising and marketing expenses	**409,118**	650,240

(b) Capital commitments outstanding at 31 December 2013 not provided for in the financial statements were as follows:

	2013 RMB'000	2012 RMB'000
Contracted for	**9,845**	69,525

(c) At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2013 RMB'000	2012 RMB'000
Within 1 year	**14,041**	11,865
After 1 year but within 5 years	**12,010**	19,088
After 5 years	**1,380**	–
	27,431	30,953

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

28 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 as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2013	2012
	RMB'000	RMB'000
Short-term employee benefits	**29,718**	34,148
Equity settled share-based payment	**–**	441
Post-employment benefits	**1,159**	1,368
	30,877	35,957

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

On 23 December 2013, three of the key management personnel subscribed the shares of 361 Degrees Kids Wear Limited, which represented 6% of its enlarged share capital, at fair value with total consideration of RMB7,489,000.

29 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

The Group repurchased aggregate principal amounts of US$4,000,000 and US$10,300,000 of convertible bonds in January and February 2014 respectively through over-the-counter purchases, which approximately representing 2.7% and 6.9% of the total principal amount of convertible bonds issued. All the repurchased convertible bonds have been cancelled on 30 January 2014 and 18 February 2014. Following the cancellation of the repurchased convertible bonds, the aggregate principal amount of the remaining outstanding convertible bonds was US$135,700,000.

No adjustments have been made to these financial statements as a result of these repurchases of convertible bonds. Further details of convertible bonds are disclosed in note 20.

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and a new standard which are not yet effective for the year ended 31 December 2013 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 32, *Offsetting financial assets and financial liabilities*	1 January 2014
HKFRS 9, *Financial instruments*	Not yet established by HKICPA

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application but is not yet in a position to state whether these amendments would have a significant impact on the consolidated financial statements.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INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

The Company has established an audit committee which is accountable to the Board and the primary duties of which include the review and supervision of the Group's financial reporting process and internal control measures. The audit committee is composed of four independent non-executive directors of the Company, Mr. Yan Man Sing Frankie, Mr. Sun Xianhong, Mr. Liu Jianxing and Mr. Tsui Yung Kwok. On 2 September 2013, Mr. Liu resigned as an independent non-executive Director and ceased to be the member of the Audit Committee. The number of members became three from four. Mr. Yan Man Sing Frankie serves as the chairman of the audit committee of the Company. The chairman of the audit committee has professional qualification and experience in financial matters in compliance with the requirement of the Listing Rules.

The audit committee of the Company has met and discussed with the external auditors of the Group, KPMG, and has reviewed the accounting principles and practices adopted by the Group and the consolidated results of the Group for the year ended 31 December 2013. The audit committee considered that the consolidated results of the Group for the year ended 31 December 2013 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made.

DIVIDEND

The Board resolved not to declare any final dividend for the year ended 31 December 2013 in view of the need to cope with the difficult market and to foster new businesses to differentiate itself from the competitors. The Company paid an interim dividend of RMB4.0 cents (equivalent to HK5.1 cents) per share for the six months ended 30 June 2013. The dividend, amounted to RMB82.7 million, represented 39.1% of the profit attributable to equity shareholders of the Company for the year ended 31 December 2013.

CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting ("the AGM") of the Company is scheduled to be held on Friday, 16 May 2014. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 13 May 2014 to Friday, 16 May 2014, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 12 May 2014.

PUBLICATION OF 2013 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.361sport.com), and the 2013 annual report of the Company containing all the information required by the Listing Rules will be dispatched to shareholders and published on the respective websites of the Company and the Stock Exchange in due course.

APPRECIATION

I would like to take this opportunity to express my thanks and gratitude to the Group's management and staff who dedicated their endless efforts and devoted services, and to our shareholders, suppliers, customers and bankers for their continuous support.

On behalf of the Board of
361 Degrees International Limited
Ding Huihuang
Chairman

Hong Kong, 17 March 2014

As at the date of this announcement, the board of directors of the Company comprises four executive directors, namely Mr. Ding Wuhao, Mr. Ding Huihuang (Chairman), Mr. Ding Huirong and Mr. Wang Jiabi, and three independent non-executive directors, namely, Mr. Yan Man Sing Frankie, Mr. Sun Xianhong and Mr. Tsui Yung Kwok.