

361°

361 DEGREES INTERNATIONAL LIMITED

Stock Code: 1361

ANNUAL REPORT 2016

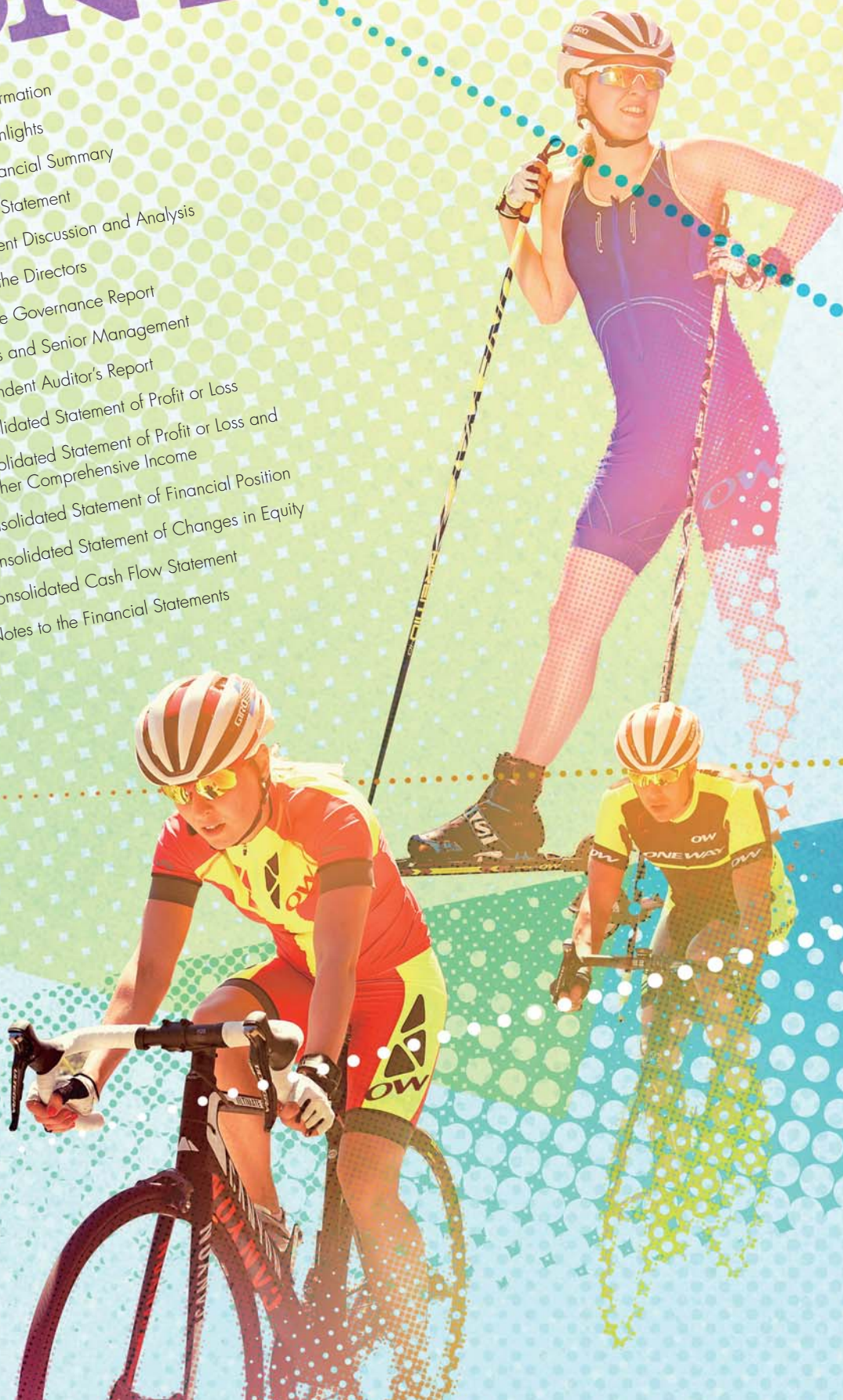
ONE  
DEGREE  
BEYOND





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# COMPANY INFORMATION

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361 DEGREES INTERNATIONAL LIMITED

## BOARD OF DIRECTORS

### Executive Directors

Ding Wuhao (丁伍號) (*President*)  
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)  
(Resigned and effective from  
1 July 2016)  
Tsui Yung Kwok (徐容國)  
Liao Jianwen (廖建文)  
Li Yuen Fai Roger (李苑輝)  
(Appointed and effective from  
1 July 2016)

## BOARD COMMITTEES

### Audit Committee

Yan Man Sing Frankie (甄文星) (*Chairman*)  
(Resigned and effective from  
1 July 2016)  
Tsui Yung Kwok (徐容國) (*Chairman*)  
(Appointed and effective  
from 1 July 2016)  
Liao Jianwen (廖建文)  
Li Yuen Fai Roger (李苑輝)  
(Appointed and effective from  
1 July 2016)

### Remuneration Committee

Liao Jianwen (廖建文) (*Chairman*)  
Wang Jiabi (王加碧)  
Yan Man Sing Frankie (甄文星)  
(Resigned and effective from  
1 July 2016)  
Tsui Yung Kwok (徐容國)  
(Appointed and effective from  
1 July 2016)

### Nomination Committee

Tsui Yung Kwok (徐容國) (*Chairman*)  
(*Ceased as chairman and effective  
from 1 July 2016*)  
Li Yuen Fai Roger (李苑輝) (*Chairman*)  
(Appointed and effective  
from 1 July 2016)  
Ding Wuhao (丁伍號)  
Yan Man Sing Frankie (甄文星)  
(Resigned and effective from  
1 July 2016)

## 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

## FACTORIES IN THE PRC

No. 165 Qianjin Road  
Jiangtou Village  
Chendai Town  
Jinjiang City, Fujian Province  
the PRC

Wuli Industrial Park  
She Ma Lu  
Jinjiang City  
Fujian Province 362261  
the PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1609  
Office Tower Convention Plaza  
1 Harbour Road  
Wanchai  
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:

Luk & Partners

### As to Cayman Islands law:

Conyers Dill Pearman (Cayman) Limited

## PRINCIPAL BANKERS

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

## INVESTOR RELATIONS CONTACT

Tel: +852 2907 7033  
Room 1609, Office Tower  
Convention Plaza  
1 Harbour Road  
Wanchai, Hong Kong

## COMPANY WEBSITE

www.361sport.com

# FINANCIAL HIGHLIGHTS

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## FINANCIAL PERFORMANCE

Revenue increased by 12.6% to RMB5,022.7 million

Gross profit increased by 15.7% to RMB2,109.9 million

Operating profit increased by 3.8% to RMB949.3 million

Profit attributable to the equity shareholders was RMB402.7 million, representing a decrease of 22.2%

Gross profit margin increased by 1.1 ppts to 42.0%

Basic earnings per share is RMB19.5 cents, representing a drop of 22.0%

Proposed to declare a final dividend of HK1.1 cents (RMB1.0 cent) per share for the year ended 31 December 2016

## BUSINESS PERFORMANCE

Total number of 361° Sport's outlets streamlined from 7,208 to 6,357

Total number of 361° retail kids' points-of-sale streamlined from 2,350 to 2,000, of which 921 were counters in 361° Sport's outlets

Total number of ONE WAY Stores streamlined to 58

Last date of registration for shareholders' entitlements to 2016 final dividend:  
2 May 2017

Payment date of 2016 final dividend:  
on or about 17 May 2017



# FIVE-YEAR FINANCIAL SUMMARY

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361 DEGREES INTERNATIONAL LIMITED

	2016	For the year ended 31 December			
		2015	2014	2013	2012
<b>Profitability data (RMB'000)</b>					
Revenue	<b>5,022,678</b>	4,458,701	3,906,286	3,583,477	4,950,578
Gross profit	<b>2,109,908</b>	1,822,963	1,596,796	1,417,099	1,972,312
Operating profit	<b>949,325</b>	914,669	724,165	352,210	864,413
Profit attributable to equity shareholders	<b>402,652</b>	517,639	397,642	211,261	707,208
Earnings per share					
— basic (RMB cents)	<b>19.5</b>	25.0	19.2	10.2	34.2
— diluted (RMB cents)	<b>19.5</b>	25.0	19.2	10.2	31.8
<b>Profitability ratios (%)</b>					
Gross profit margin	<b>42.0</b>	40.9	40.9	39.5	39.8
Operating profit margin	<b>18.9</b>	20.5	18.5	9.8	17.5
Margin of profit attributable to equity shareholders	<b>8.0</b>	11.6	10.2	5.9	14.3
Effective income tax rate (Note 1)	<b>40.5</b>	32.9	33.3	31.8	14.4
Return on shareholders' equity (Note 2)	<b>7.6</b>	10.1	8.2	4.5	15.8
<b>Operating ratios (as a percentage of revenue) (%)</b>					
Advertising and promotion expenses	<b>11.4</b>	12.8	16.7	16.2	14.7
Staff costs	<b>8.7</b>	8.3	8.4	8.3	6.9
Research and development	<b>3.7</b>	3.1	2.4	2.4	1.7

Notes:

- 1) Effective income tax rate is equal to the income tax divided by the profit before taxation.
- 2) Return on shareholders' equity is equal to the profit attributable to equity shareholders divided by the average opening and closing equity attributable to equity shareholders of the Company.

# FIVE-YEAR FINANCIAL SUMMARY

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	As at 31 December				
	2016	2015	2014	2013	2012
<b>Assets and liabilities data (RMB'000)</b>					
Non-current assets	<b>1,455,861</b>	1,431,873	1,310,338	1,303,183	1,279,223
Current assets	<b>9,033,964</b>	7,354,779	7,224,394	5,816,122	5,932,987
Current liabilities	<b>2,343,103</b>	1,930,449	2,012,784	1,605,653	1,726,168
Non-current liabilities	<b>2,729,000</b>	1,489,746	1,485,002	772,971	755,579
Equity attributable to equity shareholders	<b>5,303,260</b>	5,282,572	4,965,041	4,676,346	4,678,060
Non-controlling interests	<b>114,462</b>	83,885	71,905	64,335	52,403
<b>Asset and working capital data</b>					
Current asset ratios	<b>3.9</b>	3.8	3.6	3.6	3.4
Gearing ratios (%) (Note 3)	<b>26.7</b>	17.1	17.6	11.0	11.0
Net asset value per share (RMB) (Note 4)	<b>2.6</b>	2.6	2.4	2.3	2.3
Inventory turnover days (days) (Note 5)	<b>69</b>	78	77	73	56
Trade and bills receivable turnover days (days) (Note 6)	<b>163</b>	160	167	205	165
Trade and bills payable turnover days (days) (Note 7)	<b>156</b>	169	169	158	112
Working capital turnover days (days)	<b>76</b>	69	75	120	109

Notes:

- 3) The calculation of gearing ratio is based on the interest-bearing debt divided by the total asset of the Group at the end of the year.
- 4) The calculation of net asset value per share is based on the net assets divided by weighted average number of ordinary shares for the year.
- 5) Inventory turnover days is equal to the average opening and closing inventory divided by costs of sales and multiplied by 366 days (or 365 days for 2013 to 2015).
- 6) 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 revenue multiplied by 366 days (or 365 days for 2013 to 2015).
- 7) Trade and bills payable turnover days is equal to the average opening and closing trade and bills payables divided by cost of sales and multiplied by 366 (or 365 days for 2013 to 2015).

# CHAIRMAN'S STATEMENT



As a leading domestic sportswear brand, the Group strives to assume leadership in the next "Golden Decade" of China's sportswear industry.



Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of 361° Degrees International Limited (the "Company"), I am pleased to present the results of the Company and its subsidiaries (collectively, the "Group" or "361° Group") for the year ended 31 December 2016.

During the past year, political uncertainties prevailed around the globe and the economic growth of China continued to slow down, resulting in downward pressure on the exchange rate of the renminbi ("RMB") and impacting different industries in varying degrees. In this era that is full of opportunities and risks, every enterprise faces the challenge of balancing various external influences to maintain an unwavering stance.

As one of the renowned sport brands in China, the Group has benefitted from the rise of the domestic sports industry in recent years and has gradually recovered from the trough in 2013, with a new growth phase on the horizon.

### Multi-brand strategy to tap into various market segments

Currently, the Group owns three well-established brands, namely 361°, 361° Kids and ONE WAY (for the Greater China region only), which target the domestic mass market, kids' sport and high-end outdoor sport market, respectively. Looking forward, driven by the "Two-child" policy, the kids segment is expected to become a new growth driver for the Company. At the trade fair for the release in the second quarter of 2017, the order amount of 361° Kids products recovered to a low double-digit year-on-year growth, showing an improvement over the high single-digit growth in the previous three quarters. In light of this, it is expected the kids business will maintain rapid growth in the short term.

### Burgeoning overseas business with a focus on functional products

In 2014, the Group expanded into the overseas market through the establishment of overseas subsidiaries for its independent operation of the respective overseas business. The international segment concentrated on the development of high-end functional running and training products. During the review period, the overseas business recorded a revenue of RMB80.7 million, representing a year-on-year growth of 80.6%. International products of 361° are a testament to the Group's research and developments ("R&D") achievements in recent years. Our proprietary R&D technologies, such as Quikfoam, are patent-protected, which has created a technological barrier in favor of the Group. Many of the Group's international products, including 361° Sensation, are highly recommended by the renowned magazines such as "Runner's World". It is evident that the Group's products have gained initial recognition in overseas markets. With the enhancement of the Group's R&D technology and brand image in the future, 361° International is expected to further expand its influence in overseas markets.

### Refined management to improve operating efficiency

In recent years, the same-store sales growth of the Group's retail outlets in China has increased considerably at a stable rate of around 7%, surpassing the industry average. There has also been improvement in operation efficiency from operation reforms where the Group has switched from quantitative expansion to a qualitative boost in same-store efficiency. The implementation of such refined management allows for a consistent 361° brand image in physical stores and the establishment of a unified retail ecosystem. In addition, the Group introduced an internal management software, "Super Shopping Guide APP" ("SG") at the end of 2016. SG is a business-oriented Software as a Service (SAAS) product for large-scale, enterprises with dispersed business-to-consumer (B2C) retail network to construct a direct link between the headquarter and points of sale, which establishes a business platform integrating retail and operation. We believe that the use of the "SG" platform will raise the Group's sensitivity to the market and strengthen the management of outlets in the future, thereby further optimizing the operation structure and transforming the traditional retail model.

### Shaping the 361° brand culture through an all-round marketing strategy

As the first-ever Chinese sportswear brand to sponsor the Olympic Games, the Group capitalized on last year's Rio Olympics to further expand the presence of the 361° brand in overseas markets, which should be instrumental and beneficial to our future overseas expansion. In respect of star athletes endorsements, the Group has recently signed Jimmer Fredette from Shanghai Sharks Basketball Club as well as Liu Xiang (劉湘) and Zhang Yufei (張雨霏), two up-and-coming star swimmers in the China National Swimming Team. We aim to reinforce 361° brand culture with the influence of our star athletes endorsers. Going forward, the Group will continue its commitment in enhancing its brand marketing initiatives, to build a distinct brand identity for 361° and boost the loyalty of its targeted customer groups.

Lastly, on behalf of the Board, I wish to extend our gratitude to all of those who have worked with the 361° Group throughout the year. We will make our best efforts to deliver sound returns to our shareholders and play a meaningful role in the development of a stronger China.

**Ding Huihuang**  
Chairman

Hong Kong, 14 March 2017

# MANAGEMENT DISCUSSION AND ANALYSIS

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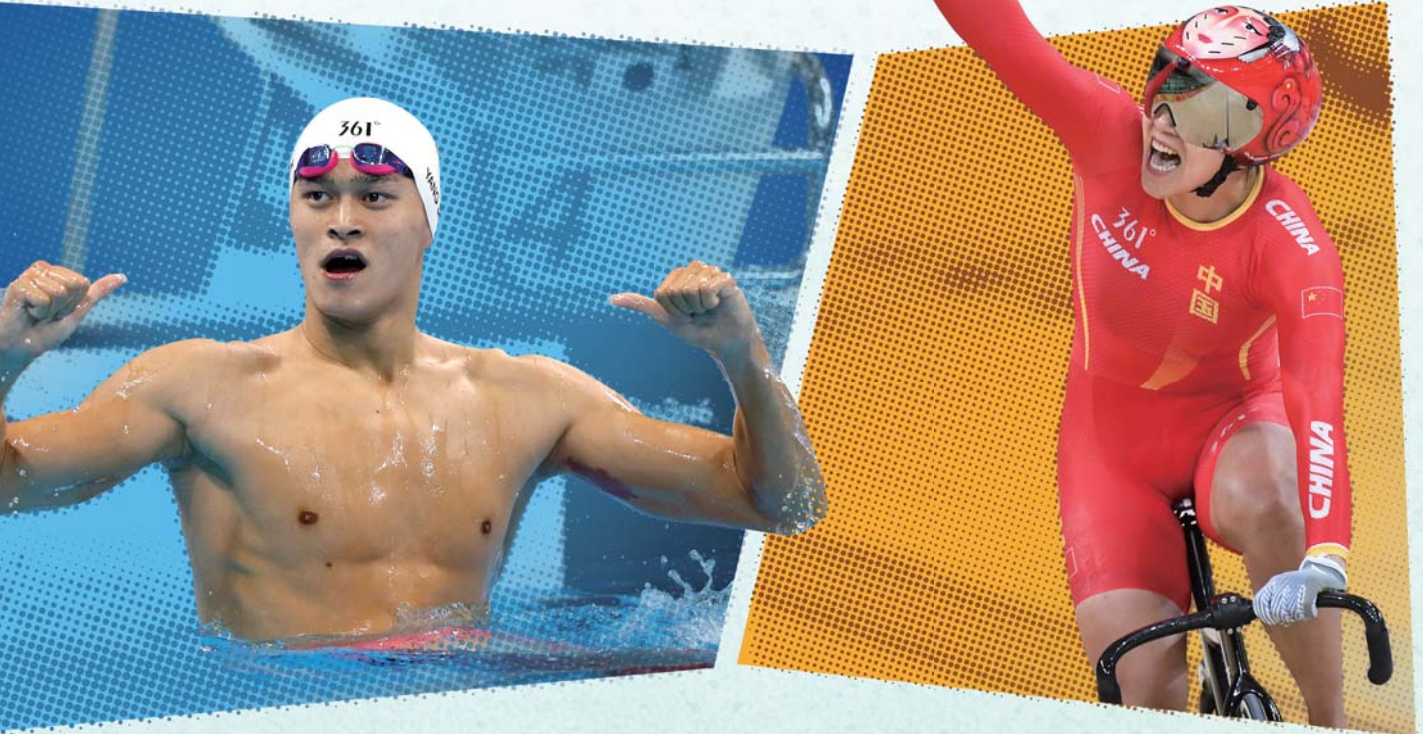
## INDUSTRY REVIEW

In 2016, the domestic economic growth in China sustained a moderate and stable momentum. Annual gross domestic product ("GDP") in China grew by 6.7% year-on-year, while the total retail sales of consumer goods increased by 10.4% of last year. Supply side reforms achieved progressive results and de-capacity scheme on traditional industries began to yield results to address the debt issues of those enterprises, thereby promoting the recovery of broad economic sentiment. In addition, driven by policies, a new economy driven by technologies such as the Internet, the Internet of Things and new materials is rising rapidly, and gradually replacing traditional industries as the growth engine. To a certain extent, it has offset the adversity caused by the decline of traditional economy.

Consumption upgrade and transformation was an important topic in 2016. As the Chinese government introduced a series of policies to boost economic development, domestic demands and consumption, private consumption spending accounts for a larger share of GDP and its effect on economic growth continues to increase. Increase in disposable income level and changes in lifestyle also play a crucial role in consumption upgrade. New consumption segments had been on the rise and exhibited enormous potential. According to the prediction of "The Economist", an internationally renowned politics and business magazine, the aggregate private consumption in China is

expected to triple to approximately US\$14 trillion by 2030. As one of the up-and-coming consumption segments with increasing importance, the sportswear industry is expected to maintain its growth momentum amid consumption upgrade and transformation. According to the statistics published by the General Administration of Sport of China at the end of 2016, in 2015, the "inaugural year for the sports industry", the total output (total value) of China's sports industry amounted to RMB1.7 trillion, representing an increase of RMB549.4 billion and 0.8% of GDP in the same period. In particular, the total output and added value of sporting goods and the manufacturing industry of related products were the highest of all industries in China at 66% and 50%, respectively.

Since the promulgation of the Opinion on Accelerating the Development of the Sports Industry and Promoting Sports Consumption (the "Document No. 46") by the State Council of China in late 2014, the future development of sports industry in China has become a national strategy. As stipulated in Document No. 46, by 2025, the total value of China's sports industry is targeted to reach RMB 5 trillion, with a population of as many as 500 million who regularly participate in sports. Provincial and municipal authorities in China have issued their respective implementation regulations and policies to ensure the sports industry to grow as rapidly as targeted in the Document No. 46 in the coming decade. Since the sporting goods industry has



been a pioneer of the sports industry and has established a relatively mature business model, it is bound to benefit directly from the upcoming waves of expedited development.

Following the slump in 2013, the recovery of the domestic sportswear industry in China has accelerated in 2016 and virtually all major domestic sports brands have been profitable. According to the prediction of Euromonitor International Limited, a market research company, the annual expenditure on sports per capita in China in 2013 was merely US\$16.9, which was well behind the US\$284.9 in developed countries like the United States. Goldman Sachs, a reputable American investment bank, forecasted that the sportswear market in China will expand at a compounded annual growth rate (CAGR) of over 8% in the next five years. According to the “China gets its game on: The emerging power of China’s sports and fitness industry”, written by the Economist Corporate Network, the market size of China’s sportswear sales will exceed RMB254 billion by 2020, representing a 54% jump from 2015. Nevertheless, the room for development also implies intensified competitions. Faced with the trend of further penetration of leading international brands into third-tier to fourth-tier cities in China, domestic sport brands based in these cities will face mounting challenges. Companies with competent channel integration, outstanding operation efficiency and unique brand culture are more likely to thrive in this round of competition.

As evidenced by participation in marathon events across the country on the rise in recent years, running has become a mainstream sports in China. According to the data from “China Marathon Industry Summit 2017 (2017中國馬拉松產業風雲會)” hosted in January 2017, the total number of regular runners in China has now exceeded 10 million. In 2016, the number of registered marathons and related sports events reached 328 and the number of participants hit a historic high of 2.8 million in China. For many running lovers in the cities, running is more than just a sports activity, it has become part of their lifestyle. In light of that, the prospects of the domestic running/marathon industry appear to be promising and every segment within the industry, including event organization, media, event services and sub-industries like sporting goods, will also benefit from the growth of the industry.

Moreover, other than further boosts for popular sports like running, fitness and football, some niche segments which used to enjoy little market awareness were also on the rise in 2016. As Beijing and Zhangjiakou won the bid to jointly host the 2022 Winter Olympics, winter sports are gaining popularity and have found its way into the sporting life of Chinese residents. According to “Development Plans for Winter Sports (2016–2025)” (《冰雪運動發展規劃(2016–2025年)》) published by the General Administration of Sport of China, the domestic winter sports industry is targeted to reach a scale of RMB600 billion by

# MANAGEMENT DISCUSSION AND ANALYSIS

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2020, and RMB1 trillion by 2025, which underlines the huge commercial potential therein. However, relevant industries in the domestic scene are still in the early stage of development and require further policy and capital support in order to reach its potential and meet the target.

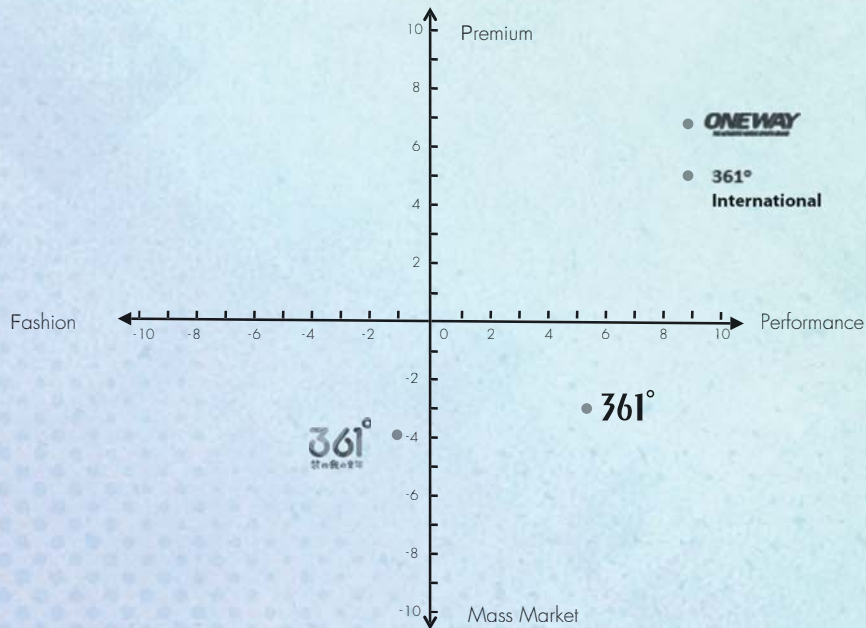
## BUSINESS REVIEW

### 361° Brand and Positioning

The Group, 361°, is a leading sportswear brand enterprise in China with a growing international presence. The Group designs, develops, manufactures and sells high performance, innovative and stylish sportswear products to cater to the active, athletic and casual sportswear needs of adults, young adults and children. The Group's positioning has been consistent since the beginning of its establishment in 2003, which is to provide high-performance driven and value-for-money sportswear products targeted at the mass market.

The 361° core brand engages in brand management, research and development, design, manufacturing and distribution for functional and professional footwear, apparel, and accessory products.

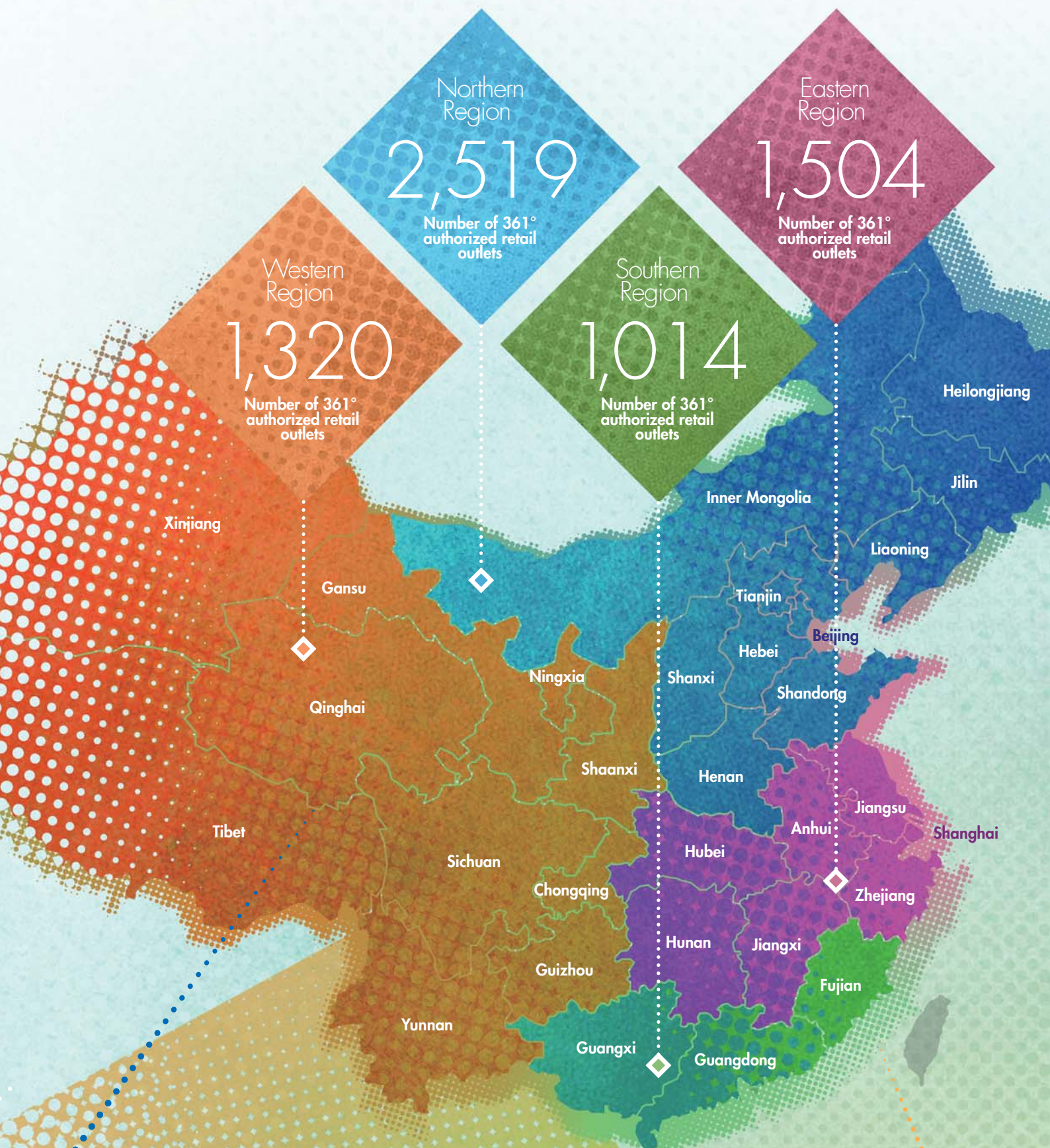
The following chart is a snapshot of our brand positioning.



The 361° Kids brand, which is an independently run business unit, principally caters to sporting apparel, footwear, and accessory needs of children between the ages of three to twelve.

ONE WAY is a professional Nordic brand specializing in skiing, cycling, mountain hiking, outdoor and other extreme sports. The Group has established a joint venture with ONE WAY Oy of Finland, for the design, production distribution and marketing of ONE WAY products in the Greater China region. The Group holds a 70% equity interests while ONE WAY Oy of Finland, our joint-venture partner, holds 30% equity interests of ONE WAY International Enterprise Limited, a subsidiary of the Company. ONE WAY is positioned as a brand of high-end and professional product lines, and all its products are sold via self-operated stores run by the Group in Greater China.

We also offer product differentiation through our 361° international business segment which specializes in high performance and functional running and cross-training products. The initial target markets are Brazil, the United States and Europe.



The Group targets to build a sustainable business model by leveraging its nationwide sales network of 6,357 retail stores in China.

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## Business Model

During the review period, the distributorship business model adopted by the Group remained unchanged. The 31 exclusive distributors distributed the products under the 361° core brand in its exclusive geographical territory. Distributors could choose to open stores directly, subject to approval by the Group's retail channel management department. Distributors could also choose to further distribute the products under the 361° core brand to authorized retailers. This business model allows maximum flexibility at the provincial level for local city promotions, re-juggling of inventories within retailers and standardized pricing.

The contracts with distributors are generally renewed annually based on satisfactory review of both operational and financial performances. The contracts bind the distributor to observe certain covenants, including safeguarding the brand identity and following the Group's pricing policy guidelines. The Group also provides training programs for distributors and retailers several times a year on inventory management and authorized product knowledge. Furthermore, the Group also insists on projecting a

consistent store image across our nationwide distribution network and the standardization of product display equipment and POP materials highlighting quarterly marketing themes. During the review period, we continued to encourage distributors and authorized retailers to upgrade their store layouts in-line with our eighth-generation store image, which provides more eye-catching layouts and decorations.

The Group currently hosts four trade fairs every year for the 361° core brand to showcase new season products, in which all distributors and authorized retailers are invited to attend. The finalized orders will be consolidated at the respective distributors, who in turn, will place such orders with the Group. The Group provides precise order guidelines to its distributors and authorized retailers in order to allow better accuracy in orders, prevent deep retail discounts and stabilize retailers' profitability and sustainability. These trade fairs are generally hosted six months ahead of their respective display and launch seasons to allow the orders to be manufactured and delivered to the distributors.

During the review period, the Group organized four trade fairs for 361° core brand products, with the following results:

Delivery Period	Winter 2016 From August 2016	Spring 2017 From November 2016	Summer 2017 From March 2017	Autumn 2017 From June 2017
% Growth (compared against the same trade fair held last year)	HSD	HSD	HSD	HSD

## Retail Network

As at 31 December, 2016, the network of the 361° core brands stores comprises 6,357 stores, of which approximately 80% are stand-alone, street-level stores. 1,340 of these stores operate as composite stores, which sells more than one product. Geographically, approximately 72.5% are located in third-tier and below cities in China, while 8.4% and 19.1% are located in first- and second-tier cities in China, respectively.

During the review period, a total of 970 stores opened and a total of 1,821 stores closed. The Group will keep focusing on enhancing store efficiency and profitability in the future.

Authorized retail stores of 361° core brand by regions are listed as following:

	As at 31 December 2016		As at 31 December 2015	
	Number of 361° authorized retail stores	% of total number of 361° authorized retail stores	Number of 361° authorized retail stores	% of total number of 361° authorized retail stores
Eastern region <sup>(1)</sup>	1,504	23.7	1,760	24.4
Southern region <sup>(2)</sup>	1,014	15.9	1,234	17.1
Western region <sup>(3)</sup>	1,320	20.8	1,470	20.4
Northern region <sup>(4)</sup>	2,519	39.6	2,744	38.1
<b>Total</b>	<b>6,357</b>	<b>100</b>	<b>7,208</b>	<b>100</b>

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.

## Brand Promotion and Marketing

The Group generally budgetted 11% to 13% of annual revenue to brand promotion and marketing. The Group took the opportunity of sponsoring various international games which helped 361° gain wide recognition as a credible sports brand. 361° successfully sponsored the 16th Asian Games in Guangzhou in 2010, the 26th Summer Universiade in Shenzhen in 2011 and the 2nd Youth Olympic Games in Nanjing in 2014, the 17th Asian Games in South Korea in 2014. In 2016, 361° has sponsored the 2016 Rio Summer Olympics and Paralympic Games as Official Tier-2 supporter, making 361° the first Chinese sportswear brand that became a sponsor of the Olympics. Our brand has gained considerable exposures in the world-class event and further increased our branding influence world-wide.

During the review period, the Group gained exposure to target consumers effectively by sponsoring a number of professional sports teams, including:

China National Swimming Team



China National Cycling Team



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The following table sets forth all of the Group's subsisting sporting events sponsorships during the review period:

Period	Event	Capacity
2013–2017	World Women's Curling Championship	Designated Apparel Sponsor
	World Men's Curling Championship	Designated Apparel Sponsor
2013–2016	World Wushu Championships	Prestige Partner
	World Junior Wushu Championships	Prestige Partner
2014–2018	Jinmen Marathon	Designated Sportswear Sponsor
2014–2016	Rio 2016 Olympic and Paralympic Games	Official Tier-2 Supporter





The following table sets forth the Group's existing athletes as our spokesperson during the review period:

Athletes signed up as spokespersons	Key achievements
Mr. Stephon MARBURY	plays for the Beijing Ducks of the Chinese Basketball Association (CBA) who won three CBA championships with Beijing Ducks in 2012, 2014 and 2015, and was a winner of the CBA Finals MVP (most valuable player) in 2014–15 season and CBA International MVP in the 2012–13 season. He is also a former NBA All-Star
Mr. Jimmer FREDETTE	plays for the Shanghai Sharks of the CBA and a CBA All-Star
Mr. YANG Xu	striker of China National Football Team
Mr. Dexter LEE	two-time winner of World Junior Championships in Athletics
Mr. SUN Yang	won gold medals in the 400 m and 1500 m freestyle at the 2012 London Olympic Games and won gold medal in the in the 200 metre freestyle and a silver medal in the 400 metre freestyle at the 2016 Rio Olympic Games
Mr. NING Zetao	won the gold medal in 100 m freestyle at the 2015 World Aquatics Championships
Ms. YE Shiwen	won gold medals in the 400 m and 200 m individual medley at the 2012 London Olympic games
Ms. LIU Xiang	won the bronze medal in 50 m backstroke at the 2015 World Aquatics Championships
Ms. ZHANG Yufei	held a world junior record in the 200 m butterfly swimming

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## 361° Kids

361° Kids has been in operation as an independent business unit since its launch in 2010. It is positioned in the low- to mid-price range and primarily targets children between ages of three and twelve who are looking for active wear for participation in sports activities.

As at 31 December, 2016, there were 2,000 points-of-sale offering 361° Kids products, of which 921 were within the 361° core brand authorized retail stores, selling both 361° core brand products and 361° Kids products. Of the 2,000 points-of-sales, 606 stores were stand-alone, street levels stores. Geographically, approximately 67.5% were located in third-tier and below cities in China, while 11.0% and 21.5% were located in first- and second-tier cities in China, respectively.

Authorized points-of-sale of 361° Kids (including those operate within the 361° core brand authorized retail stores) by regions are listed as following:

	As at 31 December 2016		As at 31 December 2015	
	Number of 361° Kids authorized points-of-sale	% of total number of 361° Kids authorized points-of-sale	Number of 361° Kids authorized points-of-sale	% of total number of 361° Kids authorized points-of-sale
Eastern region <sup>(1)</sup>	596	29.8	771	32.8
Southern region <sup>(2)</sup>	475	23.7	538	22.9
Western region <sup>(3)</sup>	313	15.7	333	14.2
Northern region <sup>(4)</sup>	616	30.8	708	30.1
Total	2,000	100	2,350	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.

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Delivery Period	Winter 2016 From August 2016	Spring 2017 From November 2016	Summer 2017 From March 2017
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% Growth (compared against the same trade fair held last year)

HSD

HSD

LDD

During the review period, there were three trade fairs hosted for 361° Kids, namely the 2016 Fall/Winter Fair, the 2017 Spring Trade Fair, and the 2017 Summer Trade Fair. The trade fair orders have achieved satisfactory growth, which locks the future revenue growth for the 361° kids segment.

During the review period, 361° Kids won awards including "March 15th Most Influential Brands in China Consumer Market and Industry" ("3.15中國消費市場行業影響力品牌"), "China's Top 10 Kids Brands" ("中國十大童裝品牌") and "China's Best Kids Brands" ("中國最佳童裝品牌"). The success of 361° Kids speaks for itself and the brand has already established a foothold in the growing market. The sponsorship of the very popular "Let's Sing Kids" ("中國新聲代"), a children's talent show on Hunan TV, further helped boost brand awareness of 361° Kids in kids and their parent communities.

The children underwear series of 361° Kids has been launched into the market in 2017 and more products of the same category will be released to satisfy the growing demand in the future.

During the review period, 361° Kids contributes to 13.0% of the Group's revenue, representing a growth rate of 10.6%. This segment is expected to maintain fast growth going forward due

to the rapidly rising disposable income and the relaxation of the one-child policy in the Chinese government.

## 361° International

The Group has achieved good result in overseas sales in Middle East, South America and South East Asia in the past. In order to further diversify its business and explore growth potential, the Group engaged a dedicated team formed by experienced professionals to actively tap into international market targeting at Brazil, the United States and Europe in 2015. This international business segment is operated independently, supported by Taiwan based research and development team and the production is outsourced to factories in Vietnam for tariff reasons.

The Group has established wholly-owned subsidiaries in Brazil, the United States and Europe, and sold 361° international products outright to one-stop multi-brand sportswear stores in those regions through local sales teams. In other regions such as Middle East, South America and South East Asia regions, the Group opened local 361° boutiques and sold 361° international products through local distributors.

# MANAGEMENT DISCUSSION AND ANALYSIS

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361° is still a relatively new brand in international market but its product performance is comparable to leading international brands. 361° international has launched a series of running shoes, of which, the 361° Sensation has won critical acclaim, including being nominated as the “Best Buy” in 2015, by Runners’ World, a specialist magazine for running enthusiasts. This has made 361° the only domestic Chinese sportswear brand which has ever been recommended by the specialist magazine as one of the Ten Best Buy products. Sensation has been evolved to the second generation and was successfully launched to the market in November 2016, which was well received by professional runners for its superior functionality.

Other international products such as STRATA, KgM2, SPIRE, Omni-Fit, and Chaser were also recommended by Runners’ World for its superior performance in comfort, durability and value-for-money. In addition, Kgm2 and SPIRE have won the 2016/2017 ISPO Award. The 361° team is carrying out a number of campaigns at the grass-root level by hosting local running events and working directly with personal trainers, fitness instructors and sports clubs to appeal directly to the end-users.

As at 31 December 2016, there were 1,017, 264, 67 and 20 points of sales in multi-brand sportswear specially stores carrying out 361° products in Brazil, the United States, Europe and Taiwan respectively. Currently, the Europe network covers the United Kingdom, Germany, France, Austria and Switzerland. The Group will continue to explore more countries with growth potential in order to promote its international products in the future. The Group considers international business to play an increasingly important role in terms of revenue contribution in the next three to five years.

As at 31 December 2016, international products were also available in 135 361° stores mainly located in the first-tier and second-tier cities in China such as Beijing, Shanghai, Guangzhou and Shijiazhuang. To optimize the product differentiation and meet the demand from consumer upgrading in domestic market, the Group will continue to introduce international products to more 361° stores in China going forward.

During the review period, 361° International business contributes to 1.6% of the Group’s revenue, representing a growth rate of 80.6%.

## ONE WAY

ONE WAY offers high-end professional products including footwear, apparel, and equipment. Its apparel uses extremely high performance fabrics and ONE WAY is widely acknowledged as a successful brand in Northern European markets.

The ski and outdoor sportswear industry in China is still in the early stage of development. However, the demand has already picked up due to the government’s supportive policies and the publicity given to winter sports on Beijing’s host of the 2022 Winter Olympic Games. ONE WAY will stand to benefit due to its superior product features.

As at 31 December 2016, there were 58 self-operated ONE WAY stores in China. The majority of those stores were located in well-known shopping malls in China. The Group will continue to open more ONE WAY stores to lay the groundwork for its rapid growth in the future.



ONE WAY has been building up its brand in the Greater China through entering exclusive cooperation agreement with China Ski Association, sponsoring the national cross-country skiing team and sponsoring the national ski-jumping team.

### Contemporary E-Commerce

The Group conducts its modern e-commerce business mainly through official website and other renowned e-commerce platforms in China including Tmall, Taobao, and JD. As the sole distributor of the Group's products on the online platforms, such e-commerce company is authorized to sell web-exclusive products as well as helping the distributors/authorized retailers to clear their slowing-moving or obsolete stocks at retail level.

With on-line shopping growing at a fast pace, the Group switched the distribution model of the e-commerce platform to self-operation by acquiring 80% equity interest of the e-commerce company on August 30, 2016.

Our e-commerce business achieved explosive growth which is a result of rapid development of the e-commerce industry.

### Production

There has been no change to the Group's production policy to strike an equitable balance between self-production and OEMs, having regard to costs, production scheduling and intellectual property rights. For footwear, the Group manufactures up to about 70% of its footwear products by the two factories located in Jiangtou and Wuli in Jinjiang City, and outsources the remainder to a number of factories in the Quanzhou area. Jiangtou factory houses 14 production lines and has an annual production capacity of 12 million pieces of footwear. The Wuli Industrial Complex in the Economic Zone houses nine production lines with an annual production capacity of nine million pieces of footwear. For apparel, the Group operates production facilities that have the capacity to produce 20% of the Group's needs whilst the remainder is contracted to OEMs in the Fujian and Guangdong provinces.

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## Research and Development

The Group has been consistently strengthening its product innovation and optimizing its research and development capabilities to yield better product differentiation. During the review period, the Group adopted a number of constructive ideas in fashion design, shape and fabric selection, to constantly optimize its product design. 361° timely introduced advanced materials made of cutting-edge technology and integrated popular elements into the design concept by leveraging its own design teams in Quanzhou and Xiamen as well as collaborating with the Beijing Institute of Fashion Technology and other professional institutions. Performance fabrics are of special interest to sporting brands and in recent years, they have been incorporated into the latest products to enhance functionality for different sports. Each high-performance fabric carries its own characteristics such as 3M reflective patterned fabric, colorful reflective material, SORONA fabric, and Dry Smart fabric.

The Group also builds on its self-developed technologies such as SAC-air, NFO, Quikfoam, Bumper MD, REV Air and Arch Lock to tailor each product group in footwear to specific functionalities so as to enhance performance. As at 31 December 2016, the Group has obtained 210 patents. There was a total of 134 research and development staffs for footwear, 118 for apparel, 41 for accessories and kids products, respectively.

During the review period, the Group's expenditure on research and development accounted for 3.7% of the Group's revenue and is expected to increase due to the Group's intensifying efforts to create a more distinctive product differentiation.

## FINANCIAL REVIEW

### Revenue

During the year under review, the Group recorded a year-on-year revenue growth of 12.6% to RMB5,022.7 million, of which, 13.0% and 2.1% of the total revenue was contributed by the 361° Kids business segment and business grouped under others, respectively. The increase fully reflected trade fairs' orders recorded in the year. In the four 2016 trade fairs of 361° core brand, the Group recorded a growth in orders placed of 15% in both spring and summer trade fairs and a high single digit growth in orders placed in both autumn and winter trade fairs. All of the products ordered for 2016 have been fully delivered to distributors.

With the strong support in the sportswear industry from the Chinese government, sales momentum continued and encouraged both distributors and retailers to increase the amount of orders placed. The Group believes that the growth will be sustainable into the future.

Revenue from the Group's three core products namely, footwear, apparel and accessories products, were all on an upward trend, which grew by 17.0%, 3.7% and 7.2%, respectively, as compared to 2015. Footwear products were the key driver of the growth of the Group's business, which accounted for about 43.9% of the total revenue. The increase was primarily due to the Group became more focused on the development of footwear products and the contribution from the increased overseas' footwear sales. With the continuous improvement on products, both the volume sold and the average wholesale selling price (the "AWP") of footwear products recorded an increase of 7.0% and 9.2%, respectively, in 2016 as compared to 2015.



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On the apparel front, the growth driver was primarily from the sales volume with an increase of 5.5% in 2016 as compared to 2015 whereas the AWP reduced by 1.6% year-on-year because of a higher proportion of summer apparels which have a lower AWP were ordered and delivered.

For accessories, the Group regards this category of products as complimentary to the footwear and apparel products and the base of product mix was wide. Owing to the change of the marketing strategy, more low-priced accessories with higher performance were launched in the market in the year under review. As a result, the sales volume of accessories increased by 43.2% as compared to 2015 while the AWP of accessories shrank by 25.0%, which led to the revenue on accessories increased by 7.2% year-on-year.

To the developing overseas business, the Group was honored to be one of the sponsors of the 2016 Rio Olympic and Paralympic Games which aroused huge public awareness of the Group's brand in Brazil. The overseas business sales increased to RMB80.7 million (2015: RMB44.7 million) which contributed about 1.6% of the total revenue of the Group for 2016.

The revenue of 361° Kids maintained its momentum and grew by 10.6% in 2016 as compared to 2015 to RMB651.2 million, and accounted for 13.0% of the Group's revenue. The growth driver was from the sales volume with an increase by 14.9% whereas the AWP recorded a slight downturn by 3.8%. Such decrease in AWP was mainly due to a higher proportion of summer apparels were ordered during the year under review which have a lower AWP.

On 30 August 2016, the Group decided not to renew the distribution agreement with the distributor who was the sole online distributor of the Group's products and agreed to acquire 80% equity interest of the company run by such distributor. With online shopping growing at a rapid pace, the Group considered it was an appropriate time to switch from the distributorship model to self-operation model for online sales. During the four months ended 31 December 2016, the e-commerce business contributed approximately RMB71.1 million of revenue and accounted for approximately 1.4% of the total revenue for the year under review.

The revenue grouped under "Others" representing the revenue from sales of shoe soles to independent third parties.

Starting from the financial year 2016, the Group reclassified income earned from the sales of shoe soles to independent third party by a 51% owned subsidiary as the Group's revenue. In January 2010, the Group entered a joint-venture with a company incorporated in Taiwan which is the specialist in manufacturing of shoe soles. Over the past five years' development, this joint venture partner becomes the major shoe sole supplier of the Group's self-produced footwear. Over 60% of this joint venture partner's products were sold to the Group and the remaining portion was sold to third parties during the year. As the shoe soles business has built up into a sizeable scale, the Group determined to reclassify the income earned as part of the Group's revenue from Other revenue and such revenue of RMB105.2 million accounted for about 2.1% of total revenue of the Group for the year under review.

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

	For the year ended 31 December 2016		For the year ended 31 December 2015		Changes (%)
	RMB'000	% of Revenue	RMB'000	% of Revenue	
<b>By Products</b>					
<b>Revenue Adults</b>					
Footwear	2,204,658	43.9	1,884,788	42.3	+17.0
Apparel	1,966,153	39.1	1,895,915	42.5	+3.7
Accessories	95,439	1.9	89,069	2.0	+7.2
<b>Kids</b>	651,244	13.0	588,929	13.2	+10.6
<b>Others<sup>(1)</sup></b>	105,184	2.1	-	-	-
<b>Total</b>	<b>5,022,678</b>	<b>100</b>	4,458,701	100	+12.6

Note:

(1) Others comprised of sales of shoe soles.

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

	For the year ended 31 December 2016		For the year ended 31 December 2015		Changes	
	Total units sold '000	Average wholesale selling price <sup>(1)</sup> RMB	Total units sold '000	Average wholesale selling price <sup>(1)</sup> RMB	Units sold (%)	Average wholesale selling price (%)

## By Volume and AWP

### Adults

Footwear (pairs)	21,422	102.9	20,018	94.2	+7.0	+9.2
Apparel (pieces)	25,118	78.3	23,805	79.6	+5.5	-1.6
Accessories (pieces/pairs)	11,354	8.4	7,929	11.2	+43.2	-25.0

### Kids

	10,288	63.3	8,953	65.8	+14.9	-3.8
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Note:

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





## Cost of Sales

Cost of sales for the Group for the year increased by 10.5% to RMB2,912.8 million as compared to the previous year.

The percentage increase of the cost of sales is slightly lower than the percentage increase in the revenue. During the year under review, both percentages on the production of self-produced footwear and apparel were increased year-on-year. Especially on footwear, the factory could enjoy better economies of scales and reduced the overhead cost despite the cost of material increased as a result of the use of costly high-technology material for the production of innovative products. The labour cost was maintained with a stable workforce. The cost of outsourced footwear could also be maintained because of the enlarged order which the Group were able to secure a better price and less complicated production process.

On the apparel front, the Group's factory become mature and production volume gradually increased year-on-year through the stable labour force, which helped to reduce the overall production cost of self-produced apparel. Besides, the Group still maintain a good bargaining power with all its OEM suppliers given the long-term relationship built up in the past. During the year under review, the cost of both self-produced and outsourced apparel reduced.

The following table sets forth a breakdown of cost of sales during the year under review:

	For the year ended 31 December 2016		For the year ended 31 December 2015	
	RMB'000	% of total costs of sales	RMB'000	% of total costs of sales
<b>Footwear &amp; Apparel (Internal Production)</b>				
Raw materials	813,552	27.9	507,314	19.2
Labour	167,149	5.8	168,042	6.4
Overheads	291,823	10.0	315,137	12.0
	<b>1,272,524</b>	<b>43.7</b>	990,493	37.6
<b>Outsourced Products</b>				
Footwear	647,445	22.2	550,947	20.9
Apparel	931,143	32.0	1,034,508	39.2
Accessories	61,658	2.1	59,790	2.3
	<b>1,640,246</b>	<b>56.3</b>	1,645,245	62.4
Cost of sales	<b>2,912,770</b>	<b>100</b>	2,635,738	100

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## Gross profit and gross profit margin

Gross profit was RMB2,109.9 million for the year of 2016 and the gross profit margin increased by 1.1 percentage points to 42.0%.

During the year under review, the gross profit margin of footwear slightly increased by 0.6 percentage point whereas apparel, accessories and 361° Kids business recorded a growth of 2.1, 2.7 and 2.5 percentage points, respectively.

Although the AWP of the footwear business increased by 9.2%, the Group did not fully transfer the increased material cost to its customers in order to stimulate the sales volume thus streamlined the growth of the gross profit margin year-on-year.

The gross profit margin of both self-produced and outsourced apparel increased year-on-year which helped to push the margin from 40.9% to 43.0%. The improvement was primarily due to the mature in-house production as well as better price secured from the outsourced suppliers with stable volume and better payment terms.

For accessories, the adoption of new marketing strategy helped to increase the gross profit margin from 37.9% to 40.6%.

The gross profit margin of the 361° Kids business continues to improve to 43.5% from 41.0% which was equally driven by the 361° Kids footwear and apparel business.

The gross profit margin under "others" representing the shoe soles selling to independent third parties and the gross profit margin was roughly at 26.7%.

The following tables set forth a breakdown of the gross profit and gross profit margin during the financial year under review:

	For the year ended 31 December 2016		For the year ended 31 December 2015		Changes percentage point
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	
<b>Adults</b>					
Footwear	914,941	41.5	771,040	40.9	+0.6
Apparel	844,633	43.0	776,793	40.9	+2.1
Accessories	38,766	40.6	33,793	37.9	+2.7
<b>Kids</b>	283,448	43.5	241,337	41.0	+2.5
<b>Others<sup>(1)</sup></b>	28,120	26.7	–	–	–
<b>Total</b>	<b>2,109,908</b>	<b>42.0</b>	1,822,963	40.9	+1.1

Note:

(1) Others comprised of sales of shoe soles.

## Other revenue

Other revenue of RMB112.8 million (2015: RMB154.9 million) was mainly comprised of (i) accrued bank interest income of RMB76.0 million (2015: RMB98.5 million) earned from both the bank deposits in Hong Kong and the PRC; (ii) the discretionary government subsidies of RMB9.9 million (2015: RMB35.2 million) was mainly in relation to the corporate tax paid in the previous years; and (iii) the commission earned from the selling of distributors' inventories through the newly acquired e-commerce business.

## Other net loss

The other net loss of RMB10.0 million was mainly attributable by the net foreign exchange loss. The Group's principal business is in the PRC and adopting Renminbi as its functional currency, the continuous depreciation of Renminbi incurred currencies loss to a few subsidiaries with the use of functional currencies other than Renminbi especially at the time of repayments and advancements among subsidiaries in different countries by using different currencies.

## Selling and distribution expenses

During the year under review, selling and distribution expenses increased by 11.4% to RMB794.2 million (2015: RMB712.9 million) representing about 15.8% (2015: 16.0%) of the Group's revenue. The increase was in line with the growth of the revenue. Advertising and promotional expenses were RMB570.7 million (2015: RMB570.5 million) maintained at the same amount as last year and accounting for approximately 11.4% (2015: 12.8%) of the Group's revenue.

Down the road, the Group believes that the cost of the advertising and promotional expenses will still be maintained in the region of 11-13% of the total revenue, to further strengthen the Group's brand.

## Administrative expenses

Administrative expenses increased by 24.3% to RMB469.2 million for the year ended 31 December 2016 (2015: RMB377.6 million) and represented about 9.3% (2015: 8.5%) of the Group's revenue. The increase was mainly due to the additions of expenses for research and development and depreciation cost.

Research and development expenses were RMB187.4 million (2015: RMB139.6 million), or 3.7% (2015: 3.1%) of the revenue for the year under review. The Group continuously invests in both internal and external research and development teams to enhance the products' development and competitiveness.

The depreciation and amortization costs were RMB85.4 million (2015: RMB42.7 million). The additions were mainly in relation to the newly established Xiamen headquarter, the environmental afforestation and some maintenance capital expenditures in Wuli Industrial Park.

Viewing the sound environment of the sportswear industry, and a reduction in the amount of trade and bills receivable to RMB2,221.3 million from RMB2,253.2 million a year ago despite the revenue increased by 12.6% to RMB5,022.7 million year-on-year, the Group has confidently written back approximately RMB23.5 million provision of impairment losses which accounted for about 29.3% of the provision made in previous years. The Group has been staying in touch with all the distributors and believes that account receivables could further improve in the forthcoming year.

## Finance Costs

During the year under review, financing costs increased to RMB186.9 million (2015: RMB125.5 million) of which RMB1.8 million in relation to short-term bank borrowings and the balance of RMB185.1 million was mainly the relevant interest and cost in relation to the two senior unsecured notes amortised over the years.

As at 31 December 2016, the short-term bank borrowings were RMB61.2 million for the finance of subsidiaries running in the PRC and RMB15.0 million, a mortgage bank loan, for financing the acquisition of an office in Hong Kong.

On 12 September 2014 and 3 June 2016, the Group issued an aggregate principal amount of RMB1,500,000,000 7.5% senior unsecured notes due 2017 (the "CNH Notes") and an aggregate principal amount of US\$400,000,000 7.25% senior unsecured notes due 2021 (the "US\$ Notes"), respectively. The finance cost of the two senior unsecured notes accrued for the year was RMB185.1 million in which RMB172.8 million was in relation to the accrued interest for the year and RMB12.3 million was the relevant cost incurred for the issuance of the two senior unsecured notes amortised over the tenor of three years and five years, respectively. On 5 October 2016, the CNH Notes has been totally redeemed and cancelled.

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## Income tax expenses

During the year under review, income tax expenses of the Group amounted to RMB286.6 million (2015: RMB259.5 million) and the effective tax rate for the year was 40.5% (2015: 32.9%). The Group's four main PRC-based operating subsidiaries were all subject to standard corporate income tax rate of 25% whereas no provision has been made for profit tax of the subsidiaries in Hong Kong since no operating income was generated in the city. As both the CNH and US\$ Notes were issued and listed in Hong Kong, the relevant interest and cost had been all accrued and paid by the holding company. Such finance cost was not allowed to be deducted from the taxable income of the China-based operating subsidiaries, thus effective tax rate at the Group level was higher than the PRC standard corporate income tax rate of 25%.

## DIVIDEND FOR THE YEAR

The Board recommended to declare a final dividend of HK1.1 cents (equivalent to RMB1.0 cent) per share for the year ended 31 December 2016, subject to approval by the Company's shareholders at the forthcoming annual general meeting ("the AGM"). Including an interim dividend of HK5.8 cents (equivalent to RMB5.0 cents) and a special dividend of HK5.8 cents (equivalent to RMB5.0 cents) per share for the six months ended 30 June 2016 which have already been paid, if final dividend will be approved, total payout for the year will amount to HK12.7 cents (equivalent to RMB11.0 cents) per share or RMB227.4 million in aggregate, representing 56.5% of the profit attributable to equity shareholders of the Group for the year ended 31 December 2016. It is expected that the final dividend, if approved by Company's shareholders at the forthcoming annual general meeting of the Company, will be paid to shareholders on or about 17 May 2017.

## CLOSURE OF REGISTER OF MEMBERS

The AGM of the Company will be held on Wednesday, 26 April 2017. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 21 April 2017 to Wednesday, 26 April 2017, 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 Thursday, 20 April 2017.

The proposed final dividend is subject to the passing of an ordinary resolution by the Company's shareholders at the AGM. The record date for entitlement to the proposed final dividend is Monday, 8 May 2017. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, 4 May 2017 to Monday, 8 May 2017, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrars 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 Tuesday, 2 May 2017.

## LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2016, net cash inflow from operating activities of the Group amounted to RMB1,131.6 million. As at 31 December 2016, cash and cash equivalents, including bank deposits and cash in hand, and fixed deposits with original maturities not exceeding three months, amounted to RMB2,881.6 million, representing a net increase of RMB587.3 million as compared to the position as at 31 December 2015.

The net increase was mainly attributable to the following items:

	For the year ended 31 December	
	2016 RMB'000	2015 RMB'000
Net cash generated from operating activities	1,131,643	245,433
Net capital expenditure	(147,593)	(253,316)
Dividends paid	(316,343)	(165,408)
(Placement)/withdrawal of pledged deposit	(63,554)	53,869
Proceeds from bank loans	61,252	–
Repayment of bank loans	(1,018)	(1,026)
Payment for repurchase of senior unsecured notes	(1,550,234)	–
Proceeds from issuance of senior unsecured notes	2,596,451	–
(Placement)/withdrawal of deposits (with maturity over three months)	(1,037,113)	300,000
Interest received	70,114	92,523
Interest paid	(198,055)	(114,120)
Other net cash inflow	41,724	383
<b>Net increase in cash and cash equivalents</b>	<b>587,274</b>	<b>158,338</b>

The positive net cash generated from operating activities amounted of RMB1,131.6 million for the year ended 2016 was mainly from the operating profit for the year under review and the net increase in the working capital from the decrease in the amount of trade and bills receivables, inventories and the increase in trade and other payables in the year.

During the year under review, certain capital expenditure amounted RMB147.6 million was incurred mostly for the new headquarter in Xiamen, the environmental afforestation and maintenance capital expenditures in Wuli Industrial Park, Jinjiang. The pledged bank deposit increased by RMB63.6 million year-on-year which was principally used for the issuance of bills payable to suppliers. The proceeds of new unsecured short-term bank loans amounted RMB61.3 million were for the general working capital purpose of the subsidiaries in the PRC and the Group also repaid about RMB1.0 million mortgage bank loan for the office in Hong Kong. The Group issued US\$ Notes in June 2016 and obtained proceeds of approximately RMB2,596.5 million, part of the proceeds in the amount of RMB1,550.2 million was used to fully repurchase the CNH Notes with an aggregate principal amount of RMB1.5 billion

between June and October 2016. The interest payment of RMB198.1 million mainly represented the interest for the CNH Notes and US\$ Notes.

The Group's gearing ratio was 26.7% as at 31 December 2016 (2015:17.1%), the increase was mainly due to the issue of US\$ Notes in June 2016.

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

## FOREIGN EXCHANGE RISK

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. Part of the Group's cash and bank deposits are denominated in Hong Kong dollars. The Group also pays declared dividends in Hong Kong dollars. During the year ended 31 December 2016, 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

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## PLEDGE OF ASSETS

As at 31 December 2016, a building with net book value of RMB47,824,000 (31 December 2015: RMB46,000,000) was pledged as security for a banking facility of the Group of RMB45,004,000 (31 December 2015: RMB42,387,000). The aforesaid banking facility was used to finance the acquisition of an office unit and the trading activities of a subsidiary 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 2016 were secured by pledged bank deposits of RMB185.6 million.

## WORKING CAPITAL MANAGEMENT

The average working capital cycle for the year ended 31 December 2016 was 76 days (2015: 69 days). The increase was mainly due to the slight increase in the trade and bills receivable turnover days and shortened trade and bill payable turnover cycle despite the improvement in inventory turnover days.

The average trade and bills receivable cycle was 163 days as at 31 December 2016 (2015: 160 days), representing an increase by 3 days. In terms of the amount of trade and bills receivable between the two years, the balance as at 31 December 2016 was RMB 2,221.3 million which was less than RMB2,253.2 million a year ago even though the amount of revenue for the year of 2016 was higher than 2015. All the trade receivables and bills receivables were within 180 days and 96.1% (2015: 94.1%) were neither considered as past due nor impaired as at 31 December 2016. The Group has been staying in touch with all distributors and believe there will be continuous improvement in the trade and bills receivables with the rebounding of sportswear industry.

The average inventory turnover cycle was 69 days for the year ended 31 December 2016 (2015: 78 days) represented a decrease by 9 days. About 88.8% of the stock were finished goods and were mainly 2017 spring products. All products were either self-produced or manufactured by OEMs in accordance with the orders placed by authorized distributors at the trade fairs held in the year, no extra stock was produced and kept by the Group. The Group had never experienced any request for return or buy-backs of stocks from authorized distributors.

For the year ended 31 December 2016, prepayments to suppliers were RMB585.9 million (2015: RMB520.8 million), representing an increase of 12.5% year-on-year. The prepayment was deposit paid to suppliers for the confirmation and acceptance of orders for production of products in respective of 2017 spring and summer trade fairs. The balance of other prepayments was mainly for the advertising contracts entered.

The average trade and bills payable cycle was 156 days for the year ended 31 December 2016 (2015: 169 days). The shorten of the bills payable cycle was due to the Group intended to offer better payments terms in exchange of better pricing from OEM suppliers as well as the increase in the use of high-tech material suppliers. The payment terms for those new suppliers are shorter than the old one. As a result, the overall payable turnover days reduced.

## SENIOR UNSECURED NOTES

On 12 September 2014, the Group issued the CNH Notes with an aggregate principal amount of RMB1.5 billion at an interest rate of 7.5% per annum due 12 September 2017 at an offering price of 99.472% of the aggregated principal amount of RMB1.5 billion and listed on the Stock Exchange in Hong Kong (bond stock code: 85992).

On 3 June 2016, the Group issued the US\$ Notes with an aggregate principal amount of US\$400 million at an interest rate of 7.25% per annum due 3 June 2021 at an offering price of 99.055% of the aggregated principal amount of US\$400 million and listed on the Stock Exchange in Hong Kong (bond stock code: 5662). The net proceeds were mainly used for the finance of redemption of the CNH Notes, development of overseas business and general working capital.

During the year, the Group repurchased and cancelled the CNH Notes by various ways.

An aggregate principal amount of RMB 73,570,000 CNH Notes were repurchased and cancelled immediately by the way of over-the-counter transactions from June to July in the year.

On 20 June 2016, the Group invited all holders of the CNH Notes to tender their CNH Notes for repurchase by the Group for cash. The purchase price offered for each RMB10,000 principal amount of the tendered CNH Notes was RMB10,300 for the aggregate outstanding principal amount of RMB1,430,500,000 as at that date.

On 12 July 2016, RMB1,119,510,000 principal amount of the CNH Notes, representing approximately 78.3% of the RMB1,430,500,000, had been validly tendered and accepted for repurchase by the Group. The aggregate amount of consideration paid by the Group (inclusive of all consent payment and accrued interest to the settlement date) in relation to the repurchase of the CNH Notes pursuant to the tender offer was approximately RMB1,181,389,796. The redeemed CNH Notes had been settled and cancelled on 15 July 2016.

On 5 September 2016, the Group decided to exercise its option to redeem the entire outstanding amount of the RMB306,920,000 CNH Notes on 5 October 2016 at a redemption price equal to 100% of the principal amount of the Notes plus the applicable premium as of, and accrued and unpaid interest of the settlement date.

On 5 October 2016, all the remaining outstanding CNH Notes in the principal amount of RMB306,920,000 was redeemed and cancelled immediately. On 14 October 2016, the CNH Notes were delisted from The Stock Exchange of Hong Kong Limited.

The net loss of RMB 55.1 million from the repurchase of CNH Notes was derived from the consideration paid for the repurchased CNH Notes over the carrying amount of the CNH Notes at the time repurchased in the year.

## EMPLOYEES AND EMOLUMENTS

As at 31 December 2016, the Group employed a total of 9,500 full time employees which included management staff, technicians, salespersons and workers. For the year ended 31 December 2016, the Group's total remuneration of employees was RMB435.4 million, representing 8.7% of the Group's revenue. 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

2016 is the first year of China's "13th Five-year Plan". The Chinese government has been supporting the development of the Chinese sports industry since 2014 by launching a series of encouraging policies and measures, which will encourage sport participation by the general public, thus driving a growing demand for sportswear products. However, competition will always remain intense but the Group is well positioned to lead and outperform in the next "Golden Decade" of China's sportswear industry through the implementation of our multi-brand strategy by focusing on the five pillars which are 361° core brands, 361° Kids, E-commerce, 361° International and ONE WAY.

We will further utilize our research and development resources and apply innovative technologies to offer competitive and differentiated products to satisfy the specific needs of customers at all levels. In addition, we will continue to implement retail-oriented strategy to help our distributors and authorized retailers maximise profitability and enhance store efficiency. We are encouraging our distributors and retailers to roll over to the eighth-generation of store layouts, and opening more composite stores to carry more than one products, which will significantly increase the store efficiency.

Our goal is not only to become a reputable and leading sportswear brand in China by being a professional running products provider, but also a respectable world-class sportswear company in the long run.

# REPORT OF THE DIRECTORS

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The Directors are pleased to present the annual report together with the audited financial statements for the year ended 31 December 2016.

## BUSINESS REVIEW

### General

For the review of the business of the Group for the year ended 31 December 2016, please refer to the section headed "Management Discussion and Analysis — Business review" on pages 10 to 20 of this report.

### Principal risks and uncertainties facing the Group

The following section lists out the key risks and uncertainties faced by the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below. Besides, this annual report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

#### *Risks pertaining to the sportswear market in the PRC*

The Group's business is subject to laws and regulations applicable to the sportswear industry in the PRC. These laws and regulations are subject to change and their interpretation and enforcement involve 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.

#### *Risks pertaining to the distributorship model*

The Group relies primarily on a number of third-party distributors for sales of the Group's products. Each distributor has exclusive distribution rights over a certain geographical area, the failure by such distributor to perform its obligations under its distributorship agreement with the Group may result in a material adverse effect on the business of the authorized retailers in such area. Besides, the Group does not have direct control over the authorized retailers to ensure their compliance with the Group's policies, including operational requirements, exclusivity, customer service, store image and pricing. Non-compliance with the Group's policies may cause material adverse effect on the business, financial condition, results of operations and prospects of the Group.

#### *Operational risks*

The Group's operation is subject to a number of risk factors distinctive to the sportswear market. Default on the part of the Group's distributors, suppliers and joint ventures partners, and inadequacies or failures of internal processes, people and systems or other external factors may have various levels of negative impact on the results of operations. Additionally, accidents may happen despite systems and policies set up for their prevention, which may lead to financial loss, litigation, or damage in reputation.

#### *Past performance and forward looking statements risks*

The performance and the results of operation of the Group as set out in this annual report are historical in nature and past performance is not a guarantee of future performance. This annual report may contain forward-looking statements and opinions that involve risks and uncertainties. Actual results may also differ materially from expectations discussed in such forward-looking statements and opinions. Neither the Group nor the Directors, employees or agents of the Group assume any obligations or liabilities in the event that any of the forward-looking statements or opinions does not materialize or turns out to be incorrect.



## Post year-end events

Except as disclosed in this annual report, since 31 December 2016, 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 annual report.

## Environmental policies and performance

The Group emphasizes in environmental protection during its production process and doing its part in curbing the global climate change.

The Group continues to update the requirements of the relevant environmental laws and regulations applicable to it to ensure compliance. The Group does not produce material waste nor emit material quantities of pollutants during its production process. During the year under review, the Group has complied with the relevant environmental laws and regulations applicable to it in all material respects, including waste water emission permit, solid waste disposal requirements and others.

The Group has also adopted measures in order to achieve efficient use of resources, energy saving and waste reduction. The measures include wastewater and solid waste managements, noise control, greenhouse gas emission and resources management.

## Compliance with laws and regulations

The Group continues to update the requirement of the relevant laws and regulations in various countries, particularly in the PRC and Hong Kong, applicable to it to ensure compliance. Substantially a majority of the Group's assets are located in the PRC and the Group's revenue is mainly derived from operations in the PRC. The Group was listed on the Stock Exchange of Hong Kong on 30 June 2009. During the year under review, the Group complied with the relevant laws and regulations in various countries applicable to it in all material respects.

## Account of the Group's key relationships

### (i) Employees

The Group offers a comprehensive range of staff facilities and fringe benefits to attract, retain and motivate employees. Key personnel have been part of the management team since the inception of business. During the year under review, the Group considered the relationship with employees was well and the turnover rate was acceptable.

### (ii) Suppliers

The Group's suppliers include raw material suppliers and contract manufacturers. A majority of footwear is produced by the Group itself while the Group outsources a portion of manufacturing of its footwear products, majority of apparel products, and all of its accessories products to third-party contract manufacturers. All key suppliers have a close and long term relationship with the Group. During the year under review, the Group considered the relationship with its suppliers was well and stable.

### (iii) Distributors

The Group adopted the distributorship model for its products in the PRC ever since the beginning of 2008. Under this model, the Group primarily sells products to distributors in the PRC under distributorship agreements, which generally have a term of one year. Each of the distributors has exclusive distribution right over a certain geographical area in the PRC. The Group maintains very good relationship with all the distributors, with the number of distributors being always about 31 with a low turnover rate.

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## (iv) Authorized retailers

The Group sells products primarily to distributors in the PRC, who in turn sell the same to authorized retailers. Authorized retailers then sell products to consumers. The Group's distributors enter into separate agreements with authorized retailers and require them to comply with the Group's standard operating procedures or policies, which include guidelines on the design and layout of authorized retail outlets, product pricing and customer service. The Group keeps a good relationship with all the authorized retailers through distributors, who act as the bridge of communication.

## REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The Company is incorporated in the Cayman Islands and has its registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, Cayman Islands. Its principal place of business in Hong Kong is at Room 1609, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, 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 11 to the financial statements on pages 85 to 86 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 Group respectively during the financial year is as follows:

	Percentage of the Group's total	
	sales	purchases
The largest customer	10%	
Five largest customers in aggregate	33%	
The largest supplier		10%
Five largest suppliers in aggregate		32%

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 2016 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 56 to 108 of this annual report.

## TRANSFER TO RESERVES AND DIVIDENDS

Profits attributable to equity shareholders, before dividends, of RMB402,652,000 (2015: RMB517,639,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

An interim dividend of HK5.8 cents per share (2015: HK6.2 cents per share) and a special dividend of HK5.8 cents per share (2015: Nil) were paid on 14 September 2016. The Directors recommend, subject to the Company shareholders' approval at the forthcoming AGM, the payment of a final dividend of HK1.1 cents (equivalent to RMB1.0 cent) per share (2015: HK6.3 cents per share) for the year ended 31 December 2016.

## CHARITABLE DONATIONS

Charitable donations made by the Group during the financial year amounted to RMB200,000 (2015: RMB420,000).

## FIXED ASSETS

Details of the movements in fixed assets during the year are set out in note 10 to the financial statements.

## SENIOR UNSECURED NOTES

Details of the Notes issued by the Company are set out in note 19 to the financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 22(c) to the financial statements.

## PURCHASES, SALES OR BUY-BACKS OF THE COMPANY'S SECURITIES

On 3 June 2016, the Company issued the Notes on the Stock Exchange, which became effective on 6 June 2016. The net proceeds received was approximately US\$390.1 million. Please refer to the announcements of the Company dated 18 and 24 May 2016, and 3 June 2016 for more details.

Between 6 June 2016 and 20 July 2016, the Company purchased and cancelled approximately RMB74 million principal amount of the CNH Notes listed on the Stock Exchange through the open market on the Stock Exchange for a total price of approximately RMB76.1 million.

On 20 June 2016, the Company announced a tender offer to purchase the remaining of approximately RMB1,431 million principal amount of the CNH Notes. As of the expiration of the tender offer on 12 July 2016 at 5:00 p.m., approximately RMB1,119.5 million principal amount of the CNH Notes had been tendered and not been withdrawn. The settlement was completed on 15 July 2016 and the total consideration paid by the Company for such purchase of tendered CNH Notes was approximately RMB1,181.4 million. Please refer to the announcements of the Company dated 20 June 2016, 6 July 2016 and 15 July 2016 for details.

On 5 October 2016, the Company exercised its option to redeem the entire outstanding amount of the CNH Notes, being an aggregate of approximately RMB306.9 million principal amount of CNH Notes. The total consideration including the principal plus interest paid for such redemption amounted to approximately RMB324.0 million. The redemption was completed on 5 October 2016. Following such redemption and cancellation of the CNH Notes, there was no outstanding CNH Notes in issue. Please refer to the announcements of the Company dated 5 September 2016, 5 October 2016 and 6 October 2016 for further details.

Except as disclosed in this section, neither Company nor any of its subsidiaries made any purchase, sale or buy-back of listed securities of the Company for the year ended 31 December 2016.

## 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.

# REPORT OF THE DIRECTORS

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## 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 (resigned and effective from 1 July 2016)  
Mr Tsui Yung Kwok  
Dr Liao Jianwen  
Mr Li Yuen Fai Roger (appointed and effective from 1 July 2016)

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 Article 84 (1) of the Articles, Mr Ding Wuhao, Mr Tsui Yung Kwok and Dr Liao Jianwen will retire from office by rotation at the forthcoming AGM. In addition, pursuant to Article 83 (3) of the Articles, Mr Li Yuen Fai Roger, who was appointed by the Board as Director to fill a causal vacancy on the Board on 1 July 2016, will hold office until the AGM, being the first general meeting after his appointment, and will retire and subject to re-election from office at the AGM. Being eligible, each of them will offer themselves for re-election.

## DIRECTOR'S SERVICE CONTRACTS

No director proposed 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.

## PERMITTED INDEMNITY PROVISION

Under the articles of association of the Company, generally, the Directors shall be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses for acts done, concurred in or omitted in when discharging their duties in the affairs of the Company, other than any matter in respect of any fraud or dishonesty.

In addition, the Company has taken out and maintained insurance for the Directors against liabilities to third parties that may be incurred in the course of performing their duties as at the date of this report.

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

As at 31 December 2016, 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%
Mr Ding Huihuang	Long	Interest in controlled corporation	(2)	360,000,000	17.41%
Mr Ding Huirong	Long	Interest in controlled corporation	(3)	360,000,000	17.41%
Mr Wang Jiabi	Long	Interest in controlled corporation	(4)	187,500,000	9.07%

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

Apart from the foregoing, as at 31 December 2016, 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).

# REPORT OF THE DIRECTORS

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## SHARE OPTION SCHEME

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

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

An option may be exercised in accordance with the terms of the Share Option Scheme any time during a period as determined by the board 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 2016.

As at the date of this annual report, the total number of shares available for issue under the Share Option Scheme was 200,000,000 shares, which represented approximately 9.67% of the Company's issued share capital, and the remaining life of the Share Option Scheme was about 2 years and 4 months.

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 2016, 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 <sup>(1)</sup>	Percentage of total issued shares
Dings International Company Limited	(2)	Beneficial owner	L 377,774,000	18.27%
Ming Rong International Company Limited	(3)	Beneficial owner	L 360,000,000	17.41%
Hui Rong International Company Limited	(4)	Beneficial owner	L 360,000,000	17.41%
Jia Wei International Co., Ltd.	(5)	Beneficial owner	L 187,500,000	9.07%
Jia Chen International Co., Ltd.	(6)	Beneficial owner	L 187,500,000	9.07%
Wang Jiachen	(6)	Interest in controlled corporation	L 187,500,000	9.07%

Notes:

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

# REPORT OF THE DIRECTORS

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## 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.

## MANAGEMENT CONTRACTS

Other than Directors' service contracts and employment contracts with the Group's senior management in full-time employment, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2016.

## 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 2016, 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 Wuhaio, 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 2016, he/it had complied 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 2016.

## BANK LOANS

Particulars of bank loans of the Group as at 31 December 2016 are set out in note 18 to the financial statements.

## RELATED PARTY TRANSACTIONS

The related party transactions conducted during the year under review as disclosed in note 26 to the financial statements did not constitute connected transactions as defined under Chapter 14A of the Listing Rules.

## 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\$30,000. 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 2016 amounted to RMB22,614,000 (2015: RMB21,861,000).

## 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 applied the principles and complied with all the code provisions as set out in the Corporate Governance Code contained in the Appendix 14 of the Listing Rules during the year under review.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Upon the Company's enquires, 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 2016.

## AUDIT COMMITTEE

The Audit Committee has reviewed with management and the external auditors the accounting principles and policies adopted by the Group and the audited annual consolidated financial statements for the year ended 31 December 2016.

## 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, 14 March 2017

# CORPORATE GOVERNANCE REPORT

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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. These are based upon our established ethical corporate culture.

## CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company 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 2016.

## COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

## BOARD OF DIRECTORS

The overall management of the business of the Group is vested in the Board. Key responsibilities include formulation of the Group's overall strategies and policies, setting of performance targets, evaluation of business performance, oversight of management, include designing, implementing and maintaining internal control relevant to the preparation and the true and the fair presentation of financial statements 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 2016, the Board comprised of 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 1 July 2016, one of the independent non-executive Directors, Mr Yan Man Sing Frankie resigned from his position as independent non-executive Director. He has also ceased to be a member of each of the audit committee, the remuneration committee and nomination committee of the Board, and the chairman of the audit committee in the same date. The Board immediately appointed Mr Li Yuen Fai Roger to fill the vacancy of independent non-executive Director, and a member of each of the audit committee and the nomination committee, and the chairman of the nomination committee of the Board on the same day. Details of Mr Li Yuen Fai Roger biography is set out in the section headed "Director and Senior Management" of this annual report. Furthermore, Mr Tsui Yung Kwok was appointed as chairman of the audit committee and a member of the remuneration committee of the Board, and ceased to be the chairman but continued as a member of the nomination committee of the Board on 1 July 2016.

Among the 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: (i) developing and reviewing the Company's policies and practices on corporate governance and make recommendations to the Board; (ii) reviewing and monitoring the training and continuous professional development of the Company's Directors and senior management; (iii) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring codes of conduct and compliance manuals (if any) applicable to the Company's employees and Directors; and (v) reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the year under review, the Board reviewed and monitored the training and continuous professional development of the Directors and company secretary of the Company in compliance with the CG Code and the Listing Rules. Further, the Board reviewed and monitored the Group's policies and practices and noted that the Group had complied with the relevant legal and regulatory requirements in all material respects during the year under review. The Board 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 this Corporate Governance Report.

Attendance of each Director at the Board and committee meetings held during the year under review is summarized as follows:

	Training courses	Board Meeting	Annual General Meeting	Audit Committee	Remuneration Committee	Nomination Committee
		v	v	v	v	v

### Executive Directors

Mr Ding Huihuang (Chairman)	<i>i</i>	4/4	1/1	N/A	N/A	N/A
Mr Ding Wuhao (President)	<i>i</i>	4/4	0/1	N/A	N/A	2/2
Mr Ding Huirong (Vice resident)	<i>i</i>	4/4	1/1	N/A	N/A	N/A
Mr Wang Jiabi (Vice President)	<i>i</i>	4/4	1/1	N/A	2/2	N/A

### Independent Non-executive Directors

Mr Yan Man Sing, Frankie ( <i>vi</i> )	<i>ii</i>	1/2	0/1	1/1	2/2	1/2
Dr Liao Jianwen	<i>iii</i>	4/4	0/1	3/3	2/2	N/A
Mr Tsui Yung Kwok ( <i>vii</i> )	<i>ii, iii, iv</i>	4/4	1/1	3/3	N/A	2/2
Mr Li Yuen Fai Roger ( <i>viii</i> )	<i>iv</i>	2/2	N/A	2/2	N/A	N/A

#### Notes:

- i. Directors who attended Corporate Governance training course organised by the Company's legal adviser during the year under review.
- ii. Directors who attended courses organised by The Stock Exchange of Hong Kong Limited during the year.
- iii. Directors who participated training courses organised by professional bodies.
- iv. Directors who attended courses organised by the Hong Kong Institute of Certified Public Accountants.
- v. Number of meetings attended/number of meetings held.
- vi. For the year under review, Mr Yan Man Sing, Frankie was an independent non-executive Director, the chairman of the audit committee of the Board, and a member of the remuneration committee and nomination committee of the Board from 1 January 2016 to 30 June 2016.
- vii. For the year under review, Mr Tsui Yung Kwok ceased to be the chairman but continue as a member of the nomination committee of the Board, and became the chairman of the audit committee and a member of the remuneration committee of the Board from 1 July 2016.
- viii. For the year under review, Mr Li Yuen Fai Roger became an independent non-executive Director, a member of each of the audit committee and nomination committee, and the chairman of the nomination committee of the Board since 1 July 2016.

The Chairman 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.

# CORPORATE GOVERNANCE REPORT

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## 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 the 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, and each of such service contracts was renewed on 30 June 2012 and 30 June 2015, respectively. Mr. Tsui Yung Kwok, Dr. Liao Jianwen and Mr Li Yuen Fai Roger, independent non-executive Directors, have entered into a service contract with the Company for a term of three years commencing from 1 September 2012, 1 June 2014 and 1 July 2016, respectively, which are also renewable upon expiry. The service contract of Mr Tsui Yung Kwok has been renewed to the effect that the term of his existing service contract is three years commencing from 1 September 2015, and further revised a new term with another three years on 1 July 2016.

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. The details of her biographical is set out in the section headed "Director and Senior Management" of the annual report. Ms. Choi has 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 has established the following Board committees to oversee particular aspects of the Group's affairs. These committees are governed by their respective written terms of reference approved by the Board.

### AUDIT COMMITTEE

The audit committee of the Board (the "Audit Committee") was established on 10 June 2009 with written terms of reference in compliance with the CG Code. During the reporting period, the Audit Committee comprised three members who all are independent non-executive Directors, namely, Mr Yan Man Sing, Frankie (from 1 January 2016 to 30 June 2016), Mr Tsui Yung Kwok, Dr Liao Jianwen and Mr Li Yuen Fai Roger. Mr Yan Man Sing Frankie resigned as an independent non-executive Director on 1 July 2016 and ceased to be a member of the Audit Committee. His position as the chairman and member of the Audit Committee was replaced by Mr Tsui Yung Kwok and Mr Li Yuen Fai Roger, respectively. Mr. Yan Man Sing Frankie has been the chairman of the Audit Committee from 1 January 2016 to 30 June 2016, and since 1 July 2016, Mr Tsui Yung Kwok has been the chairman of the Audit Committee.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2016, including the accounting principles and practice adopted by the Group.

The primary duties of the Audit Committee are mainly to: (i) make recommendations to the Board on the appointment, reappointment and removal of the external auditors; (ii) approve the remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal; (iii) review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; (iv) discuss with the external auditors regarding the nature and scope of the audit and reporting obligations before the audit commences; (v) develop and implement policy on engaging an external auditors to supply non-audit services, identifying and making recommendations on any matters where action or improvement is needed; (vi) monitor integrity of the Company's financial statements, annual report, accounts and half-year report; (vii) review significant financial reporting judgements contained in them; and (viii) assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems. In reviewing these reports before their 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 reviewing the arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control, risk management systems 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 actions, and acts as the key representative body for overseeing the Company's relations with the external auditors.

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The Audit Committee held three meetings during the year ended 31 December 2016 with two meetings having been attended by external auditors. The meetings discussed the auditing, internal controls and financial reporting matters of the Company. The Audit Committee has: (i) considered significant or unusual items that are, or may need to be, reflected in the reports and accounts and matters that have been put forward by the Company's staff responsible for the accounting and financial reporting function as well as external auditors; (ii) oversighted the Company's financial reporting system and internal control procedures to review the Company's financial controls, internal control and risk management systems; and (iii) discussed with the management about the internal control system of the Company to ensure that management has performed its duty to have an effective internal control system. The discussion also included (i) the adequacy of resources; (ii) staff qualifications and experience; (iii) training programmes and budget of the Company's accounting and financial reporting function; (iv) major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings; (v) review of the Group's financial and accounting policies and practices and the external auditors' management letter; (vi) material queries raised by the external auditors to management about accounting records, and financial accounts and systems of control as well as management's responses. For the details of members' attendance of the Audit Committee's meeting, please refer to the table on P.41.

## REMUNERATION COMMITTEE

The remuneration committee of the Board (the "Remuneration Committee") was established on 10 June 2009 with written terms of reference in compliance with the CG Code. During the reporting period, the Remuneration Committee comprised three members, namely, Mr Yan Man Sing Frankie (from 1 January 2016 to 30 June 2016), Mr Wang Jiabi, Dr Liao Jianwen and Mr Tsui Yung Kwok (from 1 July 2016 to 31 December 2016). Mr Yan Man Sing Frankie resigned as an independent non-executive Director effective from 1 July 2016 and ceased to be the member of the Remuneration Committee. His role was replaced by Mr Tsui Yung Kwok from 1 July 2016. Dr. Liao Jianwen, an independent non-executive Director, is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are to: (i) 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; (ii) review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; (iii) 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; (iv) make recommendations to the Board on the remuneration of non-executive Directors by taking into account salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group; (v) 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 (vi) 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 held one meeting to review and approve the remuneration packages of Directors and senior management of the Group during the year ended 31 December 2016.

For the details of members' attendance of the Remuneration Committee Meeting, please refer to the table on P.41.

## NOMINATION COMMITTEE

The nomination committee of the Board (the "Nomination Committee") was established on 10 June 2009 with written terms of reference in compliance with the CG Code. During the reporting year, the Nomination Committee comprised of three members, namely Mr Ding Wuhao, Mr Tsui Yung Kwok and Mr Yan Man Sing Frankie (from 1 January 2016 to 30 June 2016) and Mr Li Yuen Fai Roger (from 1 July 2016 to 31 December 2016). Mr Yan Man Sing Frankie resigned as an independent non-executive Director effective from 1 July 2016 and ceased to be member of the Nomination Committee. His role was replaced by Mr Li Yuen Fai Roger from 1 July 2016. Mr Tsui Yung Kwok has been the chairman of the Nomination Committee from 1 January 2016 to 30 June 2016 and Mr Li Yuan Fai Roger has been as the chairman of the Nomination Committee since 1 July 2016.

The primary duties of the Nomination Committee are to: (i) 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; (ii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; (iii) assess the independence of independent non-executive Directors; and (iv) 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 held one meeting in the year ended 31 December 2016 to nominate the members of Board for retirement and re-election at the forthcoming AGM and 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.41.

The Company has adopted the board diversity policy on 29 August 2013 (the "Board Diversity Policy"). The purpose of the Board Diversity 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 Board Diversity 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 to, gender, race, language, cultural background, educational background, industry experience and professional experience, which are the measurable objectives for implementing the Board Diversity Policy.

The Nomination Committee has primary responsibility for identifying suitably qualified candidates to become members of the Board and shall give adequate consideration to the Board Diversity Policy in selection of Board candidates. Board nomination and appointments will continue to be made on merit basis based on the Group's business needs from time to time with adequate consideration of diversity of Board members.

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

During the year under review, the Nomination Committee considered the Board Diversity Policy and whether the Board had 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.

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## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration of the members of the senior management by band for the year ended 31 December 2016 is set out below:

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

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 for preparing 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 2016, the remuneration paid or payable to the external auditors, in respect of their audit and non-audit services are as follows:

	2016
Statutory audit services	RMB3,760,000
Non-audit services	RMB418,000

## Risk Management and Internal Control

The Board acknowledges its responsibility for ensuring 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 under review, the Board conducted reviews of the internal control systems of the Company from time to time and considered that such the internal control systems of the Company had been implemented effectively. The reviews 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

### Relationship with Investors

The Board recognises that effective and timely communication with the Company's investors plays a crucial role in maintaining existing investors' confidence and attracting new investors, so the Group continuously places great importance on proactive communication with its existing and potential investors.

The Group's Investor Relations Department has maintained close communication with shareholders and investors through email, conference call, one-on-one meetings, attending broker conferences, and non-deal roadshows, to ensure that investors and shareholders have received the Company's updates in a fair and timely manner and to facilitate their investment decision-making. Company site visits, trade fairs, store visits and other events are also arranged to deepen investors' understanding of our business and operations. The investors may also check our Investor Relations website at [www.ir.361sport.com](http://www.ir.361sport.com) where the Group's announcements, financial information, stock quotes, analyst coverage, press releases and other information are posted. The Group welcomes all investors to continue to give their opinions and suggestions to the Group. Please feel free to contact our Investor Relations Department at [nina@361sportshk.com](mailto:nina@361sportshk.com).

During the review period, we were honored to win the "Best Investor Relations Officer — Small Cap" at the 2nd "Hong Kong Investor Relations Association Investor Relations Awards" which demonstrated investors' recognition of our continuous pursuit of excellence and commitment to best practices in investor relations.

### 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 voting by poll are explained to the shareholders at the commencement of each general meeting, and questions from shareholders regarding the voting procedures are answered. Results of votings 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.

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## **Procedures for putting forward proposals at general meetings**

Any shareholder of the Company who wishes 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 shareholders' 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

Room 1609, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong

Email: 361@361sportshk.com

Tel No.: +852 2907 7088

Fax No.: +852 2907 7198

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

## **Constitutional Documents**

There was no change in the memorandum and articles of association of the Company during the year ended 31 December 2016.

## DIRECTORS

### Executive Directors

**Mr. Ding Wuhao (丁伍號)**, aged 51, joined the Group in June 2003 and has been the President of the Company since August 2008. 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 (亞洲體育傑出貢獻獎)" 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. Ding Huirong, both of whom are 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 51, joined the Group in June 2003. He 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 of whom are 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 45, joined the Group in June 2003 and 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 59, joined the Group in June 2003 and 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.

# DIRECTORS AND SENIOR MANAGEMENT

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## Independent non-executive Directors

**Mr. Tsui Yung Kwok (徐容國)**, aged 48, 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: 02030). Mr. Tsui is a member of Chartered Accountants Australia and New Zealand, CPA Australia, the Hong Kong Institute of Chartered Secretaries and HKICPA.

**Dr. Liao Jianwen (廖建文)**, aged 49, joined the Group in June 2014 and is an independent non-executive Director. He is the Associate Dean, Academic Director of Innovation Center, and Professor of Managerial Practice in Strategy, Innovation and Entrepreneurship at the Cheung Kong Graduate School of Business. His professional experience spans across North America and Asia. He was a tenured associate professor at the Stuart School of business, Illinois Institute of Technology during 2006 to 2012. Additionally, he held various visiting professor positions at Hong Kong University of Science and Technology, China European International Business School (the "CEIBS") and Peking University. Dr. Liao is primarily engaged in cross disciplinary research in strategy, innovation and entrepreneurship, and in particular the area of business transformation through digital technologies. He has won several awards for his research and teaching, including the research grant awards from the US Small Business Administration in 2007 and 2008 and the Excellence in Teaching Award in 2009 at Stuart School of Business at Illinois Institute of Technology. Dr. Liao also serves as an independent director at Colour Life Services Group Co. (Stock code: 01778), Fantasia Group (Stock Code: 01777) and Merchant Shekou (Stock Code: 001979.SZ). Dr. Liao received his Bachelor of Engineering from Northeastern University in July 1988, his Master of Economics from Renmin University of China in February 1991 and his Ph.D of Business Administration from Southern Illinois University at Carbondale, United States in August 1996.

**Mr. Li Yuen Fai Roger (李苑輝)**, aged 55, joined the Group in July 2016 and is an independent non-executive Director. Mr. Li has over 30 years of experience in corporate finance, accounting, auditing, corporate administration and business development. He is currently the sole practitioner for Roger Li & Co, a certified public accountant firm in Hong Kong from 2003. Mr. Li is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Taxation Institution of Hong Kong and was a member of the 7th, 8th and 9th Member of People's Political and Consultative Congress of Heilongjiang Province in the People's Republic of China and was appointed as the Economic Advisor of the Government of Chengde City of Hebei Province in the People's Republic of China in 1995.

## SENIOR MANAGEMENT

**Mr. Chen Yongling (陳永靈)**, aged 43, is the vice president in the office of the board of directors of the Group and is primarily responsible for the execution of the strategies of the Group and overall capital operation management. He joined the Group in August 2005. Mr. Chen has over 15 years of experience in finance, operation and business management. Mr. Chen received his diploma in business management from Zhejiang University (浙江大學) in January 2007. Mr. Chen holds a qualification certificate for accounting (中國會計師) 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. He enrolled in an EMBA program at Cheung Kong Graduate School of Business in October 2015 and was appointed as a member of the 12th Quanzhou Committee of Chinese People’s Political Consultative Conference in 2017.

**Mr. Lu Ning (盧寧)**, aged 49, 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.

**Mr. Lin Bing Huang (林炳煌)**, aged 59, 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 30 years experiences in managing international renowned sportswear brands. He joined the Group in August 2013. Mr. Lin received his bachelor’s degree in International Trade from Tunghai University (東海大學) in Taiwan.

**Ms. Choi Mun Duen (蔡敏端)**, aged 48, is the chief financial officer, an authorized representative and the company secretary of the Group and is responsible for the overall financial management and company secretarial functions of the Group. She joined the Group in October 2008. Ms. Choi has over 20 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.

**Ms. Zhan Xiao Xiao (詹瀟瀟)**, aged 35, is the vice-president of investor relations and is primarily responsible for the Group’s investor relations programme. She joined the Group in October 2015. Ms. Zhan has over 10 years of experience in corporate finance, investor relations, corporate governance and management from her previous positions in investment banking, communication advisory and Hong Kong Listed Company. She received her bachelor’s degree from Peking University, majoring in International Relations and double majoring in Economics. She received her master’s degree from the University of Pennsylvania in 2005, majoring in International Political Economy.

**Mr. Chen Jian Ci (陳建次)**, aged 46, 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 James Edward Monahan**, aged 50, is the vice president of one of the wholly-owned subsidiaries of the Group in the United States, and primarily responsible for directing the introduction and growth of the Group’s brands in the United States, Canada, Mexico and Central America. He has over 25 years of experience in the sporting goods industry with a leading international sports brand, including global roles in both product creation and marketing. He joined the Group in May 2014. Mr Monahan received his bachelor’s degree in education from Montclair State University in the United States.

# INDEPENDENT AUDITOR'S REPORT

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361 DEGREES INTERNATIONAL LIMITED



## Independent auditor's report to the shareholders of 361 Degrees International Limited

*(incorporated in the Cayman Islands with limited liability)*

### OPINION

We have audited the consolidated financial statements of 361 Degrees International Limited ("the Company") and its subsidiaries ("the Group") set out on pages 56 to 108, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Revenue recognition: Distributor arrangements

Refer to note 3 to the consolidated financial statements on page 75 and the accounting policy 1(r) on page 71.

The Key Audit Matter	How the matter was addressed in our audit
<p>Revenue of the Group mainly comprises sales of footwear, apparel and accessories through its network of distributors.</p> <p>The Group enters into framework distribution agreements with its distributors every year. According to the terms of the distribution agreements, revenue is recognised when the goods are received and accepted by the distributors, which is considered to be the point in time when the related risks and rewards of ownership of the goods are transferred to the distributors.</p> <p>The Group sources, manufactures and sells its products based on purchase orders placed by the distributors during several trade fairs held by the Group during the year.</p> <p>We have identified the recognition of revenue from distribution arrangements as a key audit matter because revenue is one of the key performance indicators of the Group and because there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.</p>	<p>Our audit procedures to address the recognition of revenue from distribution arrangements included the following:</p> <ul style="list-style-type: none"> <li>• inspecting all distribution agreements signed in the current year and considering whether the distribution agreements contained terms allowing the distributors to make any sales returns;</li> <li>• comparing, for a sample of sales transaction just before and just after the financial year end, details in the sales invoices to the relevant goods delivery notes, which were signed by the distributors to indicate their acceptance of the goods, to assess if the related revenue had been recognised in the appropriate financial period on the basis of the terms of sales as set out in the distribution agreements;</li> <li>• inspecting all sales returns during the reporting period and after the financial year end to assess whether sales returns had been accounted for in the appropriate financial period;</li> <li>• obtaining external confirmations of the value of sales transactions for the year ended 31 December 2016 and outstanding trade receivable balances as at that date directly from distributors, on a sample basis;</li> <li>• inspecting the sales invoices and related goods delivery notes with the distributors' signed acceptance for sales transactions for the year ended 31 December 2016 where the distributors did not return the requested confirmations;</li> <li>• inspecting significant manual adjustments to revenue during the reporting period, enquiring of management the reasons for such adjustments and comparing the details of the adjustments to relevant underlying documentation.</li> </ul>

# INDEPENDENT AUDITOR'S REPORT

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361 DEGREES INTERNATIONAL LIMITED

## INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



# INDEPENDENT AUDITOR'S REPORT

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As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Kim Tak.

## **KPMG**

*Certified Public Accountants*

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

14 March 2017

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2016 (Expressed in Renminbi)

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3 6 1 D E G R E E S I N T E R N A T I O N A L L I M I T E D

	Note	2016 RMB'000	2015 RMB'000
<b>Revenue</b>	3	<b>5,022,678</b>	4,458,701
Cost of sales		<b>(2,912,770)</b>	(2,635,738)
<b>Gross profit</b>		<b>2,109,908</b>	1,822,963
Other revenue	4	<b>112,824</b>	154,893
Other net (loss)/gain	4	<b>(10,021)</b>	27,279
Selling and distribution expenses		<b>(794,185)</b>	(712,895)
Administrative expenses		<b>(469,201)</b>	(377,571)
<b>Profit from operations</b>		<b>949,325</b>	914,669
Loss on repurchase of senior unsecured notes	19	<b>(55,068)</b>	–
Finance costs	5(a)	<b>(186,935)</b>	(125,510)
<b>Profit before taxation</b>	5	<b>707,322</b>	789,159
Income tax	6(a)	<b>(286,592)</b>	(259,540)
<b>Profit for the year</b>		<b>420,730</b>	529,619
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>402,652</b>	517,639
Non-controlling interests		<b>18,078</b>	11,980
<b>Profit for the year</b>		<b>420,730</b>	529,619
<b>Earnings per share</b>	9		
Basic (cents)		<b>19.5</b>	25.0
Diluted (cents)		<b>19.5</b>	25.0

The notes on pages 63 to 108 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 22(b).

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2016 (Expressed in Renminbi)

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	2016 RMB'000	2015 RMB'000
<b>Profit for the year</b>	<b>420,730</b>	529,619
<b>Other comprehensive income for the year</b>		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements	(65,621)	(34,700)
<b>Total comprehensive income for the year</b>	<b>355,109</b>	494,919
<b>Attributable to:</b>		
Equity shareholders of the Company	337,031	482,939
Non-controlling interests	18,078	11,980
<b>Total comprehensive income for the year</b>	<b>355,109</b>	494,919

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The notes on pages 63 to 108 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 2016 (Expressed in Renminbi)

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361 DEGREES INTERNATIONAL LIMITED

	Note	2016 RMB'000	2015 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	10	1,207,903	1,174,446
Interests in leasehold land held for own use under operating leases	10	117,108	119,260
		<b>1,325,011</b>	1,293,706
Other financial asset	12	6,763	17,550
Deposits and prepayments	14	101,586	92,080
Deferred tax assets	21(b)	22,501	28,537
		<b>1,455,861</b>	1,431,873
<b>Current assets</b>			
Inventories	13	540,593	551,957
Trade debtors	14	2,036,914	2,017,676
Bills receivable	14	184,405	235,510
Deposits, prepayments and other receivables	14	667,727	641,385
Pledged bank deposits	15&16	185,580	122,026
Deposits with banks	16	2,537,113	1,500,000
Cash and cash equivalents	16	2,881,632	2,286,225
		<b>9,033,964</b>	7,354,779
<b>Current liabilities</b>			
Trade and other payables	17	1,927,674	1,659,426
Bank loans	18	76,236	15,116
Current taxation	21(a)	339,193	255,907
		<b>2,343,103</b>	1,930,449
<b>Net current assets</b>		<b>6,690,861</b>	5,424,330

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2016 (Expressed in Renminbi)

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	Note	2016 RMB'000	2015 RMB'000
<b>Total assets less current liabilities</b>		<b>8,146,722</b>	6,856,203
<b>Non-current liabilities</b>			
Interest-bearing borrowings	19	2,726,929	1,489,395
Deferred tax liabilities	21(b)	2,071	351
		<b>2,729,000</b>	1,489,746
<b>NET ASSETS</b>		<b>5,417,722</b>	5,366,457
<b>CAPITAL AND RESERVES</b>			
Share capital	22(c)	182,298	182,298
Reserves		5,120,962	5,100,274
<b>Total equity attributable to equity shareholders of the Company</b>		<b>5,303,260</b>	5,282,572
<b>Non-controlling interests</b>		<b>114,462</b>	83,885
<b>TOTAL EQUITY</b>		<b>5,417,722</b>	5,366,457

Approved and authorised for issue by the board of directors on 14 March 2017.

Director

Director

The notes on pages 63 to 108 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016 (Expressed in Renminbi)

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3 6 1 D E G R E E S I N T E R N A T I O N A L L I M I T E D

Note	Attributable to equity shareholders of the Company								Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000		
<b>Balance at 1 January 2015</b>	182,298	129,087	156,252	90,489	533,062	(37,349)	3,911,202	4,965,041	71,905	5,036,946
<b>Changes in equity for 2015:</b>										
Profit for the year	-	-	-	-	-	-	517,639	517,639	11,980	529,619
Other comprehensive income	-	-	-	-	-	(34,700)	-	(34,700)	-	(34,700)
Total comprehensive income	-	-	-	-	-	(34,700)	517,639	482,939	11,980	494,919
Appropriation to statutory reserve	-	-	-	-	12,783	-	(12,783)	-	-	-
Dividends declared and paid during the year	22(b)	(62,028)	-	-	-	-	(103,380)	(165,408)	-	(165,408)
<b>Balance at 31 December 2015</b>	182,298	67,059	156,252	90,489	545,845	(72,049)	4,312,678	5,282,572	83,885	5,366,457
<b>Balance at 1 January 2016</b>	182,298	67,059	156,252	90,489	545,845	(72,049)	4,312,678	5,282,572	83,885	5,366,457
<b>Changes in equity for 2016:</b>										
Profit for the year	-	-	-	-	-	-	402,652	402,652	18,078	420,730
Other comprehensive income	-	-	-	-	-	(65,621)	-	(65,621)	-	(65,621)
Total comprehensive income	-	-	-	-	-	(65,621)	402,652	337,031	18,078	355,109
Contribution by owners	-	-	-	-	-	-	-	-	12,279	12,279
Business combination	23	-	-	-	-	-	-	-	220	220
Appropriation to statutory reserve	-	-	-	-	11,181	-	(11,181)	-	-	-
Dividends declared and paid during the year	22(b)	(67,059)	(156,252)	-	-	-	(93,032)	(316,343)	-	(316,343)
<b>Balance at 31 December 2016</b>	182,298	-	-	90,489	557,026	(137,670)	4,611,117	5,303,260	114,462	5,417,722

The notes on pages 63 to 108 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2016 (Expressed in Renminbi)

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	Note	2016 RMB'000	2015 RMB'000
<b>Operating activities</b>			
Profit before taxation		707,322	789,159
Adjustments for:			
Depreciation	5(c)	107,927	64,428
Amortisation of land lease premium	5(c)	2,152	2,152
Finance costs	5(a)	186,935	125,510
Interest income	4	(75,984)	(98,536)
Loss on repurchase of senior unsecured notes	19	55,068	–
Net loss/(gain) on disposal of property, plant and equipment	4	256	(77)
Dividend income from investments in securities		(3,838)	–
Reversal of impairment losses on trade receivables	5(c)	(23,500)	–
Effect of foreign exchange rates changes		49,932	(34,426)
Changes in working capital:			
Decrease in inventories		11,364	18,101
Decrease/(increase) in trade debtors		218,524	(493,436)
Decrease/(increase) in bills receivable		51,105	(103,497)
(Increase)/decrease in deposits, prepayments and other receivables		(20,472)	256,582
Increase/(decrease) in trade and other payables		60,402	(152,172)
<b>Cash generated from operations</b>		<b>1,327,193</b>	<b>373,788</b>
People's Republic of China ("PRC") income tax paid		(195,550)	(128,355)
<b>Net cash generated from operating activities</b>		<b>1,131,643</b>	<b>245,433</b>
<b>Investing activities</b>			
Payment for the purchase of property, plant and equipment		(147,593)	(253,316)
Proceeds from disposal of property, plant and equipment		239	383
Payment for the acquisition of a subsidiary, net of cash acquired	23	14,581	–
Proceeds of capital reduction of investments in securities		10,787	–
Dividends received from investments in securities		3,838	–
(Increase)/decrease in pledged bank deposits		(63,554)	53,869
(Increase)/decrease in deposits with banks		(1,037,113)	300,000
Interest received		70,114	92,523
<b>Net cash (used in)/generated from investing activities</b>		<b>(1,148,701)</b>	<b>193,459</b>

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2016 (Expressed in Renminbi)

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361 DEGREES INTERNATIONAL LIMITED

	<i>Note</i>	<b>2016</b> <b>RMB'000</b>	2015 RMB'000
<b>Financing activities</b>			
Proceeds from senior unsecured notes		<b>2,596,451</b>	-
Repurchase of senior unsecured notes		<b>(1,550,234)</b>	-
Proceeds from bank loans		<b>61,252</b>	-
Repayment of bank loans		<b>(1,018)</b>	(1,026)
Interest paid		<b>(198,055)</b>	(114,120)
Dividends paid	22(b)	<b>(316,343)</b>	(165,408)
Proceeds from investors		<b>12,279</b>	-
<b>Net cash generated from/(used in) financing activities</b>		<b>604,332</b>	(280,554)
<b>Net increase in cash and cash equivalents</b>		<b>587,274</b>	158,338
<b>Cash and cash equivalents at 1 January</b>		<b>2,286,225</b>	2,130,237
<b>Effect of foreign exchange rate changes</b>		<b>8,133</b>	(2,350)
<b>Cash and cash equivalents at 31 December</b>	16	<b>2,881,632</b>	2,286,225

The notes on pages 63 to 108 form part of these financial statements.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise indicated)

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## 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. Significant accounting policies adopted by the Group are disclosed 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. 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 2016 comprise the Company and its subsidiaries (together referred to as the "Group").

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

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

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.

### (c) Change in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the group's results and financial position for the current or prior periods have been prepared or presented.

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

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise indicated)

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3 6 1 D E G R E E S I N T E R N A T I O N A L L I M I T E D

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see note 1(e)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

### (e) 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(l) or (m) 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.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise indicated)

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## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Subsidiaries and non-controlling interests (Continued)

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.

### (f) 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.

### (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(i)).

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.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise indicated)

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361 DEGREES INTERNATIONAL LIMITED

## 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.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise indicated)

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3 6 1 D E G R E E S I N T E R N A T I O N A L L I M I T E D

## 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.

### (i) 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.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise indicated)

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## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (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.

Bills receivable are derecognised if substantially all the risks and rewards of ownership of the bills receivable are transferred. If substantially all the risks and rewards of ownership of bills receivable are retained, the bills receivable are continued to be recognised in the statement of financial position.

### (l) 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.

### (m) 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.

### (n) 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.

### (o) Employee benefits

#### 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.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise indicated)

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (p) 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.

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.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise indicated)

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ANNUAL REPORT 2016

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (p) Income tax (Continued)

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.

### (q) 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.

### (r) 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.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise indicated)

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361 DEGREES INTERNATIONAL LIMITED

## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (s) 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.

### (t) 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.

### (u) Research and development and advertising

Expenditure on research and development 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.

### (v) 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.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise indicated)

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## 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (v) Related parties (Continued)

- (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).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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.

### (w) 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 revenue and profit from operations of the Group are mainly derived from activities in the PRC.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise indicated)

## 2 ACCOUNTING JUDGEMENT AND ESTIMATES

### (a) Sources of estimation uncertainty

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

#### (i) Useful lives of property, plant and equipment

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

#### (ii) Impairment losses on trade debtors and bills receivable

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

#### (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.

# NOTES TO THE FINANCIAL STATEMENTS

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## 2 ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

### (a) Sources of estimation uncertainty (Continued)

#### (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 REVENUE AND SEGMENT REPORTING

### (a) Revenue

The principal activities of the Group are manufacturing and trading of sporting goods, including footwear, apparel, accessories and others in the PRC. Revenue represents the sales value of goods sold less returns, discounts and value added taxes and other sales taxes.

Revenue by product type is as follows:

	2016 RMB'000	2015 RMB'000
Footwear	2,533,420	2,072,483
Apparel	2,280,530	2,289,990
Accessories	103,544	96,228
Others	105,184	–
	5,022,678	4,458,701

The Group's customer base is diversified and has only one (2015: two) customer with whom transactions have exceeded 10% of the Group's revenues. In 2016, revenues from sales of footwear, apparel, accessories and others in both reportable segments (see note 3(b)) to the (2015: two) customer, including sales to entities which are known to the Group to be under common control with this customer, were approximately RMB655 million (2015: approximately RMB585 million and RMB454 million respectively). Details of concentrations of credit risk arising from these customers are set out in note 24(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.

- Adults: this segment derives revenue from manufacturing and trading of adults sporting goods.
- Kids: this segment derives revenue from trading of kids sporting goods.

The Group's revenue and results were primarily 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.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise indicated)

## 3 REVENUE 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 2016 and 2015 is set out below.

	Adults		Kids		Total	
	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Reportable segment revenue	4,371,434	3,869,772	651,244	588,929	5,022,678	4,458,701
Cost of sales	(2,544,974)	(2,288,146)	(367,796)	(347,592)	(2,912,770)	(2,635,738)
Reportable segment profit (gross profit)	1,826,460	1,581,626	283,448	241,337	2,109,908	1,822,963

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

	2016 RMB'000	2015 RMB'000
<b>Revenue</b>		
Reportable segment revenue and consolidated revenue (note 3(a))	5,022,678	4,458,701
<b>Profit</b>		
Reportable segment profit	2,109,908	1,822,963
Other revenue	112,824	154,893
Other net (loss)/gain	(10,021)	27,279
Selling and distribution expenses	(794,185)	(712,895)
Administrative expenses	(469,201)	(377,571)
Loss on repurchase of senior unsecured notes	(55,068)	–
Finance costs	(186,935)	(125,510)
Consolidated profit before taxation	707,322	789,159

# NOTES TO THE FINANCIAL STATEMENTS

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## 4 OTHER REVENUE AND NET (LOSS)/GAIN

	2016 RMB'000	2015 RMB'000
<b>Other revenue</b>		
Bank interest income	75,984	98,536
Government grants	9,884	35,194
Others	26,956	21,163
	<b>112,824</b>	154,893
<b>Other net (loss)/gain</b>		
Net (loss)/gain on disposal of property, plant and equipment	(256)	77
Net foreign exchange (loss)/gain	(9,765)	27,202
	<b>(10,021)</b>	27,279

Government grants of RMB9,884,000 (2015: RMB35,194,000) were received from several local government authorities for the Group's contribution to local economies, of which the entitlement was unconditional and under the discretion of the relevant authorities.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise indicated)

## 5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2016 RMB'000	2015 RMB'000
<b>(a) Finance costs</b>		
Interest on bank and other borrowings	1,785	1,620
Finance charges on senior unsecured note (note 19)	185,150	123,890
Total interest expense on financial liabilities not carried at fair value through profit or loss	186,935	125,510
<b>(b) Staff costs</b>		
Contributions to defined contribution retirement plans	22,614	21,861
Salaries, wages and other benefits	412,778	349,757
	435,392	371,618
<b>(c) Other items</b>		
Auditors' remuneration		
— audit services	3,760	3,600
— tax services	—	109
— other services	418	—
Amortisation of land lease premium	2,152	2,152
Depreciation	107,927	64,428
Reversal of impairment losses on trade receivables (note 14(b))	(23,500)	—
Operating lease charges in respect of properties	9,360	12,369
Research and development costs *	187,396	139,646
Cost of inventories **	2,912,770	2,635,738

\* Research and development costs include RMB50,008,000 (2015: RMB33,122,000) 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 RMB268,612,000 (2015: RMB240,902,000) 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.



# NOTES TO THE FINANCIAL STATEMENTS

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## 6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2016 RMB'000	2015 RMB'000
<b>Current tax — PRC income tax</b>		
Provision for the year	277,175	227,002
Under-provision in respect of prior years	1,661	10,886
	<b>278,836</b>	237,888
<b>Deferred tax</b>		
Origination and reversal of temporary differences	7,756	21,652
	<b>286,592</b>	259,540

- (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 Profits Tax in Hong Kong, Brazil, USA and Netherlands as the Group did not earn any income subject to Profits Tax in Hong Kong, Brazil, USA and Netherlands during the year.
- (iii) All PRC subsidiaries are subject to income tax at 25% for the year ended 31 December 2016 (2015: 25%) under the Enterprise Income Tax law ("EIT law").

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

	2016 RMB'000	2015 RMB'000
Profit before taxation	707,322	789,159
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	249,132	218,907
Tax effect of non-deductible expenses	25,096	24,290
Tax effect of non-taxable income	(1,547)	(3,659)
Under-provision in prior years	1,661	10,886
Withholding tax on dividends	12,250	9,116
Actual tax expense	<b>286,592</b>	259,540

# NOTES TO THE FINANCIAL STATEMENTS

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361 DEGREES INTERNATIONAL LIMITED

## 7 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2016			
	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
<b>Executive directors</b>				
Ding Wuhao	–	1,361	15	1,376
Ding Huihuang	–	1,120	15	1,135
Ding Huirong	–	1,082	15	1,097
Wang Jiabi	–	648	15	663
<b>Independent non-executive directors</b>				
Yan Man Sing (note 7(1))	241	–	–	241
Liao Jianwen	360	–	–	360
Tsui Yung Kwok	421	–	–	421
Li Yuen Fai (note 7(2))	180	–	–	180
	1,202	4,211	60	5,473

	2015			
	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
<b>Executive directors</b>				
Ding Wuhao	–	1,280	15	1,295
Ding Huihuang	–	1,067	15	1,082
Ding Huirong	–	1,047	15	1,062
Wang Jiabi	–	646	15	661
<b>Independent non-executive directors</b>				
Yan Man Sing	456	–	–	456
Liao Jianwen	360	–	–	360
Tsui Yung Kwok	342	–	–	342
	1,158	4,040	60	5,258

Notes:

(1) Mr. Yan Man Sing resigned as independent non-executive director on 1 July 2016.

(2) Mr. Li Yuen Fai was appointed as independent non-executive director on 1 July 2016.

# NOTES TO THE FINANCIAL STATEMENTS

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## 8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, no one (2015: one) is director whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the five (2015: four) individuals are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and other emoluments	10,578	7,742
Retirement scheme contributions	183	86
	<b>10,761</b>	<b>7,828</b>

The emoluments of the five (2015: four) individuals with the highest emoluments are within the following bands:

	2016 Number of individuals	2015 Number of individuals
HK\$1,500,001 to HK\$2,000,000	1	-
HK\$2,000,001 to HK\$2,500,000	2	3
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$3,000,001 to HK\$3,500,000	1	-

## 9 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB402,652,000 (2015: RMB517,639,000) and the weighted average of 2,067,602,000 ordinary shares (2015: 2,067,602,000 ordinary shares) in issue during the year.

### (b) Diluted earnings per share

For the year ended 31 December 2015 and 2016, 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.

# NOTES TO THE FINANCIAL STATEMENTS

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## 10 PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

	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
<b>Cost:</b>								
At 1 January 2015	808,875	219,347	129,794	31,708	198,452	1,388,176	107,156	1,495,332
Exchange adjustments	2,582	-	122	-	-	2,704	-	2,704
Additions	44,605	11,931	15,708	7	113,752	186,003	25,962	211,965
Transfer	305,604	-	-	-	(305,604)	-	-	-
Disposals	-	(2,549)	-	-	-	(2,549)	-	(2,549)
At 31 December 2015	1,161,666	228,729	145,624	31,715	6,600	1,574,334	133,118	1,707,452
<b>Accumulated depreciation and amortisation:</b>								
At 1 January 2015	134,965	91,427	90,852	20,256	-	337,500	11,706	349,206
Exchange adjustments	135	-	68	-	-	203	-	203
Charge for the year	31,810	14,273	14,041	4,304	-	64,428	2,152	66,580
Written back on disposals	-	(2,243)	-	-	-	(2,243)	-	(2,243)
At 31 December 2015	166,910	103,457	104,961	24,560	-	399,888	13,858	413,746
<b>Net book value:</b>								
At 31 December 2015	994,756	125,272	40,663	7,155	6,600	1,174,446	119,260	1,293,706

# NOTES TO THE FINANCIAL STATEMENTS

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## 10 PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (Continued)

	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
<b>Cost:</b>								
At 1 January 2016	1,161,666	228,729	145,624	31,715	6,600	1,574,334	133,118	1,707,452
Acquisition from a business combination	-	-	151	-	-	151	-	151
Exchange adjustments	3,031	27	166	-	-	3,224	-	3,224
Additions	711	9,953	72,591	1,176	54,439	138,870	-	138,870
Transfer	36,173	-	11,470	-	(47,643)	-	-	-
Disposals	-	(874)	(2,084)	(319)	-	(3,277)	-	(3,277)
At 31 December 2016	1,201,581	237,835	227,918	32,572	13,396	1,713,302	133,118	1,846,420
<b>Accumulated depreciation and amortisation:</b>								
At 1 January 2016	166,910	103,457	104,961	24,560	-	399,888	13,858	413,746
Exchange adjustments	237	14	115	-	-	366	-	366
Charge for the year	65,662	19,287	20,272	2,706	-	107,927	2,152	110,079
Written back on disposals	-	(716)	(1,875)	(191)	-	(2,782)	-	(2,782)
At 31 December 2016	232,809	122,042	123,473	27,075	-	505,399	16,010	521,409
<b>Net book value:</b>								
At 31 December 2016	968,772	115,793	104,445	5,497	13,396	1,207,903	117,108	1,325,011

# NOTES TO THE FINANCIAL STATEMENTS

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## 10 PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (Continued)

As at 31 December 2016, a property with net book value of RMB47,824,000 (2015: RMB46,000,000) was pledged as security for a banking facility of the Group of RMB 45,004,000 (2015: RMB42,387,000).

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

	2016 RMB'000	2015 RMB'000
In Hong Kong — medium-term leases	47,824	46,000
In PRC — medium-term leases	1,038,056	1,068,016
	1,085,880	1,114,016
<b>Representing:</b>		
Buildings	968,772	994,756
Interest in leasehold land held for own use under operating leases	117,108	119,260
	1,085,880	1,114,016

# NOTES TO THE FINANCIAL STATEMENTS

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## 11 INVESTMENTS IN SUBSIDIARIES

Particulars of the Group'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	100 shares of US\$1 each	100%	100%	-	Investment holding
361 Enterprise Company Limited	Hong Kong	1 share	100%	-	100%	Investment holding
361 Investment Company Limited	Hong Kong	1 share	100%	-	100%	Investment holding
361 Degrees (HK) Investment Limited	Hong Kong	1 share	87%	-	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	RMB 100,000,000	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\$120,000,000	51%	-	51%	Manufacture and trading of shoes soles
361 Degrees Children's Clothing Co., Ltd. 三六一度童裝有限公司 (Note (i) and (iv))	PRC	HK\$80,000,000	87%	-	100%	Trading of children sporting goods
Yue Lei International Limited 宇彌國際有限公司	Hong Kong	100,000 shares	100%	-	100%	Trading of sporting goods
361 Degrees Kids Wear Holdings Limited	BVI	1 share of US\$1 each	100%	-	100%	Investment holding
361 Degrees Kids Wear Limited	Cayman Islands	1,000,000 shares of HK\$0.01 each	87%	-	87%	Investment holding
361 Degrees Kids Wear Investment Limited	BVI	1 share of US\$1 each	87%	-	100%	Investment holding

# NOTES TO THE FINANCIAL STATEMENTS

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## 1.1 INVESTMENTS IN SUBSIDIARIES (Continued)

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	
One Way International Enterprise Limited 萬唯國際實業有限公司	Hong Kong	10,000 shares	70%	-	70%	Investment holding
Zhonglan Sports Goods Co. Ltd 中蘭體育用品有限公司 (Note (i) and (iv))	PRC	RMB49,910,463	70%	-	100%	Investment holding
Wangwei (Xiamen) Industry & Trade Co., Limited 望唯(廈門)工貿有限公司 (Note (ii) and (iv))	PRC	RMB5,000,000	70%	-	100%	Trading of sporting goods
361 USA, Inc	United States	USD14	100%	-	100%	Trading of sporting goods
Yue Lei do Brasil Comercio, Importacao e Exportacao de Artigos Esportivos Ltda	Brazil	38,033,760 shares of RIO\$1 each	100%	-	100%	Trading of sporting goods
Quanzhou Jinjiang Jiangtuo Minhai Gas Station Ltd. 泉州晉江江頭閩海加油站有限公司 (Note (ii) and (iv))	PRC	RMB25,100,000	51%	-	51%	Operating of gas station
Duoyidu (Quanzhou) Ecommerce Co., Ltd. 多一度(泉州)電子商務有限公司 (Note (ii) and (iv))	PRC	RMB1,000,000	80%	-	80%	Distribution and sales of the Group's 361° products via the e-commerce platform
361° Europe Holding B.V.	Netherlands	EURO100	100%	-	100%	Investment holding
361° Europe B.V.	Netherlands	EURO100	100%	-	100%	Trading of sporting goods

### Notes:

- (i) These entities are wholly foreign owned enterprises established in the PRC.
- (ii) These entities are limited liability companies established in the PRC.
- (iii) The entity is a sino-foreign equity joint venture enterprise 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.



# NOTES TO THE FINANCIAL STATEMENTS

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## 12 OTHER NON-CURRENT FINANCIAL ASSET

	2016 RMB'000	2015 RMB'000
Unlisted available-for-sale equity securities	6,763	17,550

## 13 INVENTORIES

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

	2016 RMB'000	2015 RMB'000
Raw materials	36,131	19,860
Work in progress	24,225	21,330
Finished goods	480,237	510,767
	540,593	551,957

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

	2016 RMB'000	2015 RMB'000
Carrying amount of inventories sold	2,912,770	2,635,738

# NOTES TO THE FINANCIAL STATEMENTS

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## 14 TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
<b>Trade debtors</b>		
Trade debtors	2,093,569	2,097,831
Less: allowance for doubtful debts (note 14(b))	(56,655)	(80,155)
	<b>2,036,914</b>	2,017,676
<b>Bills receivable</b>	<b>184,405</b>	235,510
<b>Deposits, prepayments and other receivables</b>		
<i>Current</i>		
Deposits	1,234	2,696
Prepayments	598,907	574,241
Other receivables	67,586	64,448
	<b>667,727</b>	641,385
<i>Non-current</i>		
Deposits and prepayments	101,586	92,080

As at 31 December 2016, the Group endorsed certain bank acceptance bills totalling RMB169,105,000 (2015: RMB121,517,000) to suppliers for settling trade payables of the same amount on a full recourse basis. The Group have derecognised these bills receivable and the payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of the reporting period. In the opinion of the directors, the Group have transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group have limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

Included in prepayments are amounts prepaid to suppliers of RMB585,861,000 (2015: RMB520,838,000).

All of the trade debtors, bills receivable and current portion of deposits, prepayments and other receivables are expected to be recovered or recognised as expenses within one year.

# NOTES TO THE FINANCIAL STATEMENTS

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## 14 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:

	2016 RMB'000	2015 RMB'000
Within 90 days	2,070,022	1,704,642
Over 90 days but within 180 days	151,297	548,544
	<b>2,221,319</b>	2,253,186

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

### (b) Impairment of trade debtors 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:

	2016 RMB'000	2015 RMB'000
At 1 January	80,155	80,155
Impairment loss reversed	(23,500)	–
At 31 December	<b>56,655</b>	80,155

At 31 December 2016, the Group's trade debtors of RMB297,066,000 (2015: RMB325,447,000) 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 RMB56,655,000 (2015: RMB80,155,000) were recognised. The Group does not hold any collateral over these balances.

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## 14 TRADE AND OTHER RECEIVABLES (Continued)

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

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

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	1,951,561	2,002,865
Within 30 days past due	15,844	1,797
Over 30 days but within 90 days past due	13,503	3,232
Amount past due	29,347	5,029
	1,980,908	2,007,894

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 experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 15 PLEDGED BANK DEPOSITS

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

# NOTES TO THE FINANCIAL STATEMENTS

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## 16 CASH AND BANK DEPOSITS

	2016 RMB'000	2015 RMB'000
Pledged bank deposits	185,580	122,026
Deposits with banks		
— More than three months to maturity when placed	2,537,113	1,500,000
— Within three months to maturity when placed	80,219	723,436
Cash at bank and in hand	2,801,413	1,562,789
<b>Cash and bank deposits</b>	<b>5,604,325</b>	<b>3,908,251</b>
<i>Represented by:</i>		
Pledged bank deposits	185,580	122,026
Deposits with banks	2,537,113	1,500,000
Cash and cash equivalents	2,881,632	2,286,225
	<b>5,604,325</b>	<b>3,908,251</b>

At 31 December 2016, 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 RMB4,913,860,000 (2015: RMB3,631,716,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

## 17 TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade creditors	681,843	733,881
Bills payable	652,686	407,297
Receipts in advance	88,036	38,782
Other payables and accruals	505,109	479,466
	<b>1,927,674</b>	<b>1,659,426</b>

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 2016 and 2015 were secured by pledged bank deposits as disclosed in note 15.

# NOTES TO THE FINANCIAL STATEMENTS

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361 DEGREES INTERNATIONAL LIMITED

## 17 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:

	2016 RMB'000	2015 RMB'000
Due within 1 month or on demand	263,985	356,921
Due after 1 month but within 3 months	360,030	271,120
Due after 3 months but within 6 months	710,514	513,137
	<b>1,334,529</b>	1,141,178

## 18 BANK LOANS

At 31 December 2016, the bank loans were repayable within one year or on demand and secured as follows:

	2016 RMB'000	2015 RMB'000
Secured bank loans	14,983	15,116
Unsecured bank loans	61,253	-
	<b>76,236</b>	15,116

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

	2016 RMB'000	2015 RMB'000
Facilities amount	4,685,004	2,622,387
Utilisation at the end of the reporting period		
— Bills payable	652,686	407,297
— Bank loans	76,236	15,116
	<b>728,922</b>	422,413

For the years ended 31 December 2016 and 2015, bank loans and bills payable of the Group were secured by a property and pledged bank deposits (see notes 10 and 15). The Group's bank loans were not subject to any covenants.

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## 19 NON-CURRENT INTEREST-BEARING BORROWINGS

(a) The analysis of the carrying amount of non-current interest-bearing borrowings is as follows:

	2016 RMB'000	2015 RMB'000
Senior unsecured notes due 2017 (note 19(b)(i))	–	1,489,395
Senior unsecured notes due 2021 (note 19(b)(iii))	2,726,929	–
	2,726,929	1,489,395

All of the non-current interest-bearing borrowings are carried at amortised cost.

(b) Significant terms and repayment schedule of non-bank borrowings

(i) Senior unsecured notes due 2017

On 12 September 2014, the Company issued senior unsecured notes with principal amount of RMB1,500,000,000 due 2017 (the “CNH Notes”). The CNH Notes are interest bearing at 7.5% per annum, and payable on a semi-annual basis in arrears. The maturity date of the CNH Notes is 12 September 2017. The effective interest rate of the CNH Notes is 8.42% per annum.

The Group fully repurchased the CNH Notes with principal amount of RMB1,500,000,000 in 2016. All the repurchased CNH Notes were cancelled on or before 5 October 2016.

(ii) Senior unsecured notes due 2021

On 3 June 2016, the Company issued senior unsecured notes with principal amount of USD400,000,000 due 2021 (the “USD Notes”). The USD Notes are interest bearing at 7.25% per annum, and payable on a semi-annual basis in arrears. The maturity date of the USD Notes is 3 June 2021. The effective interest rate of the USD Notes is 7.86% per annum.

## 20 EMPLOYEE RETIREMENT BENEFITS

### Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in a defined contribution retirement benefit scheme (“the Scheme”) organised by the PRC municipal government authority in the Fujian Province whereby the Group is required to make contributions to the Scheme at rates which ranged from 16% to 19% 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\$30,000. Contributions to the plan vest immediately.

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

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361 DEGREES INTERNATIONAL LIMITED

## 21 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

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

	2016 RMB'000	2015 RMB'000
Balance at beginning of the year	255,907	146,374
Under-provision in respect of prior years	1,661	10,886
Provision for PRC income tax for the year	277,175	227,002
Payment during the year	(195,550)	(128,355)
	<b>339,193</b>	255,907

### (b) Deferred tax assets and liabilities recognised:

#### (i) Movement of each component of deferred tax assets and liabilities

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 deductible on paid basis RMB'000	Income taxable on receipt basis RMB'000	Total RMB'000
<b>Deferred tax arising from:</b>					
At 1 January 2015	20,038	(4,384)	37,998	(3,814)	49,838
Credited/(charged) to profit or loss	–	1,884	(24,941)	1,405	(21,652)
At 31 December 2015	20,038	(2,500)	13,057	(2,409)	28,186
At 1 January 2016 (Charged)/credited to profit or loss	<b>20,038</b> <b>(5,875)</b>	<b>(2,500)</b> <b>2,500</b>	<b>13,057</b> <b>(4,025)</b>	<b>(2,409)</b> <b>(356)</b>	<b>28,186</b> <b>(7,756)</b>
At 31 December 2016	<b>14,163</b>	–	<b>9,032</b>	<b>(2,765)</b>	<b>20,430</b>



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## 21 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (Continued)

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

#### (ii) Reconciliation to the consolidated statement of financial position

	2016 RMB'000	2015 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	22,501	28,537
Net deferred tax liabilities recognised in the consolidated statement of financial position	(2,071)	(351)
	<b>20,430</b>	28,186

### (c) Deferred tax liabilities not recognised

Pursuant to the EIT law, 10% withholding tax is levied on the foreign investor, (foreign investors which are registered in Hong Kong and meet certain requirements specified in the relevant tax regulations in the PRC may be entitled to a preferential 5% rate), in respect of dividend distributions arising from profit earned by a foreign investment enterprise in the PRC after 1 January 2008.

At 31 December 2016, the Group has not recognised deferred tax liabilities of RMB247,041,000 (2015: RMB218,254,000) in respect of temporary differences relating to the undistributed profits of subsidiaries amounting to RMB4,940,824,000 (2015: RMB4,365,086,000) 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.

# NOTES TO THE FINANCIAL STATEMENTS

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## 22 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:

	Note	Share capital RMB'000	Share premium RMB'000	Exchange reserve RMB'000	Retain profits RMB'000	Total RMB'000
<b>Balance at 1 January 2015</b>		182,298	129,087	(105,150)	73,483	279,718
<b>Changes in equity for 2015:</b>						
Profit for the year		-	-	-	173,307	173,307
Other comprehensive income		-	-	14,127	-	14,127
Total comprehensive income for the year		-	-	14,127	173,307	187,434
Dividends declared and paid during the year	22(b)	-	(62,028)	-	(103,380)	(165,408)
<b>Balance at 31 December 2015</b>		182,298	67,059	(91,023)	143,410	301,744
<b>Balance at 1 January 2016</b>		<b>182,298</b>	<b>67,059</b>	<b>(91,023)</b>	<b>143,410</b>	<b>301,744</b>
<b>Changes in equity for 2016:</b>						
Profit for the year		-	-	-	212,215	212,215
Other comprehensive income		-	-	10,912	-	10,912
Total comprehensive income for the year		-	-	10,912	212,215	223,127
Dividends declared and paid during the year	22(b)	-	(67,059)	-	(249,284)	(316,343)
<b>Balance at 31 December 2016</b>		<b>182,298</b>	<b>-</b>	<b>(80,111)</b>	<b>106,341</b>	<b>208,528</b>

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## 22 CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (b) Dividends

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

	2016 RMB'000	2015 RMB'000
Interim dividend declared and paid of HK5.8 cents (equivalent to RMB5.0 cents) per ordinary share (2015: RMB5.0 cents per ordinary share)	103,380	103,380
Special dividend declared and paid of HK5.8 cents (equivalent to RMB5.0 cents) per ordinary share (2015: RMB Nil per ordinary share)	103,380	–
Final dividend proposed after the end of the reporting period of HK1.1 cents (equivalent to RMB1.0 cent) per ordinary share (2015: HK6.3 cents (equivalent to RMB5.3 cents) per ordinary share)	20,676	109,583
	<b>227,436</b>	212,963

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

	2016 RMB'000	2015 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK 6.3 cents (equivalent to RMB5.3 cents) per ordinary share (2015: RMB3.0 cents per ordinary share)	109,583	62,028

### (c) Share capital

	2016		2015	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
<b>Authorised:</b>				
Ordinary shares of HK\$0.1 each	10,000,000	1,000,000	10,000,000	1,000,000

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361 DEGREES INTERNATIONAL LIMITED

## 22 CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (c) Share capital (Continued)

	Number of shares '000	Amount HK\$'000	RMB'000
<b>Ordinary shares, issued and fully paid:</b>			
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	2,067,602	206,760	182,298

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

### (d) Nature and purpose of reserves

#### (i) Share premium

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

#### (ii) Capital reserve

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

#### (iii) Other reserve

On 25 July 2008, the 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".

## 22 CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (d) Nature and purpose of reserves (Continued)

#### (iv) Statutory reserve

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

#### (v) 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(s).

### (e) Distributability of reserves

At 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB26,230,000 (2015: RMB119,446,000). After the end of the reporting period, the directors proposed a final dividend of HK1.1 cents (equivalent to RMB1.0 cents) (2015: HK 6.3 cents (equivalent to RMB5.3 cents)) per ordinary share, amounting to RMB20,676,000 (2015: RMB109,583,000). This dividend has not been recognised as a liability at the end of the reporting period.

### (f) 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 interest bearing debt over its total assets, as at 31 December 2016 was 27% (2015: 17%).

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

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361 DEGREES INTERNATIONAL LIMITED

## 23 BUSINESS COMBINATION

On 30 August 2016, the Group acquired 80% equity interest in Duoyidu (Quanzhou) E-commerce Co., Ltd. ("Duoyidu") from an independent third party at a total consideration of RMB880,000. Duoyidu is principally engaged in the business of distribution and sales of 361° products via the e-commerce platform.

The above acquisition had the following effect on the Group's assets and liabilities:

	Recognised value on acquisition RMB'000
Property, plant and equipment	151
Trade and other receivables	214,261
Cash and cash equivalents	15,461
Trade and other payables	(228,773)
<b>Total identifiable net assets acquired</b>	<b>1,100</b>
Consideration transferred	880
NCI, based on their proportionate interest in the recognised amounts of the assets and liabilities of Duoyidu	220
Fair value of identifiable net assets	(1,100)
<b>Goodwill</b>	<b>–</b>
Analysis of the net cash flow in respect of the acquisition	
Cash consideration paid	880
Less: cash acquired	(15,461)
<b>Net cash inflow in acquisition</b>	<b>(14,581)</b>

Pre-acquisition carrying amount were determined based on applicable HKFRS immediately before the acquisition. The value of assets, liabilities recognised on acquisition are their estimated fair values.

The revenue and profit that Duoyidu contributed to the Group during the year ended 31 December 2016 are RMB71,103,000 and RMB970,000, respectively. If the acquisition had occurred on 1 January 2016, management estimates that the Group's consolidated revenue and consolidated profit and comprehensive income for the year ended 31 December 2016 would have been RMB5,171,202,000 and RMB420,804,000 respectively.

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## 24 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. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's 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.

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, 12% (2015: 13%) and 36% (2015: 45%) 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 14.

#### (ii) Deposits with banks

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

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## 24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

### (b) Liquidity risk

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

The following tables show the remaining contractual maturities at the end of the reporting period of the Group'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 can be required to pay:

	2016					2015				
	Contractual undiscounted cash outflow					Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	Carrying amount at 31 December 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 less than 5 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
Bank loans	79,377	-	-	79,377	76,236	15,490	-	-	15,490	15,116
Senior unsecured note	202,289	202,289	3,194,778	3,599,356	2,726,929	112,500	1,612,500	-	1,725,000	1,489,395
Trade and other payables	1,839,638	-	-	1,839,638	1,839,638	1,620,644	-	-	1,620,644	1,620,644
Total	2,121,304	202,289	3,194,778	5,518,371	4,642,803	1,748,634	1,612,500	-	3,361,134	3,125,155

### (c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans, senior unsecured notes, pledged bank deposits, deposits with banks and cash and cash equivalents. Borrowings, deposits and cash and cash equivalents 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.



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## 24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

### (c) Interest rate risk (Continued)

#### (i) Interest rate profile

The following table details the interest rate profile of the Group'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.

	2016		2015	
	Effective interest rate %	Amount RMB'000	Effective interest rate %	Amount RMB'000
<b>Fixed rate borrowings/ (deposits)</b>				
Deposits with banks	1.50 – 1.95	(2,537,113)	1.95 – 2.36	(1,500,000)
Cash and cash equivalents	1.48	(80,219)	1.40 – 4.80	(723,436)
Senior unsecured notes	7.86	2,726,929	8.42	1,489,395
Pledged bank deposits	0.30 – 3.20	(185,580)	0.39 – 3.10	(122,026)
Bank loans	3.2 – 4.57	61,253		–
		(14,730)		(856,067)
<b>Variable rate borrowings/ (deposits)</b>				
Cash and cash equivalents	0.001 – 0.42	(2,790,593)	0.001 – 1.15	(1,554,481)
Bank loans	2.47	14,983	2.47	15,116
		(2,775,610)		(1,539,365)
Total net deposits		(2,790,340)		(2,395,432)

#### (ii) Sensitivity analysis

At 31 December 2016, it is estimated that a general increase/decrease of 100 basis points in both saving and lending interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately RMB20,962,000 (2015: RMB11,638,000). 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 2015.

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## 24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

### (d) Currency risk

The Group is exposed to currency risk primarily through bank deposits and senior unsecured notes 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").

#### (i) Exposure to currency risk

The following table details the Group'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.

	Exposure of foreign currencies (expressed in RMB)					
	2016			2015		
	Hong Kong dollars RMB'000	United States dollars RMB'000	Renminbi RMB'000	Hong Kong dollars RMB'000	United States dollars RMB'000	Renminbi RMB'000
Cash and bank deposits	1,096	645,153	2,090	27,318	32,425	225,492
Trade debtors	-	-	-	-	5,447	-
Amounts due from group companies	-	-	954,397	-	-	661,323
Senior unsecured notes	-	(2,726,929)	-	-	-	(1,489,395)
Net exposure arising from recognised assets and liabilities	1,096	(2,081,776)	956,487	27,318	37,872	(602,580)

#### (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.

	2016		2015	
	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% (5%)	41 (41)	5% (5%)	1,024 (1,024)
Renminbi	5% (5%)	47,824 (47,824)	5% (5%)	(30,129) 30,129

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## 24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

### (d) 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 2015.

### (e) 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.

### (f) 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.

### (g) Fair value measurement

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2016 and 2015.

## 25 COMMITMENTS

(a) Contractual commitments outstanding at 31 December 2016 not provided for in the financial statements were as follows:

	2016 RMB'000	2015 RMB'000
Advertising and marketing expenses	148,847	120,526

(b) Capital commitments outstanding at 31 December 2016 not provided for in the financial statements were as follows:

	2016 RMB'000	2015 RMB'000
Contracted for	12,599	5,222

# NOTES TO THE FINANCIAL STATEMENTS

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## 25 COMMITMENTS (Continued)

- (c) At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	3,076	4,474
After 1 year but within 5 years	5,471	2,294
After 5 years	–	380
	<b>8,547</b>	7,148

The Group is the lessee 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.

## 26 MATERIAL RELATED PARTY TRANSACTIONS

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

### Key management personnel remuneration

Remuneration for key management personnel of the Group, 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:

	2016 RMB'000	2015 RMB'000
Short-term employee benefits	29,857	28,147
Post-employment benefits	668	766
	<b>30,525</b>	28,913

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

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## 27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2016 RMB'000	2015 RMB'000
<b>Non-current asset</b>		
Investment in subsidiary	1	1
<b>Current assets</b>		
Amounts due from subsidiaries	2,436,765	1,855,623
Cash and cash equivalents	1,007	959
Interest receivables	4,832	-
Deposits with banks	537,113	-
	<b>2,979,717</b>	<b>1,856,582</b>
<b>Current liabilities</b>		
Amounts due to subsidiaries	28,387	28,102
Other payables	15,874	37,342
	<b>44,261</b>	<b>65,444</b>
<b>Net current assets</b>	<b>2,935,456</b>	<b>1,791,138</b>
<b>Total assets less current liabilities</b>	<b>2,935,457</b>	<b>1,791,139</b>
<b>Non-current liability</b>		
Interest-bearing borrowings	2,726,929	1,489,395
<b>NET ASSETS</b>	<b>208,528</b>	<b>301,744</b>
<b>CAPITAL AND RESERVES</b>	22(a)	
Share capital	182,298	182,298
Reserves	26,230	119,446
<b>TOTAL EQUITY</b>	<b>208,528</b>	<b>301,744</b>

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## 28 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 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 7, <i>Statement of cash flows: Disclosure initiative</i>	1 January 2017
Amendments to HKAS 12, <i>Income taxes: Recognition of deferred tax assets for unrealised losses</i>	1 January 2017
HKFRS 9, <i>Financial instruments</i>	1 January 2018
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
HKFRS 16, <i>Leases</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position, except for the following.

### HKFRS 9 *Financial Instruments*

HKFRS 9 replaces the existing guidance in HKAS 39 *Financial instruments: Recognition and measurement*. HKFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from HKAS 39.

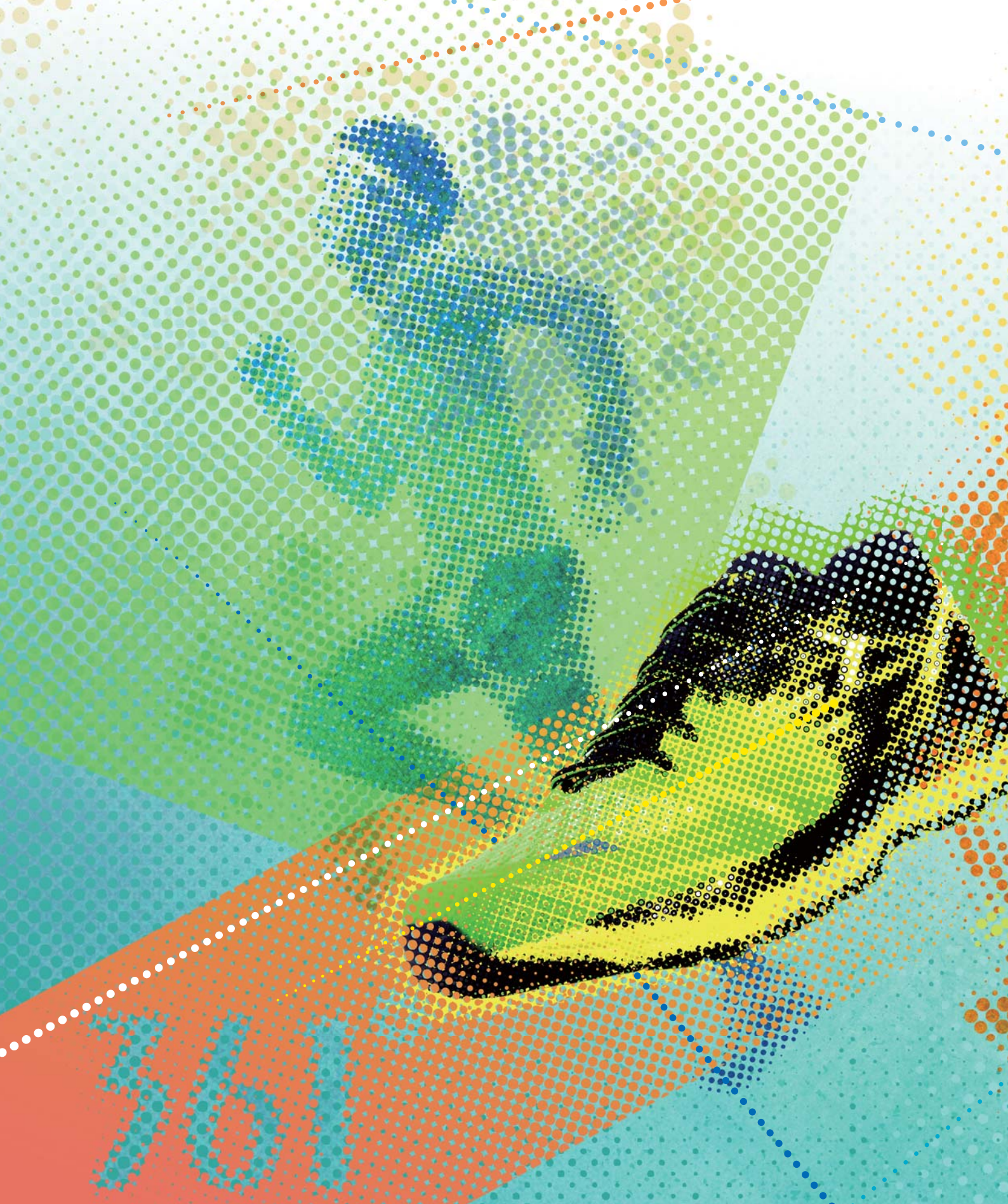
### HKFRS 15 *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including HKAS 18 *Revenue*, HKAS 11 *Construction contracts* and HK(IFRIC) 13 *Customer Loyalty Programs*. It also includes guidance on when to capitalise costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

### HKFRS 16 *Leases*

HKFRS 16 provides comprehensive guidance for the identification of lease arrangements and their treatment by lessees and lessors. In particular, HKFRS 16 introduces a single lessee accounting model, whereby assets and liabilities are recognised for all leases, subject to limited exceptions. It replaces HKAS 17 *Leases* and the related interpretations including HK(IFRIC) 4 *Determining whether an arrangement contains a lease*.

The Group does not plan to early adopt the above new standards or amendments. With respect to HKFRSs 9, 15 and 16, given the Group has not completed its assessment of their full impact on the Group financial statements, their possible impact on the Group's results of operations and financial position has not been quantified.



# 361 DEGREES INTERNATIONAL LIMITED

INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY



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