361°

亚洲 多一度热爱

2009/10 中期報告
INTERIM REPORT

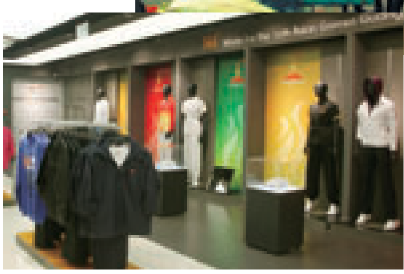
CHINA, DARE TO BE

361 Degrees International Limited
361度國際有限公司

INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY
於開曼群島註冊成立的有限公司

16TH ASIAN GAMES Guangzhou 2010
361°
廣州2010年亞運會高級合作夥伴
PRESTIGE PARTNER OF GUANGZHOU 2010 ASIAN GAMES

STOCK CODE 股份代號 ： 1361



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Mak Kin Kwong (麥建光)
Sun Xianhong (孫先紅)
Liu Jianxing (劉建興)

BOARD COMMITTEES

Audit Committee

Mak Kin Kwong (麥建光) *(Chairman)*
Sun Xianhong (孫先紅)
Liu Jianxing (劉建興)

Remuneration Committee

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

Nomination Committee

Ding Wuhao (丁伍號) *(Chairman)*
Mak Kin Kwong (麥建光)
Liu Jianxing (劉建興)

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

Jiangtou Industrial Park
Chendai Town, Jinjiang City
Fujian Province 362200, the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

STOCK CODE

01361

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

HONG KONG SHARE REGISTRAR

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

AUDITOR

KPMG

LEGAL ADVISERS

As to Hong Kong law:

Orrick, Herrington & Sutcliffe

As to PRC law:

Tian Yuan Law Firm

As to Cayman Islands law:

Conyers Dill & Pearman

COMPLIANCE ADVISER

Piper Jaffray Asia Limited

PRINCIPAL BANKERS

China Construction Bank Corporation
Industrial Bank Co., Ltd.
Agricultural Bank of China

COMPANY WEBSITE

www.361sport.com

Performance

Highlights for the six months ended 31 December 2009

Turnover increased by
29.9 % to
RMB 1,757.2 million

Profit attributable to the equity holders was RMB 356.8 million, representing a significant
growth of
177.0 %

Gross profit margin increased by
10.3 ppt to
39.6 %

Financial Performance

Turnover increased by **29.9%** to **RMB1,757.2 million**

Gross profit substantially increased by **75.4%** to **RMB696.3 million**

Operating profit increased by **149.2%** to **RMB401.2 million**

Profit attributable to the equity holders was **RMB356.8 million**, representing a significant growth of **177.0%**

Gross profit margin increased by **10.3 ppt** to **39.6%**

Basic earnings per share were **RMB17.3 cents**, representing a growth of **101.2%**

Recommended an interim dividend of **RMB4.3 cents** (HK4.9 cents) per share

Business Performance

Total number *361°* retail outlets increased by **638** to **6,693**

Total sales floor area increased by 14.5% to 626,650 m^2

Average sales floor area increased by 3.5% to 93.6 m^2

Turnover from sales of footwear products increased by **45.7%** to **RMB1,038.4 million**

Turnover from sales of apparel products increased by **15.5%** to **RMB702.5 million**

The Group expanded into *361°* Children's apparels, a move that we believe will become another growth driver

Financial Summary

	For the six months ended 31 December 2009	2008
Profitability data (RMB'000)		
Turnover	**1,757,157**	1,352,708
Gross Profit	**696,279**	396,887
Operating profit	**401,228**	160,996
Profit for the period	**356,751**	128,806
Basic earnings per share (RMB cents) (Note 1)	**17.3**	8.6
Profitability ratios (%)		
Gross profit margin	**39.6**	29.3
Operating profit margin	**22.8**	11.9
Net profit margin	**20.3**	9.5
Effective tax rate	**10.8**	15.9
Return on shareholders' equity (Note 2)	**13.1**	35.8
Operating ratios (as a percentage of turnover) (%)		
Advertising and marketing expenses	**10.8**	10.2
Staff costs	**3.7**	3.9
Research and development	**1.0**	0.5

Notes:

1) The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company divided by the weighted average number of ordinary shares in issue during the relevant period.

2) Return on shareholders' equity is equal to the profit for the period divided by the average opening and closing shareholders' equity.

Financial Summary

	As at 31 December 2009	As at 30 June 2009
Assets and liabilities data (RMB'000)		
Non-current assets	**450,294**	333,172
Current assets	**3,667,709**	3,745,678
Current liabilities	**1,173,889**	1,559,148
Non-current liabilities	**9,504**	9,504
Shareholders' equity	**2,934,610**	2,510,198
Asset and Working Capital data		
Current ratios	**3.1**	2.4
Gearing ratio (%) (Note 3)	**—**	6.5
Net asset value per share (RMB) (Note 4)	**1.4**	1.3
Inventory turnover days (days) (Note 5)	**15**	21
Trade and bills receivables turnover days (days) (Note 6)	**139**	103
Trade and bills payables turnover days (days) (Note 7)	**164**	118
Working capital turnover days (days)	**(10)**	6

Notes:

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

4) The calculation of net asset value per share is based on the net assets divided by weighted average number of shares for the period. The calculation for the year ended 30 June 2009 is based on the total number of shares in issue after the Company's listing and at the end of the year.

5) Inventory turnover days is equal to the average opening and closing inventory divided by costs of sales and multiplied by 184 days (for the six months ended 31 December 2009) and 365 days (for the year ended 30 June 2009).

6) Trade and bills receivables turnover days is equal to the average opening and closing trade and bills receivables divided by turnover and multiplied by 184 days (for the six months ended 31 December 2009) and 365 days (for the year ended 30 June 2009).

7) Trade and bills payables turnover days is equal to the average opening and closing trade and bills payables divided by cost of sales and multiplied by 184 days (for the six months ended 31 December 2009) and 365 days (for the year ended 30 June 2009).

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

As the stimulus package initiated by the Central Government continued to take effect, the overall retail sector started to turnaround during the period under review from the doldrums seen in early 2009.

The entire sports apparel, accessory and equipment industry in China experienced a gradual yet persistent recovery from the previous surplus inventory backlog resulting from a combination of tailspin following the 2008 Beijing Olympics and the outbreak of the global financial crisis.

While all existing players continued to provide discounts to maintain sales volume, albeit not as aggressive as the previous periods due to reduced inventory backlog, the whole industry continued to expand with entry of new participants, intensifying competition in the areas of retail outlet network coverage and products with weaker differentiation.

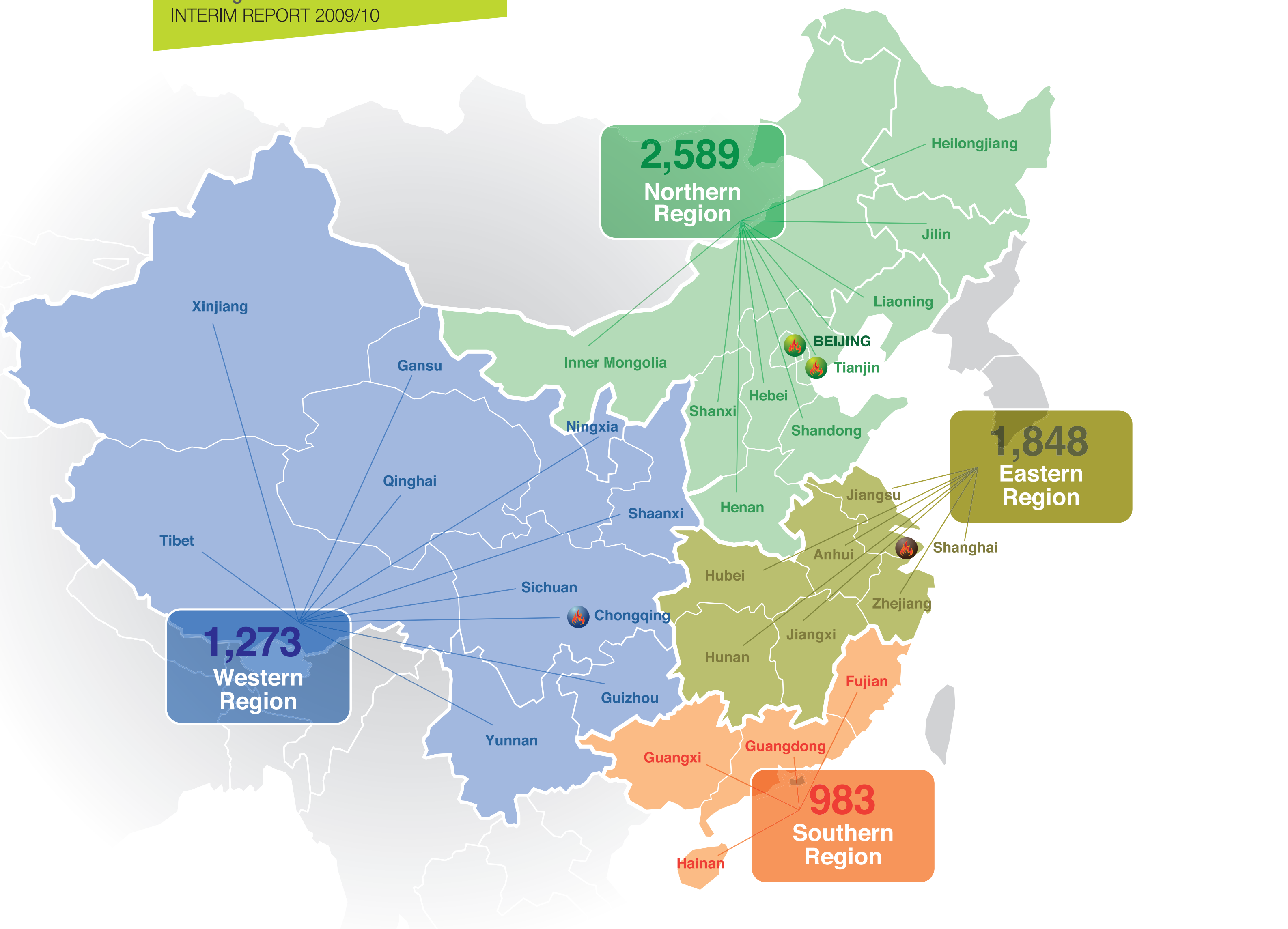
Nonetheless, as China continues its rapid economic growth and urbanization, in the medium term, the country's sports apparel, accessory and equipment industry is expected to grow further and be able to accommodate more participants and provide living space for more niche customer groups.

BUSINESS REVIEW

Sale and distribution network

The exclusive distributorship business model developed and implemented by the Group since early 2008 constitute an integral part of the success the Group has enjoyed in expanding its sales and distribution network in a rapid yet flexible manner in an already crowded marketplace. Persistent efforts to establish an integrated network management system had been effective in aligning interests of the exclusive distributors closer to that of the Group.

As at 31 December 2009, the Group distributed *361°* products through a network comprising 30 independent exclusive distributors. These distributors oversaw 3,490 authorized dealers who in turn owned and managed a total of 6,693 outlets that covered 31 provinces, more than 450 district-level cities and more than 1,200 county-level cities. The number of outlets increased by 638 from 6,055 as at 30 June 2009. The Group will continue to expand and optimize the *361°* retail network by working closely with the distributors, leveraging their local resources and business connections.



	As at 31 December 2009 Number of 361° authorized retail outlets	As at 31 December 2009 % of total number of 361° authorized retail outlets	As at 30 June 2009 Number of 361° authorized retail outlets	As at 30 June 2009 % of total number of 361° authorized retail outlets	Change (%)
Eastern region (1)	**1,848**	**27.6**	1,706	28.2	8.3
Southern region (2)	**983**	**14.7**	881	14.5	11.6
Western region (3)	**1,273**	**19.0**	1,085	18.0	17.3
Northern region (4)	**2,589**	**38.7**	2,383	39.3	8.6
Total	**6,693**	**100**	6,055	100	10.5

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 Monogolia.

Brand promotion and marketing

Customers' ready acceptance of *361º* products, their strong association of the products with high performance, innovation and cutting-edge style have been the core drivers of the Group's success in the last few years. This strong brand hinges upon the Group's resources and devotion put into promoting the *361º* brand on an ongoing basis.

While continuing to be a strategic partner of CCTV's Sports Channel, during the period under review, the Group unveiled its strategy to be implemented at the Guangzhou 2010 Asian Games in an official capacity as the event's Prestige Partner. Riding on a central theme that is embodied in the motto "Asia, One Love", the Group announced to the world for the first time a new collection of dedicated high-quality sportswear and gears to be worn by athletes in 42 different categories of tournament in the Guangzhou 2010 Asian Games, torchbearers, volunteer helpers, government officials, umpires, referees and observers. This new collection has been developed in collaboration with the world's leading sportswear design team — The Keystone Design Union (Serum Vs Venom) of the US.

The Group continued to engage Ogilvy & Mather ("O&M") as its advertising agency. O&M contributed extensively to the Group's success ever since the creation of the *361º* brand and its subsequent accomplishment in becoming one of the fastest growing sportswear brand in China. With extensive experiences in working with the world's most popular brands, O&M has helped *361º* launch and renew its brand messages and communicate them well to the target customers season after season.

In the run-up to the Guangzhou 2010 Asian Games, the Group will launch a specially-orchestrated TV commercial campaign that features 361 true stories about the affairs of individuals associated with love and the Games. This series, together with the new gear collection, will reinforce *361º* as a brand of choice for professional athletes to excel their performances and exhibit the true spirit of love in the event.

The Group was glad to have to been able to seal a sponsorship deal in December 2009 for the 26th Summer Universiade 2011 to be held in Shenzhen. The "Universiade", also known as the "Small Olympics", is only next to the Olympic Games in international sports games in terms of scale. The Group will provide professional sports equipment and related services, including apparels for torchbearers, equipment for volunteers, helpers government officials, referees and working staff. The sponsorship for this event constitutes an integral part of the Group's continuing efforts in promoting sports developments amongst university students.

With the support from the Group's distributors, the first "*361˚* Town" was successfully opened in January 2010 on DeHua Shopping Street in Zhengzhou, Henan Province. *361˚* Town represents a new generation of flagship stores that the Group aspires to establish in major locations in the country in the next few years. The design concept of this batch of new generation flagship stores communicates more effectively the latest mission of *361º* in establishing a more significant presence in the sportswear and equipment market in China. This will complement the Group's intensifying efforts to add depths to the brand image of *361º* about superior performance, professional dedication and cutting-edge styles.

With great honour *361˚* was appointed "The First Cooperative Partner for Volunteers in Shanghai Expo 2010", under which the Group will supply *361˚* apparel and footwear to volunteers working in the Shanghai Expo 2010 venue. This will allow our brand to be exposed to tens of millions of visitors from all over the world to Shanghai Expo 2010 in the second half of the year, adding tremendously to *361˚*'s brand value.

Sponsorships of major sports events

Multi-year sponsorship arrangements with sports events are one of the mainstay of the Group's promotional activities to generate and maintain the awareness in the market about the *361°* brand.

Time	Event	Capacity
2007-2010	*361°* China University Basketball Super League	Designated Partner and Title Sponsor
2010	Guangzhou 2010 Asian Games	Prestige Partner
2011	Summer Universiade 2011 Shenzhen	Global Partner
2009-2013	China Table Tennis Super League	Title Sponsor
2009-2013	CCTV Channel 5	Apparel sponsor for hosts and journalists
2009-2013	China Zhengkai Marathon	Designated sports footwear and apparel sponsor
2009-2013	Jinmen Marathon	Designated sports footwear and apparel sponsor
2010	Shanghai Expo 2010	First Cooperation Partner for Voluteers

Product design and development

Persistent deployment of resources to strengthen product design and development capabilities helps the Group stay on the cutting edge of the latest technological advancements and styles. These efforts allow *361°* products to consistently meet the stringent requirements of professional athletes while accommodating changing consumer preferences for trends and styles.

The Group has independent research and development and design departments dedicated to footwear, apparel and accessory products. As of 31 December 2009, there were 84 full-time design professionals for the footwear R&D design department and 105 for the apparel and accessory R&D and design department. There were also one footwear laboratory and one apparel laboratory to conduct tests and collect performance data.

The Group currently owns 8 patents for footwear products.

In collaboration with external design agencies, *361°* caters to consumer trends while echoing thematic elements from our integrated marketing campaigns to establish a unified image for our brand and products.

International renowned designer/design teams engaged in the last few years:

Year	Designer/Design team	Nationality
2009	Keystone Design Union	US
2008	Daniel Richard Design	US
	DESIGNSTUDIO Inc.	Germany
	Ehrlich Design	Germany
2007	Max Zago	Italy

Production

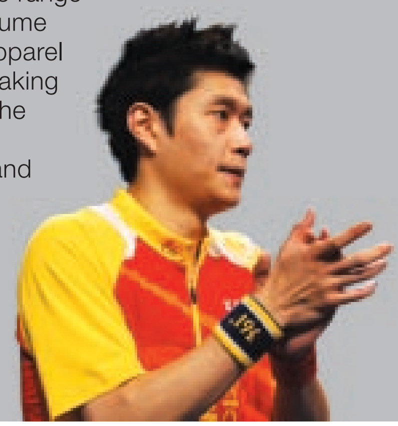
As briefly mentioned in the prospectus of the Company dated 18 June 2009, the Group's plan to add two footwear production lines with a production capacity of approximately 1.7 million pairs a year at the Wuli Industrial Park Phase One, and two apparel production lines with a production capacity of 1.8 million pieces a year at its base at the Wuli Industrial Park Phase Two proceeded as scheduled. The production facilities are being delivered and installed on the sites as planned and are expected to be able to commence production in the second half of the financial year 2009/10.

In January 2010, the Group signed a memorandum of understanding for the formation of a joint venture company to be based in Jinjiang, Fujian, which will be specializing in the production of soles for footwear products. The joint venture partner, First Union International Industrial Ltd. is an affiliated company of a company based in Taiwan which has more than 30 years of experience in designing and manufacturing rubber soles for sports footwear. This joint venture will help further enhance and ensure the quality of the Group's footwear products by securing supply of high-quality soles. It will enable the Group to become a fully vertically-integrated sports footwear manufacturer with the ability to manufacture all parts of sports footwear under one roof.

FINANCIAL REVIEW

Turnover

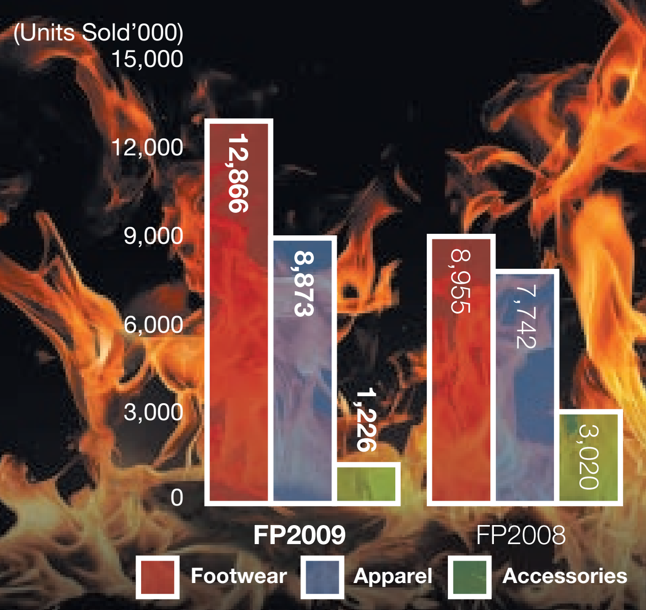
The Group experienced a solid year-on-year increase in turnover during the period under review to RMB1,757.2 million from RMB1,352.7 million, up 29.9%, against a backdrop of the whole industry's slow growth due to rapid retail network expansion and expansion of product range to cover more of customers' needs. The Group's continuing efforts in promoting the *361˚* brand through advertising and event sponsorships enabled it to introduce high-end, higher-priced items, for example, the Guangzhou 2010 Asian Games conceptual series. Nonetheless, for the period under review mid-price range items remained the major volume driver across the footwear, apparel and accessory categories, making the average selling price for the period stayed flat. As the feedbacks from distributors and customers on these higher-quality, higher-priced items were overwhelmingly positive, the Group is optimistic about the prospects of raising its average selling price.



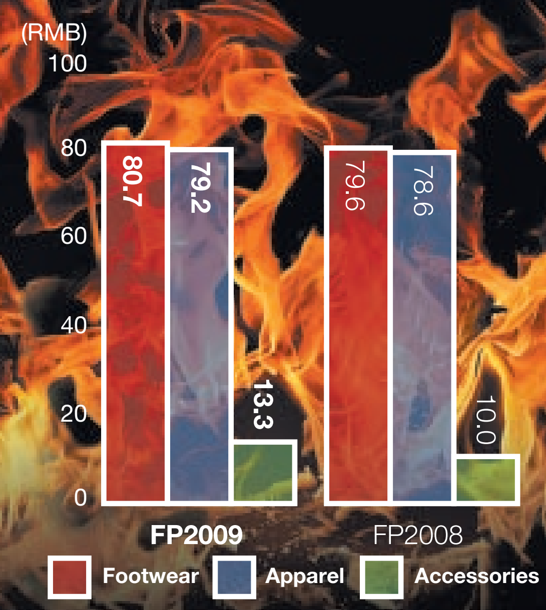
The following table sets forth the number of units sold and the average wholesale selling prices of the Group's *361˚* products during the period:

	For the six months ended 31 December			
	2009		2008	
	Total units sold '000	**Average wholesale selling price(1) RMB**	Total units sold '000	Average wholesale selling price(1) RMB
***361˚* Products**				
Footwear (pairs)	**12,866**	**80.7**	8,955	79.6
Apparel (pieces)	**8,873**	**79.2**	7,742	78.6
Accessories (pieces/pairs)	**1,226**	**13.3**	3,020	10.0

Units Sold



Average Wholesale Selling Price



Note:

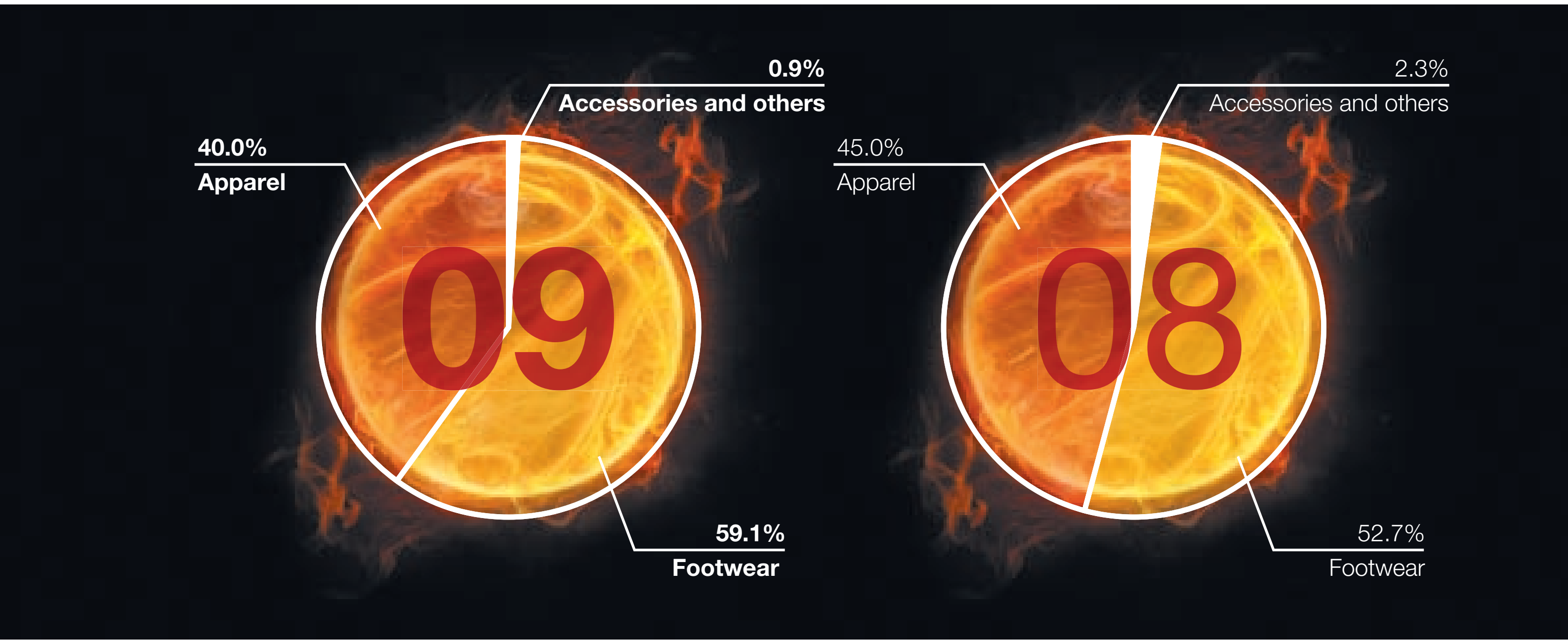
(1) Average wholesale selling price represents the turnover dividend by the total units sold for the period.

Breaking down by products categories, footwear comprised 59.1% of the total sales while apparel and accessories made up the remaining 40.0% and 0.9% respectively. A longer lasting cold weather featuring lower temperatures than usual during the period under review prompted selected distributors to request postponed delivery of apparel products for warmer weather. Footwear sales, meanwhile, experienced very strong growth due to enhancement of the *361°* brand. As a result, the proportion of footwear in the sales mix increased from the last corresponding period while that of apparel declined.

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

	For the six months ended 31 December				
	2009		2008		
	RMB'000	**% of Turnover**	RMB'000	% of Turnover	Change (%)
Turnover					
Footwear	**1,038,364**	**59.1**	712,611	52.7	45.7
Apparel	**702,450**	**40.0**	608,266	45.0	15.5
Accessories and others (1)	**16,343**	**0.9**	31,831	2.3	(48.7)
Total	**1,757,157**	**100**	1,352,708	100	29.9

Turnover Breakdown by Products

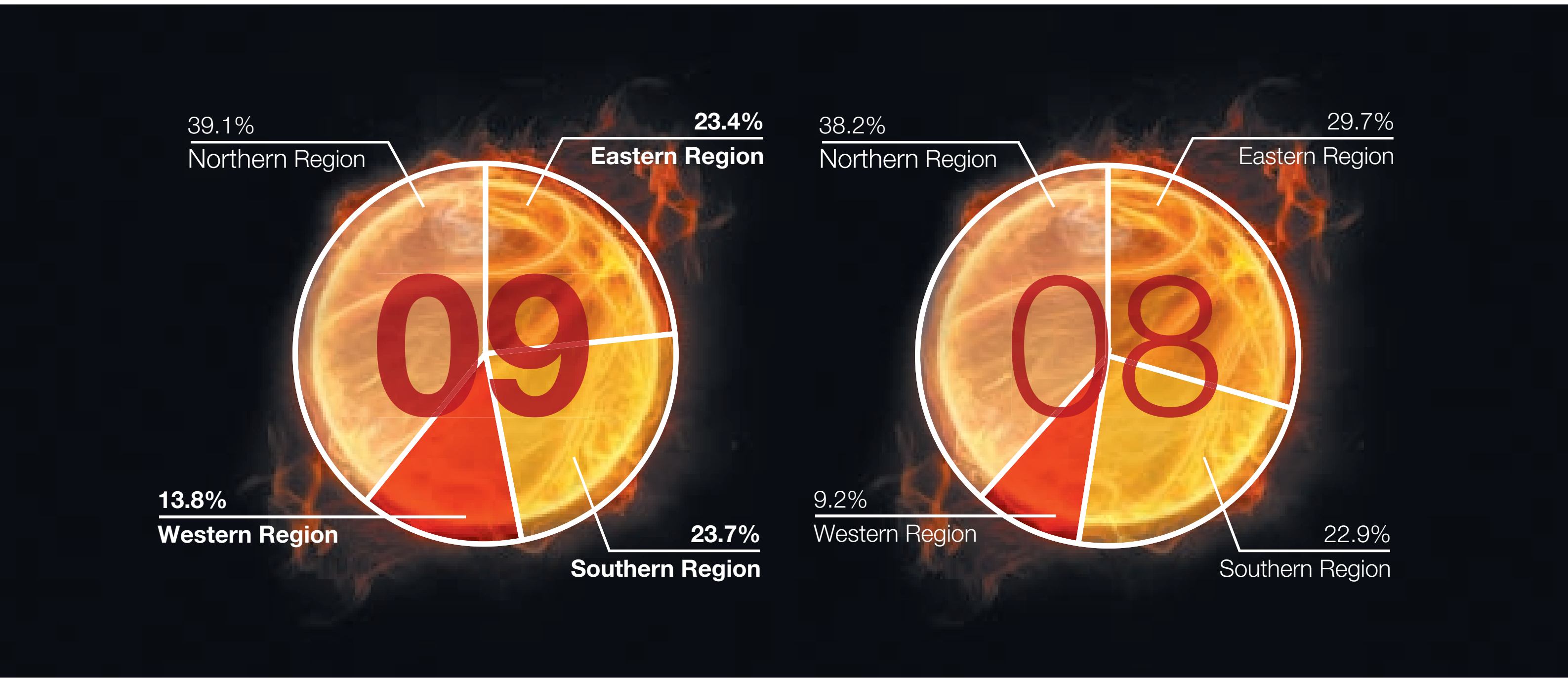


Note:
(1) "Others" included turnover from sales of raw materials.

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

	For the six months ended 31 December				
	2009		2008		
	RMB'000	**% of Turnover**	RMB'000	% of Turnover	Change (%)
Eastern region (1)	**410,595**	**23.4**	402,050	29.7	2.1
Southern region (2)	**416,740**	**23.7**	309,180	22.9	34.8
Western region (3)	**242,062**	**13.8**	123,834	9.2	95.5
Northern region (4)	**687,760**	**39.1**	517,644	38.2	32.9
Total	**1,757,157**	**100**	1,352,708	100	29.9

Turnover Breakdown by Regions



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 Monogolia.

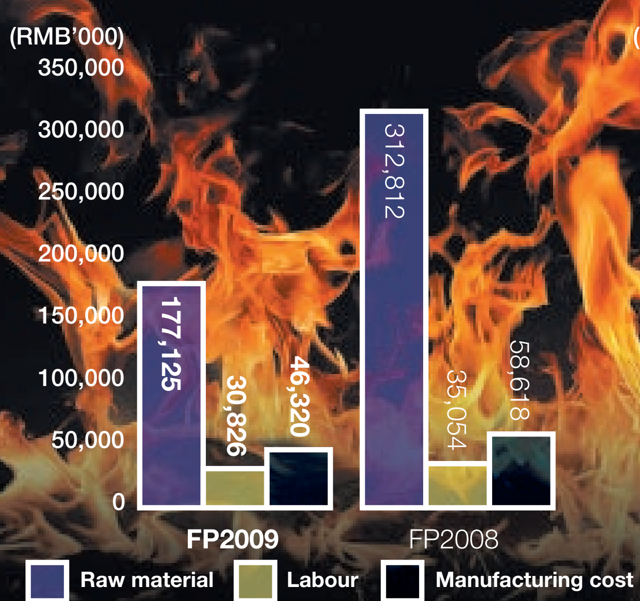
COST OF SALES

Cost of sales for *361°* products increased by 11.3% from RMB953.4 million in the last corresponding period to RMB1,060.8 million during the period under review, primarily as a result of an increase in sale of the *361°* products. The raw material consumption of self manufactured footwear decreased by 43.4% from RMB312.8 million in the last corresponding period to RMB177.1 million during the period under review, primarily due to the decrease in self produced units and lower prices of raw materials. Labour costs for in-house footwear production decreased by 12.1% from RMB35.1 million in the last corresponding period to RMB30.8 million during the period under review, primarily because the Group decreased the number of employees engaged in in-house production. Internal production costs decreased by 37.4% from RMB406.5 million in the last corresponding period to RMB254.3 million during the period under review, primarily because i) raw material prices dropped relative to the last corresponding period and ii) the volume of self-manufactured products declined slightly, which reduced raw material costs, labour and other production costs incurred. The decline in volume of self-manufactured products was a result of the implementation of higher quality control standards and enhanced production processes for the newly-introduced items which took longer. Outsourced production costs increased by 47.5% from RMB546.9 million in the last corresponding period to RMB806.5 million during the period under review, primarily because the volume of footwear, apparel and accessories that the Group purchased from its contract manufacturers increased.

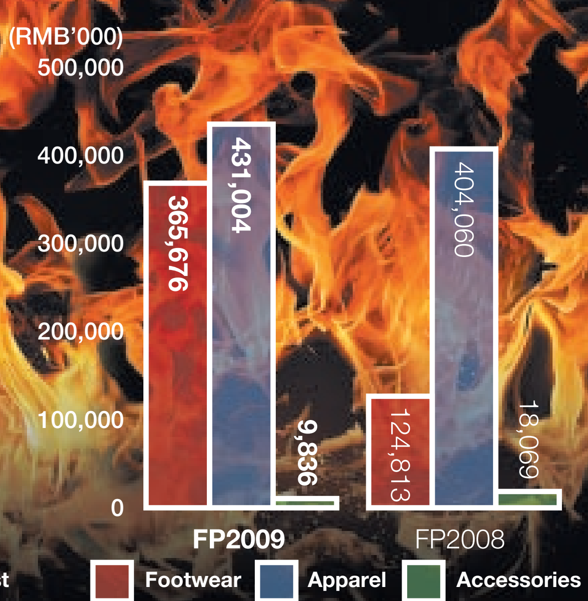
The following table sets forth a breakdown of cost of sales for *361°* products (excluding the cost of sales related to the sales of raw materials) during the period:

	For the six months ended 31 December			
	2009		2008	
	RMB'000	**% of total costs of sales**	RMB'000	% of total costs of sales
***361°* Products**				
Footwear (internal production)				
Raw materials	**177,125**	**16.7**	312,812	32.8
Labour	**30,826**	**2.9**	35,054	3.7
Manufacturing costs	**46,320**	**4.4**	58,618	6.1
Subtotal for internal production	**254,271**	**24.0**	406,484	42.6
Outsourced Products				
Footwear	**365,676**	**34.5**	124,813	13.1
Apparel	**431,004**	**40.6**	404,060	42.4
Accessories	**9,836**	**0.9**	18,069	1.9
Subtotal for outsourced products	**806,516**	**76.0**	546,942	57.4
Cost of sales for *361°* products	**1,060,787**	**100**	953,426	100

Cost of Sales for *361°* Products
Internal Production



Cost of Sales for *361°* Products
Outsourced Products



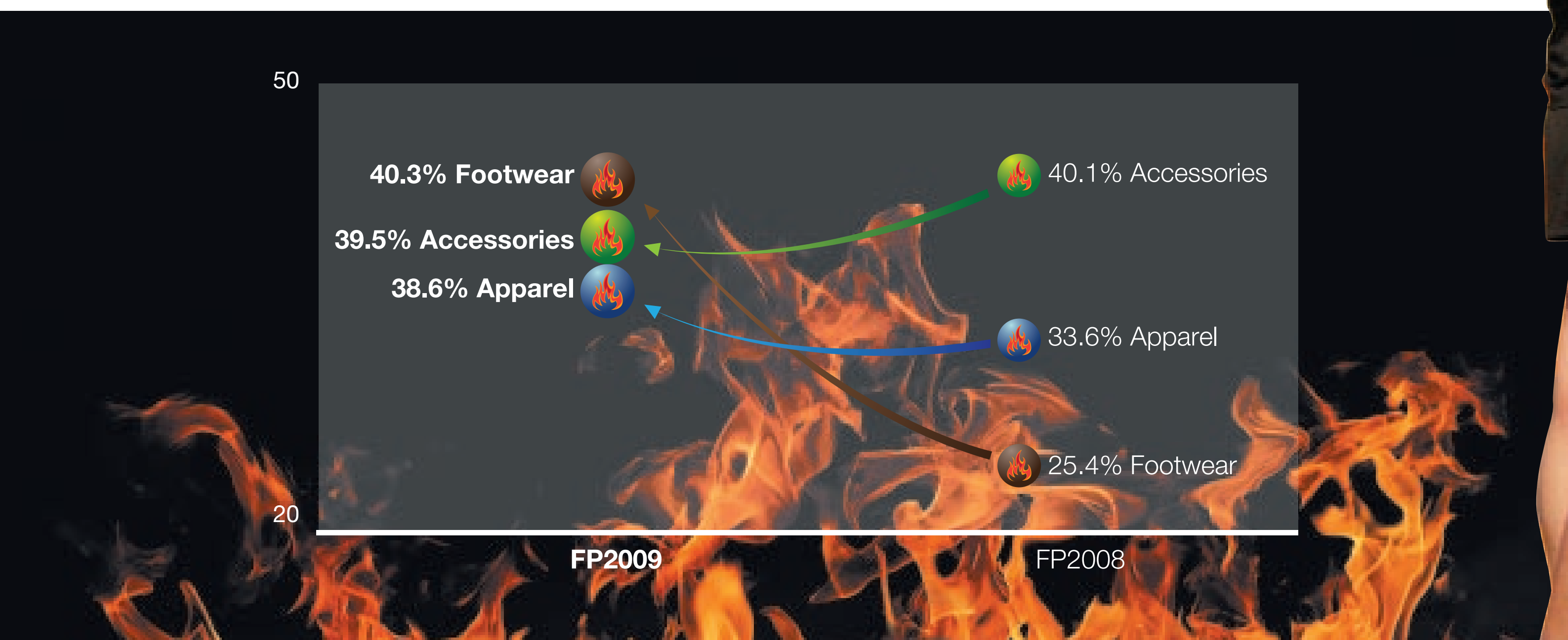
GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit for *361º* products increased by 75.1% from RMB397.6 million in the last corresponding period to RMB696.3 million during the period under review, primarily due to the increase in sales. Gross profit margin for *361º* products increased from 29.3% in the last corresponding period to 39.6% during the period under review because of the benefits derived from economies of scale as the Group increased its sales volume while introduced to its product mix high-end, higher-priced items which were all manufactured in-house, commanding higher margins. Thanks to the ongoing enhancement of the *361º* brand, product design and wider product offerings, the Group had been able to introduce higher-priced items to its product range, which received positive feedback from customers. We are optimistic that, this will provide the driving force to increase the average selling price of our products going forward.

The following tables sets forth a breakdown of the gross profit and gross profit margin for *361˚* products (excluding gross profit (loss) and gross profit (loss) margin related to sales of raw materials) during the period:

	For the six months ended 31 December			
	2009		2008	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
***361˚* Products**				
Footwear	**418,416**	**40.3**	181,315	25.4
Apparel	**271,446**	**38.6**	204,205	33.6
Accessories	**6,417**	**39.5**	12,075	40.1
Total	**696,279**	**39.6**	397,595	29.3

Gross Profit Margin by Products



Selling and distribution expenses

Selling and distribution expenses increased by 37.4% from RMB183.2 million in the last corresponding period to RMB251.7 million during the period under review, primarily as a result of a steady increase in the Group's advertising and marketing expenses in relation to television advertising and sponsorships. The title sponsorship expenses for China Table Tennis Super League, which spread across a period of five years on a straight line basis, started to be incurred during the period under review.

During the period under review, selling and distribution expenses represented 14.3% of the Group's turnover of which 10.8% was advertising and promotional expenses, as compared to 13.5% in the last corresponding period, during which the advertising and promotional expenses also contributed to about 10.2% of the Group's turnover.

Administrative expenses

Administrative expenses increased by 2.1% from RMB53.3 million in the last corresponding period to RMB54.4 million during the current period, mainly resulting from increases in research and development expenses.

For the six months ended 31 December 2009, administrative expenses represented about 3.1% of the Group's turnover of which 1.0% was research and development expenses, as compared to 3.9% in the last corresponding period, the research and development expenses only contributed to 0.5% of the Group's turnover.

Income tax expenses

During the period under review, income tax expense of the Group amounted to RMB43.0 million (2008: RMB24.3 million) mainly because of the significant increase in net profit before tax, with an effective tax rate at 10.8% (2008: 15.9%).

Profit for the period

As compared to the first half of the financial year 2008-09, profit for the period under review increased from RMB128.8 million to RMB356.8 million, representing a growth of 177.0%. This was mainly attributed to the growth in gross profit.

Interim Dividend

The Board recommended an interim dividend of RMB4.3 cents (equivalent to HK4.9 cents) per share for the six months ended 31 December 2009. The dividend amounted to RMB88.8 million and represented 24.9% of the unaudited profit for the period. It is expected that the interim dividend will be paid to shareholders by 16 April 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 25 March 2010 to Thursday, 1 April 2010, both days inclusive, for the purpose of determining shareholders' entitlements to the interim dividend. In order to qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai Hong Kong, not later than 4:30 p.m. on Wednesday, 24 March 2010.

Liquidity and Financial Resources

During the period, net cash inflow from operating activities of the Group amounted to RMB302.1 million (2008: RMB150.7 million). As at 31 December 2009, cash and cash equivalents, including bank deposits and cash in hand, and fixed deposits with original maturity dates not exceeding three months, amounted to RMB1,325.5 million, representing a net decrease of RMB658.1 million as compared to the position for the period ended 31 December 2008. The decrease was attributed to the following items:

	For the six months ended 31 December	
	2009	2008
	RMB'000	RMB'000
Net cash inflow generated from operating activities	**302,141**	150,662
Net capital expenditure	**(74,336)**	(93,664)
Dividends paid	**(134,252)**	(45,342)
Proceeds from new bank loans	**224,000**	185,500
Repayment of bank loans	**(491,000)**	(103,000)
Proceeds from new shares issued, net of issuing expenses	**200,878**	–
Placement of fixed deposits (maturity over three months)	**(660,423)**	–
Other net cash outflow	**(25,073)**	(48,708)
Net (decrease)/increase in cash and cash equivalents	**(658,065)**	45,448

The total assets and net assets were approximately RMB4,118.0 million (30 June 2009: RMB4,078.9 million) and RMB2,934.6 million (30 June 2009: RMB2,510.2 million) respectively. As the Group has sufficient cash and have repaid all bank loans, the Group's gearing ratio as at 31 December 2009 is zero (30 June 2009: 6.5%), being a ratio of total bank loans which is RMB Nil (30 June 2009: RMB267.0 million) to total assets of approximately RMB4,118.0 million (30 June 2009: RMB4,078.9 million)

During the period, the Group had not entered into any interest 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 the declared dividends in Hong Kong Dollars.

During the current year, the Group did not hedge any foreign exchange exposure against foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group.

PLEDGE OF ASSETS

As at 31 December 2009, the Group secured its bank facilities by properties with a carrying amount of RMB Nil (30 June 2009: RMB42.3 million) and land with a carrying amount of RMB55.6 million (30 June 2009: RMB38.5 million).

USE OF PROCEEDS

Use of Net Proceeds from the Global Offering

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

Net proceeds from the global offering (HK$ million)

Use of net proceeds	Available to utilise	Utilised (as at 31 Dec 2009)	Unutilised (as at 31 Dec 2009)
Develop and increase brand awareness	741.2	117.1	624.1
Develop new production facilities	613.5	91.4	522.1
Develop children's footwear and apparel sub-brand	171.5	0.3	171.2
Establish a new product testing and R&D laboratory	114.3	—	114.3
Establish an ERP system	74.3	0.1	74.2
Working capital	190.6	107.4	83.2
	1,905.4	316.3	1,589.1

Prospects

The Group believes that China's ongoing rapid economic growth, urbanization and the Central Government's persistent efforts in the Nationwide Fitness Campaign spearheaded by the State Sports General Administration, after-effects of the 2008 Beijing Olympics, the Guangzhou 2010 Asian Games and other major sports events will contribute to increasing awareness of sports and the trend of increasing consciousness of healthy lifestyles and fitness, continuing to drive demand for sportswear.

As advised by the Group's marketing research consultant Frost & Sullivan, in the coming years to 2013, China's leading sportswear brands will continue to gain market share at the expense of less established, lower-end peers due to their critical mass in distribution network, superior brand recognition and innovation in product design and development.

As far as the focus of geographical expansion is concerned, the Group strives to maintain a balanced development in its presence in second-, third- and fourth-tier cities. While the mainstay of expansion is still in the second- and third-tier cities, the Group plans to plough more resources to open "*361º* Town" flagship stores in first-tier cities in an effort to enhance awareness of the brand. Chongqing, Shandong, Sichuan, Henan and Zhejiang will be municipality and provinces the Group will devote resources to expand its presence into.

The Group has been endeavoring to reinforce its leading position and excel in distribution, product design and innovation. Given the favorable market landscape and momentum, the Group is confident about achieving progressively better returns for shareholders.

Corporate Governance and Other Information

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

As at 31 December 2009, 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 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 position in the Company

Name of director	Nature of interest	Number of shares (ordinary shares)	Percentage
Mr Ding Wuhao(1)	Interest in controlled corporation	375,000,000	18.16%
Mr Ding Huihuang(2)	Interest in controlled corporation	360,000,000	17.43%
Mr Ding Huirong(3)	Interest in controlled corporation	360,000,000	17.43%
Mr Wang Jiabi(4)	Interest in controlled corporation	187,500,000	9.08%

Notes:

(1) Mr Ding Wuhao is deemed to be interested in 375,000,000 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.

Corporate Governance
and Other Information

Apart from the foregoing, as at 31 December 2009, 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 Hong Kong Stock Exchange pursuant to the Model Code.

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

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

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

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

Exercise period maximum percentage of options exercisable

	Number of options '000	Exercise conditions	Percentage of options exercisable
Options granted to employees:			
— on 10 June 2009	6,114	One year from the date of listing of the Company's shares	30%
— on 10 June 2009	6,114	Two years from the date of listing of the Company's shares	30%
— on 10 June 2009	8,152	Three years from the date of listing of the Company's shares	40%
	20,380		100%

Corporate Governance and Other Information

Accordingly, there was no exercise of any of the options granted under the Pre-IPO Share Option Scheme for the six months ended 31 December 2009.

The vesting period of the share options shall commence from 30 June 2010 to 30 June 2014.

Share Option Scheme

The Company has adopted a Share Option Scheme on 10 June 2009 for the purpose of motivating eligible persons to optimize 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 of 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 at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant under the Share Option Scheme. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.0 upon acceptance of the grant on or before 28 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

(a) the nominal value of a share;

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

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

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

No options have been granted under the Share Option Scheme up to 31 December 2009.

Apart from the foregoing, at no time during the period 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 2009, 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 meetings of any other member of the Group were as follows:

Name of shareholders	Note	Long position in ordinary shares held	Percentage of total issued shares
Dings International Company Limited	(1)	375,000,000	18.16%
Ming Rong International Company Limited	(2)	360,000,000	17.43%
Hui Rong International Company Limited	(3)	360,000,000	17.43%
Jia Wei International Co., Ltd.	(4)	187,500,000	9.08%
Jia Chen International Co., Ltd.	(5)	187,500,000	9.08%

Notes:

1. 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.
2. 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.
3. 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.
4. 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.
5. 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.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 31 December 2009.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the six months ended 31 December 2009.

During the period, the Board and the Audit Committee have reviewed the effectiveness of its internal control systems on the COSO (Committee of Sponsoring Organisations of the Treadway Commission) framework of the Group by appointing an internal control review advisor on their behalf. The scope of review by the internal control review advisor has been determined and approved by the Audit Committee. The internal control review advisor has reported internal control review findings to the Board and the Audit Committee. No major issues but areas for further improvement have been identified. All recommendations from the internal control review advisor will be properly followed up to ensure that they are implemented within a reasonable period of time. The Board and the Audit Committee considered that the key areas of the Group's internal control systems are reasonably implemented and the Group has fully complied with the Code provisions regarding internal control systems in general.

Corporate Governance and Other Information

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' securities transactions. Having made specific enquiry of all directors, the Company has confirmed with all directors that they had complied with the required standard set out in the Model Code throughout the six months ended 31 December 2009.

REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The Company has established an audit committee which is accountable to the Board and the primary duties of which include the review and supervision of the Group's financial reporting process and internal control measures. The audit committee is composed of three independent non-executive directors of the Company, Mr. Mak Kin Kwong, Mr. Sun Xianhong and Mr. Liu Jianxing. Mr. Mak Kin Kwong serves as the chairman of the audit committee of the Company. The chairman of the audit committee has professional qualification and experience in financial matters in compliance with the requirement of the Listing Rules.

The audit committee of the Company has met and discussed with the external auditors of the Group, KPMG, and has reviewed the accounting principles and practices adopted by the Group and the results of the Group for the six months ended 31 December 2009. The audit committee considered that the consolidated results of the Group for the six months ended 31 December 2009 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made.

Review Report

Review report to the board of directors of
361 Degrees International Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 26 to 46 which comprises the consolidated balance sheet of 361 Degrees International Limited as of 31 December 2009 and the related consolidated income statement, statement of comprehensive income, statement of changes in equity and condensed cash flow statement for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 31 December 2009 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
22 February 2010

Consolidated Income Statement

for the six months ended 31 December 2009 — unaudited
(Expressed in Renminbi)

	Note	Six months ended 31 December 2009 RMB'000	2008 RMB'000
Turnover	3	**1,757,157**	1,352,708
Cost of sales		**(1,060,878)**	(955,821)
Gross profit		**696,279**	396,887
Other revenue		**10,851**	611
Other net income/(loss)		**209**	(47)
Selling and distribution expenses		**(251,700)**	(183,151)
Administrative expenses		**(54,411)**	(53,304)
Profit from operations		**401,228**	160,996
Finance costs	4(a)	**(1,462)**	(7,927)
Profit before taxation	4	**399,766**	153,069
Income tax	5	**(43,015)**	(24,263)
Profit for the period		**356,751**	128,806
Earnings per share	6		
Basic (cents)		**17.3**	8.6
Diluted (cents)		**17.3**	8.6

The notes on pages 33 to 46 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 12(c).

Consolidated Statement of Comprehensive Income

for the six months ended 31 December 2009 — unaudited
(Expressed in Renminbi)

	Six months ended 31 December	
	2009	2008
	RMB'000	RMB'000
Profit for the period	**356,751**	128,806
Other comprehensive income for the period		
Exchange differences on translation of financial statements of operations outside the People's Republic of China ("PRC")	**(3,252)**	757
Total comprehensive income for the period	**353,499**	129,563

The notes on pages 33 to 46 form part of this interim financial report.

Consolidated Balance Sheet

at 31 December 2009 — unaudited
(Expressed in Renminbi)

	Note	**At 31 December 2009 RMB'000**	At 30 June 2009 RMB'000
Non-current assets			
Fixed assets	7		
— Property, plant and equipment		**364,636**	246,627
— Interests in leasehold land held for own use under operating leases		**85,658**	86,545
		450,294	333,172
Current assets			
Inventories		**90,277**	83,637
Trade and other receivables	8	**1,464,028**	1,591,795
Pledged bank deposits	15	**127,500**	86,700
Fixed deposits held at banks with maturity over three months	9	**660,423**	—
Cash and cash equivalents	9	**1,325,481**	1,983,546
		3,667,709	3,745,678
Current liabilities			
Trade and other payables	10	**1,126,937**	1,227,297
Bank loans	11	**—**	267,000
Current taxation		**46,952**	64,851
		1,173,889	1,559,148
Net current assets		**2,493,820**	2,186,530
Total assets less current liabilities		**2,944,114**	2,519,702
Non-current liabilities			
Deferred tax liabilities		**9,504**	9,504
NET ASSETS		**2,934,610**	2,510,198
CAPITAL AND RESERVES	12		
Share capital		**182,109**	176,340
Reserves		**2,752,501**	2,333,858
TOTAL EQUITY		**2,934,610**	2,510,198

The notes on pages 33 to 46 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 31 December 2009 — unaudited
(Expressed in Renminbi)

	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 July 2008		82,724	–	–	–	33,231	–	13,324	188,307	317,586
Changes in equity for the six months ended 31 December 2008:										
Shares issued upon incorporation	12(a)	1	–	–	–	–	–	–	–	1
Increase in reserve arising from Reorganisation	12(a)(iv)	(82,724)	–	–	82,724	–	–	–	–	–
Total comprehensive income for the period		–	–	–	–	–	–	757	128,806	129,563
Appropriation to statutory reserve		–	–	–	–	20,370	–	–	(20,370)	–
Dividend declared and paid during the period	12(c)	–	–	–	–	–	–	–	(45,342)	(45,342)
Balance at 31 December 2008		1	–	–	82,724	53,601	–	14,081	251,401	401,808

Consolidated Statement of Changes in Equity

for the six months ended 31 December 2009 — unaudited
(Expressed in Renminbi)

	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2009		1	–	–	82,724	53,601	–	14,081	251,401	401,808
Changes in equity for the six months ended 30 June 2009:										
Capitalisation issue	12(a)(i)	132,254	(132,254)	–	–	–	–	–	–	–
Issue of shares under initial public offering	12(a)(ii)	44,085	1,435,087	–	–	–	–	–	–	1,479,172
Increase in reserve arising from Reorganisation	12(a)(iii)	–	–	156,252	–	–	–	–	–	156,252
Equity-settled share-based payments		–	–	–	–	–	490	–	–	490
Total comprehensive income for the period		–	–	–	–	–	–	571	503,305	503,876
Appropriation to statutory reserve		–	–	–	–	74,137	–	–	(74,137)	–
Dividend declared and paid during the period		–	–	–	–	–	–	–	(31,400)	(31,400)
Balance at 30 June 2009		176,340	1,302,833	156,252	82,724	127,738	490	14,652	649,169	2,510,198

Consolidated Statement of Changes in Equity

for the six months ended 31 December 2009 — unaudited
(Expressed in Renminbi)

	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 July 2009		176,340	1,302,833	156,252	82,724	127,738	490	14,652	649,169	2,510,198
Changes in equity for the six months ended 31 December 2009:										
Issue of shares under initial public offering	12(a)(ii)	5,769	195,109	–	–	–	–	–	–	200,878
Equity-settled share-based payments		–	–	–	–	–	4,287	–	–	4,287
Total comprehensive income for the period		–	–	–	–	–	–	(3,252)	356,751	353,499
Appropriation to statutory reserve		–	–	–	–	54,788	–	–	(54,788)	–
Dividends declared and paid during the period	12(c)	–	–	–	–	–	–	–	(134,252)	(134,252)
Balance at 31 December 2009		182,109	1,497,942	156,252	82,724	182,526	4,777	11,400	816,880	2,934,610

The notes on pages 33 to 46 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 31 December 2009 — unaudited
(Expressed in Renminbi)

	Six months ended 31 December	
	2009	2008
	RMB'000	RMB'000
Cash generated from operations	**363,055**	160,435
Income tax paid	**(60,914)**	(9,773)
Net cash generated from operating activities	**302,141**	150,662
Net cash used in investing activities*	**(755,772)**	(134,447)
Net cash (used in)/generated from financing activities	**(201,836)**	29,233
Net (decrease)/increase in cash and cash equivalents	**(655,467)**	45,448
Cash and cash equivalents at 1 July	**1,983,546**	108,894
Effect of foreign exchange rates changes	**(2,598)**	—
Cash and cash equivalents at 31 December	**1,325,481**	154,342

* Net cash used in investing activities for the period includes the placement of fixed deposits held at banks with maturity over three months, which totalled RMB660,423,000.

The notes on pages 33 to 46 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

(a) General information

361 Degrees International Limited ("the Company") was incorporated in the Cayman Islands on 1 August 2008. The Company and its subsidiaries (together referred to as "the Group") are principally engaged in manufacturing and sales of sporting goods, including footwear, apparel and accessories in the PRC. Pursuant to the Group Reorganisation ("the Reorganisation"), the Company acquired the issued shares of Sanliuyidu Holdings Company Limited by issuing shares to the common shareholders and became the holding company of the Group on 15 August 2008. Details of the Reorganisation are set out in the prospectus of the Company dated 18 June 2009.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on 30 June 2009.

The Group is regarded as a continuing entity resulting from the Reorganisation under common control and has been accounted for on the basis of merger accounting. The interim results of the Group for the six months ended 31 December 2008 shown as comparatives in this interim report have been prepared as if the current group structure had been in existence throughout both periods presented, or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company of the Group pursuant to the Reorganisation.

(b) Statement of compliance

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 22 February 2010.

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2009 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION *(continued)*

(b) Statement of compliance *(continued)*

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 25.

The financial information relating to the financial year ended 30 June 2009 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 30 June 2009 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 September 2009.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following one new HKFRS, a number of amendments to HKFRSs and new interpretations that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

— HKFRS 8, *Operating segments*

— HKAS 1 (revised 2007), *Presentation of financial statements*

— Improvements to HKFRSs (2008)

— Revised HKFRS 3, *Business combinations*

— Amendments to HKFRS 7, *Financial instruments: Disclosures — improving disclosures about financial instruments*

— HKAS 23 (revised 2007), *Borrowing costs*

— Amendments to HKFRS 2, *Share-based payment — vesting conditions and cancellations*

— HK(IFRIC) 17, *Distributions of non-cash assets to owners*

— HK(IFRIC) 18, *Transfers of assets from customers*

The improvements to HKFRSs (2008), revised HKFRS 3, amendments to HKFRS 2, HK(IFRIC) 17 and HK(IFRIC) 18 have had no material impact on the Group's financial statements as the improvements and amendments were consistent with policies already adopted by the Group. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim financial report is as follows:

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management. The Group operates in a single business segment, which is manufacturing and distribution of sporting goods including footwear, apparel and accessories. Accordingly, no segmental analysis is presented.

As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been adjusted to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

3 TURNOVER

The principal activities of the Group are manufacturing and trading of sporting goods, including footwear, apparel and accessories in the PRC.

Turnover represents the sales value of goods sold less returns, discounts and value added taxes and other sales taxes, which may be analysed as follows:

	Six months ended 31 December	
	2009	2008
	RMB'000	RMB'000
Footwear	**1,038,364**	712,611
Apparel	**702,450**	608,266
Accessories and others	**16,343**	31,831
	1,757,157	1,352,708

The Group's customer base is quite diversified and includes only two customers, each of whom with transactions exceeded 10% of the Group's turnover. In 2009 turnover from manufacturing and trading of sporting goods to these customers amounted to approximately RMB271,762,000 (2008: RMB224,785,000) and RMB177,614,000 (2008: RMB162,293,000) respectively.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

4 PROFIT BEFORE TAXATION

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

		Six months ended 31 December 2009 RMB'000	2008 RMB'000
(a)	Finance costs:		
	Interest on bank borrowings wholly repayable within five years	**3,326**	7,927
	Less: Interest expense capitalised into property, plant and equipment*	**(1,864)**	—
	Total finance costs	**1,462**	7,927
	* The interest expense has been capitalised at an average rate of 5.53% per annum (six months ended 2008: N/A).		
(b)	Other items:		
	Amortisation of land lease premium	**891**	233
	Depreciation	**6,120**	4,285
	Staff costs	**65,267**	52,206
	Operating lease charges in respect of properties	**1,469**	1,679
	Research and development costs*	**17,525**	7,071
	Cost of inventories**	**1,060,878**	955,821

* Research and development costs include RMB4,198,000 (2008: RMB2,944,000) relating to staff costs of employees in the research and development department, which amount is also included in "staff costs" disclosed separately above.

** Cost of inventories includes RMB41,400,000 (2008: RMB41,706,000) relating to staff costs and depreciation, which amount is also included in the respective amount disclosed separately above.

5 INCOME TAX

	Six months ended 31 December 2009 RMB'000	2008 RMB'000
Current tax — PRC income tax		
Provision for the period	**43,015**	11,292
Deferred tax		
Origination and reversal of temporary differences	**—**	12,971
Actual tax expense	**43,015**	24,263

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

5 INCOME TAX *(continued)*

Notes:

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

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

(iii) Pursuant to the income tax rules and regulations of the PRC, provision for PRC corporate income tax is calculated based on a statutory rate of 25% of the assessable profits of the PRC companies of the Group. During the period, one PRC subsidiary is fully exempt from income tax under the relevant tax rules and regulations.

(iv) At 31 December 2009, the Group has not recognised deferred tax liabilities of RMB17,599,000 in respect of temporary differences relating to the undistributed profits of subsidiaries amounting to RMB351,988,000, 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 (2008: The Group fully recognise the related deferred tax liability of RMB19,281,000).

6 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB356,751,000 (six months ended 31 December 2008: RMB128,806,000) and the weighted average number of shares in issue during the interim period of 2,058 million (2008: 1,500 million). The weighted average number of shares in issue during the period ended 31 December 2008 is based on the assumption that 1,500 million ordinary shares were in issue as if the shares issued at the date the Company became the holding company of the Group were outstanding throughout the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB356,751,000 and the weighted average number of ordinary shares of 2,060 million adjusted for the potential dilutive effect caused by the share options granted under Pre-IPO share option scheme. There were no potential dilative shares outstanding as at 31 December 2008.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

7 FIXED ASSETS

During the six months ended 31 December 2009, the Group acquired items of property, plant and equipment of approximately RMB124,374,000 (six months ended 31 December 2008: approximately RMB74,758,000).

8 TRADE AND OTHER RECEIVABLES

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Trade debtors	**1,277,817**	1,453,033
Less: allowance for doubtful debts	**(39,520)**	(39,520)
	1,238,297	1,413,513
Deposits, prepayments and other receivables	**225,731**	178,282
	1,464,028	1,591,795

All of the trade and other receivables are expected to be recovered within one year, except that the Group's deposits, prepayments and other receivables totalling RMB26,437,000 (30 June 2009: RMB21,963,000) are expected to be recovered or recognised as expenses after more than one year.

(a) Ageing analysis

Included in trade and other receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis, based on the date of invoice, as of the balance sheet date:

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Within 90 days	**985,151**	1,079,042
Over 91 days but less than 180 days	**217,555**	312,456
181 to 360 days	**35,591**	22,015
	1,238,297	1,413,513

Notes to the Unaudited
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(Expressed in Renminbi unless otherwise indicated)

8 TRADE AND OTHER RECEIVABLES *(continued)*

(b) Trade debtors that are not impaired

Trade debtors are due within 30 to 180 days from the date of billing in line with the Group's credit policy.

The ageing analysis of trade debtors that are past due as at 31 December 2009 but neither individually nor collectively considered to be impaired are as follows:

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Less than 1 month past due	**110,721**	45,728
1 to 3 month past due	**41,220**	98,773
Amounts past due	**151,941**	144,501
Not past due	**1,086,356**	1,269,012
	1,238,297	1,413,513

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

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

9 FIXED DEPOSITS HELD AT BANKS WITH MATURITY OVER THREE MONTHS AND CASH AND CASH EQUIVALENTS

Fixed deposits held at banks with maturity over three months and cash and cash equivalents of the Group represent cash at bank and in hand. At 31 December 2009, the balances that were placed with banks in the PRC and included in the fixed deposits held at banks with maturity over three months and cash and cash equivalents amounted to RMB396,090,000 and RMB965,114,000 respectively (30 June 2009: RMB Nil and RMB454,943,000 respectively). Remittance of funds out of the PRC is subject to exchange restriction imposed by the PRC government.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

10 TRADE AND OTHER PAYABLES

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

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Due within 1 month or on demand	**108,464**	122,009
Due after 1 month but within 3 months	**345,241**	173,357
Due after 3 months but within 6 months	**450,448**	686,914
Total creditors and bills payable	**904,153**	982,280
Other payable and accruals	**198,052**	218,226
Receipts in advance	**24,732**	26,791
	1,126,937	1,227,297

11 BANK LOANS

As at 31 December 2009, the bank loans were repayable as follows:

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Within 1 year or on demand	**–**	267,000

As at 31 December 2009, the bank loans were secured as follows:

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Bank loans		
— secured	**–**	40,000
— unsecured	**–**	227,000
	–	267,000

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

12 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital and reserves

	At 31 December 2009 No. of shares '000	At 31 December 2009 HK$'000	At 30 June 2009 No. of shares '000	At 30 June 2009 HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**10,000,000**	**1,000,000**	10,000,000	1,000,000

The company was incorporated on 1 August 2008 with an authorised share capital of HK$1,000 divide into 10,000 shares of HK$0.10 each

		At 31 December 2009 No. of shares '000	At 31 December 2009 HK$'000	At 31 December 2009 RMB'000	At 30 June 2009 No. of shares '000	At 30 June 2009 HK$'000	At 30 June 2009 RMB'000
Ordinary shares, issued and fully paid:							
At 1 July 2009/ 1 August 2008		**2,000,000**	**200,000**	**176,340**	10	1	1
Capitalisation issue	(j)	**–**	**–**	**–**	1,499,990	149,999	132,254
Issues of shares	(ii)	**65,412**	**6,541**	**5,769**	500,000	50,000	44,085
At 31 December 2009/ 30 June 2009		**2,065,412**	**206,541**	**182,109**	2,000,000	200,000	176,340

Notes:

(i) Capitalisation issue

Pursuant to the written resolution of 10 June 2009, the Company allotted and issued 1,499,990,000 shares of HK$0.1 each to the then existing shareholders of the Company. This resolution was conditional on the share premium account being credited as a result of the Company's public offering and pursuant to this resolution, a sum of RMB132,254,000 standing to the credit of the share premium account was subsequently applied in paying up this capitalisation in full.

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(Expressed in Renminbi unless otherwise indicated)

12 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(a) Share capital and reserves *(continued)*

Notes: *(continued)*

(ii) Issue of shares

On 30 June 2009, the Company issued 500,000,000 shares with a par value of HK$0.10 each, at a price of HK$3.61 per share by way of a global initial public offering to Hong Kong and overseas investors. Net proceeds from such issue amounted to RMB1,479,172,000 (after offsetting share issuance expenses of RMB112,297,000), out of which RMB44,085,000 and RMB1,435,087,000 were recorded in share capital and share premium respectively.

On 23 July 2009, the Company issued 65,412,000 shares with a par value of HK$0.10 each, at a price of HK$3.61 per share upon the exercise of the over-allotment option in connection with the global initial public offering. Net proceeds from such issue amounted to RMB200,878,000 (after offsetting share issurance expenses of RMB7,371,000), out of which RMB5,769,000 and RMB195,109,000 were recorded in share capital and share premium respectively.

(iii) 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 during the year ended 30 June 2009.

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

(b) At 31 December 2009, the outstanding options of the Company were:

Date of options granted	Exercise period	Exercise price	Number of options outstanding At 31 December 2009 '000	At 30 June 2009 '000
10 June 2009	30 June 2010 to 30 June 2014	HK$2.89	**6,114**	6,114
10 June 2009	30 June 2011 to 30 June 2014	HK$2.89	**6,114**	6,114
10 June 2009	30 June 2012 to 30 June 2014	HK$2.89	**8,152**	8,152
		HK$2.89	**20,380**	20,380

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(Expressed in Renminbi unless otherwise indicated)

12 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Dividends

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

	Six months ended 31 December 2009 RMB'000	2008 RMB'000
Interim dividend declared and paid during the period	–	45,342
Interim dividend declared after the interim period of RMB4.3 cents per ordinary share (2008: RMBNil cent per ordinary share)	**88,813**	—
	88,813	45,342

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

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

	Six months ended 31 December 2009 RMB'000	2008 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of RMB6.5 cent per ordinary share	**134,252**	—

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(Expressed in Renminbi unless otherwise indicated)

13 MATERIAL RELATED PARTY TRANSACTIONS

(a) During the period ended 31 December 2008, the Group acquired certain interests in leasehold land held for own use under operating leases from a related company, Bieke (Fujian) Shoes Company Ltd. (a company wholly-owned by Mr Ting Tong Bun, who is the father-in-law of a shareholder of the Group, Mr Ding Huihuang) at a consideration of RMB8,239,000.

The directors of the Company have confirmed that the above transaction was conducted on normal commercial terms and in ordinary course of business.

(b) Advances to/from related parties

Included in the balances were unsecured and interest free advances made to/from related parties of the Group, the maximum balances of which during the six months ended 31 December 2009 are as follows:

	Six months ended 31 December	
	2009	2008
	RMB'000	RMB'000
Short term advances to related parties		
— Mr Ting Tong Bun	**–**	49,995
— Bieke (Fujian) Shoes Company Ltd.	**–**	18,819
	–	68,814
Short term advances from a shareholder of the Company		
— Mr Ding Huihuang	**–**	(141,091)

(c) Key management personnel remuneration

	Six months ended 31 December	
	2009	2008
	RMB'000	RMB'000
Short-term employee benefits	**8,358**	5,705
Equity-settled share-based payments	**1,066**	—
Post-employment benefits	**26**	17
	9,450	5,722

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi unless otherwise indicated)

14 COMMITMENTS

(a) Contractual commitments outstanding at 31 December 2009 not provided for in the interim financial report were as follows:

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Advertising and marketing expenses	**717,805**	694,441

(b) Capital commitments outstanding at 31 December 2009 not provided for in the interim financial report were as follows:

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Authorised and contracted for	**10,057**	31,815

(c) At 31 December 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December 2009 RMB'000	At 30 June 2009 RMB'000
Within 1 year	**6,183**	2,190
After 1 year but within 5 years	**9,642**	132
	15,825	2,322

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to five years. None of the leases includes contingent rentals.

Notes to the Unaudited Interim Financial Report

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15 PLEDGE OF ASSETS

At 31 December 2009, certain bank facilities and bills payable of the Group were secured by bank deposits, interest in leasehold land held under operating leases and certain fixed assets. The aggregate net book value of assets pledged amounted to approximately RMB55,600,000 (30 June 2009: RMB80,815,000).

16 NON-ADJUSTING POST BALANCE SHEET EVENT

On 29 January 2010, the Group entered into a memorandum of understanding with First Union International Industrial Ltd. ("First Union") to form a joint venture. Total cost of investment amounted to HK$86 million, of which 51% will be contributed by the Group and 49% will be contributed by First Union. The principal activity of the joint venture will be the production of soles for footwear.

17 COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), *Presentation of financial statements*, comparative figures have been adjusted to conform to the current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in the interim period ended 31 December 2009. Further details of the developments are disclosed in note 2.

18 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 30 JUNE 2010

Up to the date of issue of this interim financial report, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ending 30 June 2010 and which have not been adopted in this interim financial report.

	Effective for accounting periods beginning on or after
Improvements to HKFRSs 2009	1 January 2010
Revised HKAS 24, *Related Party disclosure*	1 January 2011
HKFRS 9, *Financial instruments*	1 January 2013

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


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