Universiade SHENZHEN 2011

361°

深圳2011世界大运会全球合作伙伴
Worldwide Partner of Universiade Shenzhen 2011

INTERIM REPORT 2010/11 中期報告

361°

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

STOCK CODE 股份代號 : 1361

Contents

Company Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

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Cayman Islands

HEAD OFFICE IN THE PRC

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Xiamen, Fujian Province 361009
the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

STOCK CODE

01361

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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 Cayman Islands law:

Conyers Dill & Pearman

PRINCIPAL BANKERS

China Construction Bank Corporation
Industrial Bank Co., Ltd.
Citic Bank International Ltd.
Shanghai Pudong Development Bank

COMPANY WEBSITE

www.361sport.com

Highlights of Interim Results

FINANCIAL PERFORMANCE

- Turnover significantly increased by 29.5% to RMB2,275.4 million
- Gross profit substantially increased by 43.7% to RMB1,000.8 million
- Operating profit increased by 23.7% to RMB496.2 million
- Profit attributable to the equity shareholders was RMB422.8 million, representing a growth of 18.5%
- Gross profit margin increased by 4.4 percentage points ("ppts") to 44.0%
- Basic earnings per share was RMB20.5 cents, representing a growth of 18.5%
- Recommended an interim dividend of RMB7.1 cents (HK8.3 cents) per share

BUSINESS PERFORMANCE

- Total number of *361°* retail adults' outlets increased by 336 to 7,263
- Total number of *361°* Children's wear outlets increased to 487 of which 133 were counters in *361°* adults' outlets
- Income from sales of footwear products increased by 18.1% to RMB1,226.4 million
- Income from sales of apparel products increased by 42.0% to RMB997.5 million
- The number of *361°*Town, the new concept stores, increased to 5 from 2

Turnover significantly increased by 29.5% to RMB2,275.4 million

Profit attributable to the equity holders was RMB422.8 million, representing a growth of 18.5%

Gross profit margin increased by 4.4 ppts to 44.0%

Financial Summary

	For the six months ended 31 December	
	2010	2009
Profitability data (RMB'000)		
Turnover	**2,275,363**	1,757,157
Gross profit	**1,000,830**	696,279
Operating profit	**496,200**	401,228
Profit attributable to equity shareholders	**422,775**	356,751
Earnings per share		
— basic (RMB cents)	**20.5**	17.3
— diluted (RMB cents)	**20.4**	17.3
Profitability ratios (%)		
Gross profit margin	**44.0**	39.6
Operating profit margin	**21.8**	22.8
Margin of profit attributable to equity shareholders	**18.6**	20.3
Effective tax rate	**16.4**	10.8
Return on shareholders equity (Note 1)	**12.0**	13.1
Operating ratios (as a percentage of turnover) (%)		
Advertising and marketing expenses	**13.3**	10.8
Staff costs	**7.5**	3.7
Research and development	**1.6**	1.0

Note:

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

Financial Summary

	As at 31 December 2010	As at 30 June 2010
Assets and liabilities data (RMB'000)		
Non-current assets	**938,604**	724,574
Current assets	**3,866,759**	3,839,443
Current liabilities	**1,148,370**	1,129,375
Non-current liabilities	**2,715**	3,125
Equity attributable to equity shareholders	**3,627,293**	3,396,423
Non-controlling interest	**26,985**	35,094
Asset and Working Capital data		
Current asset ratios	**3.4**	3.4
Gearing ratios (%) (Note 2)	**0.2**	—
Net asset value per share (RMB) (Note 3)	**1.8**	1.7
Inventory turnover days (days) (Note 4)	**28**	15
Trade and bills receivables turnover days (days) (Note 5)	**88**	97
Trade and bills payables turnover days (days) (Note 6)	**100**	111

Notes:

2) 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.

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

4) 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 2010) and 365 days (for the year ended 30 June 2010).

5) Trade and bills receivables turnover days is equal to the average opening and closing trade and bills receivables after allowance of doubtful debts divided by turnover and multiplied by 184 days (for the six months ended 31 December 2010) and 365 days (for the year ended 30 June 2010).

6) 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 2010) and 365 days (for the year ended 30 June 2010).

Management Discussion and Analysis

INDUSTRY REVIEW

Hosting of 2010 Guangzhou Asian Games (the "Games") inherited the momentum of increasing awareness in sports among the population in China which started since the Beijing 2008 Olympics and created one of the best eras in the history of the branded sporting goods industry in China.

According to statistics quoted by the General Administration of Sports of China, the total production value of the country's sporting goods industry surpassed RMB10 billion for the first time in 2010.

The National Fitness Law implemented since 2009 and the National Fitness Plan (2011-2015) to be launched in 2011 as part of the policy objectives under the Twelfth Five-Year Plan to use sports to improve the overall health of the population in order to sustain support to the country's economic growth provide additional impetus to fuel the expansion of the sporting goods industry in China.

The policy document "Guidance on Accelerating Development of Sports-related Industries" released by the State Council in October 2010 established an official policy footing to underpin the ongoing rapid development of the sporting goods industry in China during the Twelfth Five-Year Plan.

The whole industry, including the Group, experienced continuing rapid growth in both wholesale orders and retail sales. More encouragingly, major industry participants started to count on more of their growth momentum from improvements in store efficiency, better selling prices resulting from enhanced brand promotions, widening product range and improved product quality and functionalites, and more effective inventory control, instead of the previous simple arithmetic expansion of their retail chains. This should eventually evolve a the trigger for the whole industry to elevate to the next level.

Management Discussion and Analysis

BUSINESS REVIEW

Sale and distribution network

The Group's exclusive distributorship business model, over the years, has established a track record capable of supporting the rapid growth of its distribution network to take full advantage of the favorable store leasing environment that might evolve every now and then, while keeping inventory and bad debt levels under very effective control.

During the period under review, the Group adhered strictly to its present pace of growing its distribution network by 600-800 stores a year.

As at 31 December 2010, the Group distributed *361°* products through a network comprising 32 independent exclusive distributors. These distributors oversaw 3,459 authorized dealers who in turn owned and managed a total of 7,263 outlets that covered 31 provinces, more than 450 district-level cities and more than 1,200 county-level cities. Out of these outlets, 133 have counters for the newly launched children's collection. An additional 354 are either franchised outlets or counters in department stores for this collection. The number of adults outlets as at 31 December 2010 represented a net increase of 336 from 6,927 as at 30 June 2010.

With the support from the distributors, the Group started to establish a new generation of flagship stores, "*361°* Towns" aiming at communicating more effectively with consumers and the determination of *361°* in becoming a leader in the sportswear and equipment market in China. As at 31st December 2010 there were a total of 5 "*361°* Towns" situated in Zhengzhou, Jinan, Wuhan, Harbin and Baoding.

	As at 31 December 2010		As at 30 June 2010		
	Number of *361°* authorized retail outlets	**% of total number of *361°* authorized retail outlets**	Number of *361°* authorized retail outlets	% of total number of *361°* authorized retail outlets	Change (%)
Eastern region[1]	**1,938**	**26.7**	1,876	27.1	3.3
Southern region[2]	**1,124**	**15.5**	1,107	16.0	1.5
Western region[3]	**1,332**	**18.3**	1,240	17.9	7.4
Northern region[4]	**2,869**	**39.5**	2,704	39.0	6.1
Total	**7,263**	**100.0**	6,927	100.0	4.9

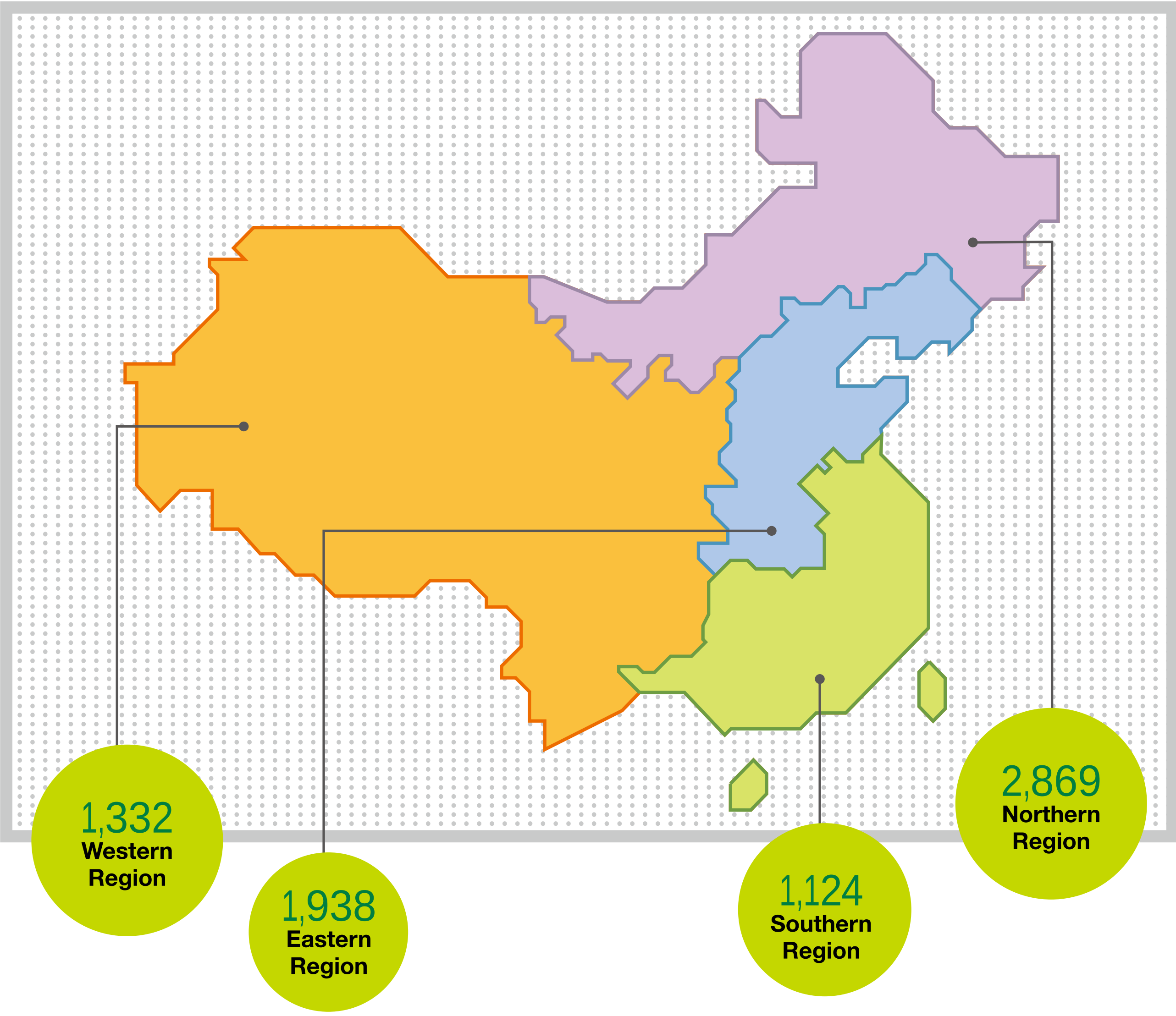
Notes:

(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.



ePOS expanded its coverage to 2,500 outlets

The Group was on schedule for installation of a new electronic points-of-sale ("ePOS") enterprise resource planning system for its supply chain. This ePOS had already extended its coverage to distributors in 9 provinces, including Gansu, Fujian, Shanxi, Beijing, Hebei, Sichuan, Yunnan, Guangdong and Hainan, allowing the Group to connect to around 2,500 outlets by the end of December 2010. The target to have the whole distribution network covered by ePOS by the financial year 2012 remained intact.

This ePOS has played an instrumental role in the collection of sales and inventory statistics on a real time basis, allowing the Group to monitor more closely the store efficiency dynamics including changes in customer preferences and consumption pattern, a move that will put in place the necessary store data which can further helps to devise measures to improve store efficiency and control inventory levels can be developed and implemented.

Appointment of retail management consultant to further enhance store efficiency

Another landmark effort made that was critical in improving the Group's in-store efficiency was implementing the recommendations by our retail consulting specialist, S1MONE. S1MONE works closely with our retailers to provide valuable advices on ways to enhance customers' retail experience up to the very fine details, including customer service attitudes of the store attendants, how mix and match recommendations can be communicated to customers to encourage cross-selling of products in different categories that match their preferences, reconfiguration of in-store layouts to enhance the visibility of key products, guidance on how distributors can order merchandises in different categories to better accommodate preferences of their specific customer pools and increase overall sales, odd-dollar tagged pricing to drive sales, optimizing store space and increasing product displays and hosting of in-store events to enhance the overall shopping atmosphere.

Management Discussion and Analysis

These measures, while supporting the Group's same-store sales growth at high-levels of 15-16% throughout the year, had been pivotal in keeping the Group's inventory-to-sales ratio at below 4 times, which is considered very low by industry standards.

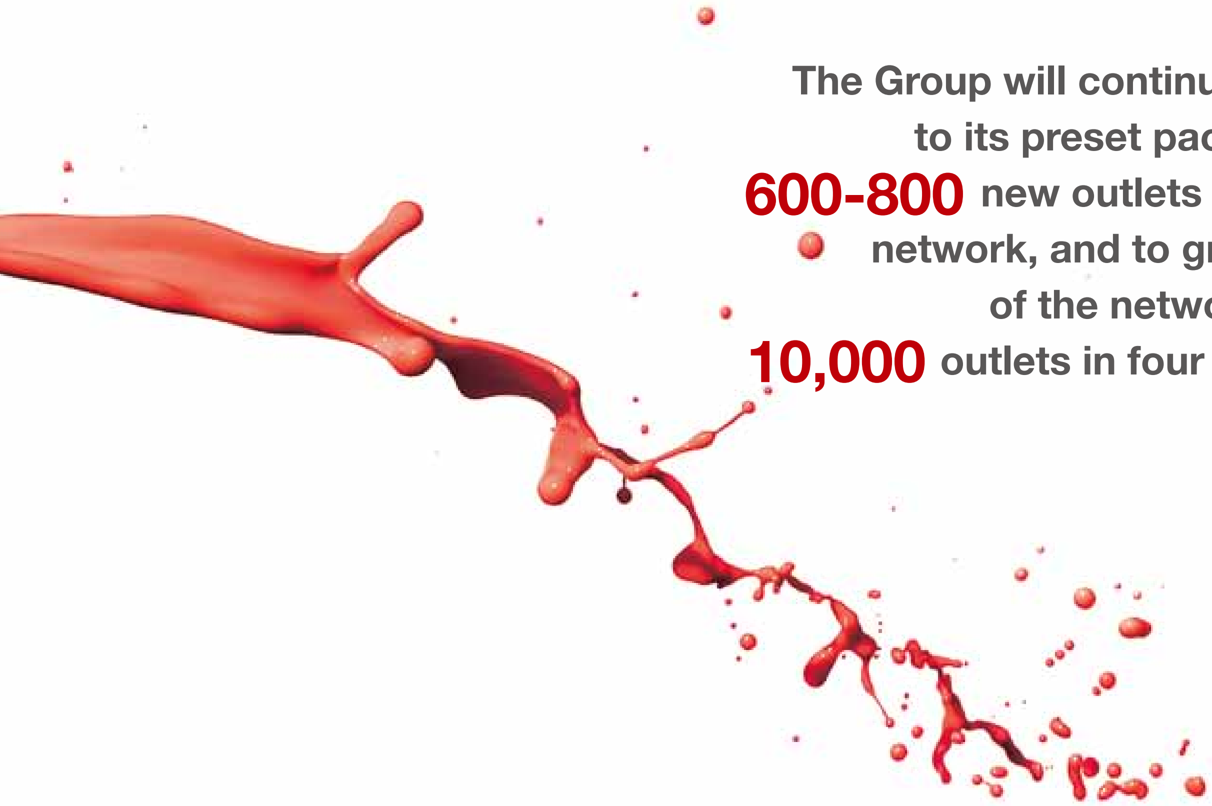
361° Children's Collection

The launch of *361°* Children's Collection was a strong growth driver for the Group in the highly-competitive sporting apparel and footwear retail market. Encouraged by the favorable responses received from the trade fairs and sales at the dedicated *361°* Children's Collection outlets since the launch, the Group started during the period under review, an advertising placement schedule to communicate with a wider audience the introduction of this collection that inherited the branding and functionality of the original *361°* brand, targeting at the increasingly affluent parents who are more willing to spend on their treasured children.

Deliberately operating this collection as a separate business independent of the other collections, with dedicated outlets, trade fairs, distributors, product design teams and subcontractors, the Group distributes *361°* Children's Collection merchandises through 487 dedicated outlets, of which 211 were standalone stores operated by authorized retailers and 133 were counters in *361°* franchised stores whereas the remaining 143 are counters located in department stores and hypermarkets as at the end of December 2010.

Brand promotion and marketing

Customers' ready acceptance of *361°* products, their strong association of the products with high performance, innovation and cutting-edge style were the core drivers of the Group's success in the last few years. This brand strengths are attributable to the Group's resources and devotion put into promoting the *361°* brand on an ongoing basis.



The Group will continue to adhere to its preset pace of adding 600-800 new outlets a year to its network, and to grow the size of the network to about 10,000 outlets in four years' time.

The Group attributed much of the continuing strong growth in sales during the period under review to the deep involvement of *361°* in the Games. The Group considers the Games as one of the few opportunities *361°* showcases to the world the brand's strong association with professional sports events, its cutting-edge product design, exceptional craftsmanship and product functionalities and strong determination to focus on development of high quality products to better serve both the professional athlete community and the amateur consumers who share the same enthusiasm in sports and healthy lifestyles.

In our capacities as the global official sponsor of Olympic Council of Asia and the only Prestige Partner of the Games, *361°* provided gears for torchbearers, volunteers, officials and referees. While preparing gears for the 42 professional contests, the Group also designed and provided *361°* Asian Games tunics for 6 national teams and *361°* Asian Games ceremonial gears for 9 Asian national delegations.

361° also became the sole sponsor of outfits worn by hosts of the Games programs broadcasted on Hong Kong's Cable TV, the only official TV channel in Hong Kong that was dedicated to the Games. This move reinforced the audiences' perception of the strong association between *361°* professional sports events.

It was through *361°*'s deep involvement that the Group's themed marketing campaign team advanced into an even more accomplished execution group specializing on activities that help promote the professional functionalities of *361°* brand products. Wholehearted endeavor to achieve breakthroughs in product functionalities, over the years, has emerged as one of the strongest drivers of enhancement in the *361°* brand and its value.

Management Discussion and Analysis

A strong backing of research and development comes as the backbone of this functionality-driven marketing strategy. The Group's newly established R&D laboratory in Guangzhou has started producing new product prototypes for different sports categories. These new products contribute to enhancing the performances of professional athletes through delivering top-notch functionality, comfort, user-friendliness and quality. The Group has started to supply prototype products to professional athletes in China's national teams in different sports categories, collect from their feedbacks which can help improve product quality and design. National teams that accepted product prototypes from the Group include the handball team, the softball team and the hockey team.

Other National teams that *361°* is proud to sponsor include:

National Cycling Team
National Triathlon Team
National Modern Pentathlon Team
National Hockey Team
National Softball Team
National Handball Team

To strengthen *361°*'s leadership in technology and product innovation, the Group increased the appropriation of resources into R&D by 0.6 percentage points from the previous 1.0% of the total sales to 1.6%.

In the coming months, the Group will shift its marketing focus to the 26th Summer Universiade 2011 to be held in Shenzhen. The "Universiade", also known as the "Small Olympics", is ranked only behind the Olympic Games in international sports games in terms of scale. The Group has entered into an agreement to sponsor the gears of related services, including apparels for volunteers, torchbearers, referees, technical officials and working staffs, and working apparels for the media. Meanwhile, we also provided professional gears for 7 university representative teams in Chinese University Basketball Super League, Chinese University Volleyball and Chinese University Table Tennis and ceremonial gears for university delegations of 16 countries such as Germany and Italy.

361° will roll out in selected outlets in Shenzhen and neighboring cities, major provincial capitals product series developed specifically for the Universiade from May 2011, featuring a different theme in every month with special in-store promotions to drive sales.

The Group proceeded with its sole title sponsorships for six national volleyball tournaments in China in August 2010, including Men/Women's National Volleyball Leagues, Men/Women's National Volleyball Grand Prize Cup and Men/Women's National Volleyball Championship Cup ("Volleyball Tournaments") between 2010 and 2015. The Group will provide players, coaches, organizing officials and working staff of these tournaments with sports footwear, apparels and accessories.

This series of Volleyball Tournaments is the highest ranked events of its kind at the national level and is jointly organized by China Volleyball Association and CCTV 5. The Volleyball Tournaments will be titled "*361°* Men/Women's National Volleyball Leagues", "*361°* Men/Women's National Volleyball Grand Prize Cup" and "*361°* Men/Women's National Volleyball Championship Cup" and broadcasted at prime viewing hours at CCTV 5.

Sponsorships of professional sports events

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

Time	Event	Capacity
2010-2015	*361°* Men/Women's National Volleyball Tournament series	Sole Title Sponsor
2007-2013	*361°* China University Basketball Super League	Designated Partner
2010	Guangzhou 2010 Asian Games	Sportswear Prestige Partner
2010	Shanghai World Expo 2010	The First Cooperation Partner for Volunteers
2011	Summer Universiade 2011 Shenzhen	Global Partner
2009-2013	China Table Tennis Super League	Title Sponsor
2009-2013	CCTV Channel 5	Sportswear 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

Product design and development

Persistent appropriation of abundant 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.

In response to the increasingly stringent requirement by the average amateur customers on professional functionalities and thanks to the better consciousness of a healthier lifestyle of the country in general, the Group has started to realize more than ever the catalytic enhancement effect of advancing product design and technology that will bring about to enhancing brand value and product selling prices.

The Group has independent research and development and design departments dedicated to footwear, apparel and accessory products based in 2 R&D centres in Jinjiang and Guangzhou. As of 31 December 2010, there were 634 full-time design professionals for the footwear R&D design department and 133 for the apparel, accessories and children's wear.

There were also 2 footwear laboratories and one apparel laboratory to conduct tests and collect performance data. The Group currently owns 19 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.

Production

As at the end of December 2010 there were 20 footwear production lines, up from 19 at the end of June 2010, in the Group's production base in the new Wuli Industrial Park and the existing Jinjiang production base with production capacity aggregating 17 million pairs a year. These 20 production lines are scattered in both Wuli Industrial Park and the existing production base in Jinjiang. The aggregate annual production capacity of the apparel production lines has reached 5 million pieces. The Group continues to outsource manufacturing of the majority of the apparel products to third-party sub-contractors while keeping a small in-house apparel production operation in Wuli to allow the management to grasp a better understanding of the production cost structures and the latest apparel R&D and design trends.

New executive appointments to boost team strength

During the period under review, the Group continued to bring in accomplished talents and experienced participants to add strengths to the team. Two vice presidents in charge of operations and brand managements came on board.

The team now comprises of 6 vice presidents in investor relations, footwear business centre, apparel business centre, supply chain management centre, operations and brand management; and a general manager for children's collection and a production director for the Wuli Industrial Centre. They work closely with the core corporate executives of the Group and all existing members of the management team to drive performance standards to a higher level.

FINANCIAL REVIEW

Turnover

The Group experienced a solid year-on-year increase in turnover for the six months under review to RMB2,275.4 million from RMB1,757.2 million, up 29.5%, modestly faster than the overall growth trends of the sportswear segment and the overall retail sector in China.

The Group's continuing efforts in promoting the *361°* brand through advertising, national-team and event sponsorships started to establish a consistent track record of driving both retail sales volume and prices. The Group's heavy involvement in the Games had proven to be exceptionally effective to drive sales of not only the conceptual series specifically designed for the Games but also other non-Games-related merchandises due to the strong conviction of the consumers in general to share the pride of China in hosting the Games.

Most of the Games products were offered at the winter trade fair held on 15th April 2010 and the majority of the products were delivered and concluded by 31 December 2010.

Average selling price ("ASP") increased by 5.5% period on period for footwear products and decreased by 13.0% for apparel products. The decrease in ASP for the apparel products was mainly due to the volume sold for the spring and summer products for this six months period under review was much more than the corresponding period last year. As the delivery schedule is not fixed at the same time each year, the planning for distribution is subject to the changes of weather and the demand of distributors and authorized retailers which leads to differences in the proportion of products delivery for each trade fair products in different periods of time. This, especially, influences the ASP for the apparel products since the price ranges for the winter and spring and summer apparel are much wider than footwear. As a result, even though the ASP for winter products sold for this period registered a remarkable growth, the volume sold for the spring and summer products outweighed the winter and autumn products which lowered the overall ASP for the six months ended 31 December 2010 when compared with the same period last year. However, the positive impact for the growth in the ASP of winter products can totally be reflected on the overall gross profit margin for the six months under review which are explained in details under the heading of Gross profit and gross profit margin.

The much better retail sales momentum brought about by the enhanced brand image enabled the Group to increase its wholesale prices applied across-the-board to all distributors, from the previous 38% of the suggested retail prices to 40% in the latest trade fair held on 15 December 2010. This increase, while having zero impact on prices at the retail store front, helps to establish an ascending price trend that commensurate with the ongoing brand image enhancement. This is a move anticipated and welcomed by all distributors.

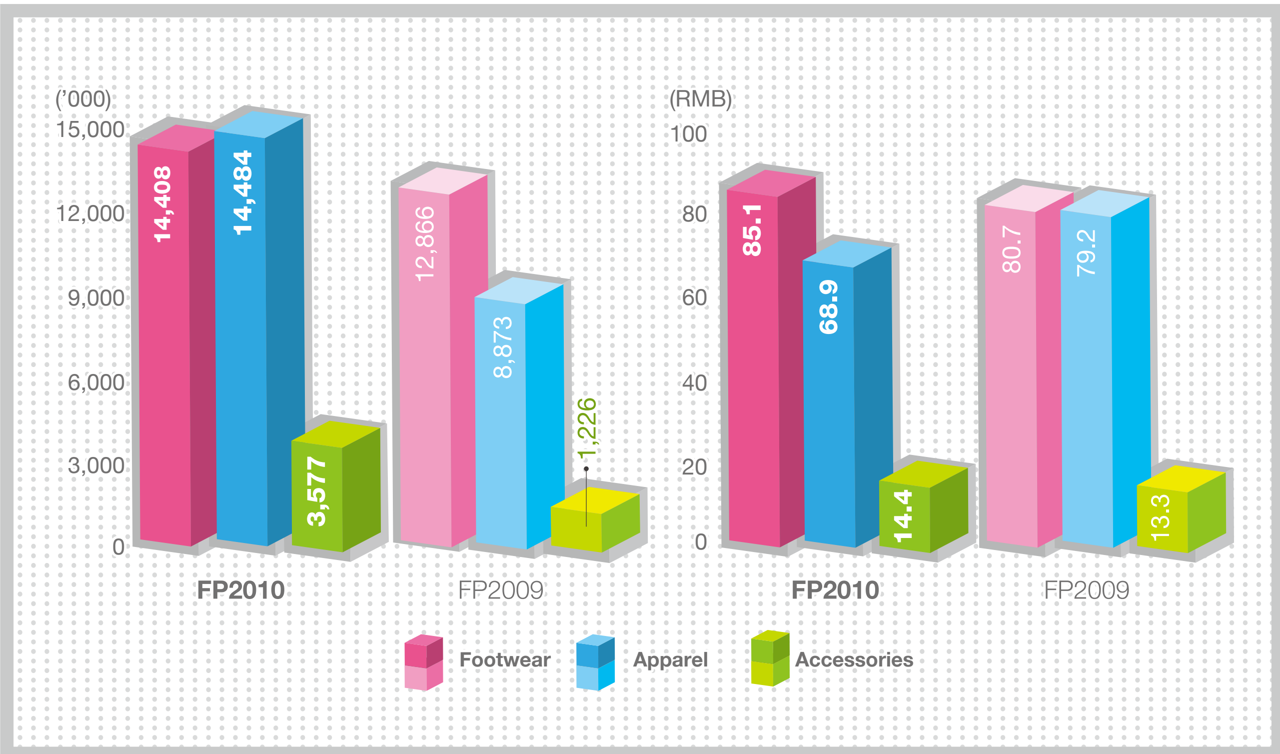
The new children's collection launched in the beginning of 2010 contributed about RMB124.3 million or 5.5% to the Group turnover during the period under review.

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

	For the six months ended 31 December			
	2010		2009	
	Total units sold '000	**Average wholesale selling price(1) RMB**	Total units sold '000	Average wholesale selling price(1) RMB
***361°* Products**				
Footwear (pairs)	**14,408**	**85.1**	12,866	80.7
Apparel (pieces)	**14,484**	**68.9**	8,873	79.2
Accessories (pieces/pairs)	**3,577**	**14.4**	1,226	13.3

Units Sold

Average Wholesale Selling Price



Note:

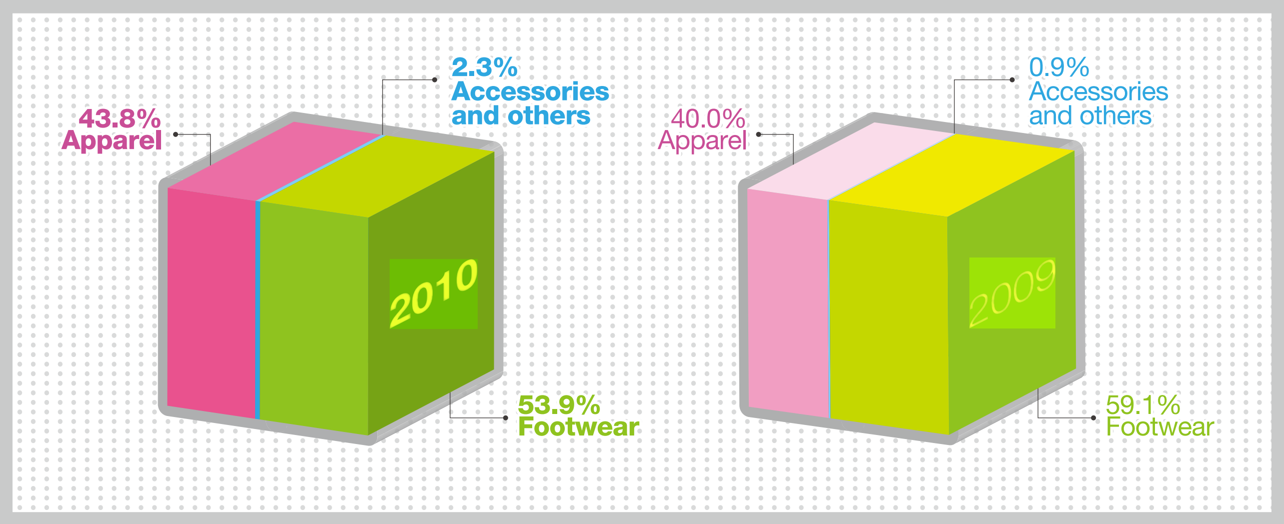
(1) Average wholesale selling price represents the turnover divided by the total units sold for the period.

Breaking down by products categories, footwear comprised 53.9% of the total sales while apparel and accessories made up the remaining 43.8% and 2.3% respectively. This represented a 59/40% split recorded in the first six months of the last financial year to 54/44% since the weather in China over the period under review was much stable than the corresponding period last year. Therefore, the sales mix between footwear and apparel was much closer to each other.

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

	For the six months ended 31 December				
	2010		2009		
	RMB'000	**% of Turnover**	RMB'000	% of Turnover	Change (%)
Turnover					
Footwear	**1,226,446**	**53.9**	1,038,364	59.1	18.1
Apparel	**997,453**	**43.8**	702,450	40.0	42.0
Accessories and others (1)	**51,464**	**2.3**	16,343	0.9	214.9
Total	**2,275,363**	**100.0**	1,757,157	100.0	29.5

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 financial period:

	For the six months ended 31 December				
	2010		2009		
	RMB'000	**% of Turnover**	RMB'000	% of Turnover	Change (%)
Eastern region [(1)]	**544,483**	**23.9**	410,595	23.4	32.6
Southern region [(2)]	**467,693**	**20.6**	416,740	23.7	12.2
Western region [(3)]	**386,522**	**17.0**	242,062	13.8	59.7
Northern region [(4)]	**876,665**	**38.5**	687,760	39.1	27.5
Total	**2,275,363**	**100.0**	1,757,157	100.0	29.5

Notes:

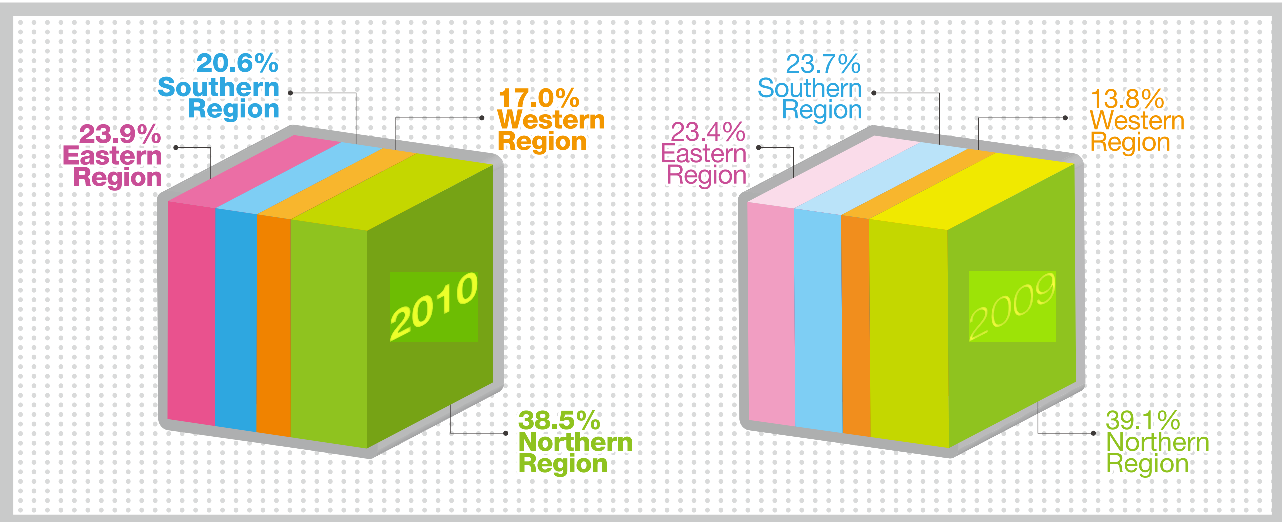
(1) Eastern region includes Jiangsu, Zhejiang, Hubei, Anhui, Hunan, Shanghai and Jiangxi.

(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.

Turnover Breakdown by Regions



Management Discussion and Analysis

Cost of sales

Cost of sales for *361°* products increased by 20.1% from RMB1,060.8 million for the first six months of the previous financial year to RMB1,274.5 million for the six months under review, primarily as a result of an increase in sale of the *361°* products. In the same period last year, the volume of self produced products decreased due to the implementation of a new quality control standard which forced of many of footwear products to be outsourced. The production process went back to normal for this six months under review, the volume of self produced footwear has increased hence the cost of outsourced footwear products for this six months was much lower than the same corresponding period last year.

The escalating raw material costs since October 2010 was yet to inflict any impact on the production costs of the Group for the financial year 2010-11 because the spring and summer trade fair hosted on 15 August 2010 already secured wholesale orders, to be delivered until the end of this financial year, and hence the costs.

The higher costs on merchandises launched in the autumn trade fair on 15 December 2010, meanwhile, will be reflected in the financial year 2011-12.

The Group did not experience significant pressure to raise wages for its manufacturing labour because the average wage per capita it is paying has already surpassed the regulatory minimum levels as stipulated in The Labour Law of The People's Republic of China.

In order to maintain the loyalty of its manufacturing employees and instill an extra layer of stability to its manufacturing teams, the Group has been investing substantially in better dormitories with comprehensive recreational facilities that help create a better environment for the employees to work and develop their careers.

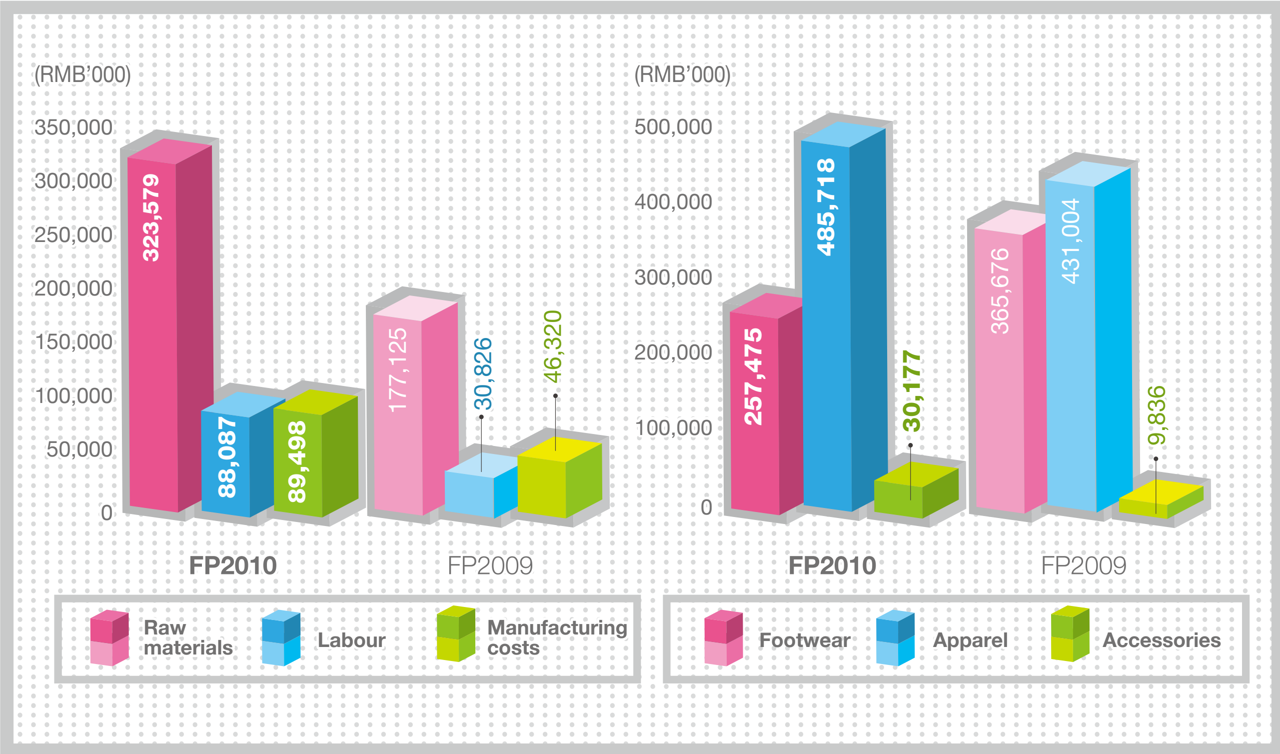
Labour costs ultimately comprise only a low-single-digit percentage of the Group's total costs. On the contrary, modests increases in salaries of the whole manufacturing sector in China can help drive sales of the Group's products which are targeted at the middle-income consumer segment.

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 financial period:

	For the six months ended 31 December			
	2010		2009	
	RMB'000	**% of total costs of sales**	RMB'000	% of total costs of sales
***361°* Products**				
Footwear & Apparel (internal production)				
Raw materials	**323,579**	**25.4**	177,125	16.7
Labour	**88,087**	**6.9**	30,826	2.9
Manufacturing costs	**89,498**	**7.0**	46,320	4.4
Subtotal for internal production	**501,164**	**39.3**	254,271	24.0
Outsourced Products				
Footwear	**257,475**	**20.2**	365,676	34.5
Apparel	**485,718**	**38.1**	431,004	40.6
Accessories	**30,177**	**2.4**	9,836	0.9
Subtotal for outsourced products	**773,370**	**60.7**	806,516	76.0
Cost of sales for *361°* products	**1,274,534**	**100.0**	1,060,787	100.0

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 *361°* products increased by 43.7% from RMB696.3 million for the first six months of the previous year to RMB1,000.8 million for the six months under review primarily due to the increase in sales. Gross profit margin for *361°* products increased from 39.6% for the last corresponding period to 44.0% for the six months under review, representing a growth in gross profit margin of 4.4 percentage points. The contributions were mainly from the newly launched children's wear, the significant increase in the ASP of the winter products, the decrease in the cost of self produced footwear through the increase of production capacity and the decrease in the cost of outsourced apparels due to better discount offered by the suppliers after shortening the payment cycle.

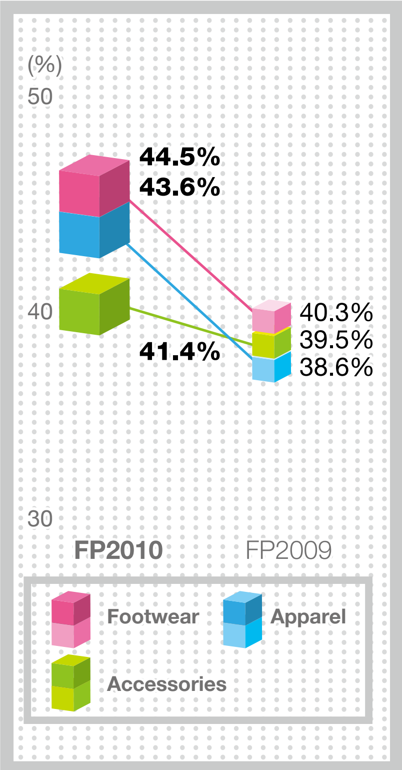
Sales volume was still the key driver of growth, the sales volume from footwear and apparel both reached to 14.4 million for the six months under review represented a growth of 12.0% and 63.2%, respectively when compared with the same period last year.

With the increase in sales volume, the improvement and increase in the number of in-house footwear production facilities and increase in the number of skilled workers, the Group also enjoyed a better economies of scale thus lowered the cost of in-house produced footwear and outsourced apparel products when compared with the same period last year.

Additionally, thanks to the success of the Games, the *361°* brand and image have been further enhanced and the products in relation to the Games were broadly introduced to customers and received very positive feedback from the market which allowed the Group to have an exceptionally high gross profit margin growth for the six months under review.

Management Discussion and Analysis

Gross Profit Margin by Products



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

	For the six months ended 31 December			
	2010		2009	
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %
***361°* Products**				
Footwear	**545,166**	**44.5**	418,416	40.3
Apparel	**434,377**	**43.6**	271,446	38.6
Accessories	**21,287**	**41.4**	6,417	39.5
Total	**1,000,830**	**44.0**	696,279	39.6

Selling and distribution expenses

Selling and distribution expenses increased by 54.6% from RMB251.7 million in the last corresponding period to RMB389.1 million during the six months under review, primarily as a result of increase in the Group's advertising and marketing expenses in relation to the two major event sponsorships, prestige sponsorship for the Games held in November 2010 and the sponsorship for the first cooperation partner for volunteers for Shanghai Expo 2010 held from May to the end of October 2010, for the six months under review.

During this six months, selling and distribution expenses represented 17.1% of the Group's turnover of which 13.3% was advertising and promotional expenses, as compared to 14.3% in the last corresponding period, during which the advertising and promotional expenses also contributed to about 10.8% of the Group's turnover. The major event sponsorship for the second half of the financial year of 2011 and the financial year of 2012 will be the 26th Summer Universiade 2011 to be hosted in Shenzhen in August 2011 and the *361°* Men/Women's National Volleyball Tournament series.

Administrative expenses

Administrative expenses increased by 137.9% from RMB54.4 million for the last corresponding period to RMB129.4 million for the six months under review, mainly resulting from increase in the research and development expenses, increase in salaries for the new managerial staff as well as the heads of departments and increase in training expenses for the staff at retail outlets.

For the six months under review, administrative expenses represented about 5.7% of the Group's turnover increased by 2.6 percentage point as compared to 3.1% in the last corresponding period. The increase was mainly from the 1.6% of the research and development expenses, 1.7% of the administrative staff salaries and fringe benefit expenses and 0.4% of the training expenses to the total turnover for the period whereas the percentage of these expenses in the same period last year was 1.0%, 0.7% and 0.001%, respectively.

As committed at the time of Initial Public Offering ("IPO"), the Group has used part of the IPO proceeds for the establishment of a new product testing and research and development laboratory in Guangzhou in September 2010 and further improvement for the facilities at the old research and development laboratory in Jinjiang, Fujian Province, the Group believes that with the further enhancement in research and development, it can fully support the growth and development of the brand.

During the calendar year of 2010, the Group sought to expand the management team by recruiting experienced and professional senior to join the company and some of them possess very strong sportswear industry background experience. The salaries of the new vice presidents on various areas, a general manager of the children's wear, a production director of the production plant and some other newly recruited managerial staff are fully recorded and accrued for the six months under review. The percentage of staff salaries and fringe benefits for the six months under review increased to about 1.7% to the total turnover whereas about 0.7% for the same period last year.

Starting from June 2010, the Group has joined a training programme with a school located in Jiujiang city, Jiangxi province for training shop managers and shop assistants at retail outlets for the knowledge of corporate management, the skills and ways of merchandising *361°* products to customers.

Such expense together with other training expenses respresented about 0.4% of the turnover for the six months under review and training expenses for the same period last year was only about 0.001 %.

Income tax expenses

During the six months under review, income tax expense of the Group amounted to RMB81.3 million (1H2009/10: 43.0 million) mainly because of the significant increase in net profit before tax, with an effective tax rate at 16.4% (1H2009/10: 10.8%).

Under the PRC Tax Law, one of our subsidiaries could still enjoy a full exemption of tax which helped to lower our overall effective tax rate in the first half of the last financial year to about 10.8%. Commencing from the calendar year of 2010 and the subsequent three years until 31 December 2012, this subsidiary was taxed at 12.5%, representing a 50% reduction on the enterprise income tax rate of 25.0%. The effective tax rate for the six months under review thus increased to about 16.4%.

Profit attributable to equity shareholders

As compared with the last corresponding period, profit attributable to equity shareholders for the six months under review increased from RMB356.8 million to RMB422.8 million, representing a growth of 18.5%. This was mainly attributed to the growth in gross profit. Earnings per share for the period was RMB20.5 cents, up by 18.5% from the previous year.

Interim Dividend

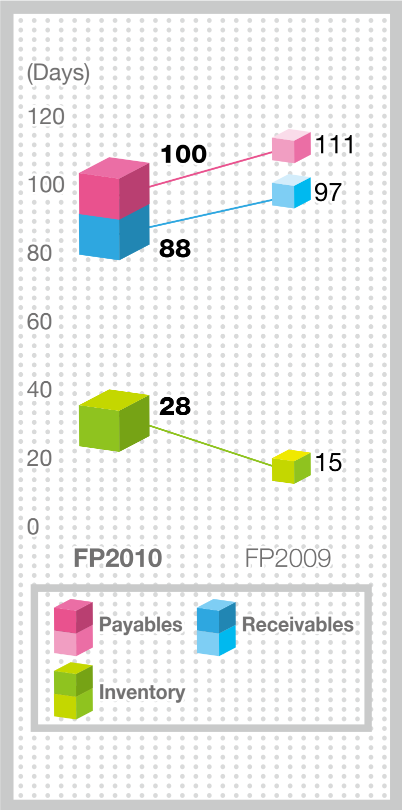
The Board recommended an interim dividend of RMB7.1 cents (equivalent to HK8.3 cents) per share for the six months ended 31 December 2010. The dividend amounted to RMB146.8 million and represented 34.7% of the unaudited profit for the period. It is expected that the interim dividend will be paid to shareholders by 31 March 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 9 March to Wednesday, 16 March 2011, 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 Tuesday, 8 March 2011.

Management Discussion and Analysis

Working Capital Turnover Days



Liquidity and Financial Resources

Working Capital Management

The Group has endeavored to tighten its working capital management to allow better visibility of its working capital resources and financial health.

Average inventory turnover cycle for the period under review was 28 days, slightly longer than the previous figures we reported, 15 days as at the year ended 30 June 2010 due to the fact that a big lump of outsourced products have been received around the cut-off date and such products have all been delivered to the customers in January 2011.

Average trade and bills receivables turnover cycle was shortened to 88 days from 97 days as at year ended 30 June 2010, primarily because the Group adhered strictly to its preset pace of adding about 600 to 800 stores a year to its network.

Average trade and bills payables cycle was shortened to 100 days from 111 days as at year ended 30 June 2010, representing an average trade payable cycle of 46 days compared to 62 days as at year ended 30 June 2010, and with the average bills payable cycle remained at 180 days in both period. With the new vice president on apparel on board in 2010, some new OEM suppliers were introduced in order to improve the quality and quantities of the Group's products. With new terms of payment from new suppliers and the Group also intended to shorten the payment cycle in order to get a better discount from both the new and old suppliers, the trade payable cycle has dropped to 46 days as at 31 December 2010.

The balance of deposits, prepayment and other receivables as at 31 December 2010 noted on note 8 of the financial statement has increased from Rmb273.9 million to RMB982.6 million represented by approximately RMB219.0 million to RMB828.1 million under the current portion and about RMB54.9 million to RMB154.4 million under the non-current portion when compared with the balance as at 30 June 2010. The increase of RMB609.1 million under the current portion was mainly from the new terms of payment to suppliers, a larger amount of deposits provided to both the new and old suppliers when compared with the terms of payment for the year ended 30 June 2010. For the non-current portion, the increase of RMB99.5 million was mainly from the acquisition of a new land at Quanzhou, Fujian Province and the payments for the constructions in progress for the buildings at Wuli Industrial Park and the new Joint Venture plant.

As at 31 December 2010, cash and cash equivalents, including bank deposits and cash in hand, and fixed deposits with original maturity dates not exceeding three months, amounted to RMB953.3 million, representing a net decrease of RMB601.3 million as compared to the position as at 30 June 2010. The decrease was attributed to the following items:

	For the six months ended 31 December	
	2010 RMB'000	2009 RMB'000
Net cash (used in)/generated from operating activities	**(658,240)**	302,141
Net capital expenditure	**(261,226)**	(74,336)
Dividends paid	**(185,887)**	(134,252)
Proceeds from new bank loans	**34,186**	224,000
Repayment of bank loans	**(23,000)**	(491,000)
Proceeds from new shares issued, net of issuing expenses	**—**	200,878
Proceeds from exercise of share options	**7,668**	—
Withdrawal/(placement) of fixed deposits (maturity over three months)	**478,173**	(660,423)
Other net cash inflow/(outflow)	**7,016**	(25,073)
Net decrease in cash and cash equivalents (included the effect of foreign exchange rates changes)	**(601,310)**	(658,065)

Net cash outflow in operating activities of the Group amounted to RMB658.2 million (2009: cash inflow RMB302.1 million). The negative balance was principally due to 1) the increase in the amount of trade and bills receivable and 2) the amount of prepayment to the suppliers. As majority of the delivery over the six months under review was delivered and concluded in November and December in order catch up the market demand for the Chinese Lunar New Year, the balance of the trade debts as at 31 December 2010 were normally higher than the balance as at 30 June 2010 which results to a net increase in the amount of trade & bills receivable. Secondly, the increase in the amount of prepayment to suppliers was the cause of the change of the new payment terms, the trade payable cycle has decreased to 46 days as mentioned on the previous paragraph.

The total assets and net assets were approximately RMB4,805.4 million (30 June 2010: RMB4,564.0 million) and RMB3,654.3 million (30 June 2010: RMB3,431.5 million) respectively. The bank loan noted on the financial statements as at 31 December 2010 was from the new joint venture company which the Group possess 51%. The Group's gearing ratio as at 31 December 2010 is 0.2% (30 June 2010: zero), being a ratio of total bank loans which is RMB11.2 million (30 June 2010: Nil) to total assets of approximately RMB4,805.4 million (30 June 2010: RMB4,564.0 million)

The net increase of RMB261 million in the capital expenditures was mainly for the construction at Wuli Industrial Park; the purchase of a new land at Quanzhou, Fujian Province and the construction of the rubber sole Joint Venture plant.

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 period under review, 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 2010, the Group secured its bank facilities by pledging its land use right with a carrying amount of RMB32.4 million (30 June 2010: RMB32.7 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 2010)	Unutilised (as at 31 Dec 2010)
Develop and increase brand awareness	741.2	457.2	284
Develop new production facilities	613.5	613.5	—
Develop children's footwear and apparel sub-brand	171.5	37.6	133.9
Establish a new product testing and R&D laboratory	114.3	65.9	48.4
Establish an ERP system	74.3	7.1	67.2
General working capital	190.6	190.6	—
	1,905.4	1,371.9	533.5

Prospects

The Group believes that China's ongoing rapid economic growth and urbanization will continue to maintain a favorable environment for the sportswear sector in China as a whole. Disposable income of urban residents continues its steady rising trend. The association of disposable income with volume of consumption in apparels and footwear continued to be strong.

The National Fitness Law implemented since 2009 and the National Fitness Plan (2011-2015) to be launched in 2011 as part of the policy objectives under the Twelfth Five-Year Plan will increase public sector spending in sports, a move that will in turn stimulate the consumption of sporting goods.

China's policy of maintaining a steady momentum of hosting of major international sports events will help maintain and articulate consumers' attention to these events, contributing to the ongoing development of the sporting goods industry. This will create a new horizon for sporting goods brands and manufacturers to go for greater depths in product technology, functionality and quality, contributing not only to higher product prices, better value, but also solid enhancements in images of China's domestic sporting goods brands.

The Group envisages that against a backdrop of rising inflation in China, the next challenge for sporting goods industry participants will be how retail, sourcing and manufacturing efficiency can be enhanced to keep costs under control, while continuing to invest in better products and branding to maintain customers' awareness. To this end, *361°* is proud to have been able to solidify its achievements in the past and leverage the momentum to drive the R&D, and advertisting and sales activities going forward.

The Group will continue to plough resources to develop the *361°* Children's Collection. *361°*'s foray into this area encouraged industry peers to follow suit, yet generally in a less-focused manner. The Group's forward-looking decision to establish separate order fairs, manufacturing and distributor network for this collection will better ensure its success. The Group continues to believe that this collection will become a major driver for the Group going forward.

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.

Acknowledgement

With the unrelenting endeavor from the team and all of the Group's employees and the persistent support from all the shareholders, customers and business partners, enlisted in the league of Top 50 Most Valuable Chinese Brands by Millbward Brown in December 2010.

In November 2010, the Group was named one of Asia's 200 Best Under A Billion by Forbes magazine. This is the second time the Group won an award from Forbes after 2005, when it ranked first in top potential 100 in Forbes Chinese.

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

As at 31 December 2010, 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 ("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	18.13%
Mr Ding Huihuang[(2)]	Interest in controlled corporation	360,000,000	17.41%
Mr Ding Huirong[(3)]	Interest in controlled corporation	360,000,000	17.41%
Mr Wang Jiabi[(4)]	Interest in controlled corporation	187,500,000	9.07%

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.

Apart from the foregoing, as at 31 December 2010, none of the directors or chief executive of the Company or any of their spouses or children under eighteen years of age had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company, or any of its holding companies, subsidiaries or other associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

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

SHARE OPTION 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:

	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%

Details of the share options granted under the Pre-IPO Share Option Scheme as at 31 December 2010 are as follows:

Name	Outstanding as at 1 July 2010	Exercised during the six months ended 31 December 2010	Outstanding as at 31 December 2010
Senior Management			
In aggregate	7,420,000	1,677,000	5,743,000
Other Employees			
In aggregate	7,960,000	813,000	7,147,000
Business Partners			
In aggregate	5,000,000	600,000	4,400,000
	20,380,000	3,090,000	17,290,000

Save as disclosed above, no options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the six months ended 31 December 2010.

The vesting period of the share options granted under the Pre-IPO Share Option Scheme commenced 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 Stock Exchange's daily quotations sheets on the offer date; and

(c) the average closing price of a share as stated in the 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 2010.

Apart from the foregoing, at no time during the six months ended 31 December 2010 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 2010, 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% or 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:

Corporate Governance and Other Information

Name of shareholders	Note	Long position in ordinary shares held	Percentage of total issued shares
Dings International Company Limited	(1)	375,000,000	18.13%
Ming Rong International Company Limited	(2)	360,000,000	17.41%
Hui Rong International Company Limited	(3)	360,000,000	17.41%
Jia Wei International Co., Ltd.	(4)	187,500,000	9.07%
Jia Chen International Co., Ltd.	(5)	187,500,000	9.07%

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 2010.

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 Listing Rules during the six months ended 31 December 2010.

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 2010.

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 has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements. They considered that the unaudited interim financial statements of the Group for the six months ended 31 December 2010 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been made.

Consolidated Income Statement

for the six months ended 31 December 2010 — unaudited
(Expressed in Renminbi)

		Six months ended 31 December	
	Note	**2010 RMB'000**	2009 RMB'000
Turnover	3	**2,275,363**	1,757,157
Cost of sales		**(1,274,533)**	(1,060,878)
Gross profit		**1,000,830**	696,279
Other revenue		**12,211**	10,851
Other net gain		**1,693**	209
Selling and distribution expenses		**(389,098)**	(251,700)
Administrative expenses		**(129,436)**	(54,411)
Profit from operations		**496,200**	401,228
Finance costs	4(a)	**(203)**	(1,462)
Profit before taxation	4	**495,997**	399,766
Income tax	5	**(81,331)**	(43,015)
Profit for the period		**414,666**	356,751
Attributable to:			
Equity shareholders of the Company		**422,775**	356,751
Non-controlling interests		**(8,109)**	—
Profit for the period		**414,666**	356,751
Earnings per share	6		
Basic (cents)		**20.5**	17.3
Diluted (cents)		**20.4**	17.3

The notes on pages 34 to 44 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 2010 — unaudited
(Expressed in Renminbi)

	Six months ended 31 December	
	2010 RMB'000	2009 RMB'000
Profit for the period	**414,666**	356,751
Other comprehensive income for the period		
Exchange differences on translation of financial statements	**(15,797)**	(3,252)
Total comprehensive income for the period	**398,869**	353,499
Attributable to:		
Equity shareholders of the Company	**406,978**	353,499
Non-controlling interests	**(8,109)**	—
Total comprehensive income for the period	**398,869**	353,499

The notes on pages 34 to 44 form part of this interim financial report.

Consolidated Balance Sheet

at 31 December 2010 — unaudited
(Expressed in Renminbi)

	Note	At 31 December 2010 RMB'000	At 30 June 2010 RMB'000
Non-current assets			
Fixed assets	7		
— Property, plant and equipment		**677,013**	566,239
— Interests in leasehold land held for own use under operating leases		**85,121**	84,768
		762,134	651,007
Deposits and prepayments	8	**154,444**	54,910
Deferred tax assets		**22,026**	18,657
		938,604	724,574
Current assets			
Inventories		**248,219**	132,836
Trade and other receivables	8	**2,117,752**	1,114,736
Pledged bank deposits	15	**89,600**	101,200
Deposits with banks		**457,912**	936,085
Cash and cash equivalents	9	**953,276**	1,554,586
		3,866,759	3,839,443
Current liabilities			
Trade and other payables	10	**1,046,325**	1,019,830
Bank loans	11	**11,186**	—
Current taxation		**90,859**	109,545
		1,148,370	1,129,375
Net current assets		**2,718,389**	2,710,068
Total assets less current liabilities		**3,656,993**	3,434,642
Non-current liabilities			
Deferred tax liabilities		**2,715**	3,125
NET ASSETS		**3,654,278**	3,431,517
CAPITAL AND RESERVES	12		
Share capital		**182,374**	182,109
Reserves		**3,444,919**	3,214,314
Total equity attributable to equity shareholders of the Company		**3,627,293**	3,396,423
Non-controlling interests		**26,985**	35,094
TOTAL EQUITY		**3,654,278**	3,431,517

The notes on pages 34 to 44 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 31 December 2010 — unaudited
(Expressed in Renminbi)

	Note	Attributable to equity shareholders of the Company									Non-controlling interests	Total equity
		Share capital	Share premium	Capital reserve	Other reserve	Statutory reserve	Share option reserve	Exchange reserve	Retained profits	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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	–	2,510,198
Changes in equity for the six months ended 31 December 2009:												
Profit for the period		–	–	–	–	–	–	–	356,751	356,751	–	356,751
Other comprehensive income for the period		–	–	–	–	–	–	(3,252)	–	(3,252)	–	(3,252)
Total comprehensive income for the period		–	–	–	–	–	–	(3,252)	356,751	353,499	–	353,499
Share issued under placing, net of issuing expenses	12(a)(i)	5,769	195,109	–	–	–	–	–	–	200,878	–	200,878
Equity-settled share-based transactions		–	–	–	–	–	4,287	–	–	4,287	–	4,287
Appropriation to statutory reserve		–	–	–	–	54,788	–	–	(54,788)	–	–	–
Dividends declared and paid during the period	12(c)	–	–	–	–	–	–	–	(134,252)	(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	–	2,934,610
Balance at 1 July 2010		182,109	1,409,129	156,252	82,724	268,235	8,943	(2,203)	1,291,234	3,396,423	35,094	3,431,517
Changes in equity for the six months ended 31 December 2010:												
Profit for the period		–	–	–	–	–	–	–	422,775	422,775	(8,109)	414,666
Other comprehensive income for the period		–	–	–	–	–	–	(15,797)	–	(15,797)	–	(15,797)
Total comprehensive income for the period		–	–	–	–	–	–	(15,797)	422,775	406,978	(8,109)	398,869
Share issued under share option scheme	12(a)(ii)	265	9,582	–	–	–	(2,179)	–	–	7,668	–	7,668
Equity-settled share-based transactions		–	–	–	–	–	2,111	–	–	2,111	–	2,111
Appropriation to statutory reserve		–	–	–	–	66,051	–	–	(66,051)	–	–	–
Dividends declared and paid during the period	12(c)	–	(185,887)	–	–	–	–	–	–	(185,887)	–	(185,887)
Balance at 31 December 2010		182,374	1,232,824	156,252	82,724	334,286	8,875	(18,000)	1,647,958	3,627,293	26,985	3,654,278

Condensed Consolidated Cash Flow Statement

for the six months ended 31 December 2010 — unaudited
(Expressed in Renminbi)

	Six months ended 31 December	
	2010 RMB'000	2009 RMB'000
Cash (used in)/generated from operations	**(554,444)**	363,055
Income tax paid	**(103,796)**	(60,914)
Net cash (used in)/generated from operating activities	**(658,240)**	302,141
Net cash generated from/(used in) investing activities	**239,963**	(755,772)
Net cash used in financing activities	**(167,236)**	(201,836)
Net decrease in cash and cash equivalents	**(585,513)**	(655,467)
Cash and cash equivalents at 1 July	**1,554,586**	1,983,546
Effect of foreign exchange rates changes	**(15,797)**	(2,598)
Cash and cash equivalents at 31 December	**953,276**	1,325,481

The notes on pages 34 to 44 form part of this interim financial report.

Notes to the Unaudited Interim Financial Statements

(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.

(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 2011.

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009/2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010/2011 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 2010 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").

The financial information relating to the financial year ended 30 June 2010 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 2010 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24 August 2010.

1 BASIS OF PREPARATION *(continued)*

(c) 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.

Management has determined operating segments with reference to the reports reviewed by the chief operating decision maker of the Group that are used to assess the performance and allocate resources.

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of manufacturing and distribution of sporting goods including footwear, apparel and accessories. Therefore, management considers there is only one operating segment under the requirements of HKFRS 8, Operating Segments. In this regard, no segment information is presented.

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

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs and two 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:

- Improvements to HKFRSs (2009)
- HK (Int) 5, *Presentation of financial statements — Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause*
- HK (IFRIC) 19, *Extinguishing financial liabilities with equity instruments*
- Improvements to HKFRSs (2010)

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

The issuance of HK (Int) 5 has had no material impact on the Group's financial statements as the Interpretation's conclusions were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

The impact of HK (IFRIC) 19 and Improvements to HKFRSs (2010) have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction and there is no requirement to restate the amounts recorded in respect of previous such transactions.

The impact of the Improvements to HKFRSs (2009) is discussed below.

As a result of an amendment to HKAS 17, *Leases*, arising from the "*Improvements to HKFRSs (2009)*" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers substantially all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continues to be appropriate.

Notes to the Unaudited Interim Financial Statements

(Expressed in Renminbi unless otherwise indicated)

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	
	2010 RMB'000	2009 RMB'000
Footwear	**1,226,446**	1,038,364
Apparel	**997,453**	702,450
Accessories and others	**51,464**	16,343
	2,275,363	1,757,157

The Group's customer base is diversified and includes only two customers (2009: two) with whom transactions have exceeded 10% of the Group's revenues. During the period ended 31 December 2010, revenues from sales of footwear, apparel and accessories and others to these customers, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately RMB678 million (2009: RMB449 million).

4 PROFIT BEFORE TAXATION

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

		Six months ended 31 December	
		2010 RMB'000	2009 RMB'000
(a)	Finance costs:		
	Interest on bank borrowings wholly repayable within five years	**203**	3,326
	Less: Interest expense capitalised into property, plant and equipment*	**–**	(1,864)
	Total finance costs	**203**	1,462
	* The interest expense has been capitalised at an average rate of 5.53% per annum for the six months ended 2009.		
(b)	Other items:		
	Amortisation of land lease premium	**889**	891
	Depreciation	**23,693**	6,120
	Staff costs	**169,603**	65,267
	Operating lease charges in respect of properties	**4,425**	1,469
	Research and development costs*	**36,918**	17,525
	Cost of inventories**	**1,274,533**	1,060,878

* Research and development costs include RMB10,261,000 (2009: RMB4,198,000) 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 RMB112,695,000 (2009: RMB41,400,000) 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	
	2010	2009
	RMB'000	RMB'000
Current tax — PRC income tax		
Provision for the period	**85,110**	43,015
Deferred tax		
Origination and reversal of temporary differences	**(3,779)**	—
Actual tax expense	**81,331**	43,015

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 subject to tax at 50% of the standard tax rates under the relevant tax rules and regulations.

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 RMB422,775,000 (six months ended 31 December 2009: RMB356,751,000) and the weighted average number of shares in issue during the interim period of 2,067 million (2009: 2,058 million).

(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 RMB422,775,000 (six months ended 31 December 2009: RMB356,751,000) and the weighted average number of ordinary shares of 2,076 million (2009: 2,060 million) adjusted for the potential dilutive effect caused by the share options granted under Pre-IPO share option scheme.

Notes to the Unaudited Interim Financial Statements

(Expressed in Renminbi unless otherwise indicated)

7 FIXED ASSETS

During the six months ended 31 December 2010, the Group acquired items of property, plant and equipment of approximately RMB123,517,000 (six months ended 31 December 2009: approximately RMB124,374,000).

8 TRADE AND OTHER RECEIVABLES

	At 31 December 2010 RMB'000	At 30 June 2010 RMB'000
Trade debtors	**1,224,948**	935,218
Bills receivable	**104,213**	—
Less: allowance for doubtful debts	**(39,520)**	(39,520)
	1,289,641	895,698
Deposits, prepayments and other receivables	**982,555**	273,948
	2,272,196	1,169,646
Less: Non-current portion of deposits and prepayments	**(154,444)**	(54,910)
	2,117,752	1,114,736

All of the current trade and other receivables are expected to be recovered within one year, except that the Group's deposits, prepayments and other receivables totalling RMB10,757,000 (30 June 2010: RMB10,498,000) 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 2010 RMB'000	At 30 June 2010 RMB'000
Within 90 days	**1,159,209**	801,290
Over 91 days but less than 180 days	**130,432**	94,408
	1,289,641	895,698

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 2010 but neither individually nor collectively considered to be impaired are as follows:

	At 31 December 2010 RMB'000	At 30 June 2010 RMB'000
Less than 1 month past due	**195,259**	82,988
1 to 3 month past due	**57,373**	238,371
Amounts past due	**252,632**	321,359
Not past due	**1,037,009**	574,339
	1,289,641	895,698

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 CASH AND CASH EQUIVALENTS

At 31 December 2010, the balances that were placed with banks in the PRC and included in the cash and cash equivalents amounted to RMB768,497,000 (30 June 2010: RMB1,545,616,000). Remittance of funds out of the PRC is subject to exchange restriction imposed by the PRC government.

Some of the Group's customers issued commercial acceptance bills to settle the Group's trade debtors. During the period ended 31 December 2010, certain of these customers entered into financing arrangements with banks, whereby the Group discounted the commercial acceptance bills to the banks without recourse on the Group. The financing arrangements were guaranteed by related parties of the customers and all the related finance charges were borne by the customers. As at 31 December 2010, such discounted commercial acceptance bills, which have not yet matured and without recourse on the Group, amounted to RMB1,202,500,000 (30 June 2010: RMB1,629,100,000).

Notes to the Unaudited Interim Financial Statements

(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 2010 RMB'000	At 30 June 2010 RMB'000
Due within 1 month or on demand	**206,171**	101,774
Due after 1 month but within 3 months	**322,905**	200,942
Due after 3 months but within 6 months	**250,200**	305,665
Total creditors and bills payable	**779,276**	608,381
Other payable and accruals	**254,381**	382,852
Receipts in advance	**12,668**	28,597
	1,046,325	1,019,830

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 2010 and 30 June 2010 were secured by pledged bank deposits.

11 BANK LOANS

As at 31 December 2010, the bank loans were repayable as follows:

	At 31 December 2010 RMB'000	At 30 June 2010 RMB'000
Within 1 year or on demand	**11,186**	—

As at 31 December 2010, the bank loans were secured as follows:

	At 31 December 2010 RMB'000	At 30 June 2010 RMB'000
Bank loans		
— secured	**—**	—
— unsecured	**11,186**	—
	11,186	—

12 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital and reserves

	At 31 December 2010		At 30 June 2010	
	No. of shares '000	**HK$'000**	No. of shares '000	HK$'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 2010			At 30 June 2010		
		No. of shares '000	**HK$'000**	**RMB'000**	No. of shares '000	HK$'000	RMB'000
Ordinary shares, issued and fully paid:							
At 1 July 2010/ 1 July 2009		**2,065,412**	**206,541**	**182,109**	2,000,000	200,000	176,340
Share issued under placing	(i)	**–**	**–**	**–**	65,412	6,541	5,769
Share issued under share option scheme	(ii)	**3,090**	**309**	**265**	–	–	–
At 31 December 2010/ 30 June 2010		**2,068,502**	**206,850**	**182,374**	2,065,412	206,541	182,109

Notes:

(i) Share issued under placing

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.

(ii) Share issued under share option scheme

During the six months ended 31 December 2010, share options were exercised to subscribe 3,090,000 ordinary shares (year ended 30 June 2010: Nil) in the Company at a consideration RMB7,668,000 (year ended 30 June 2010: Nil), of which RMB265,000 (year ended 30 June 2010: Nil) was credited to share capital and the balance of RMB7,403,000 (year ended 30 June 2010: Nil) was credited to the share premium account. RMB2,179,000 (year ended 30 June 2010: Nil) has been transferred from the share option reserve to the share premium account.

Notes to the Unaudited Interim Financial Statements

(Expressed in Renminbi unless otherwise indicated)

12 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

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

Notes: *(continued)*

(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 2010, the outstanding options of the Company were:

Date of options granted	Exercise period	Exercise price	Number of options outstanding At 31 December 2010 '000	At 30 June 2010 '000
10 June 2009	30 June 2010 to 30 June 2014	HK$2.89	**3,024**	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	**17,290**	20,380

(c) Dividends

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

	Six months ended 31 December 2010 RMB'000	2009 RMB'000
Interim dividend declared after the interim period of RMB7.1 cents per ordinary share (2009: RMB4.3 cent per ordinary share)	**146,835**	88,813

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

12 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Dividends *(continued)*

(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	
	2010	2009
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of RMB9.0 cent per ordinary share	**185,887**	134,252

13 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

	Six months ended 31 December	
	2010	2009
	RMB'000	RMB'000
Short-term employee benefits	**13,885**	8,358
Equity-settled share-based payments	**785**	1,066
Post-employment benefits	**49**	26
	14,719	9,450

14 COMMITMENTS

(a) Contractual commitments outstanding at 31 December 2010 not provided for in the interim financial report were as follows:

	At 31 December 2010 RMB'000	At 30 June 2010 RMB'000
Advertising and marketing expenses	**578,204**	628,058

(b) Capital commitments outstanding at 31 December 2010 not provided for in the interim financial report were as follows:

	At 31 December 2010 RMB'000	At 30 June 2010 RMB'000
Authorised and contracted for	**41,615**	78,857

Notes to the Unaudited Interim Financial Statements

(Expressed in Renminbi unless otherwise indicated)

14 COMMITMENTS *(continued)*

(c) At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 December 2010 RMB'000	At 30 June 2010 RMB'000
Within 1 year	**7,225**	3,181
After 1 year but within 5 years	**9,102**	1,882
	16,327	5,063

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.

15 PLEDGE OF ASSETS

At 31 December 2010, certain bank facilities and bills payable of the Group were secured by bank deposits and interest in leasehold land held under operating leases. The aggregate net book value of assets pledged amounted to approximately RMB32,404,000 (30 June 2010: RMB32,744,000).

16 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 30 JUNE 2011

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 2011 and which have not been adopted in this interim financial report.

	Effective for accounting periods beginning on or after
Revised HKAS 24, Related Party disclosure	1 January 2011
HKFRS 9, Financial instruments	1 January 2013
Improvements to HKFRS, 2010	1 July 2010 or 1 January 2011
Amendments to HKAS 12, Income taxes	1 January 2012

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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