361 Degrees International Limited
361度國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1361)

ANNOUNCEMENT OF FINAL RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

HIGHLIGHTS

- Turnover and gross profit for the six months ended 31 December 2011 reached RMB2,382.8 million and RMB1,052.7 million respectively.
- Profit attributable to equity shareholders of the Company for the six months ended 31 December 2011 was RMB359.7 million.
- Basic earnings per share for the six months ended 31 December 2011 was RMB17.4 cents per share.
- The Board proposed to declare a final dividend of RMB7.0 cents (equivalent to HK8.6 cents) per share for the six months ended 31 December 2011.
- As at 31 December 2011, the number of retail outlets was 7,865, with about 72% of the stores located in Tier 3 and smaller cities.

FINAL RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

Pursuant to the announcement dated 23 August 2011, the Company changed its financial year end date from 30 June to 31 December. Accordingly, the current financial period covers a period of six months from 1 July 2011 to 31 December 2011. The comparative figures (which cover a period of twelve months from 1 July 2010 to 30 June 2011) for the consolidated income statement, the consolidated statement of comprehensive income and related notes are therefore not entirely comparable with those of the current period. The consolidated results of the Group for the years ended 31 December 2010 and 2011 and the consolidated balance sheets as at 31 December 2010 and 2011 are also presented as supplementary financial information in this announcement for comparison purpose.

The board (the "Board") of directors (the "Directors") of 361 Degrees International Limited ("the Company") is pleased to announce the consolidated results of the Company and its subsidiaries (together referred to as "the Group") for the six months ended 31 December 2011, with the comparative figures for the preceding financial year ended 30 June 2011, as follows:

CONSOLIDATED INCOME STATEMENT

for the six months ended 31 December 2011

	Note	**Six months ended 31 December 2011** *RMB'000*	Year ended 30 June 2011 *RMB'000*
Turnover	*4*	**2,382,801**	5,461,240
Cost of sales		**(1,330,103)**	(3,150,298)
Gross profit		**1,052,698**	2,310,942
Other revenue	*5*	**15,631**	68,810
Other net gain	*5*	**1,738**	3,392
Selling and distribution expenses		**(477,768)**	(665,220)
Administrative expenses		**(152,311)**	(276,688)
Profit from operations		**439,988**	1,441,236
Finance costs	*6(a)*	**(543)**	(493)
Profit before taxation	*6*	**439,445**	1,440,743
Income tax	*7*	**(78,216)**	(251,448)
Profit for the period/year		**361,229**	1,189,295
Attributable to:			
Equity shareholders of the Company		**359,692**	1,196,133
Non-controlling interests		**1,537**	(6,838)
Profit for the period/year		**361,229**	1,189,295
Earnings per share	*9*		
Basic (cents)		**17.4**	57.9
Diluted (cents)		**17.4**	57.9

Details of dividends payable to equity shareholders of the Company attributable to the profit for the period/year are set out in note 8.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2011

	Six months ended 31 December 2011	Year ended 30 June 2011
	RMB'000	*RMB'000*
Profit for the period/year	**361,229**	1,189,295
Other comprehensive income for the period/year		
Exchange differences on translation of financial statements	**(7,564)**	(31,937)
Total comprehensive income for the period/year	**353,665**	1,157,358
Attributable to:		
Equity shareholders of the Company	**352,128**	1,164,196
Non-controlling interests	**1,537**	(6,838)
Total comprehensive income for the period/year	**353,665**	1,157,358

CONSOLIDATED BALANCE SHEET
at 31 December 2011

	Note	At 31 December 2011 RMB'000	At 30 June 2011 RMB'000
Non-current assets			
Fixed assets			
– Property, plant and equipment		**892,263**	846,503
– Interests in leasehold land held for own use under operating leases		**99,926**	82,991
		992,189	929,494
Other financial asset		**17,550**	–
Deposits and prepayments	*10*	**141,887**	166,423
Deferred tax assets		**29,546**	13,480
		1,181,172	1,109,397
Current assets			
Inventories		**451,264**	197,255
Trade debtors and bills receivable	*10*	**2,354,808**	1,581,658
Deposits, prepayments and other receivables	*10*	**794,684**	305,316
Pledged bank deposits		**127,685**	50,840
Deposits with banks		**211,902**	135,370
Cash and cash equivalents		**459,762**	2,229,367
		4,400,105	4,499,806
Current liabilities			
Trade and other payables	*11*	**1,023,983**	1,174,090
Bank loans		**28,781**	13,216
Other loan		**150,000**	–
Current taxation		**72,181**	137,785
		1,274,945	1,325,091
Net current assets		**3,125,160**	3,174,715

CONSOLIDATED BALANCE SHEET
at 31 December 2011 (continued)

	At 31 December 2011 *RMB'000*	At 30 June 2011 *RMB'000*
Total assets less current liabilities	**4,306,332**	4,284,112
Non-current liability		
Deferred tax liabilities	**5,817**	5,342
NET ASSETS	**4,300,515**	4,278,770
CAPITAL AND RESERVES		
Share capital	**182,298**	182,298
Reserves	**4,073,835**	4,053,627
Total equity attributable to equity shareholders of the Company	**4,256,133**	4,235,925
Non-controlling interests	**44,382**	42,845
TOTAL EQUITY	**4,300,515**	4,278,770

1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the same accounting policies adopted in the 30 June 2011 annual financial statements, except for the changes in accounting policies set out in note 2. The financial statements have been reviewed by the Company's audit committee. The financial information set out in this announcement does not constitute the Group's statutory financial statements for the six months ended 31 December 2011, but is derived from those financial statements.

2 CHANGE IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants has issued a number of amendments to Hong Kong Financial Reporting Standards ("HKFRSs") and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, Hong Kong Accounting Standards ("HKAS") 24 (revised 2009), *Related party disclosures* is relevant to the Group's financial statements.

HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

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

3 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 operations of the Group are derived from activities in the People's Republic of China ("PRC").

4 TURNOVER

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

	Six months ended 31 December 2011	Year ended 30 June 2011
	RMB'000	*RMB'000*
Footwear	**1,225,819**	2,880,176
Apparel	**1,105,888**	2,459,054
Accessories	**51,094**	122,010
	2,382,801	5,461,240

The Group's customer base is diversified and includes only two customers (year ended 30 June 2011: three) with whom transactions have exceeded 10% of the Group's revenues. During the six months ended 31 December 2011, revenues from sales of footwear, apparel and accessories to these customers, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately RMB626 million (year ended 30 June 2011: RMB2,242 million).

5 OTHER REVENUE AND NET GAIN

	Six months ended 31 December 2011	Year ended 30 June 2011
	RMB'000	RMB'000
Other revenue		
Bank interest income	**12,267**	21,595
Government grants	**1,140**	46,256
Others	**2,224**	959
	15,631	68,810
Other net gain		
Net loss on disposal of fixed assets	**(54)**	(21)
Net foreign exchange gain	**1,792**	3,413
	1,738	3,392

Government grants of RMB1,140,000 (year ended 30 June 2011: RMB46,256,000) were received from several local government authorities for the Group's contribution to local economies, of which the entitlement was unconditional and under the discretion of the relevant authorities.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 31 December 2011 *RMB'000*	Year ended 30 June 2011 *RMB'000*
(a) Finance costs		
Interest on bank and other borrowings wholly repayable within five years	**543**	493
(b) Staff costs		
Contributions to defined contribution retirement plans	**8,812**	11,518
Equity-settled share-based payment expenses	**964**	4,174
Salaries, wages and other benefits	**205,869**	353,932
	215,645	369,624
(c) Other items		
Auditors' remuneration	**2,087**	2,564
Amortisation of land lease premium	**1,102**	1,777
Depreciation	**36,397**	52,048
Operating lease charges in respect of properties	**4,398**	7,821
Research and development costs *	**35,767**	84,431
Cost of inventories **	**1,330,103**	3,150,298

* *Research and development costs include RMB15,924,000 (year ended 30 June 2011: RMB24,534,000) relating to staff costs of employees in the research and development department, which amount is also included in the total staff costs as disclosed in note 6(b).*

** *Cost of inventories include RMB161,060,000 (year ended 30 June 2011: RMB266,987,000) relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.*

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Income tax in the consolidated income statement represents:

	Six months ended 31 December 2011 *RMB'000*	Year ended 30 June 2011 *RMB'000*
Current tax – PRC income tax		
Provision for the period/year	**93,807**	241,059
Under provision in respect of prior years	**–**	2,995
	93,807	244,054
Deferred tax		
Origination and reversal of temporary differences	**(15,591)**	7,394
	78,216	251,448

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

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

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

8 DIVIDENDS

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

	Six months ended 31 December 2011 *RMB'000*	Year ended 30 June 2011 *RMB'000*
Interim dividend declared and paid of RMB7.1 cents per ordinary share during the year ended 30 June 2011	**–**	146,835
Final dividend proposed after the balance sheet date of RMB7.0 cents per ordinary share (year ended 30 June 2011: RMB16.1 cents per ordinary share)	**144,732**	332,884
	144,732	479,719

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

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

	Six months ended 31 December 2011 *RMB'000*	Year ended 30 June 2011 *RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the period, of RMB16.1 cents per ordinary share (year ended 30 June 2011: RMB9.0 cents per ordinary share)	**332,884**	185,887

9 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 RMB359,692,000 (year ended 30 June 2011: RMB1,196,133,000) and the weighted average number of shares in issue during the period of 2,068 million (year ended 30 June 2011: 2,068 million), calculated as follows:

Weighted average number of ordinary shares

	Six months ended 31 December 2011	Year ended 30 June 2011
	'000	*'000*
Issued ordinary shares at the beginning of the period/year	**2,067,602**	2,065,412
Effect of shares repurchased	**–**	(309)
Effect of share options exercised	**–**	2,410
Weighted average number of ordinary shares at the end of the period/year	**2,067,602**	2,067,513

(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 RMB359,692,000 (year ended 30 June 2011: RMB1,196,133,000) and the weighted average number of ordinary shares of 2,071 million (year ended 30 June 2011: 2,076 million) adjusted for the potential dilutive effect caused by the share options granted under Pre-IPO share option scheme, calculated as follows:

Weighted average number of ordinary shares (diluted)

	Six months ended 31 December 2011	Year ended 30 June 2011
	'000	*'000*
Weighted average number of ordinary shares at 31 December/30 June	**2,067,602**	2,067,513
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**3,706**	8,862
Weighted average number of ordinary shares (diluted) at 31 December/30 June	**2,071,308**	2,076,375

10 TRADE AND OTHER RECEIVABLES

	At 31 December 2011	At 30 June 2011
	RMB'000	*RMB'000*
Trade debtors and bills receivable		
Trade debtors	**2,149,528**	1,598,078
Bills receivable	**244,800**	23,100
Less: Allowance for doubtful debts *(note 10(b))*	**(39,520)**	(39,520)
	2,354,808	1,581,658
Deposits, prepayments and other receivables		
Deposits	**1,790**	1,428
Prepayments	**861,802**	442,857
Other receivables	**72,979**	27,454
	936,571	471,739
Less: Non-current portion of deposits and prepayments	**(141,887)**	(166,423)
	794,684	305,316

Included in prepayments are amounts prepaid to suppliers of RMB610,515,000 (30 June 2011: RMB210,194,000) and payments for acquisition of interest in leasehold land held for own use under operating leases amounting to RMB85,269,000 (30 June 2011: RMB102,177,000) respectively.

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

10 TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(a) Ageing analysis

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

	At 31 December 2011 *RMB'000*	At 30 June 2011 *RMB'000*
Within 90 days	**1,663,756**	1,519,287
Over 91 days but within 180 days	**609,612**	62,371
Over 181 days but within 365 days	**81,440**	–
	2,354,808	1,581,658

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

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly. There are no movements in the allowance for doubtful debts during the six months ended 31 December 2011 and the year ended 30 June 2011.

At 31 December 2011, the Group's trade debtors of RMB39,520,000 (30 June 2011: RMB39,520,000) were individually determined to be impaired. The individually impaired receivables related to a number of customers and management assessed that the receivables were not recoverable. Consequently, specific allowances for doubtful debts were recognised. The Group does not hold any collateral over these balances.

10 TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

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

	At 31 December 2011 *RMB'000*	At 30 June 2011 *RMB'000*
Neither past due nor impaired	**1,941,518**	1,368,230
Less than 1 month past due	**245,302**	154,654
1 to 3 months past due	**167,988**	58,774
Amount past due	**413,290**	213,428
	2,354,808	1,581,658

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.

11 TRADE AND OTHER PAYABLES

	At 31 December 2011 RMB'000	At 30 June 2011 RMB'000
Trade creditors	**315,539**	598,490
Bills payable	**474,810**	214,082
Receipts in advance	**447**	3,049
Other payables and accruals	**233,187**	358,469
	1,023,983	1,174,090

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 2011 and 30 June 2011 were secured by pledged bank deposits.

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the end of the reporting period:

	At 31 December 2011 RMB'000	At 30 June 2011 RMB'000
Due within 1 month or on demand	**190,690**	202,366
Due after 1 month but within 3 months	**357,324**	177,718
Due after 3 months but within 6 months	**242,335**	432,488
	790,349	812,572

SUPPLEMENTARY FINANCIAL INFORMATION – UNAUDITED

CONSOLIDATED INCOME STATEMENT

for the years ended 31 December 2010 and 2011

	2011	2010
	RMB'000	*RMB'000*
Turnover	**5,568,678**	4,849,010
Cost of sales	**(3,205,868)**	(2,838,134)
Gross profit	**2,362,810**	2,010,876
Other revenue	**72,230**	33,838
Other net gain	**3,437**	3,042
Selling and distribution expenses	**(753,890)**	(670,859)
Administrative expenses	**(299,563)**	(230,073)
Profit from operations	**1,385,024**	1,146,824
Finance costs	**(833)**	(2,067)
Profit before taxation	**1,384,191**	1,144,757
Income tax	**(248,333)**	(171,993)
Profit for the year	**1,135,858**	972,764
Attributable to:		
Equity shareholders of the Company	**1,133,050**	982,838
Non-controlling interests	**2,808**	(10,074)
Profit for the year	**1,135,858**	972,764
Earnings per share		
Basic (cents)	**54.8**	47.6
Diluted (cents)	**54.6**	47.3

CONSOLIDATED BALANCE SHEET
at 31 December 2010 and 2011

	2011	2010
	RMB'000	*RMB'000*
Non-current assets		
Fixed assets		
– Property, plant and equipment	**892,263**	677,013
– Interests in leasehold land held for own use under operating leases	**99,926**	85,121
	992,189	762,134
Other financial asset	**17,550**	–
Deposits and prepayments	**141,887**	154,444
Deferred tax assets	**29,546**	22,026
	1,181,172	938,604
Current assets		
Inventories	**451,264**	248,219
Trade debtors and bills receivable	**2,354,808**	1,289,641
Deposits, prepayments and other receivables	**794,684**	828,111
Pledged bank deposits	**127,685**	89,600
Deposits with banks	**211,902**	457,912
Cash and cash equivalents	**459,762**	953,276
	4,400,105	3,866,759
Current liabilities		
Trade and other payables	**1,023,983**	1,046,325
Bank loans	**28,781**	11,186
Other loan	**150,000**	–
Current taxation	**72,181**	90,859
	1,274,945	1,148,370
Net current assets	**3,125,160**	2,718,389
Total assets less current liabilities	**4,306,332**	3,656,993
Non-current liability		
Deferred tax liabilities	**5,817**	2,715
NET ASSETS	**4,300,515**	3,654,278

CONSOLIDATED BALANCE SHEET
at 31 December 2010 and 2011 (continued)

	2011	2010
	RMB'000	*RMB'000*
CAPITAL AND RESERVES		
Share capital	**182,298**	182,374
Reserves	**4,073,835**	3,444,919
Total equity attributable to equity shareholders of the Company	**4,256,133**	3,627,293
Non-controlling interests	**44,382**	26,985
TOTAL EQUITY	**4,300,515**	3,654,278

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

The euro-zone sovereign debt crisis and slow economic recovery of the US have combined to weigh on market sentiment in the second half of 2011, sending ripples across all markets, including China. The sportswear industry with issues such as structural adjustments, channel development and excess inventory came under close scrutiny. After the rapid expansion of the sector in the last five years, a period of slower growth and consolidation was expected.

As well as having to contend with rising labour costs, and other inflationary pressures, operators also had to deal with excess inventory. These problems were exacerbated by an increasingly gloomy outlook, which affected retail sentiment. Whilst Tier 1 and Tier 2 cities saw stiff competition with the influx of international brands stepping up marketing campaigns to gain market share, the Group's continued brand-building efforts and emphasis on quality through innovative R&D helped achieve stable sales in its key regional markets.

Despite the uncertain global economic outlook, China with its strong GDP growth is likely to continue to outperform western economies as they struggle to avoid recession. With the emergence of a middle-class consumers, along with increasing urbanisation and rising disposable income, China's huge domestic market offers unrivalled opportunities. Moreover, the Central Government's determination to spur domestic consumer demand and the increasing importance of sports development in China, e.g., implementation of the National Fitness Plan (2011-2015) under the National Fitness Law, will underpin the long-term development of related industries such as the sporting goods sector.

BUSINESS REVIEW

Sale and distribution network

The Group has successfully created a niche in China's sportswear market through the building of an unique distributorship business model – the distributor agreements are exclusive on a geographical basis, i.e., representation on the provincial or city level. Obvious operating benefits of this model include economies of scale, more cost-effective marketing and promotional campaigns and inventory control.

Throughout the year of 2011, the number of exclusive distributors remained unchanged at 32.

The distributors themselves oversaw 3,410 dealers who in turn owned and managed a total of 7,865 retail outlets. The number of outlets as at 31 December 2011 represented a net increase of 602 and 184 from 7,263 a year ago and 7,681 as at 30 June 2011 respectively, with about 72% of the stores located in Tier 3 and smaller cities where the Group had obvious advantage in operational scale. The net increase in the number of outlets was in line with a more prudent strategy employed by the Group in view of the uncertainties in the global economic outlook.

During 2011, in an effort to rejuvenate the stores of the Group and boost same store sales, the Group replaced its older stores with newer and bigger stores. During the year under review, the total number of retail point of sales reached 7,865 of which 5,613 were standalone stores at the end of December 2011. The average size of a typical store was approximately 100.5 sq.m..

As at 31 December 2011, there were four "*361°* Towns" mega stores operated by the Group's distributors, averaging 1,100 sq.m. in size, located in Zhengzhou, Jinan, Wuhan and Harbin. These megastores complemented the Group's wide distribution network by strengthening brand-building and unifying brand image. During 2011, the Group successfully launched a new sub-brand "尚" (pronounced "Shang" or "Shine" in English) targeting younger consumers.

In view of global economic uncertainties, management of the Group decided to adjust its roll-out plan of new outlets – to around 600 stores (excluding *361°* Kids stores) for the year of 2012.

	As at 31 December 2011		As at 30 June 2011		
	Number of *361°* authorized retail outlets	**% of total number of *361°* authorized retail outlets**	Number of *361°* authorized retail outlets	% of total number of *361°* authorized retail outlets	Change (%)
Eastern region[(1)]	**2,046**	**26.0**	2,001	26.1	2.2
Southern region[(2)]	**1,265**	**16.1**	1,238	16.1	2.2
Western region[(3)]	**1,505**	**19.1**	1,442	18.8	4.4
Northern region[(4)]	**3,049**	**38.8**	3,000	39.0	1.6
Total	**7,865**	**100**	7,681	100	2.4

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.

Online Sales

With the popularity of e-commerce, online trading became one of the important platforms for sales of consumer product. During the year under review, the Group proactively expanded its e-business through independent third parties to sell its apparel, footwear and accessories at Taobao, the largest online trading retail platform in Asia, to fully capture the huge potential offered by this new marketing channel.

Overseas sales

During 2011, the Group not only focused on sales in the domestic markets, but also targeted overseas markets such as middle East and South Africa through independent third parties, in order to explore overseas opportunities and accumulate experience in relevant operations.

***361°* Kids**

Leveraging on the successful brand awareness of *361°*, the Group continued to boost its children's collection business, namely *361°* Kids, to capture the increasing market potential. Enjoying the leading position in the industry, the young *361°* Kids line enjoyed encouraging development for the year ended 31 December 2011, and generated revenue of RMB187.2 million, up by 15.6% from the year 2010 (year ended 31 December 2010: RMB162.0 million) and RMB72.8 million for the six months ended 31 December 2011 (year ended 30 June 2011: RMB238.7 million).

The Group's clear position targeting the mid-low end of the market also leveraged on the Group's proven distributorship model. As at 31 December 2011, the Group oversaw the set up of 1,157 *361°* Kids dedicated outlets, of which 558 were standalone stores, 417 located in shopping malls and 182 as counters in the larger *361°* franchised stores, representing a net increase of 670 stores from 487 as at the same period last year.

Operated as a separate business with its own set of design, procurement and out-sourcing functions, *361°* Kids took advantage of the huge potential offered by China's vast children clothing market and the plan of the Group to open 300 new *361°* Kids stores in 2012 remained unchanged.

The Group has recently secured the right to design, manufacture and sell children's clothing bearing logos of Hollywood icons namely, Batman and Spiderman. The collaboration with Warner Bros, Consumer Products Inc. and Marvel Characters Inc. is expected to further drive the kidswear business to generate profit contribution for the Group.

ePOS connectivity expanded to 4,953 outlets

The Group has made significant efforts in staying in touch with the updated sales information at the retail front and made solid progress on the installation of electronic points-of-sale ("ePOS") linkage to its retail outlets. As at 31 December 2011, the e-POS linkage was extended to 4,953 outlets, significantly contributing to the success of the Group to control inventory at satisfactory levels. The use of a Business Intelligence module also provided very valuable sales data, analysis of which provided the Group with crucial market information such as customer buying trends and preferences, helping the Group to adapt to market changes and demand more readily.

Brand promotion and marketing

The *361°* brand is still relatively new, but is gaining significant market share because of its appeal to both genders, with attractive product and competitively priced offerings. It is a mass market brand, targeting customers between the ages of 18 to 30 who are passionate about sports. The Group's tag line, "多一度熱愛" which is translated literally as "One Extra Degree of Passion" embodies one of the Group's core values – "Excellence".

We believe that our focus on quality and design would set us apart and help our brand stand out from our competitors. In a market with stiff competition, brand-building and endeavours to foster brand loyalty became the duo deciding factors for a company to succeed in this sector.

For a young brand like *361°* where brand recognition is of utmost priority, event sponsorship actively promotes the visibility of the brand. The *361°* brand is now especially well associated with multi-sport events. During the intervening years between the Beijing and London Olympics, there were only two international multi-sport events in China and the Group was the official sportswear sponsor for both events, the 16th Asian Games in Guangzhou in 2010 and the 26th Summer Universiade in Shenzhen in 2011.

In August 2011, the Group was the Global Partner of the 26th Summer Universiade in Shenzhen. Over 12,000 athletes and officials from over 152 countries participated in the hugely successful two-week event.

The Group has just entered into a sportswear partnership with the Nanjing Youth Olympic Games Organising Committee for the 2014 Youth Olympic Games. The Group will sponsor the sportswear for the staff, torch bearer, volunteers and the technical official during the event.

Sponsorship of professional sports teams

Just as sporting professionals strive to excel, the Group also seeks to be the best, which means drawing on that extra one degree of effort. During the year under review, the Group reached out to target consumers effectively through a well-run sponsorship programme.

Professional teams that *361°* is proud to sponsor include:

National Delegation to London 2012 Paralympic Games
National Cycling Team
National Triathlon team
National Modern Pentathlon Team
National Handball Team
National Softball Team
National Hockey Team
Zhejiang Provincial Swimming Team
North Korea London 2012 Olympics Delegation
Swedish National Curling Team

Sponsorships of professional sports events

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

Time	Event	Capacity
2010-15	*361°* Men/Women's National Volleyball Tournament series	Sole Title Sponsor
2007-2013	*361°* China University Basketball Super League	Designated Partner
2011	Summer Universiade 2011 Shenzhen	Global Partner
2012	Haiyang 2012 3rd Asian Beach Games	Prestige Partner
2012	World Men's Curling Championship 2012	Designated apparel sponsor
2009-2013	China Table Tennis Super League	Title Sponsor
2009-2013	CCTV Channel 5	Sportswear sponsor for hosts and journalists
2009-2013	Jinmen Marathon	Designated sports footwear and apparel sponsor
2013	2013 Women's Curling Championship	Designated apparel sponsor
2012	Asian Men's & Women's Championship (Handball)	Sportswear Sponsor for the referee and technical officials
2012-2013	Asian Club League(Handball)	Sportswear Sponsor for the referee and technical officials
2013	Asian Men's & Women's Beach Handball Championship	Sportswear Sponsor for the referee and technical officials
2014	Nanjing 2014 Youth Olympics	Sportswear sponsor

The Group won the sole title sponsor 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, organising 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 organised by China Volleyball Association and CCTV 5. The Volleyball Tournaments was 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.

Product design and development

The Group believes that strong research and development capability is a decisive factor in the success of a brand. The Group's R&D laboratory in Guangzhou has been collaborating with top Chinese athletes to ensure they wear the best sports gear when representing their country internationally. These athletes also provide us with valuable and constant feedback, which greatly enhances the effort by our cutting edge R&D team, which focus on top-notch functionality, comfort, and great design.

To strengthen our leadership in technology and product innovation, the Group lifted its R&D spending to about 1.5% of turnover for both the six months and year ended 31 December 2011. The Group firmly believe that only through continual innovation and improvement will the Group stay in the forefront of the industry.

The Group entered into a ten-year partnership programme with Beijing Institute of Fashion Technology to nurture the design professional with the base of scientific research and innovation of high-technology fabric to help the Group keep abreast of the latest trends in fashion, fabrics and styles. The Group also set up a 10-year scholarship award program for the distinctive students of the Institute.

The Group has independent research and development and design departments dedicated to footwear, apparel and accessory products based in two R&D centres in Jinjiang and Guangzhou and one high-performance sports apparel design centre in Beijing. As of 31 December 2011, there were 187 full-time design professionals for the footwear R&D design department and 154 for the apparel and accessory R&D and design department.

There were also 2 footwear laboratories and one apparel laboratory to conduct tests and collect performance data. The Group currently owns 23 patents for footwear products and 6 patents for apparel products.

Production

As at the end of December 2011, there were a total of 23 footwear production lines in the Group's production base in the new Wuli Industrial Park and the old Jiangtou base with an annual production capacity of approximately 21 million pairs of footwear. The apparel production capacity has increased to about 10 million pieces a year.

The Group has a 51% owned subsidiary with a leading Taiwanese specialist for the manufacture of soles to ensure supply of this key component of footwear in a cost-efficient manner. During the calendar year, this subsidiary completed its first full year of operations and started to generate profit in the second half of 2011.

The factory of this subsidiary is based in Jinjiang City, Fujian Province and is run and managed by the Taiwanese partner although the Group controls its board.

Human Resources Development

The Group places great emphasis on staff training and development as we firmly believes that our dedicated employees are its biggest asset. In addition to regular reviews of its wages and remuneration schemes, the Group has also allocated resources to further enhance its incentive system to recognise employees' contributions to the success of the Group. We have also developed training programmes to upgrade employees' skills and work to create a harmonious and fulfilling corporate environment to retain quality staff.

Awards

The Group's endeavours to capture business opportunities in a market with rapidly-evolving dynamics were recognised as the Company was listed by Forbes Asia, in the September 2011 issue, among the "Best Under A Billion" companies which include the region's top 200 smaller companies.

During the financial year, the Group won Gold Award in Mercury Awards 2011/12 competition (Retail - Specialty) for its Annual Report 2010/11.

In December 2011, the Group was once again listed as one of the top 50 brands in China in Millward Brown's 2012 BrandZ™ Report, which only included two other sports brands.

FINANCIAL REVIEW

The Group adopts 31 December as its financial year-end date, starting with the present set of results. The Board considers such change can help to facilitate the improvement of efficiency on preparation of the Company's consolidated financial statements and accounts.

In order to give a clear comparison for the financial data in the reporting period, this section has been divided into two parts, with the first part being the financial review based on the financial data provided in the consolidated financial statements, and the second part is another financial review based on the supplementary financial information for the calender year ended 31 December 2011 and 2010, respectively.

For the six months ended 31 December 2011

Turnover

For the six months ended 31 December 2011, the Group recorded a turnover of RMB2,382.8 million (year ended 30 June 2011: RMB5,461.2 million).

During these six months, the Group's continuing efforts in promoting the *361°* brand through advertising, sponsorship of national-teams and event sponsorships have sustained the Group's continuous growth. The Group broadened its product mix to accommodate diversified market needs. Wholesale discount was adjusted to 60% in the 2011 Autumn trade fair and further adjusted to 58% in the 2012 Spring/Summer trade fair.

The *361°* Kids collection contributed approximately RMB72.8 million or 3.1% to the Group's turnover during the six months under review.

The following table sets forth the number of units sold and the average wholesale selling prices ("ASP") of the Group's products during the financial period/year under review:

	For the six months ended 31 December 2011		For the year ended 30 June 2011	
	Total units sold	**Average wholesale selling price(1)**	Total units sold	Average wholesale selling price(1)
	'000	***RMB***	*'000*	*RMB*
By Volume and ASP				
***361º* Products – Adults**				
Footwear (pairs)	**10,248**	**116.9**	30,779	90.8
Apparel (pieces)	**9,031**	**117.8**	30,157	76.7
Accessories (pieces/pairs)	**3,198**	**15.2**	8,057	14.5
***361º* Products – Kids**	**1,348**	**54.0**	4,914	48.6

Note:

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

Breaking down by products categories for the six months under review, footwear comprised 50.3% of the total sales while apparel and accessories made up the remaining 44.6% and 2.0% respectively. The product split of footwear to apparel for the six months ended under review was 50:45, compared to 51:42 for the year ended 30 June 2011. As the industry still faced challenging condition, especially on apparel, the sales on footwear was still more favourable than apparel eventhough the sales on apparel for the six months under review had increased by 3 percentage points.

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

	For the six months ended 31 December 2011		For the year ended 30 June 2011	
	RMB'000	% of Turnover	*RMB'000*	% of Turnover
By Products				
Turnover				
***361º* Products – Adults**				
Footwear	**1,197,684**	**50.3**	2,793,741	51.2
Apparel	**1,063,750**	**44.6**	2,311,955	42.3
Accessories	**48,561**	**2.0**	116,881	2.1
***361º* Products – Kids**	**72,806**	**3.1**	238,663	4.4
Total	**2,382,801**	**100**	5,461,240	100

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

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

	For the six months ended 31 December 2011		For the year ended 30 June 2011	
	RMB'000	% of Turnover	*RMB'000*	% of Turnover
By Regions				
Eastern region(1)	**597,008**	**25.1**	1,232,218	22.6
Southern region(2)	**479,906**	**20.1**	1,241,756	22.7
Western region(3)	**464,176**	**19.5**	929,461	17.0
Northern region(4)	**841,711**	**35.3**	2,057,805	37.7
Total	**2,382,801**	**100**	5,461,240	100

Notes:

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

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

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

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

Cost of sales

Cost of sales of the Group for the six months ended 31 December 2011 amounted to RMB1,330.1 million. As inflationary pressure in China peaked off in the second half, the Group successfully managed and controlled production cost at a stable level through swift response to market changes in product design and choice of materials, hence maintaining stable gross profit margins.

In terms of labour costs, the Group did not experience any particularly strong upward pressure since it already offered wages above the minimum levels stipulated in China's labour law. For the period under review, labour cost comprised of approximately 6.3% of the Group's cost of sales and had only a limited impact on the overall cost structure.

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

	For the six months ended 31 December 2011		For the year ended 30 June 2011	
	RMB'000	**% of total costs of sales**	*RMB'000*	% of total costs of sales
***361º* Products**				
Footwear & Apparel (Internal Production)				
Raw materials	**353,944**	**26.6**	814,107	25.8
Labour	**83,777**	**6.3**	205,175	6.5
Overheads	**105,239**	**7.9**	196,901	6.3
	542,960	**40.8**	1,216,183	38.6
Outsourced Products				
Footwear	**276,356**	**20.8**	618,009	19.6
Apparel	**481,579**	**36.2**	1,238,622	39.3
Accessories	**29,208**	**2.2**	77,484	2.5
	787,143	**59.2**	1,934,115	61.4
Cost of sales for *361º* Products	**1,330,103**	**100**	3,150,298	100

Gross profit and gross profit margin

Gross profit for *361°* products was 44.2%, increased by 1.9 percentage points to RMB1,052.7 million for the six months under review compared to the year ended 30 June 2011.

Started from the 2011 Autumn trade fair held in December 2010, the Group has decreased its discount offered to its distributors from 62% to 60%, and further decreased to 58% from the 2012 Spring/Summer trade fair held in July 2011. The Group adopts a uniform pricing system, with all retail price of our products being fixed at the time of sales to our distributors, and our sales to our distributor was calculated by a fixed discount given to our distributors and retailers.

Accordingly, the growth on ASP was partly a reflection on the change of our discount offered to our distributors between the two periods.

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

	For the six months ended 31 December 2011		For the year ended 30 June 2011	
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin
	RMB'000	***%***	*RMB'000*	*%*
***361º* Products – Adults**				
Footwear	**528,791**	**44.2**	1,185,364	42.4
Apparel	**474,812**	**44.6**	991,911	42.9
Accessories	**20,879**	**43.0**	42,577	36.4
***361º* Products – Kids**	**28,216**	**38.8**	91,090	38.2
Total	**1,052,698**	**44.2**	2,310,942	42.3

Selling and distribution expenses

Selling and distribution expenses was RMB477.8 million, amounted to approximately 20.1% of turnover during the six months under review (for the year ended 30 June 2011: 12.2%), primarily as a result of an increase in advertising and promotional expenses in relation to the Summer Universaide 2011 Shenzhen, the 361 Men/Women's Volleyball Tournament series and the endorsements of star athletes.

Besides, as shop owners experienced a very intense competition in this year, the Group has started to provide racks installed at the "Shine" and *361°* Kids stores since the beginning of 2011 and the amount for such expenses accounted for about 5.3% of the turnover and incorporated as part of the advertising and promotional expenses for the six months under review. The Group believe such support will continue for the year 2012.

During the six months under review, selling and distribution expenses represented approximately 20.1% of the Group's turnover of which 16.4% was advertising and promotional expenses, as compared to 9.5% for the year ended 30 June 2011, the rise of 6.9 percentage point was primarily because a large part of the expenses relating the above mentioned event sponsorships, endorsement of star athletes and provision of racks were incurred in this six months. The Group plans to maintain advertising and promotional expenses at around 11-12% of total turnover, to further strengthen the *361°* brand.

Administrative expenses

Administrative expenses was RMB152.3 million representing about 6.4% of the Group's turnover as compared to RMB276.7 million or 5.1% of the Group's turnover for the year ended 30 June 2011.

There was no significant increase in research and development expenses in terms of percentage to turnover, which remained at about 1.5% for both periods under review.

Income tax expenses

During the six months under review, income tax expense of the Group amounted to RMB78.2 million (for the year ended 30 June 2011: RMB251.4 million) and the effective tax rate for the six months ended 31 December 2011 was 17.8% (for the year ended 30 June 2011: 17.5%). Since 1 January 2010, three out of four of our PRC operating subsidiaries are taxable at the standard rate of 25% whereas only one subsidiary can still enjoy 50% tax concession up to 31 December 2012.

Profit for the period/year

Profit for the six months under review was RMB361.2 million (for the year ended 30 June 2011: RMB 1,189.3 million). The operating profit margin has dropped from 26.4% for the year ended 30 June 2011 to 18.5% for the six months ended 31 December 2011. The decrease was mainly due to the significant increase in the advertising and promotional expenses from 9.5% of the total turnover for the year ended 30 June 2011 to 16.4% of the total turnover for the period under review. Earnings per share for the six months was RMB17.4 cents (year ended 30 June 2011: RMB57.9 cents).

For the years ended 31 December 2010 and 2011

In this section, all the financial data for the analytical review was based on the supplementary financial information provided for the year ended 31 December 2011 and 2010.

Turnover

For the year ended 31 December 2011, the Group recorded a turnover of RMB5,568.7 million, increased by 14.8% year-on-year. This is due to a rise in the ASP and sales volume of footwear as a result of careful execution of marketing and sales strategy.

During the year, the Group's continuing efforts in promoting the *361°* brand through advertising, national-team and event sponsorships paid off, sustaining retail sales growth. ASP increased by 45.5% year-on-year for apparel products whilst 23.2% for footwear products. Meanwhile, the Group also broadened its product mix to accommodate diversified market needs. Wholesale discount was adjusted to 60% in the 2011 Autumn trade fair and further adjusted to 58% in the 2012 Spring/Summer trade fair.

The *361°* Kids collection contributed approximately RMB187.2 million or 3.4% to the Group's turnover during the year under review, up by RMB25.2 million.

The following table sets forth the number of units sold and the wholesale ASP of the Group's products during the year under review:

	For the year ended 31 December			
	2011		2010	
	Total units sold	**Average wholesale selling price(1)**	Total units sold	Average wholesale selling price(1)
	'000	***RMB***	*'000*	*RMB*
By Volume and ASP				
***361º* Products – Adults**				
Footwear (pairs)	**27,407**	**102.6**	24,834	83.3
Apparel (pieces)	**25,894**	**94.7**	38,873	65.1
Accessories (pieces/pairs)	**7,853**	**14.8**	6,759	12.3
***361º* Products – Kids**	**4,109**	**45.6**	3,072	52.7

Note:

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

Breaking down by products categories for the year under review, footwear comprised 50.5% of the total sales while apparel and accessories made up the remaining 44.0% and 2.1% respectively. The product split of footwear to apparel for the year ended 31 December 2011 was 51:44, compared to 43:52 for the year ended 31 December 2010. As the industry still face challenging condition, especially on apparel, the sales on footwear tends to be more favourable than apparel.

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

	For the year ended 31 December				
	2011		2010		
		% of		% of	Change
	RMB'000	**Turnover**	*RMB'000*	Turnover	*(%)*
By Products					
Turnover					
***361º* Products – Adults**					
Footwear	**2,813,015**	**50.5**	2,069,064	42.7	36.0
Apparel	**2,452,216**	**44.0**	2,532,034	52.2	(3.2)
Accessories and others[1]	**116,296**	**2.1**	85,957	1.8	35.3
***361º* Products – Kids**	**187,151**	**3.4**	161,955	3.3	15.6
Total	**5,568,678**	**100**	4,849,910	100	14.8

Note:

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

As is evident from the accompanying chart, the Group remains a leading player in Northern region where it has 3,049 or 38.8% of its stores. The Group successfully gained market share as revenues have improved by 18.4% year-on-year on a relatively large base. The Group was also expanding very quickly in the Western region as revenues have leapt by 24.2% in 2011. As economic development in China further drifts westwards, the Group will stand to gain appreciably in the longer term by further expansion in the Western region.

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

	For the year ended 31 December				
	2011		2010		
		% of		% of	Change
	RMB'000	**Turnover**	*RMB'000*	Turnover	*(%)*
By Regions					
Eastern region[1]	**1,284,743**	**23.1**	1,152,477	23.8	11.5
Southern region[2]	**1,253,969**	**22.5**	1,177,693	24.3	6.5
Western region[3]	**1,007,115**	**18.1**	810,740	16.7	24.2
Northern region[4]	**2,022,851**	**36.3**	1,708,100	35.2	18.4
Total	**5,568,678**	**100**	4,849,010	100	14.8

Notes:

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

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

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

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

Cost of sales

Cost of sales of the Group for the year ended 31 December 2011 increased by 13.0% to RMB3,205.9 million, largely as a result of an increase in sales. As inflationary pressure in China peaked off in the second half of 2011, the Group successfully managed and controlled the production cost at a stable level, through swift response to market changes in product design and choice of materials, hence maintaining the stable gross margins.

In terms of labour costs, the Group did not experience any particularly strong upward pressure since it already offered wages above the minimum levels as stipulated in China's labour law. For the year ended 31 December 2011, labour cost comprised 6.3% of the Group's cost of sales and had only a limited impact on the overall cost structure.

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 year under review:

	For the year ended 31 December			
	2011		2010	
	RMB'000	**% of total costs of sales**	*RMB'000*	% of total costs of sales
***361°* Products**				
Footwear & Apparel (Internal Production)				
Raw materials	**844,472**	**26.3**	503,173	17.7
Labour	**200,865**	**6.3**	135,406	4.8
Overheads	**212,642**	**6.6**	148,425	5.2
	1,257,979	**39.2**	787,004	27.7
Outsourced Products				
Footwear	**636,890**	**19.9**	543,834	19.2
Apparel	**1,234,484**	**38.5**	1,451,963	51.2
Accessories	**76,515**	**2.4**	53,083	1.9
	1,947,889	**60.8**	2,048,880	72.3
Cost of sales for *361°* Products	**3,205,868**	**100**	2,835,884	100

Gross profit and gross profit margin

Gross profit for *361°* products was 42.4%, increased by 0.9 percentage point to RMB2,362.8 million in the year under review, primarily due to the increase in both sales volume of footwear and the growth in ASP on footwear was much higher than the increase in the per unit cost when compared with last year.

Footwear recorded an ASP growth of 23.2% when compared with last year, such percentage growth also was much higher than the growth in per unit cost. The increase in the sales volume by 10.4% also helped boost the gross profit margin. Apparel recorded a 45.5% ASP growth but the decline of 33.4% on sales volume outweighed the increase in ASP which limited the contribution on the growth of the gross profit margin when compared with last year.

Started from the 2011 Autumn trade fair held in December 2010, the Group has decreased its discount offered to its distributors from 62% to 60%, and further decreased to 58% from the 2012 Spring/Summer trade fair held in July 2011. The Group adopts a uniform pricing system, with all retail price of our products being fixed at the time of sales to our distributors, and our sales to our distributor was calculated by a fixed discount given to our distributors and retailers.

Accordingly, the growth on ASP was partly a reflection on the change of our discount between the two years.

The following tables set forth a breakdown of the gross profit and gross profit margin for *361°* products (excluding gross profit and gross profit margin related to sales of raw materials) during the year under review:

	For the year ended 31 December			
	2011		2010	
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin
	RMB'000	***%***	*RMB'000*	*%*
***361º* Products – Adults**				
Footwear	**1,187,863**	**42.2**	860,666	41.6
Apparel	**1,058,707**	**43.2**	1,057,931	41.8
Accessories	**43,052**	**37.0**	32,357	38.9
***361º* Products – Kids**	**73,188**	**39.1**	59,496	36.7
Total	**2,362,810**	**42.4**	2,010,450	41.5

Selling and distribution expenses

Selling and distribution expenses increased by 12.4% to RMB753.9 million during the year under review, primarily as a result of an increase in the advertising and promotional expenses in relation to the Summer Universaide 2011 Shenzhen, the 361 Men/Women's Volleyball Tournament series and the endorsements of star athletes.

Besides, as shop owners experienced a very intense competition in this year, the Group has started to provide racks installed at the "Shine" and *361º Kids* stores for the year under review which accounted for about 3.1% of the turnover and incorporated as part of the advertising and promotional expenses. The Group believed such support will continue for the year 2012.

During the year under review, selling and distribution expenses represented approximately 13.5% of the Group's turnover of which 10.9% was advertising and promotional expenses, as compared to 10.3% in 2010, which only increased by 0.6 percentage point year-on-year . The Group planned to maintain advertising and promotional expenses at around 11-12% of total turnover, to further strengthening the *361°* brand.

Administrative expenses

Administrative expenses increased by 30.2% to RMB299.6 million for the year under review. It represented about 5.4% of the Group's turnover as compared to 4.7% in 2010.

The increase was mainly due to the increase in research and development expenses and the depreciation charge for the year under review.

With the establishment of the research and development laboratory in Guangzhou in September 2010 and the partnership program with the Beijing Institution of Fashion Technology in April 2011, research and development expenses has increased from 1.2% to 1.5% of the total turnover for the year of 2010 and 2011, respectively. The Group expects to keep research and development expenses at the level of around 1.5% to 2% of the total turnover.

Depreciation expenses amounted of 0.5% and 0.8% of the total turnover for the year ended 2010 and 2011 respectively. The increase was mainly due to the increase in property, plant and equipment from RMB677.0 million to RMB892.3 million as at 31 December 2010 and 2011, respectively.

After taking out the above two expenses from the administrative expenses, the balance of administrative expenses was about 3.0% and 3.1% of the total turnover for the year ended 2010 and 2011, respectively.

Income tax expenses

During the year under review, income tax expenses of the Group amounted to RMB248.3 million (2010: RMB172.0 million) and the effective tax rate for the year ended 2011 was 17.9% (2010: 15.0%). Since 1 January 2010, three out of the four of our PRC operating subsidiaries are taxable at the standard rate of 25% whereas only one subsidiary can still enjoy 50% tax concession up to 31 December 2012.

Profit for the year

As compared with the last corresponding year, profit for the year under review increased to RMB1,135.8 million, representing a growth of 16.8%. This was mainly attributed to the growth in gross profit outpaced the increase in administrative expenses, resulting an increase in operating profit margin from 23.7% for the year ended 31 December 2010 to 24.9% this year. Earnings per share for the year were RMB54.8 cents, up 15.1% from 2010.

LIQUIDITY AND FINANCIAL RESOURCES

During this six months and the year ended 31 December 2011, net cash outflow from operating activities of the Group amounted to RMB1,344.1 million and RMB80.8 million (year ended 30 June 2011: inflow RMB605.0 million, year ended 31 December 2010: inflow RMB165.1 million), respectively. As at 31 December 2011, cash and cash equivalents, including bank deposits and cash in hand, and fixed deposits with original maturities not exceeding three months, amounted to RMB459.8 million, representing a net decrease of RMB1,769.6 million and RMB493.5 million as compared to the position as at 30 June 2011 and 31 December 2010, respectively. The decrease was attributed to the following items:

	For the six months ended 31 December 2011 *RMB'000*	For the year ended 30 June 2011 *RMB'000*	**For the calendar year ended 31 December 2011** *RMB'000*	For the calendar year ended 31 December 2010 *RMB'000*
Net cash (used in)/generated from operating activities	**(1,344,082)**	605,002	**(80,840)**	165,109
Net capital expenditure	**(98,283)**	(504,524)	**(341,581)**	(545,334)
Dividends paid	**(332,884)**	(332,722)	**(479,719)**	(274,700)
Proceeds from new bank loans	**29,520**	40,661	**35,995**	34,186
Proceeds from other loan	**150,000**	–	**150,000**	–
Repayment of bank loans	**(13,955)**	(27,429)	**(18,384)**	(23,000)
Payment for investment injection	**(17,550)**	–	**(17,550)**	–
Proceeds from shares issued under share option scheme	**–**	7,668	**–**	7,668
(Placement)/withdrawal of fixed deposits (with maturity over three months)	**(76,532)**	800,715	**246,010**	202,511
Other net cash (outflow)/inflow	**(65,839)**	85,410	**12,555**	61,355
Net (decrease)/increase in cash and cash equivalents	**(1,769,605)**	674,781	**(493,514)**	(372,205)

Net cash outflow used in operating activities of the Group amounted to RMB1,344.1 million and RMB80.8 million for the six months and year ended 31 December 2011 (year ended 30 June 2011: cash inflow RMB605.0 million, year ended 31 December 2010: cash inflow RMB165.1 million) was principally due to the increase in the amount of trade and bills receivable and the amount of inventories.

Started from the second half of 2011, the sportswear industry experienced a very difficult time, competition was severe and retail discount has been pushed by peers to increase on both the on and off season's items as well as the increase in rental. Under these circumstances, the Group has strived its best and committed to provide full support to the distributors and authorised retailers by the way of granting extra credits for the stocks of the new stores opened and renovation expenses for upgrading old stores in the second half of the year. All these factors loaded up the balance of trade and bills receivable as at 31 December 2011 which shown an increase of 82.6% and 48.9% when compared with 31 December 2010 and as at 30 June 2011, respectively. Secondly, the amount of inventories has increased when compared with last year which was mainly due to the request of delay delivery by some distributors and the shift up of goods receipt schedule by some OEM suppliers from January 2012 to December 2011 in order to ease labour holiday for the Lunar Chinese New Year in January 2012.

Capital expenditure amounted to RMB98.3 million and RMB341.6 million for the six months ended 31 December 2011 and year ended 31 December 2011, respectively, which primarily consisted of the final construction cost of the Wuli Industrial Plant in the first half of 2011.

Bank loans of RMB28.8 million as at 31 December 2011 were borrowed by a 51% non-wholly owned subsidiary for the finance of its operating expenses. Other loan of RMB150.0 million was borrowed from a third party in December 2011 to finance the Group's future working capital. The total assets and net asset as at 31 December 2011 were RMB5,581.3 million (30 June 2011: RMB5,609.2 million, 31 December 2010: RMB4,805.4 million) and RMB4,300.5 million (30 June 2011: RMB4,278.8 million, 31 December 2010: RMB 3,654.3 million), respectively. The Group's gearing ratio was 3.2% as at 31 December 2011 (30 June 2011: 0.2%, 31 December 2010: 0.2%), being a ratio of total bank and other loans of RMB178.8 million (as at 30 June 2011: RMB13.2 million, as at 31 December 2010: RMB11.2 million) to total assets.

The payment for an investment of RMB17.6 million was an injection of capital for an approximately 6.7% interest to a company for a property development project at Jinjiang, Fujian Province.

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

FOREIGN EXCHANGE RISK

The Group mainly operates in the PRC with most of the transactions settled in renminbi. Part of the Group's cash and bank deposits are denominated in Hong Kong dollars. The Group also pays declared dividends in Hong Kong dollars.

During the year under review, the Group did not carry out any hedging activity against foreign currency risk.

Any substantial exchange rate fluctuation of foreign currencies against renminbi may have a financial impact on the Group.

PLEDGE OF ASSETS

As at 30 June 2011, land use right of RMB32.1 million (31 December 2010: RMB32.4 million) was pledged as security of certain banking facilities of the Group. The pledge was released during the six months ended 31 December 2011.

WORKING CAPITAL MANAGEMENT

In the year under review, the Chinese Government had tightened the monetary policies and this had driven liquidity out of the system and created some difficulties in certain quarters, especially for smaller businesses.

The average working capital cycle for the six months ended and year ended 31 December 2011 was 86 days and 70 days, respectively (year ended 30 June 2011: 20 days, year ended 31 December 2010: 9 days) which was mainly due to the substantial increase in trade and bills receivable days for the support of distributors and authorised retailers.

The average inventory turnover cycle has increased to 45 days or 40 days for the six months ended or the year ended 31 December 2011, respectively (year ended 30 June 2011: 19 days, year ended 31 December 2010: 22 days) but the Group believe that was still a sound situation when compared with its industry peers. As at 31 December 2011, the inventories balance was RMB451.3 million, of which approximately 80% was finished goods and they were mainly 2012 spring/summer products. As reported by the distributors in the last quarter of 2011, retail stores were suffered from stiff competition and resulted higher channel inventory than usual. Some distributors requested to postpone the delivery of 2012 spring/summer products for giving them a chance to fully digest the 2011 winter products at the Lunar Chinese New Year holiday in January 2012. On the other hand, some of the outsourced suppliers had requested us to move our original goods receipt schedule from January 2012 to December 2011 since an earlier Lunar Chinese New Year of 2012 when compared with last year. Majority of labour had started their long holiday in mid or early January 2012 and factories only re-opened until end of January or early of February 2012.

About RMB350 million inventories represented 77.6% of the balance as at 31 December 2011 had subsequently been delivered in January and February of 2012.

The average trade and bills receivable cycle has increased to 152 days or 119 days for the six months ended or the year ended 31 December 2011, respectively (year ended 30 June 2011: 83 days, year ended 31 December 2010: 95 days), showing a deterioration of 69 days or 24 days and an increase of 48.9% or 82.6% in terms of absolute amount as at 30 June 2011 and 31 December 2010 respectively. As at 29 February 2012, the Group had received about RMB665.3 million of subsequent settlement, representing approximately 28.3% of the trade debtors and bills receivable balance as at 31 December 2011.

Started from the second half of 2011, sportswear industry experienced severe competition through (1) price war from peers because of the excess inventory; (2) intrusion of foreign casual wear brand influencing the apparel market and (3) rise in rental. All these factors slowed down the growth of the industry. However, the Group believed that companies with strong ability could survive and come through this consolidation process. As such, the Group has committed to provide full support to all the distributors and authorised retailers by granting extra credits for the stocks of the new stores opened and renovation expenses for upgrading old stores during the six months ended 31 December 2011.

As at 31 December 2011, prepayment to suppliers was RMB610.5 million (year ended 30 June 2011: 210.2 million, year ended 31 December 2010: RMB722.5 million) which represented an upfront deposit paid to suppliers for the acceptance of orders for the 2012 Spring/Summer and Autumn products, the trade fairs were held in July and November 2011, respectively, those products had not been delivered to the Group as at 31 December 2011.

The average trade and bills payable cycle was 111 days or 89 days for the six months ended or the year ended 31 December 2011 (year ended 30 June 2011: 82 days, year ended 31 December 2010: 108 days). It also represented an average trade payable cycle of 63 days or 41 days (year ended 30 June 2011: 48 days, year ended 31 December 2010: 52 days) and 180 days credit for the issuance of bills payable to suppliers. The number was in line with the payable cycle for year ended 30 June 2011 (82 days), as most of the third party suppliers are small or medium sized enterprises and recent monetary policies had tighten their credit. In the past, the Group had also issued bills in favour of the suppliers, but the proportion of such usage had dropped in recent years. In the case of new and bigger suppliers, the Group had to comply with their stricter payment terms.

Other loan of RMB150.0 million drawn down in December 2011 was to the finance the Group's future working capital. Out of the bank balance of RMB671.7 million as at 31 December 2011, about RMB365.2 million (HK$450.6 million) were the unutilised fund of net proceeds from the Group's global offering back in 2009.

USE OF PROCEEDS

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

Net proceeds from the global offering (HKD million)

Use of net proceeds	Available to utilise	Utilised (as at 31 December 2011)	Unutilised (as at 31 December 2011)
Developing and increasing brand awareness	741.2	457.2	284.0
Developing new production facilities	613.5	613.5	–
Developing children's footwear and apparel sub-brand	171.5	97.6	73.9
Establishment of a new product testing and R&D laboratory	114.3	88.3	26.0
Establishment of an ERP system	74.3	7.6	66.7
General working capital	190.6	190.6	–
	1,905.4	1,454.8	450.6

EMPLOYEES AND EMOLUMENTS

As at 31 December 2011, the Group employed a total of 10,003 full time employees in the PRC which included management staff, technicians, salespersons and workers. For the six months and the year ended 31 December 2011, the Group's total expenses on the remuneration of employees was RMB215.6 million and RMB415.7 million, respectively, representing 9.0% and 7.5% of the turnover of the Group. The Group's emolument policies are formulated based on the performance of individual employees, which will be reviewed periodically. Apart from the provident fund scheme (operating in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

PROSPECTS

While the euro zone's unresolved sovereign debt crisis is likely to overshadow market sentiment in 2012, and may cause a hinderance on global economic growth, China's sustainable growth remains a bright spot for the Group. China's Twelfth Five-Year Plan clearly outlined the Central Government's determination to boost domestic consumer spending, which is likely to also be beneficial to the sporting goods sector. According to the General Administration of Sport of China, the value of the sports industry, as a whole, grew by 13.44% in 2010, signaling the sector's continued healthy expansion.

The Group is optimistic about prospects for the sporting goods sector, given China's still robust economic growth, and believes increasing urbanisation will also underpin the development of the sector. Due to the unique character of its *361°* brand, the Group has focused growth strategies on Western and Northern China, which have been an emphasis of development of the Central Government. Such continuous economic development and urbanisation will naturally lead to a steady growth in disposable income among urban residents, serving as a platform for the Group's continued sustainable growth.

Leveraging on its market leadership position, the Group will continually strive for innovation and excellence in its business model, and spare no effort in developing the business in line with its vision and management philosophy. The Group will bravely tackle the challenges ahead and will step up its efforts to strengthen every aspect of its operations in view of the tough business environment in 2012 globally.

The Group will also maintain a stable dividend payout ratio and dividend policy to bring valuable returns to its shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and to the knowledge of the Directors, and the Company has maintained the prescribed public float of not less than 25% of the Company's issued shares as required under the Listing Rules as of 31 December 2011.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company or any of its subsidiaries did not make any purchase of shares of the Company for the six months ended 31 December 2011.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in the Appendix 14 of the Listing Rules during the six months ended 31 December 2011.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code during the six months ended 31 December 2011.

REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE

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

The audit committee of the Company has met and discussed with the external auditors of the Group, KPMG, and has reviewed the accounting principles and practices adopted by the Group and the consolidated results of the Group for the six months ended 31 December 2011. The audit committee considered that the consolidated results of the Group for the six months ended 31 December 2011 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made.

DIVIDEND

The Board recommended to declare a final dividend of RMB7.0 cents (equivalent to HK8.6 cents) per share, subject to approval by the shareholders at the forthcoming annual general meeting. Including the dividend of RMB16.1 cents (equivalent to HK19.4 cents) per share for the year ended 30 June 2011 already paid, total payout for the year amounted to RMB23.1 cents (equivalent to HK28.0 cents) per share or RMB477.6 million in aggregate, representing 42.2% of the profit attributable to equity shareholders of the Company for the year ended 31 December 2011. It is expected that the final dividend, if approved by shareholders at the forthcoming annual general meeting of the Company, will be paid to shareholders by 31 May 2012.

CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting ("the AGM") of the Company is scheduled to be held on Friday, 27 April 2012. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 24 April 2012 to Friday, 27 April 2012, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 23 April 2011.

The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders at the AGM. The record date for entitlement to the proposed final dividend is Monday, 7 May 2012. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Friday, 4 May 2012 to Monday, 7 May 2012, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 3 May 2012.

PUBLICATION OF 2011 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.361sport.com), and the 2011 annual report of the Company containing all the information required by the Listing Rules will be dispatched to shareholders and published on the respective websites of the Company and the Stock Exchange in due course.

APPRECIATION

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

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

Hong Kong, 12 March 2012

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