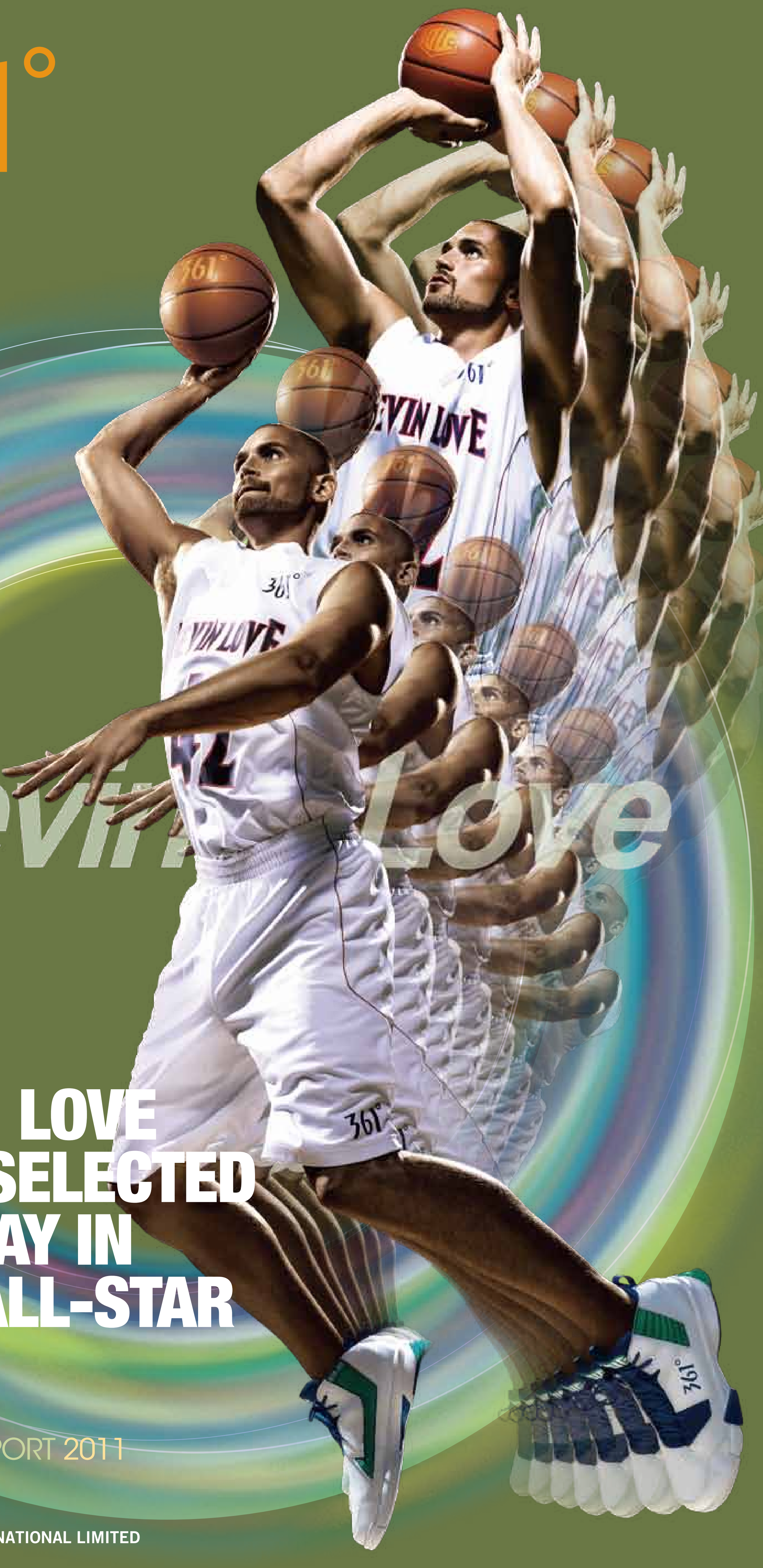
361°



KEVIN LOVE WAS SELECTED TO PLAY IN NBA ALL-STAR

ANNUAL REPORT 2011

361 DEGREES INTERNATIONAL LIMITED
Stock Code : 1361

Love also led all first-years with **29 double-doubles**, the most by a Timberwolves **rookie** in **franchise** history

CONTENTS

COMPANY INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Yan Man Sing Frankie（甄文星）
Sun Xianhong（孫先紅）
Liu Jianxing（劉建興）

BOARD COMMITTEES

Audit Committee

Yan Man Sing Frankie（甄文星） *(Chairman)*
Sun Xianhong（孫先紅）
Liu Jianxing（劉建興）

Remuneration Committee

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

Nomination Committee

Liu Jianxing（劉建興）*(Chairman)*
Ding Wuhao（丁伍號）
Yan Man Sing Frankie（甄文星）

COMPANY SECRETARY

Choi Mun Duen（蔡敏端）*FCCA, HKICPA*

AUTHORISED REPRESENTATIVES

Ding Wuhao（丁伍號）
Choi Mun Duen（蔡敏端）

REGISTERED OFFICE

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEAD OFFICE IN THE PRC

361° Building
Huli High-technology Park
Xiamen, Fujian Province 361009
the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

STOCK CODE

01361

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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.
Xiamen International Bank
China Minsheng Bank Corp. Ltd.
Citic Bank International Limited

COMPANY WEBSITE

www.361sport.com

FINANCIAL HIGHLIGHTS FOR 2011

FINANCIAL PERFORMANCE*

Turnover significantly increased by 14.8% to RMB5,568.7 million

Gross profit substantially increased by 17.5% to RMB2,362.8 million

Operating profit increased by 20.8% to RMB1,385.0 million

Profit attributable to the equity shareholders was RMB1,133.1 million, representing a significant growth of 15.3%

Gross profit margin increased by 0.9 ppts to 42.4%

Basic earnings per share is RMB54.8 cents, representing a growth of 15.1%

Proposed to declare a final dividend of RMB7.0 cents per share

* For the year ended 31 December 2011

Gross profit margin increased by **0.9** percentage points to **42.4%***

Profit attributable to the equity shareholders was RMB**1,133.1** million, representing a growth of **15.3%***

BUSINESS PERFORMANCE*

Total number of *361°* retail outlets increased from 7,263 to 7,865

Income from sales of footwear products increased by 36.0% to RMB2,813.0 million

Income from the sales of *361°* Kids products increased by 15.6% to RMB187.2 million

A new sub-brand “尚” (“Shine”) was successfully launched during 2011

* For the year ended 31 December 2011

SUPPLEMENTARY FINANCIAL INFORMATION – FINANCIAL SUMMARY

	For the year ended 31 December	
	2011	2010
Profitability data (RMB'000)		
Turnover	**5,568,678**	4,849,010
Gross profit	**2,362,810**	2,010,876
Operating profit	**1,384,191**	1,144,757
Profit attributable to equity shareholders	**1,133,050**	982,838
Earnings per share		
– basic (RMB cents)	**54.8**	47.6
– diluted (RMB cents)	**54.6**	47.3
Profitability ratios (%)		
Gross profit margin	**42.4**	41.5
Operating profit margin	**24.9**	23.7
Net profit margin	**20.4**	20.1
Effective tax rate	**17.9**	15.0
Return on shareholders' equity (Note 1)	**28.7**	30.0
Operating ratios (as a percentage of turnover) (%)		
Advertising and promotion expenses	**10.9**	10.3
Staff costs	**7.5**	5.4
Research and development	**1.5**	1.2

Notes:

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

Supplementary Financial Information – Financial Summary

	As at 31 December	
	2011	2010
Assets and liabilities data (RMB'000)		
Non-current assets	**1,181,172**	938,604
Current assets	**4,400,105**	3,866,759
Current liabilities	**1,274,945**	1,148,370
Non-current liabilities	**5,817**	2,715
Equity attributable to equity shareholders	**4,256,133**	3,627,293
Non-controlling interests	**44,382**	26,985
Asset and Working Capital data		
Current asset ratios	**3.5**	3.4
Gearing ratios (%) (Note 2)	**3.2**	0.2
Net asset value per share (RMB) (Note 3)	**2.1**	1.8
Inventory turnover days (days) (Note 4)	**40**	22
Trade and bills receivable turnover days (days) (Note 5)	**119**	95
Trade and bills payable turnover days (days) (Note 6)	**89**	108
Working capital turnover days (days)	**70**	9

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 year.

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

4) Inventory turnover days is equal to the average opening and closing inventory divided by costs of sales and multiplied by 365 days.

5) Trade and bills receivable turnover days is equal to the average opening and closing trade and bills receivables after allowance of doubtful debts divided by turnover multiplied by 365 days.

6) Trade and bills payable turnover days is equal to the average opening and closing trade and bills payables divided by cost of sales and multiplied by 365 days.

Supplementary Financial Information – Unaudited

CONSOLIDATED INCOME STATEMENT

for the years ended 31 December 2010 and 2011

	2011 RMB'000	2010 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 RMB'000	2010 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	**2,110,008**	1,185,428
Bills receivable	**244,800**	104,213
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
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

CHAIRMAN STATEMENT


We
Accept Any
CHALLENGE
361°

"China's steady **economic growth** will provide support for the country's **overall consumption growth**."

Dear Shareholders,

On behalf of the board of directors ("the Board") of 361 Degrees International Limited, I am pleased to present the results of the Company and its subsidiaries ("the Group") for the six months ended 31 December 2011. After the Group announced the change of the financial year end date from 30 June to 31 December on 23 August 2011, this is the first annual report ended on 31 December published to the public. Under the Hong Kong Financial Reporting Standards, the Group require to disclose the audited financial statements for the six months ended December 2011 on this annual report. In order to provide a yearly financial analysis to the reader, apart from the financial review based on the audited financial statement, a supplementary financial information has been presented to provide a full picture of the financial statements for the year ended 31 December 2011 and 2010.

During the year under review, the sportswear industry went through big changes, from a period of rapid development to a period of consolidation. The industry with issues such as structural adjustments, channel development and excess inventory came under close scrutiny. Along with the impact from unfavorable macroeconomic conditions in U.S. and Europe on China in the second half of the year, sportswear brands were faced with challenges.

Despite the volatility in the economy and financial markets, the Group strived to enhance its competitiveness in order to set the scene for long term development. Over the past year, the Group has leveraged its strengthening research and development capability to successfully launch popular products to the market, and has also enhanced the brand image of *361°* through marketing and promotional activities, including sponsoring major sporting events and endorsing up and coming athletes. Through its effective business model, the Group has also strengthened channel monitoring and control, guidance and training for retailers, and stabilized operational management to enhance operational efficiency.

In 2011, the Group prudentially reviewed its new store opening plan given the prevailing market conditions, and maintained its current network expansion pace. While strengthening its presence in existing second- to fourth-tier cities in Eastern and Southern China, the Group proactively developed Southwestern and Northern China markets to optimize its nationwide distribution network.

Benefited from enhanced brand recognition, higher product sales and prices, as well as an expanded sales network, the Group recorded steady growth during the year. For the 12 months ended 31 December 2011, turnover reached RMB5,568.7

million, representing a year-on-year increase of 14.8%. Profit attributable to shareholders rose by 15.3% to RMB1,133.1 million. Basic earnings per share were RMB54.8 cents (2010: RMB47.6 cents). The Board has recommended to declare a final dividend of RMB7.0 cents per share, together with the dividend for January to June 2011, RMB 16.1 cents already paid, translates into a total payout of RMB23.1 cents for the year, representing 42.2% of the Group yearly attributable profit.

In 2011, the Group has signed sponsorships with star Olympic swimmer Sun Yang of the Chinese national team, U.S. NBA basketball star Kevin Love and Australian pole vaulter and Olympic gold medalist Steve Hooker in a bid to cement its positioning and image as a professional sportswear brand. Capitalizing on its advantage as the Prestige Partner of the 2010 Guangzhou Asian Games and the Global Partner of the 2011 Summer Universiade in Shenzhen, the Group also signed a deal with the Swedish Curling Association to sponsor various international events including the World Men's Curling Championship and the World Women's Curling Championship to enhance the brand recognition of *361°*.

As one of the Group's major development focuses in the future, the kidswear business continued to record satisfying growth during the year. As at 31 December 2011, the Group oversaw the set up of 1,157 kidswear stores and the store expansion pace of 300 new stores annually will be maintained. To solidify the development of the kidswear business, increase sales and strengthen brand recognition, the Group has recently signed up with the world's largest film and television entertainment companies – Warner Bros. Consumer Products Inc. and Marvel Characters Inc., and received franchise rights to design, produce and sell sportswear apparel, featuring hugely popular movie icons Batman and Spiderman for children. This collaboration is expected to drive our kidswear business to generate profit contribution for the Group.

Looking ahead, market sentiment will likely remain overcast amidst uncertain economic prospects and the recent shake-up in the sportswear industry. Nevertheless, the Group believes China's steady economic growth will provide support for the country's overall consumption growth. The Central Government's determination to promote national fitness will also provide ample opportunities for the sporting goods industry in the long term.

According to the National Fitness Plan of the General Administration of Sport of China, 40% of the population is expected to actively practice in various sporting activities by 2020. The improvement in living standards and growing health consciousness will also continue to be drivers of the industry.

As regards the Group's market competitiveness, it will continue to optimize channel management, enhance product design and development, and strengthen brand promotions. The Group will strengthen collaboration with distributors and retailers; and through its e-POS system which covers over 62% of the retail network, it will optimize inventory management and effectively control its inventory at healthy levels. We will also continue to improve same store sales through the training and guidance of our retailers, assisted by professional organizations.

At the same time, the Group will step up research and development efforts through the *361°* Asian Design Centre and collaboration with the Beijing Institute of Fashion Technology, in line with core technology and competitiveness strategy. While seeking to secure major sporting event resources, the Group will continue to increase partnerships with emerging star athletes to epitomize the spirit of "One Extra Degree of Passion".

The Group will proactively expand 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.

The Group will not only focus on sales in the domestic markets, but also target 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.

Lastly, on behalf of the Board, I would like to express my sincere gratitude to our management and all our staff for their continuous efforts and whole-hearted devotion. We are also truly grateful to our shareholders and customers for their enormous support and trust.

Ding Huihuang
Chairman

Hong Kong, 12 March 2012

MANAGEMENT DISCUSSION AND ANALYSIS


We are
ready
to be
LIMITLESS
361°

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.

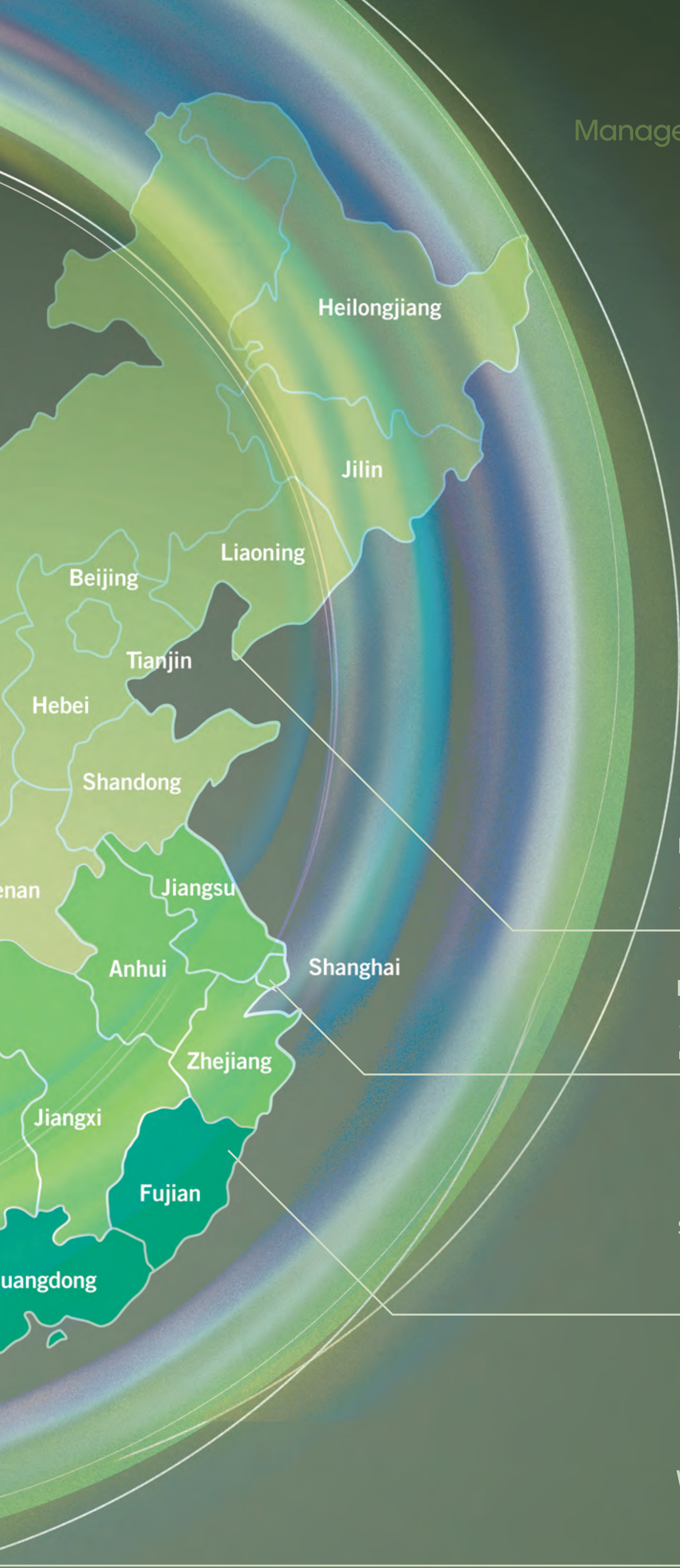
The distributors themselves oversaw 3,410 dealers who in turn owned and managed a total of 7,865 retail outlets. The number of outlets as at 31 December 2011 represented a net increase of 602 and 184 from 7,263 a year ago and 7,681 as at 30 June 2011 respectively, with about 72% of the stores located 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.


Xinjiang
Gansu
Inner Mongolia
Ningxia
Shanxi
Qinghai
Shaanxi
Tibet
Hubei
Sichuan
Chongqing
Hunan
Guizhou
Yunnan
Guangxi
Hainan



NORTHERN REGION
3,049

EASTERN REGION
2,046

SOUTHERN REGION
1,265

WESTERN REGION
1,505

	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 Mongolia.

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.

Management Discussion and Analysis

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).

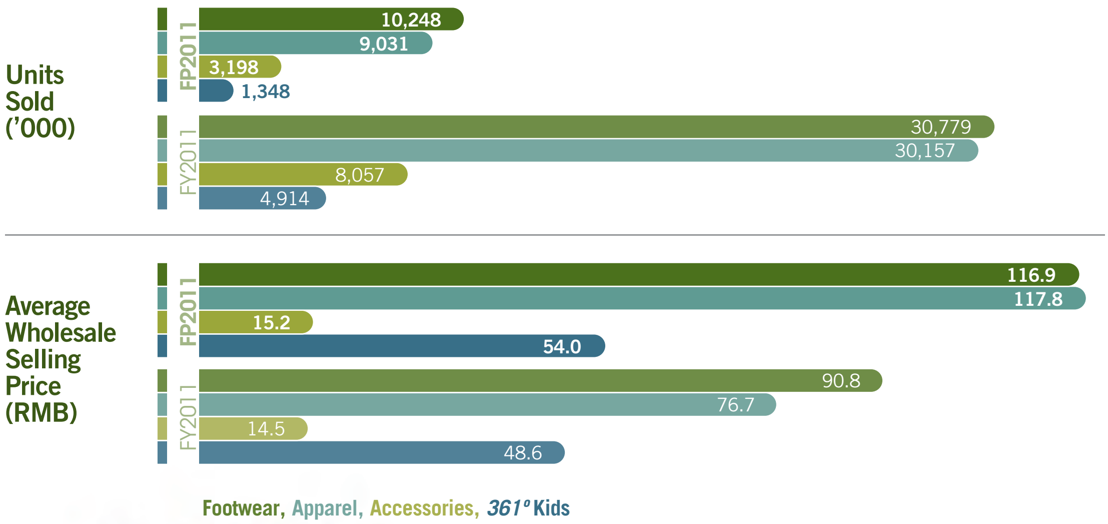
During these six months, the Group's continuing efforts in promoting the *361°* brand through advertising, sponsorship of national-teams and event sponsorships have sustained the Group's continuous growth. The Group broadened its product mix to accommodate diversified market needs. Wholesale discount 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 period/year under review:

	For the six months ended 31 December 2011 ("FP2011")		For the year ended 30 June 2011 ("FY2011")	
	Total units sold '000	Average wholesale selling price(1) RMB	Total units sold '000	Average wholesale selling price(1) RMB
By Volume and ASP				
***361°* Products – Adults**				
Footwear (pairs)	**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
***361°* 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.

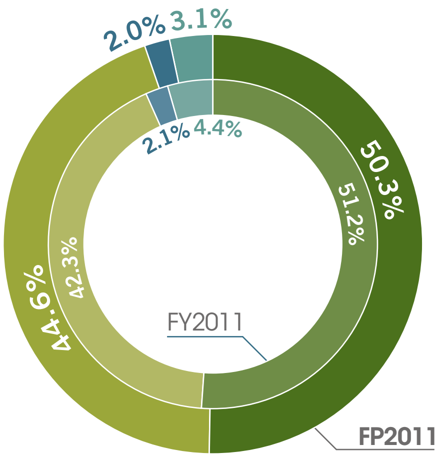


Breaking down by products categories for the six months under review, footwear comprised 50.3% of the total sales while apparel and accessories made up the remaining 44.6% and 2.0% respectively. The product split of footwear to apparel for the six months ended under review was 50:45, compared to 51:42 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				
***361°* 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
***361°* Products – Kids**	72,806	3.1	238,663	4.4
Total	2,382,801	100	5,461,240	100

Table of Turnover by Products



Footwear, Apparel, Accessories, *361°* Kids

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:

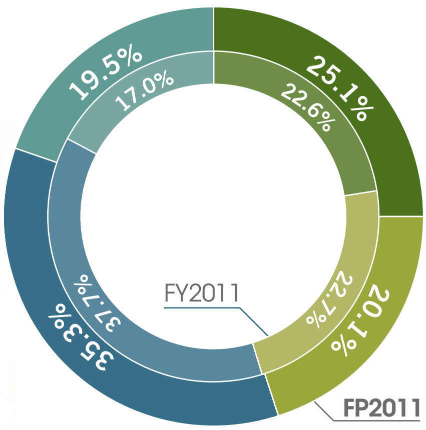
(1) Eastern region includes Jiangsu, Zhejiang, Hubei, Anhui, Hunan, Shanghai and Jiangxi.

(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 Mongolia.

Table of Turnover by Regions



Cost of sales

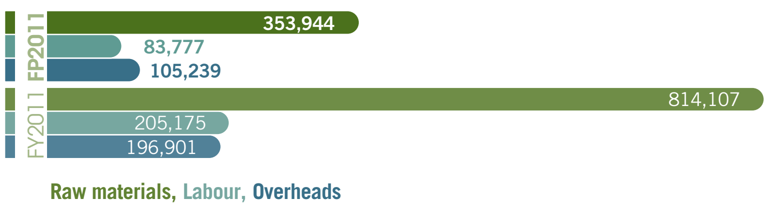
Cost of sales of the Group for the six months ended 31 December 2011 amounted to RMB1,330.1 million. As inflationary pressure in China peaked off in the second half, the Group successfully managed and controlled production cost at a stable level through swift response to market changes in product design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

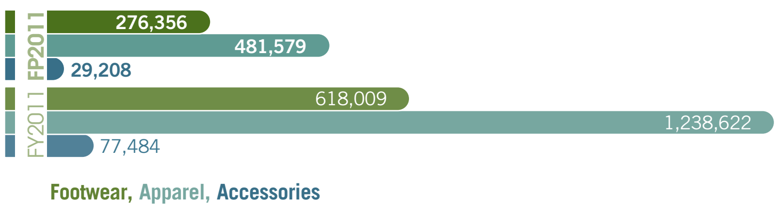
The following table sets forth a breakdown of cost of sales for *361°* products during the period/year under review:

	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
***361°* 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 *361°* Products	**1,330,103**	**100**	3,150,298	100

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



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



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.

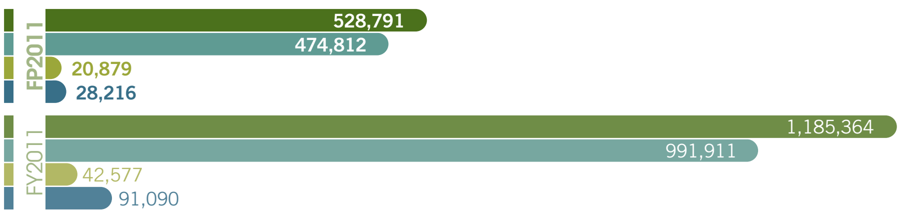
Started from the 2011 Autumn trade fair held in December 2010, the Group has decreased its discount offered to its distributors from 62% to 60%, and further decreased to 58% from the 2012 Spring/Summer trade fair held in July 2011. The Group adopts a uniform pricing system, with all retail price of our 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 RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
361° 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
361° Products – Kids	28,216	38.8	91,090	38.2
Total	1,052,698	44.2	2,310,942	42.3

Gross Profit by Products (RMB'000)



Footwear, Apparel, Accessories, *361°* Kids

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 ended 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 years 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.

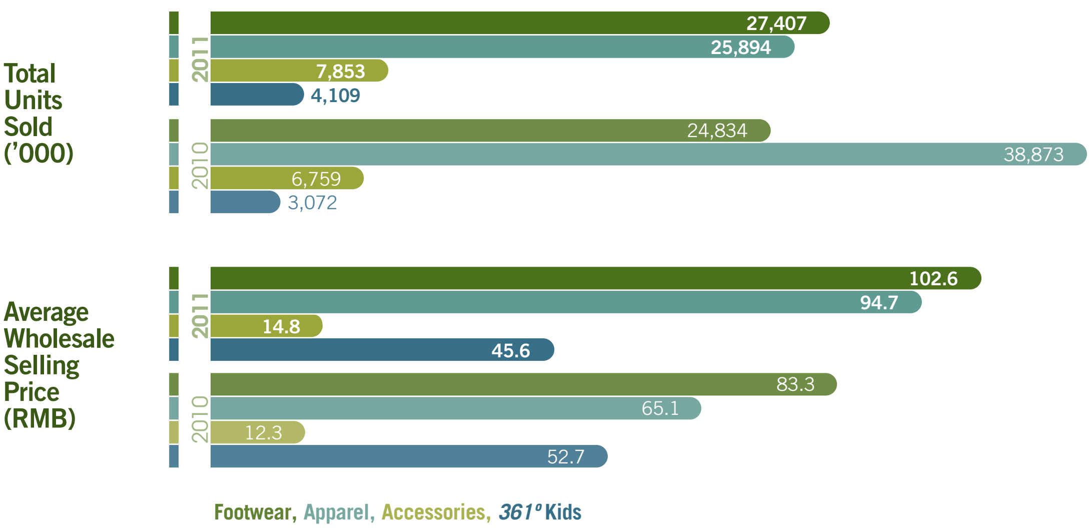
During the year, the Group's continuing efforts in promoting the *361°* brand through advertising, national-team and event sponsorships paid off, sustaining retail sales growth. ASP increased by 45.5% year-on-year for apparel products whilst 23.2% for footwear products. Meanwhile, the Group also broadened 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 '000	Average wholesale selling price (1) RMB	Total units sold '000	Average wholesale selling price (1) RMB
By Volume and ASP				
***361°* Products – Adults**				
Footwear (pairs)	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
***361°* 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.

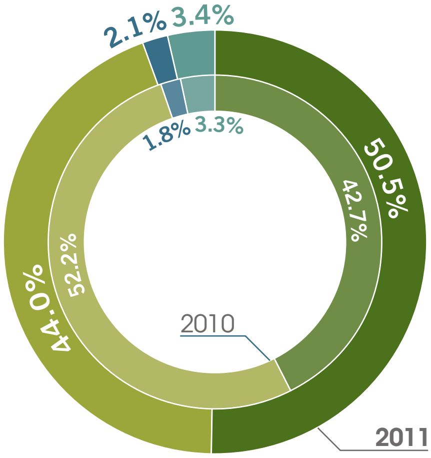
The following table sets forth a breakdown of the Group's turnover by products during the year under review:

	For the year ended 31 December				
	2011		2010		
	RMB'000	% of Turnover	RMB'000	% of Turnover	Change (%)
By Products					
Turnover					
***361°* 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
***361°* 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.

Table of Turnover by Products



Footwear, Apparel, Accessories, *361°* Kids

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.

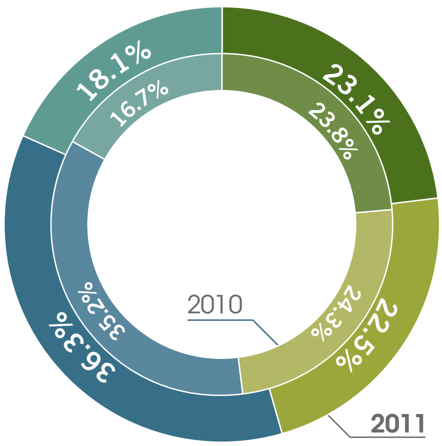
The following table set forth a breakdown of the Group's turnover by regions during the year under review:

	For the year ended 31 December				
	2011		2010		
	RMB'000	% of Turnover	RMB'000	% of Turnover	Change (%)
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 Mongolia.

Table of Turnover by Regions



Eastern region, Southern region, Western region, Northern region

Cost of sales

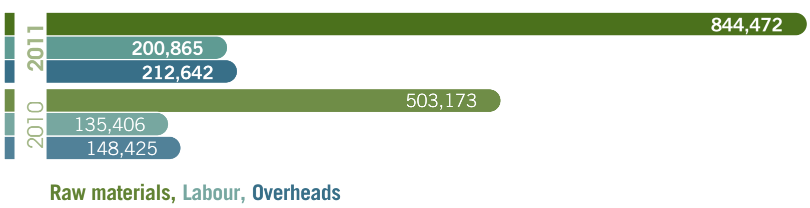
Cost of sales of the Group for the year ended 31 December 2011 increased by 13.0% to RMB3,205.9 million, largely as a result of an increase in sales. As inflationary pressure in China peaked off in the second half of 2011, the Group successfully managed and controlled the production cost at a stable 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.

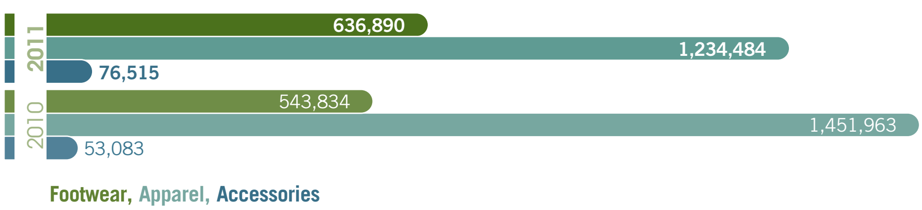
The following table sets forth a breakdown of cost of sales for *361°* products (excluding the cost of sales related to the sales of raw materials) during the year under review:

	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

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



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



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.

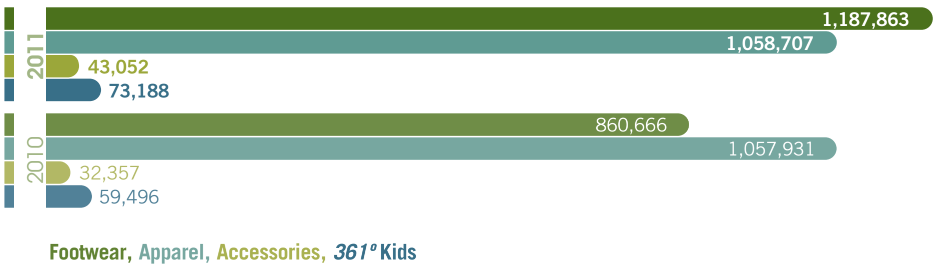
Started from the 2011 Autumn trade fair held in December 2010, the Group has decreased its discount offered to its distributors from 62% to 60%, and further decreased to 58% from the 2012 Spring/Summer trade fair held in July 2011. The Group adopts a uniform pricing system, with all retail price of our 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 RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
***361°* 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
***361°* Products – Kids**	**73,188**	**39.1**	59,496	36.7
Total	**2,362,810**	**42.4**	2,010,450	41.5

Gross Profit for *361°* Products (RMB'000)



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 *361°* 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 RMB1,135.9 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.

Dividend for the period

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.

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.

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements for the six months ended 31 December 2011.

Registered office and principal place of business in Hong Kong

361 Degrees International Limited ("the Company") is a company incorporated and domiciled in Cayman Islands and has its registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, Cayman Islands and its principal place of business in Hong Kong at Rm 3901, 39/F, COSCO Tower, 183 Queen's Road Central, Hong Kong, respectively.

Principal activities

The principal activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiaries are set out in note 13 to the financial statements.

Major customers and suppliers

The information in respect of the sales and purchases attributable to the major customers and suppliers of the Company and its subsidiaries ("the Group") respectively during the reporting period is as follows:

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

Financial statements

The profit of the group for the six months ended 31 December 2011 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 65 to 122.

Transfer to reserves

Profits attributable to equity shareholders, before dividends, of RMB359,692,000 for the six months ended 31 December 2011 (year ended 30 June 2011: RMB1,196,133,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

A final dividend for the year ended 30 June 2011 of RMB16.1 cents (2010: RMB9.0 cents per share) per share was paid on 20 October 2011. The directors recommend, subject to the shareholders' approval at the forthcoming annual general meeting, the payment of a final dividend of RMB7.0 cents per share (an interim dividend for the six months ended 31 December 2010: RMB7.1 cents per share) for the six months ended 31 December 2011.

	Percentage of the group's total	
	Sales	Purchases
The largest customer	11%	
Five largest customers in aggregate	36%	
The largest supplier		6%
Five largest suppliers in aggregate		23%

Charitable donations

Charitable donations made by the Group during the six months ended 31 December 2011 amounted to RMB200,000 (year ended 30 June 2011: RMB424,000).

Fixed assets

Details of the movements in fixed assets during the six months ended 31 December 2011 are set out in note 12 to the financial statements.

Share capital

Details of the movements in share capital of the Company during the six months ended 31 December 2011 are set out in note 26(c) to the financial statements.

Purchases, sales or redemptions of the Company's shares

During the six months ended 31 December 2011 there were no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Directors

The directors during the six months ended 31 December 2011 and up to the date of this report were:

Executive directors
Mr Ding Huihuang, Chairman
Mr Ding Wuhao, President
Mr Ding Huirong, Vice-president
Mr Wang Jiabi, Vice-president

Independent non-executive directors
Mr Yan Man Sing Frankie
(appointed on 9 August 2011)
Mr Sun Xianhong
Mr Liu Jianxing
Mr Mak Kin Kwong *(resigned on 2 August 2011)*

Pursuant to Article 84 of the Articles of the Association of the Company (the "Articles"), at each annual general meeting, one-third of the directors for the time being shall retire from office by rotation.

By virtue to Articles 84 and 85 of the Articles, Mr Ding Huirong, Mr Wang Jiabi and Mr Liu Jianxing will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Directors' service contracts

No director purposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures

As at 31 December 2011, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which were required to be notified to the company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (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	18.14%
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 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 2011, none of the directors or chief executive of the Company or any of their spouses or children under eighteen years of age had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company, or any of its holding companies, subsidiaries or other associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

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

Share option scheme

Pre-IPO Share Option Scheme

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

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

Exercise period

	Number of options '000	Commencement of exercise period	Maximum percentage of options exercisable
Date of grant of Options:			
– 10 June 2009	6,114	One year from the date of listing of the Company's shares	30%
– 10 June 2009	6,114	Two years from date of listing of the Company's shares	30%
– 10 June 2009	8,152	Three years from the date of listing of the Company's shares	40%
	20,380		100%

The options period shall commence on 30 June 2010 and expire on 30 June 2014.

Details of movements of the options granted under the Pre-IPO Share Option Scheme as at 30 June 2011 are as follows:

			Number of Shares issuable under the options				
Grantees	Date of grant	Exercise price per share	as at 30 June 2011	exercised during the six month	lapsed during six month	cancelled during six month	as at 31 December 2011
Senior Management In aggregate	10/06/2009	2.89	5,743,000	–	–	–	5,743,000
Employees In aggregate	10/06/2009	2.89	7,147,000	–	–	–	7,147,000
Business Partners In aggregate	10/06/2009	2.89	4,400,000	–	–	–	4,400,000
			17,290,000	–	–	–	17,290,000

Share Option Scheme

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

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

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

(a) the nominal value of a share;

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

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

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

No options have been granted under the Share Option Scheme up to 31 December 2011.

Information on the accounting policy for share options granted and the weighted average value per option is provided in note 2(n)(ii) and note 24 to the financial statements respectively.

Apart from the foregoing, at no time during the year was the Company, or any of its holding companies or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 31 December 2011, so far as is known to any director or chief executive of the company, the persons (other than the directors and the chief executive of the company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were directly or indirectly, interested in 10% of more of the nominal value of the any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group were as follows:

Name of shareholders	Note	Long position in ordinary shares held	Percentage of total issued shares
Dings International Company Limited	(1)	375,000,000	18.14%
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 Whuao 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 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 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.

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company as at the date of this annual report, the Directors of the Company are satisfied that the Company has maintained the prescribed minimum public float under the Listing Rules.

Directors' interests in contracts

No contract of significance to which the Company, or any of its holding companies or subsidiaries was a party, and in which director of the Company had a material interest, subsisted at the end of the period or at any time during the reporting period.

Directors' interests in competing business

As at 31 December 2011, none of the directors or their respective associates had any business or interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group. Please also refer to the paragraph headed "Compliance with the Deed of Non-competition" below.

Compliance with the Deed of Non-competition

Each of Mr Ding Wuhao, Dings International Company, Mr Ding Huihuang, Ming Rong International Company Limited, Mr Ding Huirong and Hui Rong International Company Limited (collectively the "Covenantors" and each a "Covenantor") confirmed that, as at 31 December 2011, it is in compliance with the terms of the deed of non-competition ("Deed of Noncompetition") dated 10 June 2009 signed by each of them in favour of the Group.

To monitor the compliance of the terms of the Deed of Non-competition by the Covenantors, the independent non-executive directors have reviewed, among others, the business activities undertaken by the Covenantors (if any) outside of the Group. Based on the result of such review, the independent non-executive directors are satisfied that the Covenantors have complied with the terms of the Deed of Non-competition for the six months ended 31 December 2011.

Bank loans and other borrowings

Particulars of bank loans and other borrowings of the Group as at 31 December 2011 are set out in notes 20 and 21 to the financial statements.

Financial summary

A summary of the results and of the assets and liabilities of the Group is set out on pages 123 and 124 of the annual report.

Retirement schemes

The Group operates a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

The employees of the subsidiaries in the People's Republic of China are members of the retirement schemes operated by the local authorities. The subsidiaries are required to contribute a certain percentage of the eligible employees' salaries to these schemes to fund the benefits. The only obligation of the group with respect to these schemes is the required contributions under the schemes.

The Group's total contributions to retirement schemes charged to the consolidated income statement during the six months ended 31 December 2011 amounted to RMB8,812,000 (year ended 30 June 2011: RMB11,518,000).

Confirmation of independence

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

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.

Directors' securities transactions

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Upon enquiring by the Company, all the directors of the Company have confirmed that they have complied with the required standards set out in the Model Code during the six months ended 31 December 2011.

Audit Committee

The Audit Committee has reviewed with management and the external auditor the accounting principles and polices adopted by the Group and the audited annual consolidated financial statements for the six months ended 31 December 2011.

Auditors

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By order of the board

DING HUIHUANG
Chairman

Hong Kong, 12 March 2012

CORPORATE GOVERNANCE REPORT

The Company has made continuous effort to ensure high standards of corporate governance. The principles of corporate governance adopted by the Company emphasizes a quality board, sound internal controls and accountability to shareholders and these are based upon an established ethical corporate culture.

CORPORATE GOVERNANCE 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.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

The overall management of the Group's business is vested in the Board. Key responsibilities include formulation of the Group's overall strategies and policies, setting of performance targets, evaluation of business performance and oversight of management. The management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group.

As at 31 December 2011, the Board comprises four executive Directors and three independent non-executive Directors. Biographical details of the current Directors and the relationships between the Directors (if any) are set out in the section headed "Directors and Senior Management" of this annual report.

On 2nd August, one of the independent non-executive Directors, Mr Mak Kin Kwong ("Mr Mak") has resigned from his position and the Board has appointed Mr Yan Man Sing Frankie ("Mr Yan") to replace Mr Mak on 9th August 2011. The details of Mr Yan's biography is set out in the section headed "Director and Senior Management" of the annual report.

Brief details of the attendance of the board meetings held during the six months under review were summarized as follows:

	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Mr. Ding Huihuang (Chairman)	10/10	N/A	N/A	N/A
Mr. Ding Wuhao (President)	9/10	N/A	N/A	1/1
Mr. Ding Huirong (Vice President)	10/10	N/A	N/A	N/A
Mr. Wang Jiabi (Vice President)	9/10	N/A	1/1	N/A
Independent Non-executive Directors				
Mr. Yan Man Sing, Frankie (appointed on 9 August 2011)	2/10	1/1	N/A	1/1
Mr. Sun Xianhong	4/10	1/1	1/1	N/A
Mr. Liu Jianxing	4/10	1/1	1/1	1/1
Mr. Mak Kin Kwong (resigned on 2 August 2011)	–	–	N/A	N/A

Note: Number of meetings attended/number of meetings held.

The composition of the Board is well balanced with the Directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The executive Directors and independent non-executive Directors bring a variety of experience and expertise to the Company. In determining the independence of the independent non-executive Directors, the Board follows the requirements set out in the Listing Rules. The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

THE ROLES OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The divisions of responsibilities between the Chairman of the Board, Mr. Ding Huihuang, and the President, Mr. Ding Wuhao, who effectively performs the functions of the Chief Executive Officer of the Group, are clearly defined and have been approved by the Board. Mr. Ding Wuhao is the brother-in-law of Mr. Ding Huihuang.

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. He is primarily responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda.

The President is directly in charge of the daily operations of the Group and are accountable to the Board for the financial and operational performance of the Group.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 30 June 2009, subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than three months' prior written notice.

Each of independent non-executive Directors has entered into a service contract with the Company for an initial term of three years from their respective dates of appointment, subject to termination in accordance with the provisions of the service contract or by either party giving the other not less than three months' prior written notice.

In accordance with the Company's articles of association, each year, one third of the Directors (including executive Directors and independent non-executive Directors) for the time being will retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years at the general meeting.

BOARD COMMITTEES

As an integral part of good corporate governance practices, the Board established the following Board committees to oversee particular aspects of the Group's affairs. These committees are governed by the respective written terms of reference approved by the Board.

Audit Committee

The audit committee of the Company ("Audit Committee") was established on 10 June 2009 with written terms of reference in compliance with the Code. The Audit Committee comprises three members, all are independent non-executive Directors, namely Mr. Mak Kin Kwong, Mr. Sun Xianhong and Mr. Liu Jianxing. Mr. Mak, the Chairman of the Committee, resigned as an independent non-executive Director on 2 August 2011 and ceased to be the Chairman and member of the Audit Committee. His role was replaced by Mr. Yan Man Sing Frankie.

The Audit Committee has reviewed the Group's consolidated financial statements for the six months ended 31 December 2011, including the accounting principles and practice adopted by the Group.

The primary duties of the Audit Committee are mainly to review the material investment, capital operation an material financial system of our Company; to review the accounting policy, financial position and financial reporting procedures of our Company; to communicate with external audit firms; to assess the performance of internal financial and audit personnel; and to assess the internal controls of the Company.

The Audit Committee has held one meeting for the six months ended 31 December 2011 to discuss the auditing, internal controls and financial reporting matters of the Company.

Remuneration Committee

The remuneration committee of the Company ("Remuneration Committee") was established on 10 June 2009 with written terms of reference in compliance with the Code. During the reporting period, the Remuneration Committee comprises three members, namely Mr. Wang Jiabi, Mr. Sun Xianhong and Mr. Liu Jianxing. In order to comply with the forthcoming amendments to the Rules Governing Listing Rules which will be effective on 1 April 2012, Mr. Wang Jiabi ceased to be the chairman of the remuneration committee of the Company and Mr. Sun Xianhong, an independent non-executive director, has replaced his position on 29 November 2011. Mr. Liu is also an independent non-executive director.

The primary duties of the Remuneration Committee are to review the terms of the remuneration package of each Director and member of senior management and making recommendations to the Board regarding any adjustment thereof. No Director shall participate in any discussion about his or her own remuneration.

The emolument policy of the employees of the Group is determined on the basis of their merit, qualifications and competence.

The emolument of the Directors are recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance, experience, responsibility, workload and time devoted to the Company and comparable market statistics. Each of the executive Directors is entitled to a basic salary which is reviewed annually. In addition, each of the executive Directors may receive a discretionary bonus as the Board may recommend, the aggregate amount for all executive Directors shall not exceed 5% of the audited consolidated net profits after tax of the Group for the relevant financial year. Such amount has to be approved by the Remuneration Committee.

The Remuneration Committee has held one meeting to review and approve the remuneration packages of Directors and senior management of the Group for the six months ended 31 December 2011.

Nomination Committee

The nomination committee of the Company ("Nomination Committee") was established on 10 June 2009 with written terms of reference in compliance with the Code. During the reporting period, the Nomination Committee comprises three members, namely Mr. Ding Wuhao, Mr. Mak Kin

Kwong and Mr. Liu Jianxing. Mr. Mak ceased to be member of the Nomination Committee on 2 August 2011 following his resignation as an independent non-executive Director. His role was replaced by Mr. Yan Man Sing Frankie.

In order to comply with the forthcoming amendments to the Listing Rules which will be effective on 1 April 2012, Mr. Ding Wuhao ceased to be the chairman of the Nomination Committee of the Company and Mr. Liu Jianxing, an independent non-executive Director, has replaced his position on 14 February 2012.

The primary duties of the Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board. During the six months ended 31 December 2011, no additional Director was appointed.

The Nomination Committee has held one meeting for the six months ended 31 December 2011 to nominate the members of board for retirement and re-election at the forthcoming Annual General Meeting.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare the financial statements for each financial year which give a true and fair view of the state of affairs of the Group. However, the above statement should be read in conjunction with, but distinguished from, the independent auditor's report in the section headed "Independent Auditor's Report" which acknowledges the reporting responsibilities of the Group's auditor.

Auditors' Remuneration

During the six months ended 31 December 2011, the remuneration paid or payable to the Group's auditors, KPMG, in respect of their audit and non-audit services are as follows:

	For the six months ended 31 December 2011	For the year ended 30 June 2011
Interim review	–	–
Statutory audit services	**HK$2,500,000**	HK$2,580,000
Non-audit services	–	HK$200,000
Total	**HK$2,500,000**	HK$2,780,000

The Group appointed SHINEWING Risk Services Limited as the independent adviser to carry out an internal control review for the financial year ended 2010/2011, which is non-audit service by nature, at a fee of HK$200,000.

Internal Control

The Board acknowledges its responsibility to ensure that sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interest of shareholders. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

During the year, the Board has conducted reviews of the internal control system of the Company and considered the internal control system of the Company has implemented effectively. During the six months ended 31 December 2011, the Board reviewed the effectiveness of the Group's internal control system. The review covered all material controls, including financial, operational and compliance controls and risk management functions. The Board also considered the Group's adequacy of resources, qualifications and experience of staff in its accounting and financial reporting functions, and their training programmes and budget.

COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of maintaining clear, timely and effective communication with shareholders of the Company and investors. The Board also recognizes that effective communication with investors is the key to establish investor confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the investors and the shareholders of the Company are receiving accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, interim reports, announcements and circular. The Company also publishes all corporate correspondence on the Company's website, www.361sport.com. The Board maintains regular dialogues with institutional investors and analysts from time to time to keep them informed of the Group's strategy, operations, management and plans. The Directors and the members of the various board committee would attend and answer questions raised on the annual general meeting of the Company. Separate resolutions would be proposed at the general meeting on each substantially separate issue.

The chairman of the general meetings of the Company would explain the procedures for conducting poll before putting a resolution to vote. The results of the voting by poll would be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively.

Shareholders may put forward their proposals or inquiries to the Board by sending their written request to the Company's correspondence address in Hong Kong.

DIRECTORS

Executive Directors

Mr. Ding Wuhao (丁伍號), aged 46, is an executive Director and the president of the Company. He is primarily responsible for the Group's overall strategies, planning and business development. He has over 15 years of experience in the PRC sportswear industry. Since December 2006, he has been a member of the Chinese People's Political Consultative Conference ("CPPCC") Fujian Province Jinjiang City Committee (中國人民政治協商會議福建省晉江市委員會). In October 2008, he received the award of the "2008 Most Socially Responsible Entrepreneur in China" (2008年度中國最具社會責任企業家) by the Annual Selection Organising Committee of China Human Resources Management (中國人力資源管理年度評選組委會). In May 2009, he received the "Contribution Award for China TV Sports Programmes" (中國體育電視貢獻獎) by CCTV Sports Channel (中央電視台體育頻道). Mr. Ding is the son-in-law of Mr. Ding Jiantong, and the brother-in-law of Mr. Ding Huihuang and Mr. Ding Huirong. He enrolled in a CEO in China's Enterprise/Finance program at the Cheung Kong Graduate School of Business in May 2011.

Mr. Ding Huihuang (丁輝煌), aged 46, is an executive Director and the chairman of the Company. He is primarily responsible for overall strategies, operation planning and footwear production. He has over 15 years of experience in the PRC sportswear industry. He was awarded the "Top Ten Outstanding Youths in China Industrial Economy" (中國工業經濟十大傑出青年) by the Organising Committee of China Industry Forum (中國工業論壇組委會) in January 2008 and the "Top Ten Outstanding Youth Entrepreneurs of Quanzhou City" (泉州市十大傑出青年企業家) jointly issued by 18 governmental and commercial institutions in Quanzhou City, Fujian Province, the PRC in February 2007. He has been a standing member of the third committee of Quanzhou City Shoe Commercial Association (泉州市鞋業商會) and a vice chairman of Fujian Province Shoe Industry Association (福建省鞋業行業協會) since January 2006 and January 2007 respectively. Mr. Ding is the elder brother of Mr. Ding Huirong and the brother-in-law of Mr. Ding Wuhao.

Mr. Ding Huirong (丁輝榮), aged 40, is an executive Director and a vice president of the Company. He is primarily responsible for financial management and infrastructure construction management of the Company, more specifically the construction of the new production facility and warehouse of the Group at the Wuli Industrial Park. He has over 15 years of experience in financial management. Mr. Ding is the younger brother of Mr. Ding Huihuang and the brother-in-law of Mr. Ding Wuhao.

Mr. Wang Jiabi (王加碧), aged 54, is an executive Director and a vice president of the Company. He is primarily responsible for the human resources and external public relationship. Mr. Wang has over 15 years of experience in the PRC sportswear industry. He has completed an EMBA programme offered by Peking University (北京大學) in January 2010.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yan Man Sing Frankie (甄文星), aged 53, has many years of experience in financial management, corporate governance, corporate finance, corporate and financial advisory, restructuring, mergers and acquisitions. He was a graduate of Hong Kong Polytechnic University and is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). He is a member of the corporate finance committee of the HKICPA. He is currently a director of the corporate finance department of a securities company, and the company secretary of a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He previously worked in the London and Hong Kong offices of an international auditing firm. He was a senior manager of the Listing Division of the Stock Exchange and a director of the corporate finance department of another securities company.

He was an independent non-executive director as well as member of the audit committee and the remuneration committee of Global Sweeteners Holdings Limited (Stock Code: 3889), a company listed on the Stock Exchange between September 2007 to May 2009.

Mr. Yan is currently a member of the Election Committee of the Hong Kong Special Administrative Region.

Mr. Sun Xianhong (孫先紅), aged 49, is an independent non-executive Director of the Company. Mr. Sun has over 20 years of experience in the media and marketing industries. Since April 2002, he has been a member of the CPPCC of Huhhot City, Inner Mongolia Autonomous Region (中國人民政治協商會議內蒙古呼和浩特市委員會). Mr. Sun was graduated from Taiyuan University of Technology (formerly known as Shanxi Mining College (山西礦業學院)) in July 1985.

Mr. Liu Jianxing (劉建興), aged 36, is an independent non-executive Director of the Company. Mr. Liu has over seven years of experience in macroeconomics and policy research. Mr. Liu is currently the head of the research department of International Cooperation Centre of National Development and Reform Commission ("NDRC") (中華人民共和國國家發展和改革委員會). Mr. Liu received his bachelor's degree in management engineering from Nanchang University (南昌大學) in July 1997, a master's degree and a doctor's degree in national economics from Peking University (北京大學) in July 2002 and July 2005 respectively.

SENIOR MANAGEMENT

Mr. Chen Yongling (陳永靈), aged 38, is the vice president of capital operation department of the Group and is primarily responsible for the Group's overall capital operation management. He joined the Group in August 2005. Mr. Chen has over 16 years of experience in finance, operation and business management. Mr. Chen received his diploma in business management from Zhejiang University (浙江大學) in January 2007. Mr. Chen holds a qualification certificate for accounting (中國會計師) and national secretary qualification (second class) (秘書資格國家二級) conferred by the Ministry of Finance of the PRC, a qualification certificate for economics (經濟師) of the PRC, a qualification certificate for finance management (財務管理師) and received the Certificate of Qualification for International Certified Senior Accountant (國際註冊高級會計師) awarded by the International Profession Certification Association (國際認證協會) and was awarded the "2011 Chinese Year of the Chief Accountant" (2011中國總會計師年度人物獎).

Ms. Choi Mun Duen (蔡敏端), aged 43, joined the Group in October 2008 and is the chief financial officer, an authorized representative and the company secretary of the Company. She has over 16 years of experience in auditing, finance and accounting. She received her bachelor's degree in accounting and finance from University of Glamorgan in the U.K. She is a certified public accountant of the HKICPA and a fellow member of the Association of Chartered Certified Accountants.

Mr. Chen Zhicheng (陳志誠), aged 53, is the general manager of children's wear business of the Group and is primarily responsible for the Group's daily operation and management of children's wear series. He possesses over 17 years of experience in managing renowned international children's wear brands in the children's wear industry of China and Taiwan. He joined the Group in May 2009 and received his bachelor's degree in business administration from National Cheng Kung University in Taiwan in 1981.

Mr. Chen Yuen Feng (陳遠逢), aged 57, is the vice-president of investor relations and is primarily responsible for the Group's investor relationship. He joined the Group in November 2009. Mr. Chen was admitted as an associate member of the Institute of Chartered Accountants in England and Wales in 1980.

Mr. Lou Sen (羅森), aged 49, is the vice president of footwear business and is primarily for the overall daily operation and management of the Group's footwear business. He possesses over 16 years of experience in managing renowned international footwear brands. He joined the Group in December 2009 and gained his bachelor's degree from Henan Institute of Education in 1982.

Ms. Tang Lijun (湯麗軍), aged 48, is the vice president of apparel business of the Group and primarily responsible for strategies, structure building and management of the Group's apparel business. She has more than 10 years of experience in managing famous domestic brands and joined the Group in March 2010. She received her EMBA from Cheung Kong Graduate School of Business in 2009.

Mr. Wang Hongzheng (王宏征), aged 46, is the vice president of operation department of the Group and primarily responsible for daily operation and management in the operation department of the Group. He has over 20 years of experience in managing international and local renowned brands. He joined the Group in October 2010. Mr. Wang received his MBA from Heriot-Watt University in United Kingdom in 2002.

Ms. Zhu Chenye (朱晨曄), aged 37, is the vice president of brand management center of the Group and primarily responsible for daily operation and management in the brand management center of the Group. She has over 12 years of experience in managing international renowned sportswear brands. She joined the Group in November 2010. Ms. Zhu received her MBA from China Europe International Business School (中歐國際工商學院) and her bachelor's degree in science from Shanghai Jiao Tong University (上海交通大學) in 2008 and 1995 respectively.

Mr. Chen Jian Ci (陳建次), aged 41, is the vice president of supply chain management center and primarily responsible for overall planning in warehouse, logistics and network, integrating data stream and managing enterprise information system deployment of the Group. He has over 15 years of experience in information system related works and has worked in worldrenowned enterprises. He joined the Group in December 2011. Mr. Chen received his bachelor's degree in information management from Tamkang University in 1995.

Mr. Sui Jian (隋健), aged 46, is the vice president of human resources centre of the Group and is primarily responsible for overall human resources management, training and administration in the Group. He has over 17 years of relevant experience in managing international renowned enterprises. He joined the Group in March 2011. Mr. Sui was graduated from the Department of English of Shanghai Normal University (上海師範大學) in 1994.

Mr. Wang Zhiqian (王志謙), aged 39, is the head of the research and development department for the Group's footwear business. Mr. Wang has over 16 years of experience in the PRC sportswear industry. He joined the Group in October 2003. Mr. Wang received his diploma from Jilin Second Light Industry School (吉林省二輕工業學校) in July 1992.

Mr. Ling Jun (凌雋), aged 36, is the head of the Group's brand department and is primarily responsible for the Group's overall brand management. Mr. Ling has over 5 years of experience in brand management. He joined the Group in April 2008. He received his diploma in the advance program of study in business communication and management from California State University of Sacramento in September 2002. He received his master's degree in business administration from American National University in April 2003.

Mr. Li Xiang (李翔), aged 37, is the chief supervisor and head of the equipment and accessories business of the Group and is primarily responsible for the overall management of equipment and accessories. Mr. Li joined the Group in October 2007. Mr. Li has over 10 years of experience in marketing and product management. Mr. Li received his bachelor's degree in art from Hua Zhong Normal University (華中師範大學) in September 1997.

Ms. Lin Meiyun (林美雲), aged 41, is the head of shoes production department and primarily responsible for the Group's footwear production management. She has more than 19 years of experience in footwear production management in China and joined the Group in October 2009.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of
361 Degrees International Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of 361 Degrees International Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 65 to 122, which comprise the consolidated and company balance sheets as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the six months ended 31 December 2011 and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the six months ended 31 December 2011 in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

12 March 2012

CONSOLIDATED INCOME STATEMENT

for the six months ended 31 December 2011
(Expressed in Renminbi)

	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(a)	**(78,216)**	(251,448)
Profit for the period/year		**361,229**	1,189,295
Attributable to:			
Equity shareholders of the Company	10	**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	11		
Basic (cents)		**17.4**	57.9
Diluted (cents)		**17.4**	57.6

The notes on pages 74 to 122 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the period/year are set out in note 26(b).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2011
(Expressed in Renminbi)

	Six months ended 31 December 2011 RMB'000	Year ended 30 June 2011 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

The notes on pages 74 to 122 form part of these financial statements. There was no tax effect relating to the components of other comprehensive income.

CONSOLIDATED BALANCE SHEET

at 31 December 2011
(Expressed in Renminbi)

	Note	At 31 December 2011 RMB'000	At 30 June 2011 RMB'000
Non-current assets			
Fixed assets	12		
– 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	14	**17,550**	–
Deposits and prepayments	16	**141,887**	166,423
Deferred tax assets	25(b)	**29,546**	13,480
		1,181,172	1,109,397
Current assets			
Inventories	15	**451,264**	197,255
Trade debtors	16	**2,110,008**	1,558,558
Bills receivable	16	**244,800**	23,100
Deposits, prepayments and other receivables	16	**794,684**	305,316
Pledged bank deposits	17	**127,685**	50,840
Deposits with banks		**211,902**	135,370
Cash and cash equivalents	18	**459,762**	2,229,367
		4,400,105	4,499,806
Current liabilities			
Trade and other payables	19	**1,023,983**	1,174,090
Bank loans	20	**28,781**	13,216
Other loan	21	**150,000**	–
Current taxation	25(a)	**72,181**	137,785
		1,274,945	1,325,091
Net current assets		**3,125,160**	3,174,715
Total assets less current liabilities		**4,306,332**	4,284,112
Non-current liability			
Deferred tax liabilities	25(b)	**5,817**	5,342
NET ASSETS		**4,300,515**	4,278,770

Consolidated balance sheet (Continued)

at 31 December 2011
(Expressed in Renminbi)

	Note	At 31 December 2011 RMB'000	At 30 June 2011 RMB'000
CAPITAL AND RESERVES			
Share capital	26(c)	**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

Approved and authorised for issue by the board of directors on 12 March 2012

Ding Huihuang
Director

Ding Huirong
Director

The notes on pages 74 to 122 form part of these financial statements.

BALANCE SHEET

at 31 December 2011
(Expressed in Renminbi)

	Note	At 31 December 2011 RMB'000	At 30 June 2011 RMB'000
Non-current asset			
Investment in subsidiary	13	**1**	1
Current assets			
Amounts due from subsidiaries	22	**798,449**	1,022,576
Other receivables	16	**1,903**	817
Deposits with banks		**–**	47,327
Cash and cash equivalents	18	**46,730**	135,309
		847,082	1,206,029
Current liabilities			
Amounts due to subsidiaries	22	**22,967**	19,677
Other payables	19	**8,560**	9,004
		31,527	28,681
Net current assets		**815,555**	1,177,348
NET ASSETS		**815,556**	1,177,349
CAPITAL AND RESERVES	26(a)		
Share capital		**182,298**	182,298
Reserves		**633,258**	995,051
TOTAL EQUITY		**815,556**	1,177,349

Approved and authorised for issue by the board of directors on 12 March 2012

Ding Huihuang
Director

Ding Huirong
Director

The notes on pages 74 to 122 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2011
(Expressed in Renminbi)

	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Other reserve RMB'000
Balance at 1 July 2010		182,109	1,409,129	156,252	82,724
Changes in equity for the year ended 30 June 2011:					
Profit for the year		–	–	–	–
Other comprehensive income		–	–	–	–
Total comprehensive income		–	–	–	–
Purchase of own shares	26(c)(i)				
– par value paid		(76)	–	–	–
– premium paid		–	(3,738)	–	–
Shares issued under share option scheme	26(c)(ii)	265	9,582	–	–
Capital contribution received by a non-wholly owned subsidiary from non-controlling shareholder		–	–	–	–
Equity-settled share-based transactions		–	–	–	–
Appropriation to statutory reserve		–	–	–	–
Dividends declared and paid during the year	26(b)	–	(332,722)	–	–
Balance at 30 June 2011		182,298	1,082,251	156,252	82,724
Balance at 1 July 2011		182,298	1,082,251	156,252	82,724
Changes in equity for the six months ended 31 December 2011:					
Profit for the period		–	–	–	–
Other comprehensive income		–	–	–	–
Total comprehensive income		–	–	–	–
Equity-settled share-based transactions		–	–	–	–
Appropriation to statutory reserve		–	–	–	–
Dividends declared and paid during the period	26(b)	–	(332,884)	–	–
Balance at 31 December 2011		182,298	749,367	156,252	82,724

The notes on pages 74 to 122 form part of these financial statements.

Consolidated statement of changes in equity

for the six months ended 31 December 2011
(Expressed in Renminbi)

Attributable to equity shareholders of the Company						
Statutory reserve RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
268,235	8,943	(2,203)	1,291,234	3,396,423	35,094	3,431,517
–	–	–	1,196,133	1,196,133	(6,838)	1,189,295
–	–	(31,937)	–	(31,937)	–	(31,937)
–	–	(31,937)	1,196,133	1,164,196	(6,838)	1,157,358
–	–	–	–	(76)	–	(76)
–	–	–	–	(3,738)	–	(3,738)
–	(2,179)	–	–	7,668	–	7,668
–	–	–	–	–	14,589	14,589
–	4,174	–	–	4,174	–	4,174
182,784	–	–	(182,784)	–	–	–
–	–	–	–	(332,722)	–	(332,722)
451,019	10,938	(34,140)	2,304,583	4,235,925	42,845	4,278,770
451,019	10,938	(34,140)	2,304,583	4,235,925	42,845	4,278,770
–	–	–	359,692	359,692	1,537	361,229
–	–	(7,564)	–	(7,564)	–	(7,564)
–	–	(7,564)	359,692	352,128	1,537	353,665
–	964	–	–	964	–	964
7,782	–	–	(7,782)	–	–	–
–	–	–	–	(332,884)	–	(332,884)
458,801	11,902	(41,704)	2,656,493	4,256,133	44,382	4,300,515

CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 31 December 2011
(Expressed in Renminbi)

	Note	Six months ended 31 December 2011 RMB'000	Year ended 30 June 2011 RMB'000
Operating activities			
Profit before taxation		**439,445**	1,440,743
Adjustments for:			
Depreciation	6(c)	**36,397**	52,048
Amortisation of land lease premium	6(c)	**1,102**	1,777
Finance costs	6(a)	**543**	493
Interest income	5	**(12,267)**	(21,595)
Net loss on disposal of fixed assets	5	**54**	21
Equity-settled share-based payment expenses	6(b)	**964**	4,174
Effect of foreign exchange rates changes		**(7,558)**	(31,927)
Changes in working capital:			
Increase in inventories		**(254,009)**	(64,419)
Increase in trade debtors		**(551,450)**	(662,860)
Increase in bills receivable		**(221,700)**	(23,100)
Increase in deposits, prepayments and other receivables		**(488,650)**	(89,451)
(Decrease)/increase in trade and other payables		**(127,542)**	214,912
Cash (used in)/generated from operations		**(1,184,671)**	820,816
People's Republic of China ("PRC") income tax paid		**(159,411)**	(215,814)
Net cash (used in)/generated from operating activities		**(1,344,082)**	605,002
Investing activities			
Payment for the purchase of fixed assets		**(98,383)**	(504,553)
Proceeds from disposal of fixed assets		**100**	29
Payment for the purchase of other financial asset		**(17,550)**	–
(Increase)/decrease in pledged bank deposits		**(76,845)**	50,360
(Increase)/decrease in deposits with banks		**(76,532)**	800,715
Interest received		**11,549**	24,768
Net cash (used in)/generated from investing activities		**(257,661)**	371,319

	Note	Six months ended 31 December 2011 RMB'000	Year ended 30 June 2011 RMB'000
Financing activities			
Proceeds from new bank loans		**29,520**	40,661
Repayment of bank loans		**(13,955)**	(27,429)
Proceeds from other loan		**150,000**	–
Proceeds from shares issued under share option scheme	26(c)(ii)	**–**	7,668
Payment for repurchase of shares	26(c)(i)	**–**	(3,814)
Capital contribution received by a non-wholly owned subsidiary from non-controlling shareholder		**–**	14,589
Interest paid		**(543)**	(493)
Dividends paid	26(b)	**(332,884)**	(332,722)
Net cash used in financing activities		**(167,862)**	(301,540)
Net (decrease)/increase in cash and cash equivalents		**(1,769,605)**	674,781
Cash and cash equivalents at the beginning of the period/year		**2,229,367**	1,554,586
Cash and cash equivalents at the end of the period/year	18	**459,762**	2,229,367

The notes on pages 74 to 122 form part of these financial statements.

1 CHANGE IN FINANCIAL YEAR END DATE

Pursuant to the announcement dated 23 August 2011, the Company changed its financial year end date from 30 June to 31 December.

The change of the Company's financial year end date is to align the Company's financial year end date with those of the Company's operating subsidiaries in the PRC and to facilitate the improvement of efficiency on preparation of the Company's consolidated financial statements and accounts. 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, the consolidated statement of changes in equity, the consolidated cash flow statement and related notes are therefore not entirely comparable with those of the current period.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the six months ended 31 December 2011 comprise the Company and its subsidiaries.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Change in accounting policies

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, 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.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Subsidiaries and non-controlling interests *(Continued)*

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the period/year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 2(k) or (l) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(h)), unless the investment is classified as held for sale.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Other investments in equity securities

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(h)).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(h)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initiate estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(s)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

– Plant and machinery 5 – 10 years

– Office equipment and other fixed assets 2 – 10 years

– Motor vehicles 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight line basis over the period of the lease term.

(h) Impairment of assets

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

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becomes probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

– For investments in subsidiaries, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with not 2(h)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(h)(ii).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Impairment of assets *(Continued)*

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

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Impairment of assets *(Continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that property, plant and equipment, interests in leasehold land held for own use under operating leases and non-current deposits and prepayments may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

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

– Reversals of impairment losses

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(n) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contribution to relevant local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Income tax

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

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

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

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax assets can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Income tax *(Continued)*

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either;

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and goods return.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(r) Translation of foreign currencies

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

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

The results of entities with functional currency other than RMB are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) Research and development and advertising

Expenditure on research and advertising activities is recognised as an expense in the period in which it is incurred. Prepayment for advertising are recognised as an expense in equal instalments over the periods covered by the agreement term.

(u) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Related parties *(Continued)*

(b) *(Continued)*

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) 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 PRC.

3 ACCOUNTING ESTIMATES AND JUDGEMENTS

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Notes 24 and 27 contain information about the assumptions and their risk factor relating to fair value of share option granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Useful lives of fixed assets

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

(b) Impairment losses on trade debtors and bills receivable

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

(c) Other impairment losses

If circumstances indicate that carrying value of investment in subsidiary, property, plant and equipment, interest in leasehold land held for own use under operating leases and non-current deposits and prepayments may not be recoverable, these assets may be considered impaired, and an impairment loss may be recognised in accordance with HKAS 36, *Impairment of assets*. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amount may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling prices and the value in use. It is difficult to estimate precisely selling prices because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

(Expressed in thousands of Renminbi unless otherwise indicated)

3 ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(d) Net realisable value of inventories

The Group recognises write-down on inventories based on an assessment of the net realisable value of the inventories. Write-down is applied to the inventories where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgment and estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of the inventories and write-down on inventories charged to profit or loss in the period in which such estimate has been changed.

(e) Income taxes

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations.

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 RMB'000	Year ended 30 June 2011 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). Details of concentrations of credit risk arising from these customers are set out in 27(a)(i).

(Expressed in thousands of Renminbi unless otherwise indicated)

5 OTHER REVENUE AND NET GAIN

	Six months ended 31 December 2011 RMB'000	Year ended 30 June 2011 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.

(Expressed in thousands of Renminbi unless otherwise indicated)

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 (note 24)	**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.

(Expressed in thousands of Renminbi unless otherwise indicated)

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) 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.

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

	Six months ended 31 December 2011 RMB'000	Year ended 30 June 2011 RMB'000
Profit before taxation	**439,445**	1,440,743
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**112,619**	360,983
Tax effect of non-deductible expenses	**8,889**	38,328
Tax effect of non-taxable income	**(967)**	(3,017)
Tax effect of profits entitled to tax exemption in the PRC	**(42,325)**	(147,841)
Under provision in respect of prior years	–	2,995
Actual tax expense	**78,216**	251,448

(Expressed in thousands of Renminbi unless otherwise indicated)

8 DIRECTORS' REMUNERATION

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

	Six months ended 31 December 2011				
	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Discretionary bonus RMB'000	Total RMB'000
Executive directors					
Ding Wuhao	–	990	3	–	993
Ding Huihuang	–	791	3	–	794
Ding Huirong	–	791	3	–	794
Wang Jiabi	–	441	3	–	444
Independent non-executive directors					
Yan Man Sing	191	–	–	–	191
Sun Xianhong	160	–	–	–	160
Liu Jianxing	105	–	–	–	105
Mak Kin Kwong (note)	38	–	–	–	38
	494	3,013	12	–	3,519

	Year ended 30 June 2011				
	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Discretionary bonus RMB'000	Total RMB'000
Executive directors					
Ding Wuhao	–	2,109	5	–	2,114
Ding Huihuang	–	1,685	5	–	1,690
Ding Huirong	–	1,685	5	–	1,690
Wang Jiabi	–	932	5	–	937
Independent non-executive directors					
Mak Kin Kwong	476	–	–	–	476
Sun Xianhong	320	–	–	–	320
Liu Jianxing	210	–	–	–	210
	1,006	6,411	20	–	7,437

Note:

Mr. Mak Kin Kwong resigned as independent non-executive director on 2 August 2011.

(Expressed in thousands of Renminbi unless otherwise indicated)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

During the six months ended 31 December 2011, none of the directors is the five individuals with the highest emoluments. During the year ended 30 June 2011, of the five individuals with highest emoluments, three are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the five (year ended 30 June 2011: two) individuals are as follows:

	Six months ended 31 December 2011 RMB'000	Year ended 30 June 2011 RMB'000
Salaries and other emoluments	**5,176**	4,201
Retirement scheme contributions	**221**	168
	5,397	4,369

The emoluments of the five (year ended 30 June 2011: two) individuals with the highest emoluments are within the following bands:

	Six months ended 31 December 2011 Number of individuals	Year ended 30 June 2011 Number of Individuals
HK$1,000,001 to HK$1,500,000	**5**	–
HK$2,500,001 to HK$3,000,000	**–**	2

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB9,162,000 (year ended 30 June 2011: RMB5,190,000) which has been dealt with in the financial statements of the Company.

(Expressed in thousands of Renminbi unless otherwise indicated)

11 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 '000	Year ended 30 June 2011 '000
Issued ordinary shares at the beginning of the period/year	**2,067,602**	2,065,412
Effect of shares repurchased (note 26(c)(i))	–	(309)
Effect of share options exercised (note 26(c)(ii))	–	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 (note 24(a)), calculated as follows:

Weighted average number of ordinary shares (diluted)

	Six months ended 31 December 2011 '000	Year ended 30 June 2011 '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 (note 24)	**3,706**	8,862
Weighted average number of ordinary shares (diluted) at 31 December/30 June	**2,071,308**	2,076,375

(Expressed in thousands of Renminbi unless otherwise indicated)

12 FIXED ASSETS

The Group

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment and other fixed assets RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:								
At 1 July 2010	325,927	99,297	66,097	7,755	110,388	609,464	88,478	697,942
Exchange adjustments	–	–	(51)	–	–	(51)	–	(51)
Additions	–	50,751	22,742	6,926	251,969	332,388	–	332,388
Disposals	–	(106)	–	–	–	(106)	–	(106)
Transfer from construction in progress	300,090	5,800	12,101	–	(317,991)	–	–	–
At 30 June 2011	626,017	155,742	100,889	14,681	44,366	941,695	88,478	1,030,173
Accumulated depreciation and amortisation:								
At 1 July 2010	9,481	19,409	11,726	2,609	–	43,225	3,710	46,935
Exchange adjustments	–	–	(25)	–	–	(25)	–	(25)
Charge for the year	15,901	12,225	21,754	2,168	–	52,048	1,777	53,825
Written back on disposals	–	(56)	–	–	–	(56)	–	(56)
At 30 June 2011	25,382	31,578	33,455	4,777	–	95,192	5,487	100,679
Net book value:								
At 30 June 2011	600,635	124,164	67,434	9,904	44,366	846,503	82,991	929,494
Cost:								
At 1 July 2011	626,017	155,742	100,889	14,681	44,366	941,695	88,478	1,030,173
Exchange adjustments	–	–	(26)	–	–	(26)	–	(26)
Additions	–	27,723	13,425	5,109	36,060	82,317	18,037	100,354
Disposals	–	(290)	–	(9)	–	(299)	–	(299)
Transfer from construction in progress	22,837	–	–	–	(22,837)	–	–	–
At 31 December 2011	648,854	183,175	114,288	19,781	57,589	1,023,687	106,515	1,130,202
Accumulated depreciation and amortisation:								
At 1 July 2011	25,382	31,578	33,455	4,777	–	95,192	5,487	100,679
Exchange adjustments	–	–	(20)	–	–	(20)	–	(20)
Charge for the period	14,224	7,440	13,173	1,560	–	36,397	1,102	37,499
Written back on disposals	–	(145)	–	–	–	(145)	–	(145)
At 31 December 2011	39,606	38,873	46,608	6,337	–	131,424	6,589	138,013
Net book value:								
At 31 December 2011	609,248	144,302	67,680	13,444	57,589	892,263	99,926	992,189

As at 30 June 2011, fixed assets with aggregate net book value of RMB32,064,000 was pledged as security for certain banking facilities of the Group totalling RMB133,000,000. The pledged was released during six months ended 31 December 2011.

The Group's buildings and interests in leasehold land held for own use under operating leases are located in the PRC under medium-term leases. The Group is granted land use rights for a period of 50 years.

At 31 December 2011, the Group was applying for certificates of ownership for buildings with net book value of RMB118,238,000 (30 June 2011: RMB272,006,000) from the relevant PRC government authorities.

(Expressed in thousands of Renminbi unless otherwise indicated)

13 INVESTMENT IN SUBSIDIARY

	The Company	
	At 31 December 2011 RMB'000	At 30 June 2011 RMB'000
Unlisted share, at cost	**1**	1

Details of the Company's subsidiaries are set out as below. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of establishment/ incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activity
Sanliuyidu Holdings Company Limited	BVI	US$100	100%	100%	–	Investment holding
361 Enterprise Company Limited	Hong Kong	HK$1	100%	–	100%	Investment holding
361 Investment Company Limited	Hong Kong	HK$1	100%	–	100%	Investment holding
361 Degrees (HK) Investment Limited	Hong Kong	HK$1	100%	–	100%	Investment holding
Sanliuyidu (Fujian) Sports Goods Co., Ltd 三六一度(福建)體育用品有限公司 (Notes (i) and (iii))	PRC	HK$280,000,000	100%	–	100%	Manufacture and trading of sporting goods
Sanliuyidu (China) Co., Ltd 三六一度(中國)有限公司 (Notes (i) and (iii))	PRC	HK$560,000,000	100%	–	100%	Manufacture and trading of sporting goods
Sanliuyidu Xiamen Industry & Trade Co., Limited 三六一度(廈門)工貿有限公司 (Notes (ii) and (iii))	PRC	RMB100,000,000	100%	–	100%	Trading of sporting goods
Sanliuyidu (Fujian) Shoes and Plastics Technology Co., Ltd 三六一度(福建)鞋塑科技有限公司 (Notes (i) and (iii))	PRC	HK$86,000,000	51%	–	51%	Manufacture and trading of shoes soles
Sanliuyidu (Guangdong) Industry & Trade Co., Limited 三六一度(廣東)工貿有限公司 (Notes (i) and (iii))	PRC	HK$10,000,000	100%	–	100%	Inactive

Notes:

(i) These entities are wholly foreign owned enterprises established in the PRC.

(ii) The entity is limited liability company established in the PRC.

(iii) The English translation of the company names is for reference only. The official names of these companies are in Chinese.

(Expressed in thousands of Renminbi unless otherwise indicated)

14 OTHER NON-CURRENT FINANCIAL ASSET

	The Group	
	At 31 December 2011 RMB'000	At 30 June 2011 RMB'000
Unlisted available-for-sale equity securities	**17,550**	–

15 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	The Group	
	At 31 December 2011 RMB'000	At 30 June 2011 RMB'000
Raw materials	**31,352**	25,190
Work in progress	**60,064**	53,337
Finished goods	**359,848**	118,728
	451,264	197,255

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

	The Group	
	Six months ended 31 December 2011 RMB'000	Year ended 30 June 2011 RMB'000
Carrying amount of inventories sold	**1,330,103**	3,150,298

(Expressed in thousands of Renminbi unless otherwise indicated)

16 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	At 31 December 2011 RMB'000	At 30 June 2011 RMB'000	**At 31 December 2011 RMB'000**	At 30 June 2011 RMB'000
Trade debtors				
Trade debtors	**2,149,528**	1,598,078	**–**	–
Less: Allowance for doubtful debts (note 16(b))	**(39,520)**	(39,520)	**–**	–
	2,110,008	1,558,558	**–**	–
Bills receivable	**244,800**	23,100	**–**	–
Deposits, prepayments and other receivables				
Deposits	**1,790**	1,428	**–**	–
Prepayments	**861,802**	442,857	**579**	–
Other receivables	**72,979**	27,454	**1,324**	817
	936,571	471,739	**1,903**	817
Less: Non-current portion of deposits and prepayments	**(141,887)**	(166,423)	**–**	–
	794,684	305,316	**1,903**	817

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.

(Expressed in thousands of Renminbi unless otherwise indicated)

16 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:

	The Group	
	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

Trade debtors and bills receivable are due within 30-180 days from the date of billing. Further details on the Group's credit policy are set out in note 27(a).

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 2(h)(i)). There are no movements in the allowance for doubtful debts during the six months 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.

(Expressed in thousands of Renminbi unless otherwise indicated)

16 TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

	The Group	
	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.

17 PLEDGED BANK DEPOSITS

The Group

Bank deposits are pledged to banks as security for certain banking facilities (see note 20).

18 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	At 31 December 2011 RMB'000	At 30 June 2011 RMB'000	**At 31 December 2011 RMB'000**	At 30 June 2011 RMB'000
Deposits with banks	**103,761**	777,146	**46,176**	134,746
Cash at bank and in hand	**356,001**	1,452,221	**554**	563
	459,762	2,229,367	**46,730**	135,309

At 31 December 2011, the balances that were placed with banks or on hand in the PRC and included in the cash and cash equivalents amounted to RMB436,938,000 (30 June 2011: RMB1,856,842,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

(Expressed in thousands of Renminbi unless otherwise indicated)

19 TRADE AND OTHER PAYABLES

	The Group		The Company	
	At 31 December 2011 RMB'000	At 30 June 2011 RMB'000	**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	**8,560**	9,004
	1,023,983	1,174,090	**8,560**	9,004

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 as disclosed in note 17.

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:

	The Group	
	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

(Expressed in thousands of Renminbi unless otherwise indicated)

20 BANK LOANS

As at 31 December 2011, the bank loans were unsecured and repayable within one year or on demand.

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

	The Group	
	At 31 December 2011 RMB'000	At 30 June 2011 RMB'000
Facility amount	**1,395,000**	2,453,000
Utilisation at the end of reporting period		
– Bills payable	**474,810**	214,082
– Bank loans	**28,781**	13,216
	503,591	227,298

At 30 June 2011, certain banking facilities of the Group were secured by mortgages over the interests in leasehold land held for own use under operating leases with a carrying value of RMB32,064,000. The pledge was released during the six months ended 31 December 2011.

Certain of the Group's banking facilities are subject to the fulfilment of covenants as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants.

As at 31 December 2011, covenants in relation to the current ratio and debt to asset ratio of a subsidiary in respect of bank loans of RMB10,000,000 were breached. Subsequent to the balance sheet date, the credit bank granted the subsidiary a waiver from complying with the aforesaid financial covenants on 29 February 2012.

21 OTHER LOAN

The Group

As at 31 December 2011, other loan represents a loan from a third party and is unsecured, interest-bearing at 7.54% per annum and repayable on 28 December 2012.

22 AMOUNTS DUE FROM/TO SUBSIDIARIES

The Company

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

23 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the PRC municipal government authority in the Fujian Province whereby the Group is required to make contributions to the Scheme at rates which ranged from 14% to 18% of the eligible employees' relevant salaries. The local government authority is responsible for the entire pension obligations payable to retired employees.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

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

24 EQUITY-SETTLED SHARE-BASED TRANSACTIONS

(a) Pre-IPO share option scheme

Pursuant to the shareholders' written resolution passed on 10 June 2009, the Company adopted a Pre-IPO share option scheme ("the Pre-IPO Option") whereby 91 employees of the Group were given the rights to subscribe for shares of the Company. The subscription price per share pursuant to the Pre-IPO Option is HK$2.89, being 20% discount to the global offering price.

Each option granted under the Pre-IPO Option has a vesting period of three years commencing from the date of listing of the Company on the Hong Kong Stock Exchange and the options are exercisable for a period of five years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

(Expressed in thousands of Renminbi unless otherwise indicated)

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

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

(i) The terms and conditions of the grants are as follows:

	Number of instruments '000	Vesting conditions	Contractual life of options
Options granted to employees:			
– on 10 June 2009	6,114	One year from the date of listing of the Company's shares	5.1 years
– on 10 June 2009	6,114	Two years from the date of listing of the Company's shares	5.1 years
– on 10 June 2009	8,152	Three years from the date of listing of the Company's shares	5.1 years
Total share options granted	20,380		

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

	Six months ended 31 December 2011		Year ended 30 June 2011	
	Exercise price	**Number of options '000**	Exercise price	Number of options '000
Outstanding at the beginning of the period/year	**HK$2.89**	**17,290**	HK$2.89	20,380
Exercised during the period/year	**HK$2.89**	**–**	HK$2.89	(3,090)
Outstanding at the end of the period/year	**HK$2.89**	**17,290**	HK$2.89	17,290
Exercisable at the end of the period/year		**9,138**		9,138

The weighted average share price at the date of exercise for share options exercised for the year ended 30 June 2011 was HK$7.24.

The share options outstanding at 31 December 2011 had an exercise price of HK$2.89 (30 June 2011: HK$2.89) and a weighted average remaining contractual life of 2.5 years (30 June 2011: 3 years).

(Expressed in thousands of Renminbi unless otherwise indicated)

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

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

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

	Options granted on 10 June 2009
Fair value of share options and assumptions	
Fair value at measurement date	HK$0.86
Share price	HK$2.14
Exercise price	HK$2.89
Expected volatility (expressed as weighted average volatility used in the modelling under binominal lattice model)	50.97%
Expected option life (expressed as weighted average life used in the modelling under binominal lattice model)	5 years
Expected dividends	2.80%
Risk-free interest rate	2.03%

(b) Share option scheme

The Company has also adopted a share option scheme ("the Share Option Scheme") pursuant to the shareholders' written resolution passed on 10 June 2009.

The maximum number of shares that may be granted under the Share Option Scheme and other share options schemes shall not exceed 10% of the number of issued shares of the Company from time to time. No option may be granted to any person such that the total number of shares of the Company issued and to be issued upon exercise of all options granted and to be granted to that person in any 12-month period exceeds 1% of the number of shares of the Company in issue from time to time.

An option under the Share Option Scheme may be exercised in accordance with the terms of the scheme at any time during a period as determined by the Board of Directors of the Company, which must not be more than 10 years from the date of the grant.

No share option has been granted under the Share Option Scheme during the six months ended 31 December 2011 (year ended 30 June 2011: Nil).

(Expressed in thousands of Renminbi unless otherwise indicated)

25 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the consolidated balance sheet represents:

	The Group	
	At 31 December 2011 RMB'000	At 30 June 2011 RMB'000
Provision for PRC income tax for the period/year	**93,807**	241,059
Provisional income tax paid	**(78,024)**	(128,386)
	15,783	112,673
Balance of income tax provision relating to prior years	**56,398**	25,112
	72,181	137,785

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax assets and liabilities recognised in the consolidated balance sheet and the movements during the period/year are as follows:

	Allowance for doubtful debts RMB'000	Withholding tax on dividends RMB'000	Expenses to be deductible on paid basis RMB'000	Total RMB'000
Deferred tax arising from:				
At 1 July 2010	9,880	(19,384)	25,036	15,532
Charged to profit or loss	–	–	(7,394)	(7,394)
At 30 June 2011	9,880	(19,384)	17,642	8,138
At 1 July 2011	9,880	(19,384)	17,642	8,138
Credited to profit or loss	–	–	15,591	15,591
At 31 December 2011	9,880	(19,384)	33,233	23,729

(Expressed in thousands of Renminbi unless otherwise indicated)

25 INCOME TAX IN THE BALANCE SHEET *(Continued)*

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

Reconciliation to the consolidated balance sheet

	The Group	
	At 31 December 2011 RMB'000	At 30 June 2011 RMB'000
Net deferred tax assets recognised on the consolidated balance sheet	**29,546**	13,480
Net deferred tax liabilities recognised on the consolidated balance sheet	**(5,817)**	(5,342)
	23,729	8,138

(c) Deferred tax liabilities not recognised

At 31 December 2011, the Group has not recognised deferred tax liabilities of RMB111,066,000 (30 June 2011: RMB93,245,000) in respect of temporary differences relating to the undistributed profits of subsidiaries amounting to RMB2,221,317,000 (30 June 2011: RMB1,864,890,000) that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

(Expressed in thousands of Renminbi unless otherwise indicated)

26 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the period/year are set out below:

The Company

	Note	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 July 2010		182,109	1,409,129	8,943	(22,838)	(12,971)	1,564,372
Changes in equity for the year ended 30 June 2011:							
Loss for the year		–	–	–	–	(5,190)	(5,190)
Other comprehensive income		–	–	–	(57,139)	–	(57,139)
Total comprehensive income for the year		–	–	–	(57,139)	(5,190)	(62,329)
Purchase of own shares	26(c)(i)						
– par value paid		(76)	–	–	–	–	(76)
– premium paid		–	(3,738)	–	–	–	(3,738)
Shares issued under share option scheme	26(c)(ii)	265	9,582	(2,179)	–	–	7,668
Equity-settled share-based transactions		–	–	4,174	–	–	4,174
Dividends declared and paid during the year	26(b)	–	(332,722)	–	–	–	(332,722)
Balance at 30 June 2011		182,298	1,082,251	10,938	(79,977)	(18,161)	1,177,349
Balance at 1 July 2011		182,298	1,082,251	10,938	(79,977)	(18,161)	1,177,349
Changes in equity for the six months ended 31 December 2011:							
Loss for the period		–	–	–	–	(9,162)	(9,162)
Other comprehensive income		–	–	–	(20,711)	–	(20,711)
Total comprehensive income for the period		–	–	–	(20,711)	(9,162)	(29,873)
Equity-settled share-based transactions		–	–	964	–	–	964
Dividends declared and paid during the period	26(b)	–	(332,884)	–	–	–	(332,884)
Balance at 31 December 2011		182,298	749,367	11,902	(100,688)	(27,323)	815,556

(Expressed in thousands of Renminbi unless otherwise indicated)

26 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) 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

(Expressed in thousands of Renminbi unless otherwise indicated)

26 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital

	At 31 December 2011		At 30 June 2011	
	Number of shares '000	**Amount HK$'000**	Number of shares '000	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	**10,000,000**	**1,000,000**	10,000,000	1,000,000

	Number of shares	Amount	
	'000	HK$'000	RMB'000
Ordinary shares, issued and fully paid:			
At 1 July 2010	2,065,412	206,541	182,109
Shares repurchased (note (i))	(900)	(90)	(76)
Shares issued under share option scheme (note (ii))	3,090	309	265
At 30 June 2011, 1 July 2011 and 31 December 2011	2,067,602	206,760	182,298

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

Notes:

(i) Share repurchased

During the year ended 30 June 2011, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased	Highest price paid per share HK$	Lowest price paid per share HK$	Aggregate price paid HK$'000
January 2011	200,000	5.31	5.31	1,063
January 2011	200,000	5.10	5.10	1,020
March 2011	265,000	4.88	4.83	1,291
March 2011	235,000	4.95	4.82	1,148
Total	900,000			4,522

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium paid on the repurchase of the shares of HK$4,432,000 was recorded in share premium.

(Expressed in thousands of Renminbi unless otherwise indicated)

26 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital *(Continued)*

Notes: *(Continued)*

(ii) **Shares issued under share option scheme**

During the year ended 30 June 2011, options were exercised to subscribe for 3,090,000 ordinary shares in the Company at a consideration of RMB7,668,000 of which RMB265,000 was credited to share capital and the balance of RMB7,403,000 was credited to the share premium account. RMB2,179,000 has been transferred from the share option reserve to the share premium account in accordance with policy set out in note 2(n)(ii).

(d) At 31 December 2011, the outstanding options of the Company were:

			Number of options outstanding	
Date of options granted	Exercise period	Exercise price	31 December 2011 '000	30 June 2011 '000
10 June 2009	30 June 2010 to 30 June 2014	HK$ 2.89	**3,024**	3,024
10 June 2009	30 June 2011 to 30 June 2014	HK$ 2.89	**6,114**	6,114
10 June 2009	30 June 2012 to 30 June 2014	HK$ 2.89	**8,152**	8,152
			17,290	17,290

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 24 to the financial statements.

(e) Nature and purpose of reserves

(i) Share premium

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

(ii) Capital reserve

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

26 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

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

(iii) Other reserve

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

(iv) Statutory reserve

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

(v) Share option reserve

The share option reserve comprises the fair value of the actual or estimated number of unexercised share options granted under the Pre-IPO share option scheme recognised in accordance with the accounting policy accepted for share-based payments in note 2(n)(ii).

(vi) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from translation of the financial statements of entities with functional currency other than RMB. The reserve is dealt with in accordance with the accounting policy set out in note 2(r).

26 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(f) Distributability of reserves

At 31 December 2011, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB621,356,000 (30 June 2011: RMB984,113,000). After the balance sheet date the directors proposed a final dividend of RMB7.0 cents (equivalent to HK$8.6 cents) (30 June 2011: RMB16.1 cents (equivalent to HK$19.4 cents)) per ordinary share, amounting to RMB144,732,000 (30 June 2011: RMB332,884,000). This dividend has not recognised as a liability at the balance sheet date.

(g) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital with reference to its debt position. The Group's strategy is to maintain the equity and debt in a balanced position and ensure there is adequate working capital to service its debt obligation. The Group's gearing ratio, being the Group's total liabilities over its total assets, as at 31 December 2011 was 23% (30 June 2011: 24%).

Except for the banking facilities which require the fulfilment of covenants relating to certain of the Group's financial ratios as disclosed in note 20 to the financial statements, neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

27 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate, commodity price and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

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

The Group's credit risk is primarily attributable to trade and other receivables. 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.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the balance sheet date, the Group has a certain concentration of credit risk as 16% (30 June 2011: 20%) of the total trade debtors and bills receivable were due from the Group's largest customer, and 61% (30 June 2011: 57%) of the total trade debtors and bills receivable were due from the Group's five largest customers as at 31 December 2011.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 16.

(ii) Deposits with banks

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

(Expressed in thousands of Renminbi unless otherwise indicated)

27 FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk

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

The following tables show the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cashflows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

	At 31 December 2011			At 30 June 2011		
	Contractual undiscounted cash outflow			Contractual undiscounted cash outflow		
	Within 1 year or on demand RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000	Within 1 year or on demand RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Bank loans	30,091	30,091	28,781	13,421	13,421	13,216
Other loan	161,225	161,225	150,000	–	–	–
Trade and other payables	1,023,536	1,023,536	1,023,536	1,171,041	1,171,041	1,171,041
Total	1,214,852	1,214,852	1,202,317	1,184,462	1,184,462	1,184,257

The Company

	At 31 December 2011			At 30 June 2011		
	Contractual undiscounted cash outflow			Contractual undiscounted cash outflow		
	Within 1 year or on demand RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000	Within 1 year or on demand RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Other payables	8,560	8,560	8,560	9,004	9,004	9,004
Amounts due to subsidiaries	22,967	22,967	22,967	19,677	19,677	19,677
Total	31,527	31,527	31,527	28,681	28,681	28,681

(Expressed in thousands of Renminbi unless otherwise indicated)

27 FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans, other loan, pledged bank deposits, deposits with banks and cash and cash equivalents. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

(i) Interest rate profile

The following table details the interest rate profile, as monitored by the management, of the Group's and the Company's interest-generating financial assets and interest-bearing financial liabilities at the balance sheet date:

The Group

	At 31 December 2011		At 30 June 2011	
	Effective interest rate %	Amount RMB'000	Effective interest rate %	Amount RMB'000
Fixed rate (deposits)/borrowings				
Deposits with banks	1.12 – 3.50	(211,902)	1.12 – 3.53	(135,370)
Cash and cash equivalents	1.98 – 3.53	(103,761)	0.71 – 2.96	(777,146)
Bank loans	5.30 – 7.87	28,781	5.02 – 5.76	13,216
Other loan	7.54	150,000	–	–
		(136,882)		(899,300)
Variable rate deposits				
Pledged bank deposits	0.1 – 3.3	(127,685)	0.5 – 3.05	(50,840)
Cash and cash equivalents	0.001 – 1.31	(349,513)	0.001 – 0.5	(1,448,408)
		(477,198)		(1,499,248)
Total net deposits		(614,080)		(2,398,548)

The Company

	At 31 December 2011		At 30 June 2011	
	Effective interest rate %	Amount RMB'000	Effective interest rate %	Amount RMB'000
Fixed rate deposits				
Deposits with banks	–	–	3.53	(47,327)
Cash and cash equivalents	3.53	(46,176)	0.71 – 2.96	(134,746)
		(46,176)		(182,073)
Variable rate deposits				
Cash and cash equivalents	0.001 – 0.5	(554)	0.001	(563)
Total net deposits		(46,730)		(182,636)

27 FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increased/decreased the Group's profit after tax and retained profits by approximately RMB4,772,000 (30 June 2011: RMB14,992,000). Other components of consolidated equity would not be affected by the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for the year ended 30 June 2011.

(d) Commodity price risk

The major raw materials used in the production of the Group's products include polymers and plastics. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(e) Currency risk

The Group is exposed to currency risk primarily through bank deposits that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily Hong Kong dollars.

(Expressed in thousands of Renminbi unless otherwise indicated)

27 FINANCIAL INSTRUMENTS *(Continued)*

(e) Currency risk *(Continued)*

(i) Exposure to currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the period/year end date.

The Group

	At 31 December 2011 RMB'000	At 30 June 2011 RMB'000
Cash and cash equivalents	**3,237**	4,559

The Company

	At 31 December 2011 RMB'000	At 30 June 2011 RMB'000
Amounts due to subsidiaries	**(22,967)**	(19,677)

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax and retained profits in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

	At 31 December 2011		At 30 June 2011	
	Increase/ decrease in foreign exchange rates	**Effect on profit after tax and retained profits** RMB'000	Increase/ decrease in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
Hong Kong dollars	5%	126	5%	175
	(5)%	(126)	(5)%	(175)

(Expressed in thousands of Renminbi unless otherwise indicated)

27 FINANCIAL INSTRUMENTS *(Continued)*

(e) Currency risk *(Continued)*

(ii) Sensitivity analysis (Continued)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the year until the next annual balance sheet date. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit after tax and retained profits measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for the year ended 30 June 2011.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2011 and 30 June 2011.

(g) Business risk

The Group's primary business is the design, manufacturing and distribution of branded sports footwear, apparel and related accessories. The Group's financial results are influenced by the rapidity with which designs are copied by competitors and reproduced at much lower prices, as well as by the Group's ability to continue to create new designs that find favour in the market place, maintain a larger network of distributors, manufacture sufficient quantities to meet fashionable sales, and dispose of excess inventories without excessive losses. Based on these factors, the Group may experience significant fluctuations in its future financial results.

28 COMMITMENTS

(a) Contractual commitments outstanding at 31 December 2011 not provided for in the financial statements were as follows:

	At 31 December 2011 RMB'000	At 30 June 2011 RMB'000
Advertising and marketing expenses	**463,147**	396,368

(Expressed in thousands of Renminbi unless otherwise indicated)

28 COMMITMENTS *(Continued)*

(b) Capital commitments outstanding at 31 December 2011 not provided for in the financial statements were as follows:

	At 31 December 2011 RMB'000	At 30 June 2011 RMB'000
Contracted for	**28,971**	20,839

(c) At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases payable as follows:

	At 31 December 2011 RMB'000	At 30 June 2011 RMB'000
Within 1 year	**3,825**	4,154
After 1 year but within 5 years	**5,329**	6,230
	9,154	10,384

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

29 MATERIAL RELATED PARTY TRANSACTIONS

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

Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	Six months ended 31 December 2011 RMB'000	Year ended 30 June 2011 RMB'000
Short-term employee benefits	**17,524**	30,315
Equity-settled share-based payment	**448**	2,345
Post-employment benefits	**663**	475
	18,635	33,135

Total remuneration is disclosed in "staff costs" (see note 6(b)).

(Expressed in thousands of Renminbi unless otherwise indicated)

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the six months ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKAS 27, *Separate financial statements* (2011)	1 January 2013
HKAS 28, *Investments in associates and joint ventures*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013
HKFRS 9, *Financial instruments*	1 January 2015

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

FIVE-YEAR FINANCIAL SUMMARY

	For the six months ended 31 December	For the year ended 30 June			
	2011	2011	2010	2009	2008
Profitability data (RMB'000)					
Turnover	**2,382,801**	5,461,240	4,330,804	3,446,588	1,317,069
Gross profit	**1,052,698**	2,310,942	1,706,325	1,193,803	348,028
Operating profit	**439,988**	1,441,236	1,051,852	740,200	202,543
Profit attributable to equity shareholders	**359,692**	1,196,133	916,814	632,111	178,973
Earnings per share					
– basic (RMB cents)	**17.4**	57.9	44.5	42.1	11.9
– diluted (RMB cents)	**17.4**	57.6	44.3	42.1	N/A
Profitability ratios (%)					
Gross profit margin	**44.2**	42.3	39.4	34.6	26.4
Operating profit margin	**18.5**	26.4	24.3	21.5	15.4
Net profit margin	**15.2**	21.9	21.2	18.3	13.6
Effective tax rate	**17.8**	17.5	12.7	12.7	9.2
Return on shareholders' equity (Note 1)	**8.5**	31.3	31.0	44.7	80.5
Operating ratios (as a percentage of turnover) (%)					
Advertising and promotion expenses	**16.4**	9.5	8.9	8.2	6.4
Staff costs	**9.0**	6.8	3.6	3.1	5.4
Research and development	**1.5**	1.5	0.9	0.4	0.3

Notes:

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

Five-Year Financial Summary

	As at 31 December	As at 30 June			
	2011	2011	2010	2009	2008
Assets and liabilities data (RMB'000)					
Non-current assets	**1,181,172**	1,109,397	724,574	333,172	112,080
Current assets	**4,400,105**	4,499,806	3,839,443	3,745,678	1,040,235
Current liabilities	**1,274,945**	1,325,091	1,129,375	1,559,148	831,145
Non-current liabilities	**5,817**	5,342	3,125	9,504	3,584
Equity attributable to equity shareholders	**4,256,133**	4,235,925	3,396,423	2,510,198	317,586
Non-controlling interests	**44,382**	42,845	35,094	–	–
Asset and Working Capital data					
Current asset ratios	**3.5**	3.4	3.4	2.4	1.3
Gearing ratios (%) (Note 2)	**3.2**	0.2	–	6.5	13.0
Net asset value per share (RMB) (Note 3)	**2.1**	2.1	1.7	1.3	N/A
Inventory turnover days (days) (Note 4)	**45**	19	15	21	47
Trade and bills receivable turnover days (days) (Note 5)	**152**	83	97	103	86
Trade and bills payable turnover days (days) (Note 6)	**111**	82	111	118	111
Working capital turnover days (days)	**86**	20	1	6	22

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 dividend by weighted average number of ordinary 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 184/365/366 days.

5) Trade and bills receivable turnover days is equal to the average opening and closing trade and bills receivables after allowance of doubtful debts divided by turnover multiplied by 184/365/366 days.

6) Trade and bills payable turnover days is equal to the average opening and closing trade and bills payables divided by cost of sales and multiplied by 184/365/366 days.

361 DEGREES INTERNATIONAL LIMITED
INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY

Stock Code : 1361

Design and Production: A Plus Financial Press Limited