三六一度國際有限公司

361 DEGREES INTERNATIONAL LIMITED

STOCK CODE 股份代號: 1361

interim report 2012
中期報告

China's First Male Gold Medalist
in swimming of Olympics Games
中国游泳史上首位男子奧運冠軍泳手

Gold Medalist
of 400m and 1,500m Freestyle
400米及1,500米自游泳雙金王

World Record
Holder in the 1,500m Freestyle
1,500米自由泳破世界記錄

contents

INTERIM REPORT 2012

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, CPA*

AUTHORISED REPRESENTATIVES

Ding Wuhao（丁伍號）
Choi Mun Duen（蔡敏端）

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

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

FACTORIES IN THE PRC

Wuli Industrial Park
Shemalu, Jinjiang City
Fujian Province 362200
the PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

STOCK CODE

01361

CAYMAN ISLANDS 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
Industrial and Commercial Bank of China
Agricultural Bank of China

COMPANY WEBSITE

www.361sport.com

Financial Summary

	For the six months ended 30 June	
	2012	2011
Profitability data (RMB'000)		
Turnover	**2,869,091**	3,185,877
Gross profit	**1,224,027**	1,310,112
Operating profit	**643,837**	945,036
Profit attributable to equity shareholders	**595,588**	773,358
Earnings per share		
– basic (RMB cents)	**28.8**	37.4
– diluted (RMB cents)	**28.8**	37.3
Profitability ratios (%)		
Gross profit margin	**42.7**	41.1
Operating profit margin	**22.4**	29.7
Margin of profit attributable to equity shareholders	**20.8**	24.3
Effective tax rate (Note 2)	**16.2**	18.0
Return on shareholders equity (Note 1)	**13.3**	19.7
Operating ratios (as percentage of turnover) (%)		
Advertising and marketing expenses	**13.5**	6.8
Administrative staff costs	**1.2**	1.2
Research and development	**1.2**	1.5

Note:

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

2) The amount of the profit before taxation used for calculating the effective tax rate was RMB616 million after taking out the net change of derivative embedded to convertible bonds.

	As at 30 June 2012	As at 31 December 2011
Assets and liabilities data (RMB'000)		
Non-current assets	**1,177,333**	**1,181,172**
Current assets	**5,996,661**	**4,400,105**
Current liabilities	**1,655,809**	**1,274,945**
Non-current liabilities	**760,680**	**5,817**
Equity attributable to equity shareholders	**4,711,214**	**4,256,133**
Non-controlling interest	**46,291**	**44,382**
Asset and Working Capital data		
Current asset ratios	**3.6**	**3.5**
Gearing ratios (%) (Note 3)	**10.8**	**3.2**
Net asset value per share (RMB) (Note 4)	**2.3**	**2.1**
Inventory turnover days (days) (Note 5)	**45**	**40**
Trade and bills receivables turnover days (days) (Note 6)	**144**	**119**
Trade and bills payables turnover days (days) (Note 7)	**104**	**89**
Working capital turnover days (days)	**85**	**70**

Notes:

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

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

5) Inventory turnover days is equal to the average opening and closing inventory divided by costs of sales and multiplied by 182 days (for the six months ended 30 June 2012) and 365 days (for the year ended 31 December 2011).

6) Trade and bills receivables turnover days is equal to the average opening and closing trade and bills receivables after allowance of doubtful debts divided by turnover and multiplied by 182 days (for the six months ended 30 June 2012) and 365 days (for the year ended 31 December 2011).

7) Trade and bills payables turnover days is equal to the average opening and closing trade and bills payables divided by cost of sales and multiplied by 182 days (for the six months ended 30 June 2012) and 365 days (for the year ended 31 December 2011).

Management Discussion and Analysis

INDUSTRY REVIEW

The Euro-zone sovereign debt crisis continued to cast a long shadow over global economies, dimming hopes for global recovery in the immediate future. Meanwhile, worries of a slowing Chinese economy were mounting as China's second quarter GDP recorded a 7.6% growth, the lowest in three years. The only bright spot was easing inflation, which helped to alleviate rising production cost. The sportswear landscape remained challenging as high sector inventory level and discounting pressure continued to weigh on the sector's performance amidst intensified competition in the first half of 2012.

The operating environment of Tier 1 and Tier 2 cities in China remained tough with a number of international brands vying for the lucrative China market. To stay competitive, the Group continued to step up its brand-building efforts and innovative R&D to consolidate its market position in regional markets. The Group also put in place measures to improve store efficiency and control inventory levels.

BUSINESS REVIEW

Sale and distribution network

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

During the six months ended June 2012, the number of exclusive distributors was 31. The distributors themselves oversaw 3,375 dealers who in turn owned and managed a total of 8,050 retail outlets. The number of outlets as at 30 June 2012 represented a net increase of 185 from 7,865 six months ago, with about 71% of the stores located in Tier 3 and smaller cities in northern and western China where the Group had established brand influence.

The Group also strengthened our marketing and promotion efforts with our distributors during the first half of the year, with an aim to raise our brand awareness and enhance our presence in the different locations. By rejuvenating existing stores, the Group boosted same store productivity and upgraded the overall image of our stores. Among the total number of retail point of sales, 5,595 were standalone stores as at the end of June 2012, accounting for 70% of the total adults retail sales outlets. The average size of a typical store increased to approximately 101.0 sq.m.

As at 30 June 2012, there were four *361°* Towns, operated by authorised retailers, in Zhengzhou, Jinan, Wuhan and Harbin. These megastores, averaging 1,100 sq.m. in size, are designed to bolster the brand image of 361 Degrees. They complemented the Group's wide distribution network by both strengthening brand-building and unifying brand image.

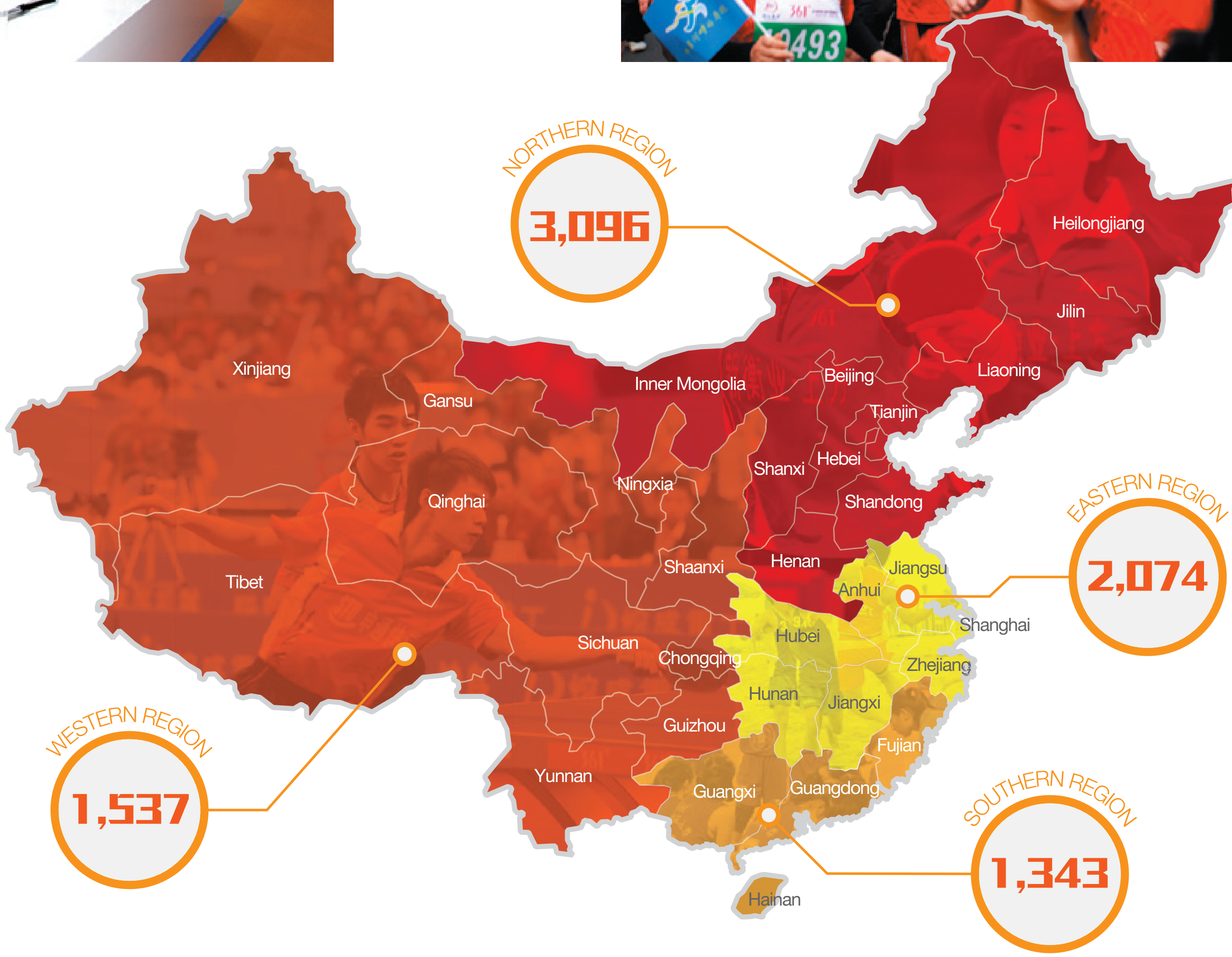
In view of global economic uncertainties, the management of the Group adopted a prudent business development strategy, and will not set a specific target for opening new stores. This will also allow more flexibility for the Group in response to market changes, so that it can take advantage of opportunities as they arise in the market.

361° Kids

The Group's *361° Kids* line continued to see encouraging development for the six months ended 30 June 2012. Thanks to the increased brand awareness and the presence of *361° Kids*, the segment's revenue reached RMB332.9 million, up by 191.3% compared with the corresponding period last year, with improved profitability across different cities. The Group added 282 *361° Kids* stores in the first half of the year, bringing the total number of *361° Kids* outlets to 1,439 as at 30 June 2012. This includes 700 standalone stores, 507 shops in shopping malls and 232 counters in the larger *361°* franchised stores.

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. The plan to open 300 new *361° Kids* stores in 2012 remained unchanged.

We have the franchise rights to design, produce and sell Batman and Spiderman sportswear for children, following the deals with Warner Bros. Consumer Products Inc. and Marvel Characters Inc. The popularity of the Hollywood movie characters underpins sales of our kidswear in 2012, as evidenced in the 2012 Autumn/Winter trade fair for kidswear. These products will be delivered in the second half of 2012.


NORTHERN REGION
3,096
EASTERN REGION
2,074
WESTERN REGION
1,537
SOUTHERN REGION
1,343
Heilongjiang
Jilin
Liaoning
Xinjiang
Gansu
Inner Mongolia
Beijing
Tianjin
Hebei
Shanxi
Ningxia
Qinghai
Shandong
Tibet
Shaanxi
Henan
Jiangsu
Anhui
Shanghai
Hubei
Sichuan
Chongqing
Zhejiang
Hunan
Jiangxi
Guizhou
Fujian
Yunnan
Guangxi
Guangdong
Hainan

ePOS coverage expanded to 5,089 outlets

The digital revolution has changed the way we live and work tremendously. The installation of electronic points-of-sale ("ePOS") linkage of our retail outlets is vital to our business success, particularly in a vast market like China. As at 30 June 2012, the e-POS linkage was extended to 5,089 outlets, achieving coverage of 63%, significantly contributing to the success of the Group in controlling inventory at satisfactory levels. Continuous efforts will be made to upgrade and perfect our system to cope with business development and expansion.

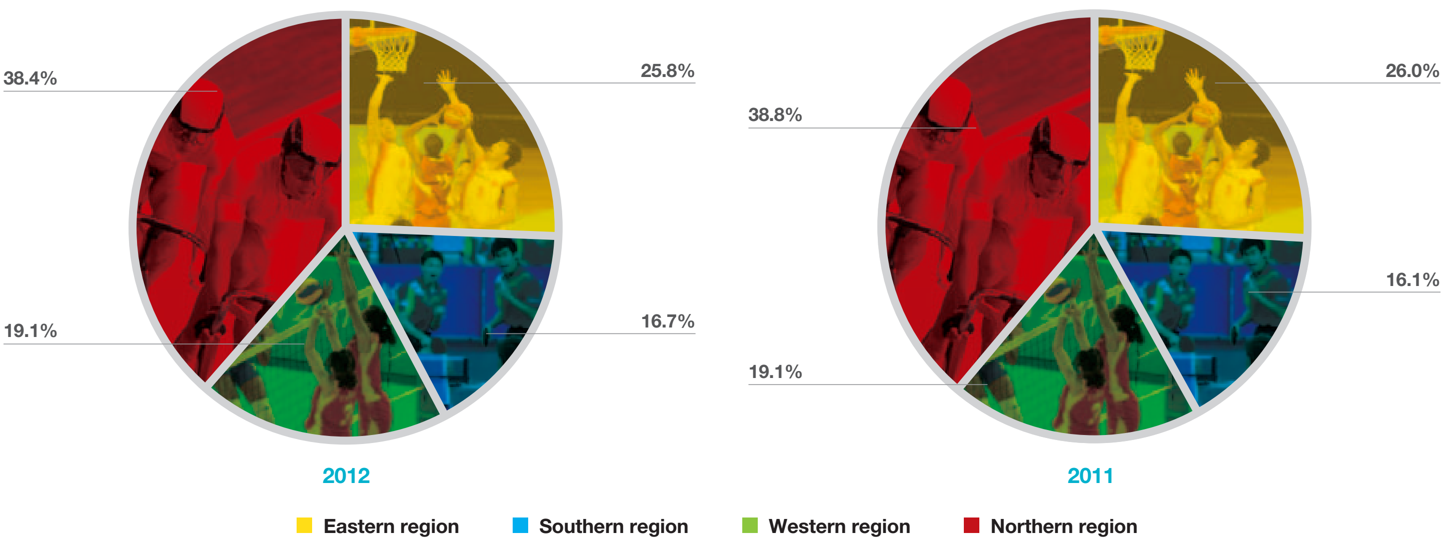
The ePOS network has played an instrumental role in the collection of sales and inventory statistics on a real time basis, allowing the Group to monitor more closely customer preferences and consumption pattern. Data collected in these areas will also help the Group devise measures to improve store efficiency and control inventory levels.

These measures, while supporting the Group's same-store sales growth at single-digit levels during the period, had been pivotal in keeping the Group's inventory-to-sales ratio at controllable level. The Group believes stock buy-backs is neither envisaged nor considered necessary.

The following table sets forth a breakdown of the Group's authorised retail outlets by regions during the period under review:

	As at 30 June 2012		As at 31 December 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]	**2,074**	**25.8**	2,046	26.0	1.4
Southern region[2]	**1,343**	**16.7**	1,265	16.1	6.2
Western region[3]	**1,537**	**19.1**	1,505	19.1	2.1
Northern region[4]	**3,096**	**38.4**	3,049	38.8	1.5
Total	**8,050**	**100**	7,865	100	2.4

Table of authorised retail outlets by regions



Notes:
(1) Eastern region includes Jiangsu, Zhejiang, Hubei, Anhui, Hunan, Shanghai and Jiangxi.
(2) Southern region includes Guangdong, Fujian, Guangxi and Hainan.
(3) Western region includes Sichuan, Yunnan, Guizhou, Shaanxi, Xinjiang, Gansu, Chongqing, Qinghai, Ningxia and Tibet.
(4) Northern region includes Shandong, Beijing, Liaoning, Heilongjiang, Hebei, Henan, Shanxi, Jilin, Tianjin and Inner Mongolia.

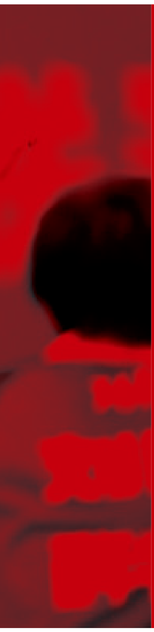
Brand promotion and marketing

361° is a mass market brand, targeting consumers aged between 18 and 30 who are passionate about sports. The Group's slogan, "多一度熱愛" which is translated literally as "One Extra Degree of Passion" embodies one of the Group's core values – "Excellence". This highlights our brand value and efforts for perfection and passion. We believe that our focus on quality and design would allow us to differentiate from our peers and stand out in the market place. In a market with steep competition, brand-building and efforts to foster brand loyalty became the crucial factors for the success of the Group.

Brand recognition is of utmost priority to us, and hence we have strengthened resources for event sponsorship in the period under review to promote the visibility of the brand. The *361°* brand is now especially well associated with multi-sport events.

A notable sponsorship in the period was the 3rd Asian Beach Games in June 2012, which saw 1,600 athletes from 45 countries and regions around Asia. As a co-sponsor of the event, 361 Degrees provided the uniform for the Chinese delegation, workers, volunteers and technicians, achieving maximum exposure for the brand. The "beach series" sportswear was offered for sale in the stores at Shandong Province where the Game was held and was also available for sale via popular online platforms such as Taobao and TMall

The Group endorsed famous athletes in its bid to promote the relevant sports and brand awareness. Our sponsorships with London Olympics gold medalist of 400m and 1,500m freestyle swimming Sun Yang, U.S. NBA basketball star Kevin Love and Australian pole vaulter and Olympic gold medalist Steve Hooker, continued to cement our positioning and image as a professional sportswear brand



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 period under review, the Group reached out to target consumers effectively through a well-run sponsorship programme.

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.

Table of sports teams

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

China National Cycling Team
China National Triathlon team
China National Modern Pentathlon Team
China National Handball Team
China National Softball Team
China National Hockey Team
China National London 2012 Paralympic Games Delegation
North Korea London 2012 Olympics Delegation
Maldives London 2012 Olympics Delegation
Belarus London 2012 Olympics Delegation
Croatia London 2012 Olympics Delegation
Latvia London 2012 Olympics Delegation
Swedish National Curling Team

Table of sports teams

Time	Event	Capacity
2010-2015	*361°* Men/Women's National Volleyball Tournament series	Sole Title Sponsor
2007-2013	*361°* China University Basketball Super League	Designated Partner
2012	Haiyang 2012 3rd Asian Beach Games	Prestige Partner
2012	World Men's & Women's Curling Championship	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
2011-2013	Chongqing Marathon	Designated sports footwear and apparel sponsor
2013-2014	World 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

Product design and development

The Group believes that strong research and development capability is integral to the success of a brand. The Group's R&D research centre 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, greatly enhancing the effort by our cutting edge R&D team in the focus on topnotch functionality, comfort, and great design.

As of 30 June 2012, there were 130 full-time design professionals for footwear design and 272 for the apparel, accessories and children's wear. The Group's R&D spending amounted to about 1.2% of turnover for the six months ended 30 June 2012. The Group firmly believes that only through continual innovation and improvement will it stay in the forefront of the industry.

In a ten-year partnership programme with Beijing Institute of Fashion Technology, the Group nurtures its own team of design professionals, using scientific research and innovative fabric to produce high-quality sportswear to enhance the performance of athletes.

Production

As at the end of June 2012 there were 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 was about 10 million pieces a year.

FINANCIAL REVIEW

Turnover

During the first half of the year, retail sales at the Company's franchised network were rather satisfactory, given the continuing difficult market conditions. The first quarter was characterized by the early advent of Chinese New Year which triggered fairly brisk sales in the first few weeks of January on the back of strong promotions. Sales were rather quiet after the festive period as stores prepared for a change of season. For the six months ended 30 June 2012, the Group recorded turnover of RMB2,869.1 million, as compared to RMB3,185.9 million in the corresponding period in 2011. The decrease of 9.9% in turnover was mainly due to two reasons: 1) delay of delivery when compared with the previous period and 2) the cutting of the 2012 Autumn and Winter trade fairs' products.

All the balance of orders for the 2012 Spring/Summer products which had not been delivered in 2011 had been fully delivered before June 2012 and some of the 2012 Autumn products had also been delivered. As competition in the market is still stiff, the Group recently received request from distributors to cut some of the unproduced orders booked at the two latest trade fairs in order to enhance the speed of stock clearance at retail level.

Apart from the adjustment on the orders booked, there was also an adjustment on time of delivery, with part of the 2012 Autumn and Winter products have been re-scheduled to the second half of 2012. The Group believed this would help to control the retail inventories at ideal levels and encourage both distributors and retailers to order more 2013 products to boost the retail sales.

Due to tough market competition, the Group had an uphill battle in boosting sales and maintaining profit margins. It broadened its product mix to accommodate diversified market needs.

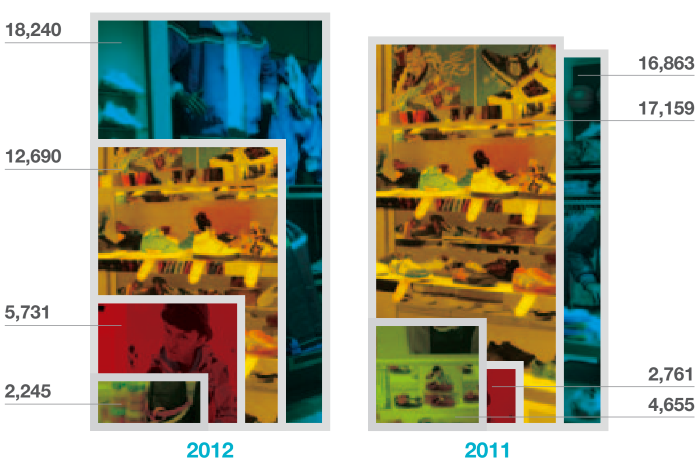
The sales of footwear for the interim period was mainly attributable to the higher price of the current range of products with volumes still remaining low. The average wholesale selling price (the "ASP") of footwear recorded growth by 14.3% whereas the volume has decreased by 26.0% compared with the same period last year. On the other hand, the sales volume of apparel had increased by 8.2% but the ASP had dropped by 24.2% when compared with the same period last year. The decrease of ASP was due to the different mix of trade fairs' products for the two periods. Owing to the delay of delivery of the 2012 Autumn and Winter products, the pricing of the 2012 Spring/Summer products had outweighed the ASP of the 2012 Autumn products, thus lowering the ASP for the period.

The *361° Kids* collection continued to perform well, the turnover and sales volume had doubled from a year ago and contributed approximately RMB332.9 million or 11.6% to the Group's turnover during the period.

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 under review:

	For the six months ended 30 June			
	2012		2011	
	Total units sold	**Average wholesale selling price[1]**	Total units sold	Average wholesale selling price[1]
	'000	**RMB**	'000	RMB
By Volume and ASP				
361° Products – Adults				
Footwear (pairs)	**12,690**	**107.6**	17,159	94.1
Apparel (pieces)	**18,240**	**62.4**	16,863	82.3
Accessories (pieces/pairs)	**2,245**	**14.3**	4,655	14.6
361° Products – Kids	**5,731**	**58.1**	2,761	41.4

Unit Sold ('000)



Average Wholesale Selling Price (RMB)

Footwear (pairs) **Apparel (pieces)** **Accessories (pieces/pairs)** ***361°* Kids**

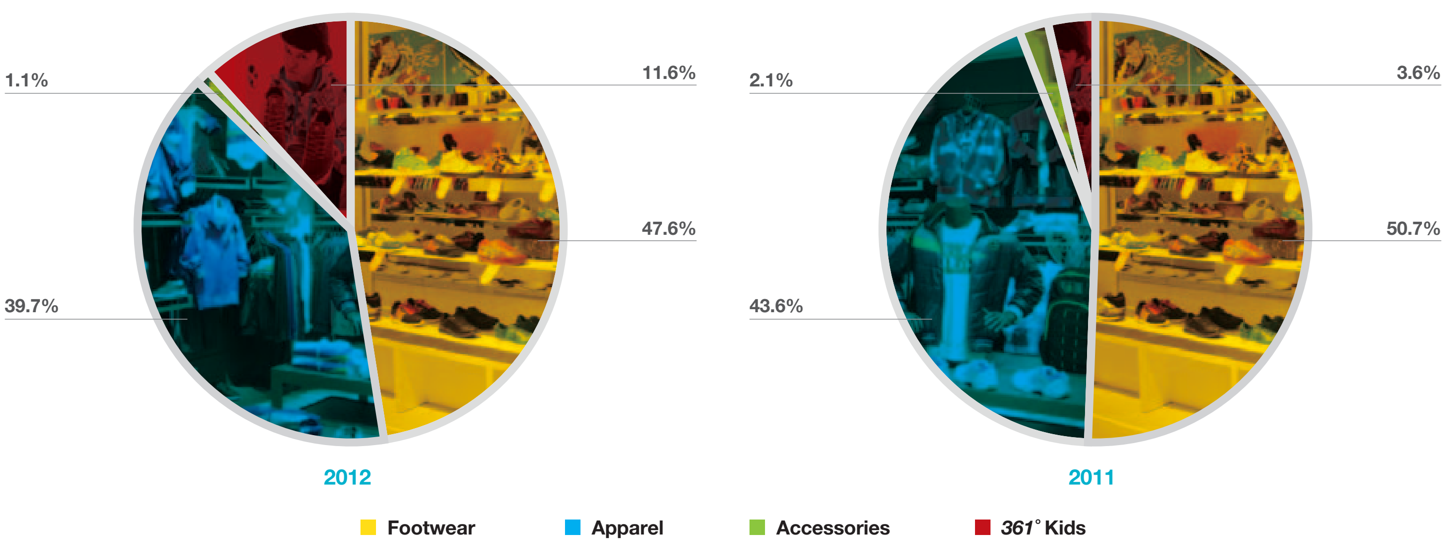
Note:
(1) Average wholesale selling price represents the turnover divided by the total units sold for the period.

Breaking down by products categories for the six months under review, footwear comprised 47.6% of the total sales while apparel, accessories and kids' products made up the remaining 39.7%, 1.1% and 11.6% respectively. The kid's products reported significant growth and contributed a double digit percentage of the total turnover for the period under review.

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

	For the six months ended 30 June			
	2012		2011	
	RMB'000	**% of Turnover**	RMB'000	% of Turnover
By Products				
Turnover				
361° Products – Adults				
Footwear	**1,365,960**	**47.6**	1,615,331	50.7
Apparel	**1,138,185**	**39.7**	1,388,466	43.6
Accessories	**32,012**	**1.1**	67,735	2.1
361° Products – Kids	**332,934**	**11.6**	114,345	3.6
Total	**2,869,091**	**100**	3,185,877	100

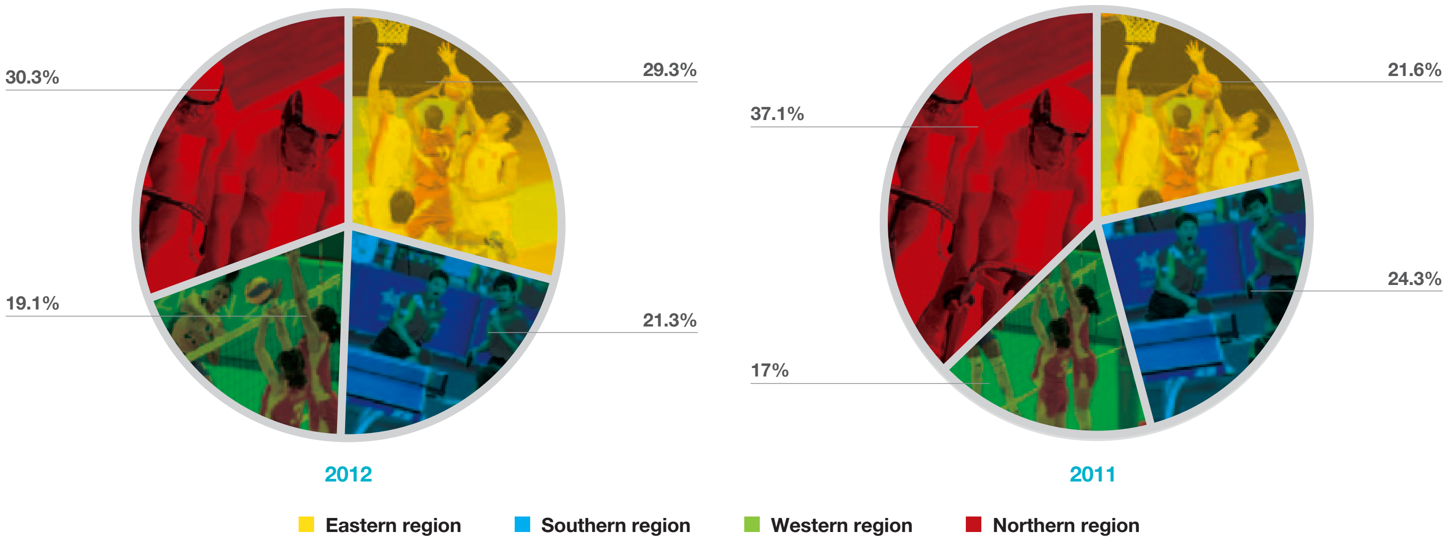
Turnover Breakdown by Products



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

	For the six months ended 30 June			
	2012		2011	
	RMB'000	**% of Turnover**	RMB'000	% of Turnover
By Regions				
Eastern region[1]	**841,677**	**29.3**	687,735	21.6
Southern region[2]	**611,351**	**21.3**	774,063	24.3
Western region[3]	**547,063**	**19.1**	542,939	17.0
Northern region[4]	**869,000**	**30.3**	1,181,140	37.1
Total	**2,869,091**	**100**	3,185,877	100

Table of Turnover by Regions



Notes:
(1) Eastern region includes Jiangsu, Zhejiang, Hubei, Anhui, Hunan, Shanghai and Jiangxi.
(2) Southern region includes Guangdong, Fujian, Guangxi and Hainan.
(3) Western region includes Sichuan, Yunnan, Guizhou, Shaanxi, Xinjiang, Gansu, Chongqing, Qinghai, Ningxia and Tibet.
(4) Northern region includes Shandong, Beijing, Liaoning, Heilongjiang, Hebei, Henan, Shanxi, Jilin, Tianjin and Inner Mongolia.

Cost of Sales

Cost of sales of the Group for the six months ended 30 June 2012 amounted to RMB1,645.1 million. As inflationary pressure in China eased in the first half of the year, 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.

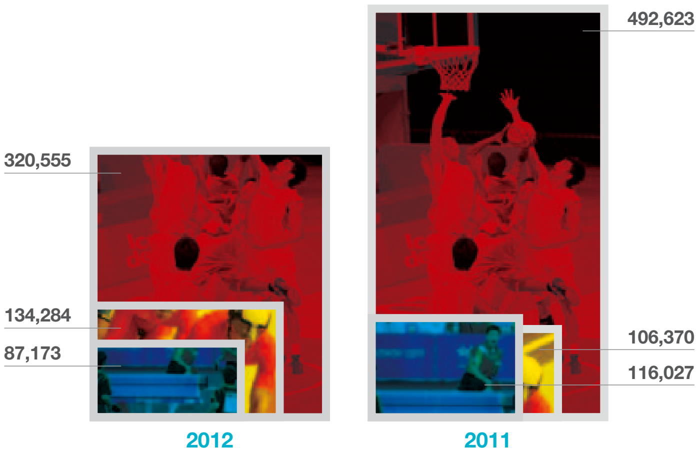
During the period under review, the percentage of outsourced footwear was higher than before as the Group obtained competitive price offered by the OEM footwear manufacturers. Under the severe competition, some of the OEM manufacturers were willing to cut the price to fight for survival.

For internal production, the cost of the footwear was stable, both per unit cost of material and labour were in line with the previous period. Nevertheless, for apparel, which contributed about 15% of the products sold for the period under review, the production was still immature. The amount of internal production was slightly less than six months ago since the fast turnover of labour could not fully support the operation of production lines, thus increased the cost of sales.

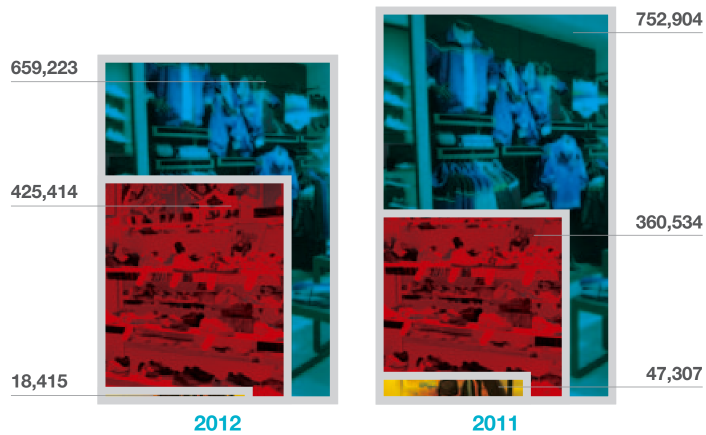
The following table sets forth a breakdown of cost of sales for *361˚* products during the period under review:

	For the six months ended 30 June			
	2012		2011	
	RMB'000	**% of total costs of sales**	RMB'000	% of total costs of sales
***361˚* Products**				
Footwear & Apparel (Internal Production)				
Raw materials	**320,555**	**19.5**	492,623	26.3
Labour	**87,173**	**5.3**	116,027	6.2
Overheads	**134,284**	**8.2**	106,370	5.7
	542,012	**33.0**	715,020	38.2
Outsourced Products				
Footwear	**425,414**	**25.8**	360,534	19.2
Apparel	**659,223**	**40.1**	752,904	40.1
Accessories	**18,415**	**1.1**	47,307	2.5
	1,103,052	**67.0**	1,160,745	61.8
Cost of sales for *361˚* Products	**1,645,064**	**100**	1,875,765	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 RMB1,224.0 million for the first six months of the year. Gross profit margin was 42.7%, up by 1.6 percentage points compared to the corresponding period ended 30 June 2011.

Started from the 2011 Autumn trade fair held in December 2010, the Group has decreased its discounts 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 fixed at the time of sales to our distributors, and our sales to our distributors was calculated by a fixed discount given to our distributors and retailers.

Footwear recorded ASP growth of 14.3% which incorporated the changes of discounts to the distributors for the two periods and the bargaining price offered by the OEM manufacturers further helped to lower the cost. The percentage on the rise of the cost from both the internal production and outsourced products was lower than the rise of the ASP whereas the decrease in sales volume of 26.0% had lowered the amount of contribution to the total gross profit for the period.

Although the volume of turnover of the apparel was 8.2% higher than the same period last year, it was largely the delivery of spring/summer products which lowered the ASP by 24.2% when compared with the last period. The percentage on the decreased per unit cost of outsourced products was almost the same as the dropped ASP but the increased cost of internally produced products had whittled part of the margin. Thus, the gross profit margin slightly decreased to 41.5% when compared with the six months ended 30 June 2011.

The ASP of accessories could be maintained at about RMB14 per piece but cost of sales per unit was much lower than a year ago which pushed the gross profit margin to 48.3%. Same situation of what OEM manufacturer offered to the footwear had also applied to the accessories products.

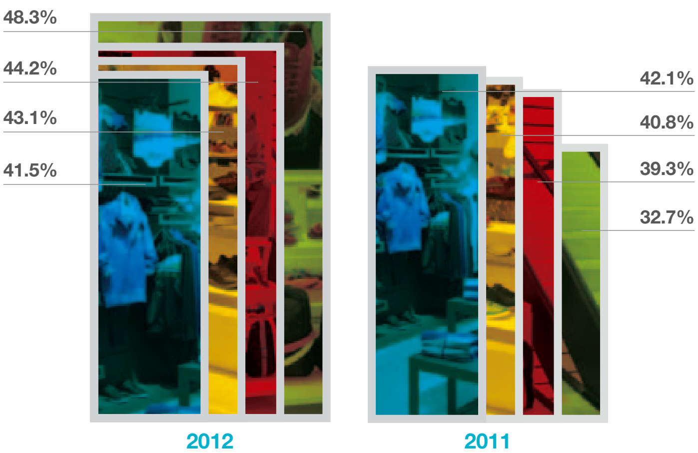
The gross profit margin of the *361°kids* products reached 44.2% for the period under review which was significantly higher than the margin recorded in 2011. The increase was built by the higher ASP with broadened range of product mix and the doubled volume when compared with the same period last year. OEM manufacturers could offer better price for big volume purchase to enjoy economies of scale.

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

	For the six months ended 30 June			
	2012		2011	
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %
361° Products – Adults				
Footwear	**589,206**	**43.1**	659,072	40.8
Apparel	**472,043**	**41.5**	583,895	42.1
Accessories	**15,473**	**48.3**	22,173	32.7
361° Products – Kids	**147,305**	**44.2**	44,972	39.3
Total	**1,224,027**	**42.7**	1,310,112	41.1

Gross Profit by Products (RMB' 000)

Gross Profit Margin (%)



Footwear Apparel Accessories *361°* Kids

Selling and distribution expenses

Selling and distribution expenses increased by 73.2% to RMB478.3 million during the six months under review, primarily as a result of an increase in advertising and promotional expenses to the total turnover from 6.8% to 13.5% for the period under review.

During the six months under review, selling and distribution expenses represented approximately 16.7% of the Group's turnover of which 13.5% was advertising and promotional expenses, up by 80% or 6.7 percentage points in 2011.

The increase was due to the advertising and promotional expenses of the Haiyang 2012 Asian Beach Games, Nanjing 2014 Youth Olympic and the endorsements of star athletes in the period under review.

Meanwhile, the Group continued to provide racks at "Shine", *361° Kids* stores and some of the adults stores. The racks are part of the furniture and fixtures for displaying products to customers at retail outlets. Owing to the intense competition, the Group decided to upgrade the stores and improve the competitive power through the provision of these furniture and fixtures to retail outlets. The Group provided 1,114 racks amounting RMB123 million and accounted for about 4.3% of turnover for the period under review. In the same period last year, the amount of such expenses was RMB45 million which accounted for about 1.4% to the total turnover for the six months ended 30 June 2011. These expenses were incorporated as part of the advertising and promotional expenses for the six months under review. Such support will continue for the year of 2013.

Administrative expenses

Administrative expenses slightly decreased by 2.4% to RMB143.7 million for the six months ended 30 June, 2012. It represented about 5.0% of the Group's turnover, compared to 4.6% in 2011.

The research and development expenses amounted to 1.2% of the turnover for the period under review, compared with 1.5% for the last year.

Finance Costs

Finance costs increased to RMB27.3 million for the six months ended 30 June 2012 of which RMB9.2 million related to a short-term bank borrowings incurred in the period was and the balance of RMB18.1 million was the relevant interest and cost in relation to the convertible bonds amortised over the period.

During the period under review, the Group issued US$150,000,000 4.5% Convertible Bonds due 2017 in April 2012, the net change in fair value as at 30 June 2012, the cost and interest were accrued and booked in the period. All the bank and other loans had been repaid in the period and only a RMB26.6 million bank loan for the financing of a 51% subsidiary was still kept as at 30 June 2012.

The Interest of the convertible bonds composed 1) an accrued interest of 4.5% per annum to the convertible bonds amounting to RMB10.3 million for the six months ended 30 June 2012 which will be paid in October 2012 and; 2) the balance of the RMB7.9 million was the adjustment for the amortisation cost of accrued interest and cost incurred for the issuance of convertible bonds over the tenor of 5 years.

Income tax expenses

During the period under review, income tax expenses of the Group amounted to RMB99.7 million (2011: RMB170.1 million) and the effective tax rate for the period was 16.2% (2011: 18.0%). After taking out the amount for the net change in fair value of derivatives embedded to convertible bonds, the profit before taxation was RMB616 million. Started from 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 period

As compared with the last corresponding period, profit for the period under review decreased to RMB597.5 million, representing a decline of 22.9%. This was mainly attributed to the increase in selling & distribution expenses and finance costs, resulting in decrease in operating profit margin from 29.7% for the six months ended 30 June 2011 to 22.4% for the period. Earnings per share for the period under review were RMB28.8 cents, down 23.0% year-on-year.

Interim dividend

The Board recommended an interim dividend of RMB7.0 cents (equivalent to or about HK8.5 cents) per share for the six months ended 30 June, 2012. The dividend amounted to RMB144.7 million and represented 24.3% of the unaudited profit for the period. The Group continued to declare the same amount of dividend as previously declared for the six months ended 31 December 2011. It is expected that the interim dividend will be paid to shareholders on or about 18 September 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 6 September to Monday, 10 September 2012, both days inclusive, for the purpose of determining shareholders' entitlements to the interim dividend. In order to qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai Hong Kong, not later than 4:30 p.m. on Wednesday, 5 September 2012.

LIQUIDITY AND FINANCIAL RESOURCES

During this six months ended 30 June 2012, net cash inflow from operating activities of the Group amounted to RMB1,408.0 million. As at 30 June 2012, cash and cash equivalents, including bank deposits and cash in hand, and fixed deposits with original maturities not exceeding three months, amounted to RMB2,051.1 million, representing a net increase of RMB1,591.4 million as compared to the position as at 31 December 2011. The increase was attributed to the following items:

	For the six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Net cash generated from operating activities	**1,408,063**	1,279,039
Net capital expenditure	**(35,441)**	(243,327)
Dividends paid	**(144,732)**	(146,835)
Proceeds from new bank loans	**213,697**	6,475
Net proceeds from Convertible Bonds	**922,894**	–
Repayment of bank loans	**(215,921)**	(4,429)
Repayment of other loan	**(150,000)**	–
(Placement)/withdrawal of deposits (with maturity over three months)	**(417,483)**	322,542
Other net cash inflow	**10,280**	62,626
Net increase in cash and cash equivalents	**1,591,357**	1,276,091

Firstly, absolute amount of RMB2,192.5 million for the trade and bills receivable as at 30 June 2012 was 6.9% less than the amount as at 31 December 2011. The industry is in fierce competition, the Group has reduced its stores opened and support to distributors and relailers by granting extra credit for the new stores in the past six months. Secondly, the amount of inventories and prepayments have also decreased when compared with the balance as at 31 December 2011. About 60% of the inventories were finished goods and were mainly the 2012 Autumn products.

The Group had borrowed a few bank loans and other loan of RMB213.7 million and RMB150.0 million but had fully repaid them before 30 June 2012. As at 30 June 2012, only a bank loan amounting RMB26.6 million to finance a 51% owned subsidiary was outstanding.

In order to bolster its working capital at a time when monetary conditions remained tight in the PRC, the Group successfully issued convertible bonds with principal amount of US$150.0 million in April 2012 with a coupon rate of 4.5% over a 5-year tenor. The net proceeds of RMB922.9 million were received in early April. The intended use of the net proceeds was for the general corporate development and working capital.

With the issuance of the convertible bonds, the Group's gearing ratio has increased to 10.8% as at 30 June 2012 (as at 31 December 2011: 3.2%).

During the period 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 period 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 2012 and 31 December 2011, there is no pledge of assets of the Group.

WORKING CAPITAL MANAGEMENT

The average working capital cycle for the six months ended 30 June 2012 was 85 days (year ended 31 December 2011: 70 days), which was mainly due to the increase in trade and bills receivable days.

The average trade and bills receivable cycle increased to 144 days for the six months ended 30 June 2012 (year ended 31 December 2011: 119 days). It showed an increase of 25 days although the balance as at 30 June 2012 was RMB162.3 million less than six months ago. The big opening balance as at 1 January 2011 affected the outcome of the average trade and bills receivable turnover days for the six months ended 30 June 2012. Over 85% of balances fell into debts within 90 days and 89% was considered as neither past due nor impaired. The Group had a close contacts with all the distributors and believe that all the debts are traceable. On such basis, it does not intend to, and does not consider there is a need to make any bad debts or permanent impairment provisions over its receivables.

The average inventory turnover cycle increased to 45 days for the six months ended 30 June 2012 (year ended 31 December 2011: 40 days). The Group believed that was still a sound situation when compared with its industry peers. As at 30 June 2012, the inventories balance was RMB366.4 million which was RMB84.9 million less than 31 December 2011 in absolute amount. About 60% of the stock was finished goods and they were mainly 2012 Autumn products. As reported by the distributors in the second quarter of 2012, retail stores still suffered from stiff competition and resulted in higher channel inventory than usual. Distributors requested to postpone the delivery of 2012 Autumn and Winter products for giving them a chance to fully digest the 2012 Spring/Summer products in the market.

As at 30 June 2012, prepayments to suppliers were RMB439.3 million (as at 31 December 2011: RMB610.5 million), which represented an upfront deposit paid to suppliers for the acceptance of orders for the 2012 winter products, the trade fair was held in March 2012. These products had not been received by the Group as at 30 June 2012.

The average trade and bills payable cycle was 104 days for the six months ended 30 June 2012 (year ended 31 December 2011: 89 days). It also represented an average trade payable cycle of 44 days (year ended 31 December 2011: 41 days) and 180 days credit for the issuance of bills payable to suppliers. The number was in line with the payable cycle for six months ended 31 December 2011 (111 days), as most of the third party suppliers were small or medium sized enterprises. In the past, the Group 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.

CONVERTIBLE BONDS

Given the recent headwinds in the China sportswear industry, the Group believed it was prudent to maintain a strong cash position despite the net cash position for the period under review. On 13 March 2012, US$150 million 4.5% Convertible Bonds due 2017 ("the Convertible Bonds") was launched. It was then issued and listed on the Singapore Exchange Securities Trading Limited in Singapore on 3 April 2012. The Board considered that the issue of Convertible Bonds provided an opportunity to broaden the capital base of the Company and also gained immediate access to funding on attractive terms.

The Convertible Bonds can be converted into the ordinary shares of the Company (the "Shares") from 14 May 2012 to 3 April 2017 and the initial conversion price was HK$3.81 and further adjusted as HK$3.7 after a declaration of the final dividend on 8 May 2012. If the Convertible Bonds was fully converted into Shares, the number of Shares will be increased by 315,545,946 representing about 13.2% of the issued share capital as enlarged.

At anytime after 3 April 2015 but prior to 3 April 2017, being the date of maturity of the Convertible Bonds, the Company can redeem the whole Convertible Bonds subject to certain terms and condition. On the other hand, the holders of the Convertible Bonds can also request the Company to make a full or partial redemption on 3 April 2015.

The valuation of the Convertible Bonds for the period has been divided into two parts: 1) the derivative component and 2) the liability component. As the value for the conversion options of the bondholder as at 30 June 2012 was much lower than the time of issuance, it incurred a net gain on the fair value change to the Group amounting RMB80.6 million after deducting the changes derived from the valuation for both the redemption option of the issuer and bondholder. Please refer to the note 13 of the financial statement for details.

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).

The following table sets forth a breakdown of the use of net proceeds from the global offing during the period under review:

Net proceeds from the global offering (HKD million)

Use of net proceeds	Available to utilise	Utilised (as at 30 June 2012	Unutilised (as at 30 June 2012
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	160.0	11.5
Establishment of a new product testing and R&D laboratory	114.3	114.3	–
Establishment of an ERP system	74.3	7.6	66.7
General working capital	190.6	190.6	–
	1,905.4	1,543.2	362.2

EMPLOYEES AND EMOLUMENTS

As at 30 June 2012, the Group employed a total of 9,174 full time employees in the PRC which included management staff, technicians, salespersons and workers. For the six months ended 30 June 2012, the Group's total remuneration of employees was RMB190.8 million, representing 6.7% of the turnover of the Group. The Group's emolument policies, based on the performance of individual employees, are formulated to attract talent and retain quality staff. 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. The Group believes its strength lies in the quality of its employees and has placed a great deal of emphasis in fringe benefits

PROSPECTS

As the Euro-zone debt crisis evolves, further market jitters are expected in the global financial markets in 2012. China, albeit seeing slowing demand and output, still outperformed its western counterparts which were struggling to fight back recession. With the emergence of a middle-class, along with increasing urbanisation and rising disposable income, China's huge domestic market offers unrivalled opportunities. Therefore, we will focus our attention on the domestic market. China's Twelfth Five-Year Plan clearly outlined the Central Government's determination to boost domestic consumer spending, which will invariably be beneficial to the sporting goods sector. According to the 12th Five-Year Plan (2011- 2015) by the General Administration of Sport of China, China's sports industry's industrial added value will increase over 15% annually. This will underpin the continuous development of the sporting goods sector.

The Group is optimistic about the prospects for the sporting goods sector in the long run, given China's still robust economic growth, steady increase in disposable income among urban residents and increasing urbanisation will remain a driver of the sector. Due to the unique character of the *361°* brand, the Group has focused on business development in western and northern China, and these parts of China have been ear-marked for development by the Central Government.

The Group believes that the excessive inventories in the industry have eased considerably by the end of this first half of the year although any recovery this year is likely to be modest. Whilst competition will remain intense, the *361°* brand is enduring in strength and has gained strong traction of late as a result of extensive media coverage from collaboration with CCTV 5 and sponsorships of major sporting events. With these collaborations and sponsorships, it can help to showcase the values and attitude orientation of the 361 brand.

Meanwhile, the Management of the Company is redoubling its efforts to strengthen its internal processes and systems so that when business conditions improve, there will be a quicker acceleration of results. Our continual efforts to strive for innovation and excellence in its business model will enable us to leverage on its market leadership position. It will 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. Our brand value is to strive for perfection and we will work even harder this year to achieve our goal.

Corporate Governance and Other Information

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

As at 30 June 2012, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the directors of Company (the "Model Code") contained in the Rules of Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") were as follows:

Long and Short position in the Company

Name of Director	Long/Short Position	Nature of Interest	Note	Number of Shares (ordinary shares)	Percentage
Mr Ding Wuhao	Long	Interest in controlled corporation	(1)	376,724,000	18.22%
	Short	Interest in controlled corporation		64,951,000	3.14%
Mr Ding Huihuang	Long	Interest in controlled corporation	(2)	360,000,000	17.41%
	Short	Interest in controlled corporation		64,795,000	3.13%
Mr Ding Huirong	Long	Interest in controlled corporation	(3)	360,000,000	17.41%
	Short	Interest in controlled corporation		64,795,000	3.13%
Mr Wang Jiabi	Long	Interest in controlled corporation	(4)	187,500,000	9.07%
	Short	Interest in controlled corporation		32,476,000	1.57%

Notes:

(1) Mr Ding Wuhao is deemed to be interested in 376,724,000 shares of the Company held by Dings International Company Limited by virtue of it being controlled by Mr Ding Wuhao. Mr Ding Wuhao is deemed to have short positions in 64,951,000 shares of the Company, which are subject to a stock lending deed dated 13 March 2012 entered into between Dings International Company Limited and an affiliate of Merrill Lynch Far East Limited, the sole lead manager and sole bookrunner of the Company's issue of the Convertible Bonds, in connection with such issue. 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. Mr Ding Huihuang is deemed to have short positions in 64,795,000 shares of the Company, which are subject to a stock lending deed dated 13 March 2012 entered into between Ming Rong International Company Limited and an affiliate of Merrill Lynch Far East Limited, the sole lead manager and sole bookrunner of the Company's issue of the Convertible Bonds, in connection with such issue. 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. Mr Ding Huirong is deemed to have short positions in 64,795,000 shares of the Company, which are subject to a stock lending deed dated 13 March 2012 entered into between Hui Rong International Company Limited and an affiliate of Merrill Lynch Far East Limited, the sole lead manager and sole bookrunner of the Company's issue of the Convertible Bonds, in connection with such issue. He is the brother of Mr Ding Huihuang and the brother-in-law of Mr Ding Wuhao.

(4) Mr Wang Jiabi is deemed to be interested in 187,500,000 shares of the Company held by Jia Wei International Co, Ltd. by virtue of it being controlled by Mr Wang Jiabi. Mr Wang Jiabi is deemed to have short positions in 32,476,000 shares of the Company, which are subject to a stock lending deed dated 13 March 2012 entered into between Jia Wei International Co, Ltd. and an affiliate of Merrill Lynch Far East Limited, the sole lead manager and sole bookrunner of the Company's issue of the Convertible Bonds, in connection with such issue.

Apart from the foregoing, as at 30 June 2012, none of the directors or chief executive of the Company or any of their spouses or children under eighteen years of age had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company, or any of its holding companies, subsidiaries or other associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

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

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

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

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

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

Details of the share options granted under the Pre-IPO Share Option Scheme as at 30 June 2012 are as follows:

			Number of Shares issuable under the options				
Grantees	Date of grant	Exercise price per share	as at 31 December 2011	exercised during the six month	lapsed during six month	cancelled during six month	as at 30 June 2012
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

Save as disclosed above, no options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the six months ended 30 June 2012.

The vesting period of the share options granted under the Pre-IPO Share Option Scheme commenced from 30 June 2010 to 30 June 2014.

Share Option Scheme

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

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

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

(a) the nominal value of a share;

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

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

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

No options have been granted under the Share Option Scheme up to 30 June 2012.

Apart from the foregoing, at no time during the six months ended 30 June 2012 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 30 June 2012, so far as is known to any director or chief executive of the Company, the persons (other than the directors and the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

Name of shareholders	Note	Long/Short position in ordinary shares held	Percentage of total issued shares
Dings International Company Limited	(2)	L 376,724,000	18.22%
		S 64,951,000	3.14%
Ming Rong International Company Limited	(3)	L 360,000,000	17.41%
		S 64,795,000	3.13%
Hui Rong International Company Limited	(4)	L 360,000,000	17.41%
		S 64,795,000	3.13%
Jia Wei International Co., Ltd.	(5)	L 187,500,000	9.07%
		S 32,476,000	1.57%
Jia Chen International Co., Ltd.	(6)	L 187,500,000	9.07%
		S 32,476,000	1.57%
Credit Suisse Group AG	(7)	L 155,736,235	7.53%
		S 102,094,907	4.94%
Bank of America Corporation	(8)	L 445,909,564	21.57%
		S 304,771,620	14.74%

Notes:

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

2. The entire issued share capital of Dings International Company Limited is owned by Mr Ding Wuhao, an executive director and the president of the Company. Mr Ding Wuhao is the brother-in-law of Mr Ding Huihuang and Mr Ding Huirong. Please refer to Note 1 on P.28 for details of the long and short positions of Dings International Company Limited.

3. The entire issued share capital of Ming Rong International Company Limited is owned by Mr Ding Huihuang, an executive director and the chairman of the Company. Mr Ding Huihuang is the brother-in-law of Mr Ding Wuhao and the brother of Mr Ding Huirong. Please refer to Note 2 on P.28 for details of the long and short positions of Ming Rong International Company Limited.

4. The entire issued share capital of Hui Rong International Company Limited is owned by Mr Ding Huirong, an executive director. Mr Ding Huirong is the brother-in-law of Mr Ding Wuhao and the brother of Mr Ding Huihuang. Please refer to Note 3 on P.28 for details of the long and short positions of Hui Rong International Company Limited.

5. 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. Please refer to Note 4 on P.29 for details of the long and short positions of Jia Wei International Co., Ltd.

6. The entire issued share capital of Jia Chen International Co., Ltd. is owned by Mr Wang Jiachen, who is the brother of Mr Wang Jiabi. Jia Chen International Co., Ltd. is interested in 187,500,000 shares of the Company and have short positions in 32,476,000 shares of the Company, which are subject to a stock lending deed entered into between Jia Chen International Co., Ltd. and an affiliate of Merril Lynch Far East Limited, the sole lead manager and sole bookrunner of the Company's issue of the Convertible Bonds, in connection with such issue.

7. The interests held by Credit Suisse Group AG were interests of corporation controlled by Credit Suisse Group AG.

8. The interests held by Bank of America Corporation were interests of corporation controlled by Bank of America Corporation.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2012.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Stock Exchange of Hong Kong Limited has made various amendments to the Code on Corporate Governance Practices – (the "Old Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and renamed it the Corporate Governance Code (the "New Code"). The New Code took effect on 1 April 2012.

In the opinion of the directors, the Company has complied with the Old Code as set out in Appendix 14 to the Listing Rules for the period from 1 January 2012 to 31 March 2012 and the New Code for the period from 1 April 2012 to 30 June 2012.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' securities transactions. Having made specific enquiry of all directors, the Company has confirmed with all directors that they had complied with the required standard set out in the Model Code throughout the six months ended 30 June 2012.

REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

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

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements. They considered that the unaudited interim financial statements of the Group for the six months ended 30 June 2012 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been made.

Consolidated Income Statement

for the six months ended 30 June 2012 – unaudited (Expressed in Renminbi)

	Note	Six months ended 30 June 2012 RMB'000	2011 RMB'000
Turnover	3	**2,869,091**	3,185,877
Cost of sales		**(1,645,064)**	(1,875,765)
Gross profit		**1,224,027**	1,310,112
Other revenue		**49,529**	56,599
Other net (loss)/gain		**(7,714)**	1,699
Selling and distribution expenses		**(478,286)**	(276,122)
Administrative expenses		**(143,719)**	(147,252)
Profit from operations		**643,837**	945,036
Net change in fair value of derivatives embedded to convertible bonds	13	**80,634**	–
Finance costs	4(a)	**(27,301)**	(290)
Profit before taxation	4	**697,170**	944,746
Income tax	5	**(99,673)**	(170,117)
Profit for the period		**597,497**	774,629
Attributable to:			
Equity shareholders of the Company		**595,588**	773,358
Non-controlling interests		**1,909**	1,271
Profit for the period		**597,497**	774,629
Earnings per share	6		
Basic (cents)		**28.8**	37.4
Diluted (cents)		**28.8**	37.3

The notes on pages 40 to 52 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 14(c).

Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2012 unaudited (Expressed in Renminbi)

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Profit for the period	**597,497**	774,629
Other comprehensive income for the period		
Exchange differences on translation of financial statements	**3,267**	(16,140)
Total comprehensive income for the period	**600,764**	758,489
Attributable to:		
Equity shareholders of the Company	**598,855**	757,218
Non-controlling interests	**1,909**	1,271
Total comprehensive income for the period	**600,764**	758,489

The notes on pages 40 to 52 form part of this interim financial report. There was no tax effect relating to the components of other comprehensive income.

Consolidated Balance Sheet

at 30 June 2012 – unaudited (Expressed in Renminbi)

	Note	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Non-current assets			
Fixed assets	7		
– Property, plant and equipment		**887,640**	892,263
– Interests in leasehold land held for own use under operating leases		**93,363**	99,926
		981,003	992,189
Other financial asset		**17,550**	17,550
Deposits and prepayments	8	**161,494**	141,887
Deferred tax assets		**17,286**	29,546
		1,177,333	1,181,172
Current assets			
Inventories	9	**366,425**	451,264
Trade debtors	8	**1,983,174**	2,110,008
Bills receivable	8	**209,316**	244,800
Deposits, prepayments and other receivables	8	**641,619**	794,684
Pledged bank deposits	17	**115,623**	127,685
Deposits with banks	10	**629,385**	211,902
Cash and cash equivalents	10	**2,051,119**	459,762
		5,996,661	4,400,105
Current liabilities			
Trade and other payables	11	**1,536,868**	1,023,983
Bank loans	12	**26,557**	28,781
Other loan		**–**	150,000
Current taxation		**92,384**	72,181
		1,655,809	1,274,945
Net current assets		**4,340,852**	3,125,160
Total assets less current liabilities		**5,518,185**	4,306,332
Non-current liabilities			
Deferred tax liabilities		**10,399**	5,817
Convertible bonds	13	**750,281**	–
		760,680	5,817
NET ASSETS		**4,757,505**	4,300,515

	Note	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
CAPITAL AND RESERVES	14		
Share capital		**182,298**	182,298
Reserves		**4,528,916**	4,073,835
Total equity attributable to equity shareholders of the Company		**4,711,214**	4,256,133
Non-controlling interests		**46,291**	44,382
TOTAL EQUITY		**4,757,505**	4,300,515

The notes on pages 40 to 52 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2012 – unaudited (Expressed in Renminbi)

		Attributable to equity shareholders of the Company										
	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 Jan 2011		182,374	1,232,824	156,252	82,724	334,286	8,875	(18,000)	1,647,958	3,627,293	26,985	3,654,278
Changes in equity for the six months ended 30 Jun 2011:												
Profit for the period		–	–	–	–	–	–	–	773,358	773,358	1,271	774,629
Other comprehensive income		–	–	–	–	–	–	(16,140)	–	(16,140)	–	(16,140)
Total comprehensive income		–	–	–	–	–	–	(16,140)	773,358	757,218	1,271	758,489
Purchase of own shares												
– par value paid		(76)	–	–	–	–	–	–	–	(76)	–	(76)
– premium paid		–	(3,738)	–	–	–	–	–	–	(3,738)	–	(3,738)
Capital contribution received by a non-wholly owned subsidiary from non-controlling shareholder		–	–	–	–	–	–	–	–	–	14,589	14,589
Equity-settled share-based transactions		–	–	–	–	–	2,063	–	–	2,063	–	2,063
Appropriation to statutory reserve		–	–	–	–	116,733	–	–	(116,733)	–	–	–
Dividends declared and paid during the period	14c	–	(146,835)	–	–	–	–	–	–	(146,835)	–	(146,835)
Balance at 30 Jun 2011		182,298	1,082,251	156,252	82,724	451,019	10,938	(34,140)	2,304,583	4,235,925	42,845	4,278,770
Balance at 1 Jan 2012		182,298	749,367	156,252	82,724	458,801	11,902	(41,704)	2,656,493	4,256,133	44,382	4,300,515
Changes in equity for the six months ended 30 Jun 2012:												
Profit for the period		–	–	–	–	–	–	–	595,588	595,588	1,909	597,497
Other comprehensive income		–	–	–	–	–	–	3,267	–	3,267	–	3,267
Total comprehensive income		–	–	–	–	–	–	3,267	595,588	598,855	1,909	600,764
Equity-settled share-based transactions		–	–	–	–	–	958	–	–	958	–	958
Dividends declared and paid during the period	14c	–	(144,732)	–	–	–	–	–	–	(144,732)	–	(144,732)
Balance at 30 Jun 2012		182,298	604,635	156,252	82,724	458,801	12,860	(38,437)	3,252,081	4,711,214	46,291	4,757,505

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2012 – unaudited (Expressed in Renminbi)

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Cash generated from operations	**1,470,691**	1,391,057
Income tax paid	**(62,628)**	(112,018)
Net cash generated from operating activities	**1,408,063**	1,279,039
Net cash (used in)/generated from investing activities	**(433,485)**	131,356
Net cash generated from/(used in) financing activities	**616,779**	(134,304)
Net increase in cash and cash equivalents	**1,591,357**	1,276,091
Cash and cash equivalents at 1 January	**459,762**	953,276
Cash and cash equivalents at 30 June	**2,051,119**	2,229,367

The notes on pages 40 to 52 form part of this interim financial report.

Notes to the Unaudited Interim Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1. BASIS OF PREPARATION

(a) Statement of compliance

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 21 August 2012.

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2012 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the six months ended 31 December 2011 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial period but is derived from those financial statements. Statutory financial statements for the six months ended 31 December 2011 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 12 March 2012.

(b) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

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

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

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the group and the company. Of these, Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets* is relevant to the group's financial statements.

The amendments to HKFRS 7 require certain disclosures to be included in the annual financial statements in respect of all transferred financial assets that are not derecognized and for any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

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

3 TURNOVER

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Footwear	**1,461,102**	1,653,730
Apparel	**1,372,094**	1,461,601
Accessories	**35,895**	70,546
	2,869,091	3,185,877

The Group's customer base is diversified and includes only two customers (2011: three) with whom transactions have exceeded 10% of the Group's revenues. During the period ended 30 June 2012, 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 RMB742 million (2011: RMB1,334 million).

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		Six months ended 30 June	
		2012	2011
		RMB'000	RMB'000
(a)	Finance costs:		
	Interest on bank borrowings wholly repayable within five years	**9,158**	290
	Finance charges on convertible bonds (note 13)	**18,143**	–
	Total finance costs	**27,301**	290
(b)	Other items:		
	Amortisation of land lease premium	**1,005**	888
	Depreciation	**37,846**	28,355
	Staff costs	**190,796**	200,021
	Operating lease charges in respect of properties	**6,130**	3,396
	Research and development costs*	**35,374**	47,513
	Cost of inventories**	**1,645,064**	1,875,765

* Research and development costs include RMB16,596,000 (2011: RMB14,273,000) relating to staff costs of employees in the research and development department, which amount is also included in "staff costs" disclosed separately above.

** Cost of inventories includes RMB132,339,000 (2011: RMB154,292,000) relating to staff costs and depreciation, which amount is also included in the respective amount disclosed separately above.

5 INCOME TAX

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Current tax – PRC income tax		
Provision for the period	**79,858**	155,949
Under provision in respect of prior periods	**2,973**	2,995
	82,831	158,944
Deferred tax		
Origination and reversal of temporary differences	**16,842**	11,173
	99,673	170,117

5 INCOME TAX *(Continued)*

Notes:

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

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

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

6 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB595,588,000 (six months ended 30 June 2011: RMB773,358,000) and the weighted average number of shares in issue during the interim period of 2,068 million (2011: 2,068 million).

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB595,588,000 (six months ended 30 June 2011: RMB773,358,000) and the weighted average number of ordinary shares of 2,068 million (2011: 2,075 million) adjusted for the potential dilutive effect caused by the share options granted under Pre-IPO share option scheme.

7 FIXED ASSETS

During the six months ended 30 June 2012, the Group acquired items of property, plant and equipment of approximately RMB35,441,000 (six months ended 30 June 2011: approximately RMB208,871,000).

8 TRADE AND OTHER RECEIVABLES

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Trade debtors		
Trade debtors	**2,022,694**	2,149,528
Less: Allowance for doubtful debts (note 8(b))	**(39,520)**	(39,520)
	1,983,174	2,110,008
Bills receivable	**209,316**	244,800
Deposits, prepayments and other receivables		
Deposits	**1,601**	1,790
Prepayments	**726,788**	861,802
Derivative financial instruments (note 13)	**12,817**	–
Other receivables	**61,907**	72,979
	803,113	936,571
Less: Non-current portion of deposits and prepayments	**(161,494)**	(141,887)
	641,619	794,684

Included in prepayments are amounts prepaid to suppliers of RMB439,259,000 (31 December 2011: RMB610,515,000) and payments for acquisition of interest in leasehold land held for own use under operating leases amounting to RMB93,395,000 (31 December 2011: RMB85,269,000) 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.

(a) Ageing analysis

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

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Within 90 days	**1,869,096**	1,663,756
Over 90 days but within 180 days	**323,394**	609,612
Over 180 days but within 365 days	**–**	81,440
	2,192,490	2,354,808

8 TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

The ageing analysis of trade debtors and bills receivable that are past due as at 30 June 2012 but neither individually nor collectively considered to be impaired are as follows:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Neither past due nor impaired	**1,950,887**	1,941,518
Less than 1 month past due	**145,137**	245,302
1 to 3 months past due	**96,466**	167,988
Amount past due	**241,603**	413,290
	2,192,490	2,354,808

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

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

9 INVENTORIES

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Raw materials	**53,790**	31,352
Work in progress	**100,573**	60,064
Finished goods	**212,062**	359,848
	366,425	451,264

10 CASH AND CASH EQUIVALENTS AND DEPOSITS WITH BANKS

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Deposits with banks within three months to maturity when placed	**221,997**	103,761
Cash at bank and in hand	**1,829,122**	356,001
Cash and cash equivalents in the consolidated balance sheet and the condensed consolidated cash flows statement	**2,051,119**	459,762
Deposits with banks with more than three months to maturity when placed	**629,385**	211,902
	2,680,504	671,664

At 30 June 2012, the balances that were placed with banks or on hand in the PRC by the Group's PRC subsidiaries and included in the cash and cash equivalents and deposits with banks amounted to RMB1,738,386,000 (31 December 2011: RMB507,553,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

11 TRADE AND OTHER PAYABLES

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Trade creditors	**472,669**	315,539
Bills payable	**615,769**	474,810
Receipts in advance	**15,018**	447
Other payables and accruals	**308,892**	233,187
Derivative financial instruments (note 13)	**124,520**	–
	1,536,868	1,023,983

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 30 June 2012 and 31 December 2011 were secured by pledged bank deposits.

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

11 TRADE AND OTHER PAYABLES *(Continued)*

	At 30 June 2012 RMB'000	As 31 December 2011 RMB'000
Due within 1 month or on demand	**257,926**	190,690
Due after 1 month but within 3 months	**455,912**	357,324
Due after 3 months but within 6 months	**374,600**	242,335
	1,088,438	790,349

12 BANK LOANS

As at 30 June 2012 and 31 December 2011, the bank loans were unsecured and repayable within one year or on demand.

13 CONVERTIBLE BONDS

On 3 April 2012, the Company issued unsecured convertible bonds with principal amount of US$150,000,000 due 2017 (the "convertible bonds"). The convertible bonds are interest-bearing at 4.5% per annum and payable semi-annually in arrears. The maturity date of the convertible bonds is 3 April 2017. The convertible bonds can be converted to shares of the Company at HK$3.81 per share, subject to anti-dilutive and dividend protection adjustments, from 14 May 2012 to 3 April 2017.

In addition to the above, the Company may early redeem all the convertible bonds from 3 April 2015 to 3 April 2017 plus any accrued but unpaid interest thereon the redemption date, provided that the closing price of the shares of the Company for each of the thirty consecutive trading days, the last of which occurs within the five trading days prior to the date upon which the redemption notice is given by the Company, is at least 130% of the prevailing conversion price.

The holders of the convertible bonds can require the Company to early redeem all or partial of the convertible bonds on or about 3 April 2015 plus any accrued but unpaid interest thereon the redemption date.

The redemption call and redemption put and conversion options are separately accounted for at fair value at the end of each reporting period as derivative financial instruments in accordance with the accounting policy to the financial statements.

As a result of the declaration of final dividend for the six months ended 31 December 2011, the conversion price of the convertible bonds was adjusted to HK$3.70 per share with effective from 8 May 2012.

13 CONVERTIBLE BONDS *(Continued)*

	Liability component convertible bonds RMB '000 (note 13(a))	Redemption call option RMB '000 (note 8 and note 13(b))	Redemption put option RMB '000 (note 10 and note 13(c))	Conversion option RMB '000 (note 10 and note 13(d))	Total RMB '000
Issuance of the convertible bonds	753,885	(22,450)	40,473	173,059	944,967
Transaction costs (note 13(e))	(17,626)	–	–	–	(17,626)
Finance charges amortized during the period (note 4(a))	18,143	–	–	–	18,143
Interest payable	(10,286)	–	–	–	(10,286)
Change in fair value	–	9,780	29,384	(119,798)	(80,634)
Exchange difference	6,165	(147)	460	942	7,420
At 30 June 2012	750,281	(12,817)	70,317	54,203	861,984

(a) Liability component of convertible bonds represents the contractually determined stream of future cash flows discounted at the rate of interest determined by the market instruments of comparable credit status taken into account the business risk and financial risk of the Company. The effective interest rate of the liability component is 10.2% per annum. At 30 June 2012, the liability component of the convertible bonds was repayable after two years but within five years.

(b) Redemption call option represents the fair value of the Company's option to early redeem all of the convertible bonds and is recorded as derivative financial instruments under "Trade and other receivables" (note 8).

(c) Redemption put option represents the fair value of the options of the holders of the convertible bonds to early redeem all of the convertible bonds and is recorded as derivative financial instruments under "Trade and other payables" (note 11).

(d) Conversion option represents the fair value of the options of the holders of the convertible bonds to convert the convertible bonds into shares and is recorded as derivative financial instruments under "Trade and other payables" (note 11).

(e) The transaction costs for the issue of the convertible bonds amounted to RMB22,073,000. An amount of RMB17,626,000 was offset with the liability component of the convertible bonds and the remaining amount of transaction costs is charged to the income statement.

14 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital and reserves

	At 30 June 2012 No. of shares '000	At 30 June 2012 HK$'000	At 31 December 2011 No. of shares '000	At 31 December 2011 HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**10,000,000**	**1,000,000**	10,000,000	1,000,000

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

	No. of shares '000	HK$'000	RMB'000
Ordinary shares, issued and fully paid:			
At 1 July 2011/31 December 2011/ 1 January 2012/30 June 2012	**2,067,602**	**206,760**	**182,298**

(b) At 30 June 2012, the outstanding options of the Company were:

Date of options granted	Exercise period	Exercise price	Number of options outstanding At 30 June 2012 '000	At 31 December 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
		HK$2.89	**17,290**	17,290

14 CAPITAL , RESERVES AND DIVIDENDS *(Continued)*

(c) Dividends

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Interim dividend declared after the interim period of RMB7.0 cents per ordinary share	**144,732**	–
Final dividend proposed after the balance sheet date of RMB16.1 cent per ordinary share	**–**	332,884
	144,732	332,884

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

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Final/interim dividend in respect of the previous financial period, approved/declared and paid during the following interim period, of RMB7.0 cent per ordinary share (six months ended 30 June 2011: RMB7.1 cents per ordinary share)	**144,732**	146,835

15 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Short-term employee benefits	**16,656**	16,430
Equity-settled share-based payments	**444**	1,560
Post-employment benefits	**700**	426
	17,800	18,416

16 COMMITMENTS

(a) Contractual commitments outstanding at 30 June 2012 not provided for in the interim financial report were as follows:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Advertising and marketing expenses	**660,511**	463,147

(b) Capital commitments outstanding at 30 June 2012 not provided for in the interim financial report were as follows:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Authorised and contracted for	**5,880**	28,971

(c) At 30 June 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Within 1 year	**8,338**	3,825
After 1 year but within 5 years	**10,139**	5,329
	18,477	9,154

The Group is the leasee in respect of a number of warehouse and offices under operating leases. The leases typically run for an initial period of one to five years. None of the leases includes contingent rentals.

(Expressed in Renminbi unless otherwise indicated)

17 PLEDGE OF ASSETS

At 30 June 2012 and 31 December 2011, certain bank facilities and bills payable of the Group were secured by bank deposits.

18 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 31 DECEMBER 2012

Up to the date of issue of this interim financial report, the HKICPA has issued the following amendments and new standards which are not yet effective for the accounting period ending 31 December 2012 and which have not been adopted in this interim financial report. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
Amendments to HKFRS 7, *Financial instruments: Disclosures – offsetting financial assets and financial liabilities*	1 January 2013
Annual improvements to HKFRSs 2009 – 2011 Cycle	1 January 2013
HKFRS 10, *Consolidated financial statements*	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
Revised HKAS 19, *Employee benefits*	1 January 2013
Amendments to HKAS 32, *Financial instruments: Presentation – offsetting financial assets and financial liabilities*	1 January 2014
HKFRS 9, *Financial instruments*	1 January 2015

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

361 DEGREES INTERNATIONAL LIMITED
三六一度國際有限公司

(Incorporated in the Cayman Islands with limited liability)
（於開曼群島註冊成立的有限公司）