361 DEGREES INTERNATIONAL LIMITED 361度國際有限公司

STOCK CODE 股份代號: 1361

Ready to Run

Interim Report 2013 中期報告

Contents

Company Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Yan Man Sing Frankie（甄文星）
Sun Xianhong（孫先紅）
Liu Jianxing（劉建興）
Tsui Yung Kwok（徐容國）

BOARD COMMITTEES

Audit Committee

Yan Man Sing Frankie（甄文星）*(Chairman)*
Sun Xianhong（孫先紅）
Liu Jianxing（劉建興）
Tsui Yung Kwok（徐容國）

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）
Tsui Yung Kwok（徐容國）

COMPANY SECRETARY

Choi Mun Duen（蔡敏端）*FCCA, HKICPA*

AUTHORISED REPRESENTATIVES

Ding Wuhao（丁伍號）
Choi Mun Duen（蔡敏端）

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

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

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

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
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 (Cayman) Limited

PRINCIPAL BANKERS

China Construction Bank Corporation
Industrial Bank Co., Ltd.
Xiamen International Bank
Citic Bank International Limited

COMPANY WEBSITE

www.361sport.com

Financial Highlights

FINANCIAL PERFORMANCE

Turnover decreased by 30.4% to RMB1,998.2 million

Gross profit dropped by 36.3% to RMB779.5 million

Operating profit decreased by 52.5% to RMB306.1 million

Profit attributable to the equity shareholders was RMB205.3 million, representing a decrease of 65.5%

Last date of registration for shareholders' entitlements to 2013 interim dividend: 3 September 2013

Payment date of 2013 interim dividend: on about 17 September 2013

Gross profit margin dropped by 3.7 percentage points to 39.0%

Basic earnings per share is RMB9.9 cents, representing a drop of 65.6%

Resolved to declare an interim dividend of RMB4.0 cents (HK5.1 cents) per share

BUSINESS PERFORMANCE

Total number of *361°* retail adults' outlets decreased from 8,082 to 7,826

Total number of *361°* retail kids' wear outlets increased from 1,590 to 1,678 of which 390 were counters in *361°* adults' outlets

***361°* Kids revenue accounted for 10.4% of the Group's turnover**

Financial Summary

	For the six months ended 30 June	
	2013	2012
Profitability Data (RMB'000)		
Turnover	**1,998,154**	2,869,091
Gross profit	**779,542**	1,224,027
Operating profit	**306,122**	643,837
Profit attributable to equity shareholders	**205,264**	595,588
Earnings per share		
– basic (RMB cents)	**9.9**	28.8
– diluted (RMB cents)	**9.6**	28.8
Profitability Ratios (%)		
Gross profit margin	**39.0**	42.7
Operating profit margin	**15.3**	22.4
Margin of profit attributable to equity shareholders	**10.3**	20.8
Effective tax rate (Note 2)	**28.2**	16.2
Return on shareholders equity (Note 1)	**4.4**	13.3
Operating Ratios (as percentage of turnover) (%)		
Advertising and marketing expenses	**9.8**	9.2
Rack subsidy	**3.9**	4.3
Administrative staff costs	**1.5**	1.2
Research and development	**2.4**	1.2

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 RMB266.8 million, excluding the net change of derivative embedded to convertible bonds.

	As at 30 June 2013	As at 31 December 2012
Assets and Liabilities data (RMB'000)		
Non-current assets	**1,249,477**	1,279,223
Current assets	**6,263,441**	5,932,987
Current liabilities	**1,955,830**	1,726,168
Non-current liabilities	**763,387**	755,579
Equity attributable to equity shareholders	**4,741,227**	4,678,060
Non-controlling interests	**52,474**	52,403
Asset and Working Capital data		
Current asset ratios	**3.2**	3.4
Gearing ratios (%) (Note 3)	**10.5**	11.0
Net asset value per share (RMB) (Note 4)	**2.3**	2.3
Inventory turnover days (days) (Note 5)	**67**	56
Trade and bills receivables turnover days (days) (Note 6)	**193**	165
Trade and bills payables turnover days (days) (Note 7)	**166**	112
Working capital turnover days (days)	**94**	109

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 181 days (for the six months ended 30 June 2013) and 366 days (for the year ended 31 December 2012).

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 181 days (for the six months ended 30 June 2013) and 366 days (for the year ended 31 December 2012).

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 181 days (for the six months ended 30 June 2013) and 366 days (for the year ended 31 December 2012).

Management Discussion and Analysis

INDUSTRY REVIEW

China's consumer sentiment was affected by the country's slowing economy during the first half of 2013. The country's gross domestic product growth rate decelerated from 7.9 per cent of the last quarter of 2012 to 7.7 per cent and 7.5 per cent respectively in the first quarter and second quarter of 2013. A bleaker economic outlook made people less willing to spend. The country's sportswear market was also impacted by industry-specific factors such as the market glut, intense competition and homogeneity of products. After a period of rapid and volume-driven expansion which resulted in oversupply and high inventory, the entire sportswear industry was engaged in stock clearance and consolidation of retail outlets. As part of the move to clear the stock, the sportswear retailers were selling goods at substantial discounts. Although there are signs of improvement towards the end of the second quarter of 2013 with decreases in both channel inventory and retail discounts and deceleration in the decline of trade fair orders, the Group's operating results was materially affected. A significant drop in orders from recent trade fairs and deterioration of gross profit margin which resulted from higher costs of productions and intense competition led to a sharp decline of the Group's profit attributable to its equityholders in the first half of 2013.

The key to success in the highly competitive and difficult sportswear market is to differentiate a company from its peers in feature and quality of products and brand image. The Group enhanced the quality and functionality of its products and continued its effort in product research and development, brand building and marketing. It also backed up the measures by optimizing the planning of points of sales, raising the efficiency of retail outlets and controlling inventory in the sales channel. The moves aimed at consolidating the Group's positions in its principal mid-priced and low-end markets of the country's third-tier and smaller cities.

BUSINESS REVIEW

Sales and distribution network

Facing the market glut and dampened consumer appetite, the Group optimized the planning of its points of sales, enhanced the sales and marketing effort at retail outlets and controlled inventory at the sales channel during the period under review.

The Group innovated its business model in the existing channels by establishing integrated stores with average floor area of 100 square metres (sq.m.) in large shopping malls such as Wanda City Mall located in major cities in mainland China to sell a comprehensive range of high performance-to-cost products such as lifestyle and fashionable sportswear series for both adults and kids. Meanwhile, it had some less efficient points of sales closed.

During the period, the Group continued to sell apparel, footwear and accessories through an independent third party on taobao.com（淘寶網）, tmall.com（天貓網）and 360buy.com（京東商城）, which are popular online retail platforms. Meanwhile, the Group is setting up a branch office in Taiwan to operate its overseas business and targeting markets including the USA, South America, Southeast Asia and Europe.

In order to boost sales at the retail outlets, the Group continued assisting the retailers in raising their store efficiency by providing them rack subsidy of approximately RMB78.0 million to improve the presentation of goods and shopping environment. The support was aimed at raising awareness of the brand and boosting sales.

In view of the market glut, controlling the inventory was an important task for the Group. Both the distributors and the Group took a prudent approach to placing and accepting the orders. This was reflected by the year-on-year decline of 17% in the orders placed at the 2013 winter trade fair held in April of 2013 which can foresee that the turnover of the Group in the second half of 2013 will still be on downside.

During the period under review, the Group continued with its exclusive distributorship business model, which brought such benefits as economies of scale, more cost-effective marketing and promotional campaigns and better inventory control. The number of exclusive distributors was 31. The distributors themselves oversaw 3,285 authorized dealers, who in turn owned and managed a total of 7,826 retail outlets for adults' sportswear as at 30 June 2013, representing a net decrease of 256 from 8,082 at the end of 2012.

About 71.5% of the stores were located in the third tier and smaller cities where the Group had established brand influence. The majority of stores remained in northern China (2,996 stores) and eastern China (2,035 stores). Of the total number of retail point of sales, 5,321 were standalone stores as at the end of June 2013, accounting for approximately 68.0% of the total retail sales outlets for adults' sportswear. The average size of a typical store increased to approximately 100.8 square metres (sq.m.).

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 2013		As at 31 December 2012		
	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]	**2,035**	**25.9**	2,081	25.8	(2.2)
Southern region[2]	**1,272**	**16.3**	1,344	16.6	(5.4)
Western region[3]	**1,523**	**19.5**	1,567	19.4	(2.8)
Northern region[4]	**2,996**	**38.3**	3,090	38.2	(3.0)
Total	**7,826**	**100**	8,082	100	(3.2)

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.

As at 30 June 2013, there were four *361°* Towns operated by authorized retailers in Zhengzhou, Jinan, Wuhan and Harbin. These megastores, averaging 1,100 sq.m. in floor space, are designed to bolster the brand image of *361°*. They complemented the Group's wide distribution network by both enhancing brand-building and unifying brand image.

The Group's same-store sales decreased by 1.5% year on year for the first quarter of 2013 and decreased by 0.8% year on year for the second quarter of the year. The channel inventories at the retail level were 4.3 times and 4.4 times the monthly sales respectively for the first and second quarters of 2013 because of the slowing retail sales amid the country's decelerating economic growth.

361° Kids

The Group entered the promising market for children's wear by establishing *361°* Kids in 2010. The move broadened its income source and brought huge value to the Group during the most difficult time of its history in 2012.

For the first half of 2013, the revenue of *361°* Kids decreased by 37.8% year on year to RMB 207.2 million, In the first half of 2012, there was a large batch of summer and autumn products delivered to distributors before June 2012 which resulted in the amount of turnover for the kids' products in the first half of 2012 becoming abnormally higher than the second half. During the second half of 2011 and the first half of 2012, the Group experienced a rapid growth on the number of stores, reaching to 1,439 as at 30 June 2012 from 766 a year ago. During the six months ended 30 June 2012, distributors found the pace of store number growth was much faster than they have expected and requested to stock up in advance which could help them to react quickly in the developing market and well prepared for the new stores to be opened on the following months.

For these six months ended 30 June 2013, the pace of store number growth became steady and the Group has re-arranged new delivery schedule and we believe that the current schedule should be able to cope with the demand of market and development plan of the Group.

As at 30 June 2013, *361°* Kids' points of sales reached to 1,678, representing a net increase of 88 from the 1,590 at the end of 2012. Of the 1,678 points of sales, 520 were counters at the department stores or hypermarket, 768 were standalone stores, and 390 were booths at the adults' sportswear stores.

The Group continued to take full advantage of the licensed American comic icons to design, produce and sell children's wear and accessories. It also tried to enhance the brand image of *361°* Kids by sponsoring a children's singing contest programme "Let's Sing Kids" ("中國新聲代"), broadcasting on Hunan Broadcasting System – Aniworld Satellite TV（湖南廣播電視台 – 金鷹卡通衛視）, one of the top three kids channel in mainland China.

In terms of product design, sales and marketing, the launch of the products with the American comic icons of Batman and Spider Man into the market proved a success and enhanced the market's recognition of *361°* Kids' brand. The Group will try to replicate the success by introducing into the market children's outfit, footwear and accessories that bear the icon of Superman of the upcoming American superhero film "Man of Steel" once the movie is released in July of 2013.

The Group will continue to foster the development of *361°* Kids in the target markets of the third-tier and smaller cities as the business of children's wear product line will be developed into a growth driver in the future.

Increased use of ePOS among the retail outlets

The Group continued its effort to promote the use of electronic point-of-sale system ("ePOS") at the Group's point of sales in the period under review. As at 30 June 2013, 5,087 stores, or 65.0% of the Group's total 7,826 retail outlets adopted ePOS. Continuous effort will be made to upgrade and perfect our system to cope with business development and expansion.

Brand promotion and marketing

It is crucial to build and promote a distinct brand in order to win in a highly competitive sportswear market. With the *361°* positioned as a mass market brand which was aimed at the sports fans of the 18-30 age group, the Group continued its three-pronged strategy in brand promotion and marketing during the period under review. The strategy comprised major sports event sponsorship, strategic partnerships with a major state media and appointing celebrity athletes as spokespersons of the Group's products.

In the first half of 2013, the Group secured the rights to sponsor China's national swimming team and 2014 Incheon Asian Games. Moreover, back in 2011, the Group obtained the exclusive rights to be the official sports apparel sponsor for the Second Youth Olympic Games in Nanjing to be held in 2014. Before the launching of the Second Youth Olympic Games, the Group also secured the sponsorship of the Second Asian Youth Games held in Nanjing in 2013 which will be a full-scale dress rehearsal for the Youth Olympic Games.

The Group continued its strategic partnership with China's national sports TV channel CCTV-5, which had broad coverage over a broad range of sports and exclusive rights to broadcast certain major sports events over nationwide television networks in the country.

The Group also organized a very successful charity program named "One cares one" ("買一善一") at the retail stores under which when customer purchases a pair of selected footwear, the Group would donate another pair to a child who lives and studies in the remote areas of the PRC. During the six months ended 30 June 2013, the donation covered about 44 schools at Daifong County in Guizhou (貴州省大方縣) and about 8,255 students received the gifts.

The Group also continued its agreements of appointing celebrity athletes as spokespersons of the Group's products of their respective fields and its *361°* brand. Such famous sports stars included London Olympics gold medalist of 400m and 1,500m freestyle swimming Sun Yang, U.S. NBA basketball star Kevin Love of the Minnesota Timberwolves, and a NBA All-Star player, Stephon Marbury (a two-time NBA All-Star player, now player with the Beijing Ducks, the 2011/12 winner of the Chinese Basketball Association championships and voted the Most Valuable Player) and a few Jamaican hurdlers and runners. The sports stars helped the Group project an image of a professional sportswear company. In addition to the athletes, the Group had also signed up a female pop singer, 吉克隽逸 (Jikejunji in Mandarin Chinese pinyin) as the spokesperson of its products under its lifestyle brand – Innofashion ("尚"), to boost retail sales with her influence. Jikejunji was the second runner-up in the highly successful "Voice of China" talent show, which was a well-known singing contest programme in China that had a high audience rating of 2012.

Sponsorship of professional sports teams

During the period under review, the Group reached out to target consumers effectively by sponsoring a number of professional sports teams.

Sponsorship of professional sports teams

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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 Swimming Team
Swedish National Curling Team

Sponsorships of professional sports events

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

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
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
2013	Asian Club League (Handball)	Sportswear Sponsor for the referees and technical officials
2013	Asian Men's & Women's Beach Handball Championship	Sportswear Sponsor for the referees and technical officials
2014	Nanjing 2014 Youth Olympics	Sportswear sponsor
2013-14	17th Asian Games Incheon 2014	Prestige Partner

Product design and development

The Group is clearly positioned as a professional sportswear company, and emphasizes the functionality of its products with special materials and design. It maintains an edge in product innovation and research and development to differentiate itself from its competitors in China's sportswear market.

In the period under review, the Group increased the use of special fabrics in its products to enhance their functionality for specific sports. Although the move had increased the cost and squeezed the gross margin of the products, it is essential to maintain the Group's competitiveness.

In order to boost sales, the Group bundled the apparel and footwear in sportswear collections with themes of different sports. This also helped to enhance the Group's image of a professional sportswear brand.

Besides, the Group continued to improve or upgrade the products in terms of functionality, comfort, and design, and together yielded 12 patents as at 30 June 2013 including Engulf, Archlock and Windproof.

Meanwhile, the Group's partnership with Beijing Institute of Fashion Technology was making progress in developing quality sportswear with new fabrics and designs to enhance athletes' performance. As at 30 June 2013, 7 patents on the innovation of new fabrics and clothes designs were obtained. The partnership helped foster a crop of design professionals who specialized in scientific research and innovation of high-technology fabric. This helped the Group keep abreast of the latest trends in fashion, fabrics and styles. The Group had also established a 10-year scholarship award program for the distinguished students of the Institute.

As of 30 June 2013, there were 107 research and development staff for footwear and 294 research and development staff for the apparel, accessories and children's wear. The Group's research and development spending accounted for about 2.4% of turnover for the period under review, compared with the 1.2% for the six months ended 30 June 2012.

Production

As at 30 June 2013, the Group owned 23 footwear production lines in the Wuli Industrial Park and Jiangtou. The 23 footwear production lines provided a combined annual production capacity of approximately 21 million pairs of footwear. The apparel factory in Wuli Industrial Park, which started operation in 2010, had an annual production capacity of 10 million pieces. The Group tried to maintain an optimum balance between inhouse and outsourced production, considering such factors as costs of production and labour and the competition for skilled workers. At the factories, the Group provided comprehensive facilities and amenities including kindergarten, supermarket, computers, library, mini-cinema, snookers, yoga class and fitness centre, in order to retain its workers.

The Group established a 51% owned subsidiary in 2010 with a leading Taiwan-based specialist for the manufacture of soles to ensure the supply of this key component of footwear in a cost-efficient manner. During the period under review, about 49% of soles used for the manufacturing of self-produced footwear was supplied by this subsidiary.

Distributorship model

The Group adopts the distributorship model which is prevalent in the sportswear industry in China. Under this model, the Group sells products exclusively to its distributors at a uniform discount to the suggested retail price. The distributors in turn sell these products to the authorized retailers at a price which is a uniform discount to the suggested retail price which has been approved by the Company. The authorized retailers then sell the Group's products to consumers in authorized retail outlets. The Board considers such business model has the benefits of achieving the business growth by leveraging the resources of the distributors, as well as the expertise in retail distribution and retail management and local relationships of the distributors. It also enables the Group to focus on designing and developing new and innovative sportswear products, to allocate resources to developing the brand and marketing of the products. The Group's distributors are buyers of our *361°* products and they are not our agent. The Company enters into a distributorship agreement with each of our distributors annually which generally includes the following principal terms:

(i) Duration – The agreement has a term of one year;

(ii) Geographical exclusivity – Each distributor is exclusively authorised to sell our *361°* products within a specific geographic area and is not permitted to sell outside of such area;

(iii) Product exclusivity – Distributors are prohibited from distributing or selling any products that compete with our *361°* products;

(iv) Sales channel and network – Without permission from the Group, distributors are not allowed to sell the Company's product through the electronic commerce platform developed by itself or any third parties;

(v) Undertakings – Our distributors are required to comply with our sales policies, adhere to our pricing policies, and adopt our standardised outlet design and layout in the authorised retail outlets within their exclusive geographic area;

(vi) Pricing – We sell our products to our distributors at a uniform price across all distributors;

(vii) Protection of our intellectual property rights – Our distributors are only allowed to use our intellectual property in connection with the sale of our *361°* products and we require our distributors not to participate or assist in any activities that may infringe upon our intellectual property rights;

(viii) Renewal – Negotiations for renewal of the distributorship agreements will usually takes place 60 days prior to their expiry date;

(ix) Transportation insurance – Our distributors are responsible for making their own delivery arrangements with the risk of loss of or damage to products during transport being borne by the distributors;

(x) Returned goods arrangements – Our distributors will only be able to return the goods we sold to them if there are quality issues. There was no returned goods for the six months ended 30 June 2013;

(xi) Termination rights – We are entitled to terminate the agreement in certain circumstances (for example: breach of the agreement by the distributors, sale by the distributors of pirated products, material damages to our brand image caused by the distributors). Our distributors do not have termination rights under the agreements; and

(xii) Distributors who breach any of (i) to (iv) above must return all the relevant profit to the Group with an additional fine of RMB1 million.

The distribution agreements entered into with our distributors do not contain any obsolete stock arrangement as we do not treat any of our stock as being obsolete. Authorized retailers with excess inventory may attempt to sell such excess inventory through regular and special end-of-season sales. The authorized retailer may also sell such excess inventory to a factory outlet in its own province.

Our sales return policy only allows the distributors to return products to the Group due to material quality defects. Distributors should inspect the products and, where defective products are found, may report the alleged defect to the Group. Such reports must be made within three days of delivery. The Group is not responsible for defects caused by improper storage by the distributors and improper use by consumers. For the six months ended 30 June 2013, the Group did not receive any notifications with respect to quality defects or any sales return from customers. Our distributors are not allowed to return products to the Group by reason of such products being unsold.

Distributors are invoiced upon delivery of the Group's products and the Group recognizes the sales of goods when the products leave the Group's warehouse. At that time, such distributor has accepted the risks and rewards of ownership. The Group generally provides a credit period between 30 and 180 days to the distributors, the exact term of which is determined based on such factors as past sales performance, credit history and the expansion plans of the distributors. The distributorship agreements with our distributors do not specify minimum amount of purchases from us.

During the period under review, the Group was not aware of any of the distributors having committed any material breach of the distributorship agreements. As at 30 June 2013, the Group had 31 distributors. None of the Group's distributors are former employees of the Group or sales partners who traded under the Group's name.

During the period under review, total sales to our distributors amounted to approximately RMB1,998.2 million and no goods were returned from our distributors.

Pursuant to the distributorship agreements, our distributors are entitled to authorize a person to become an authorised retailer to sell our *361°* products and to use the *361°* logo in a *361°* authorised retail outlet. The distributorship agreements with our distributors do not set expansion targets in respect of the number of retail outlets.

Distributors then enter into separate agreements with our authorized retailers for the sale and purchase of our *361°* products and other aspects of their commercial relationship. The distributors are responsible for ensuring that authorised retailers do not sell *361°* products outside of their respective territories. Authorised retailers breaching any of the terms stipulated in their separate agreements with the distributors will be subject to penalties, such as monetary fines and the termination of their authorisation to sell our *361°* products.

FINANCIAL REVIEW

Turnover

During the period under review, turnover decreased by 30.4% as aggressive discounting for clearance of inventory at retail channel affected distributors' demand for new products and a significant decrease in orders were seen in recent trade fairs amid the country's sportswear market glut. The orders at the 2013 spring/summer trade fair recorded a decrease of 23%, while those at the 2013 autumn and winter trade fairs decreased by 19% and 17% respectively when compared with the respective trade fairs in the previous fiscal year.

The Group broadened its product mix to accommodate the diversified market needs and worked hard to boost sales and to mitigate impact on the profit margins amid the tough competition.

During the period under review, the turnover of footwear and apparel decreased by 38.9% and 18.9% respectively while there was a slight increase on accessories by 2.6%. Both footwear and apparel recorded a reduction of the average wholesale selling price (the "ASP"), of 15.2% year on year to RMB91.2 and 8.5% year on year to RMB57.1, respectively. The decrease was due to the adjustment of discount to the distributor started from the 2013 Spring/Summer trade fair. As well as, a higher volume of Autumn products were delivered for the period ended 30 June 2012 than the same period of 2013 which broadened the decrease on the percentage for the two years.

Sales volume of footwear and apparel decreased by 27.8% year on year to 9.2 million pairs and 11.4% year on year to 16.2 million pieces, respectively, which was due to the decrease on the sales orders received from the distributors. However, there was a slight increase in the sales volume of accessories from 2.2 million to 2.5 million pieces whereas the ASP decreased by 8.4%.

The turnover of *361°* Kids for the six months ended 30 June 2013 decreased by 37.8% year on year to RMB207.2 million. As a huge batch of the summer and autumn products had been scheduled to deliver in advance in the first half of 2012 to cope with the rapid growth of *361°* Kids outlets at the time, the decrease on the percentage for the six months ended 30 June 2013 couldn't truly reflect the development of the business.

During the six months ended 30 June 2013, the pace of store number growth became steady and the decrease on turnover was due to the re-arranged delivery schedule, according to which only 2013 spring/summer products were delivered in the first half of the year and all the autumn products were planned to be delivered in the second half of 2013.

361° Kids' revenue accounted for 10.4% of the Group's turnover.

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			
	2013		2012	
	Total units sold '000	**Average wholesale selling price(1) RMB**	Total units sold '000	Average wholesale selling price(1) RMB
By Volume and ASP				
***361°* Products – Adults**				
Footwear (pairs)	**9,158**	**91.2**	12,690	107.6
Apparel (pieces)	**16,153**	**57.1**	18,240	62.4
Accessories (pieces/pairs)	**2,515**	**13.1**	2,245	14.3
***361°* Products – Kids**	**4,093**	**50.6**	5,731	58.1

Note:

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

A breakdown by product categories for the period under review, footwear and apparel comprised 41.8% and 46.2% respectively while accessories and *361°* Kids made up the remaining 1.6% and 10.4%.

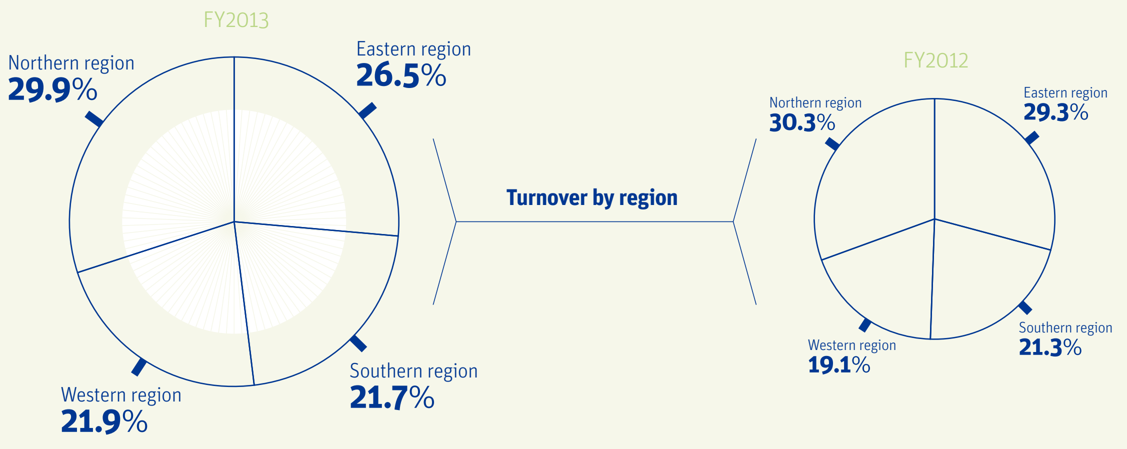
The following table sets forth a breakdown of the Group's turnover by products during the period under review:

	For the six months ended 30 June			
	2013		2012	
	RMB'000	**% of Turnover**	RMB'000	% of Turnover
By Products				
Turnover				
***361°* Products – Adults**				
Footwear	**835,192**	**41.8**	1,365,960	47.6
Apparel	**922,902**	**46.2**	1,138,185	39.7
Accessories	**32,849**	**1.6**	32,012	1.1
***361°* Products – Kids**	**207,211**	**10.4**	332,934	11.6
Total	**1,998,154**	**100**	2,869,091	100

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

	For the six months ended 30 June			
	2013		2012	
	RMB'000	**% of Turnover**	RMB'000	% of Turnover
By Regions				
Eastern region(1)	**530,300**	**26.5**	841,677	29.3
Southern region(2)	**432,757**	**21.7**	611,351	21.3
Western region(3)	**436,895**	**21.9**	547,063	19.1
Northern region(4)	**598,202**	**29.9**	869,000	30.3
Total	**1,998,154**	**100**	2,869,091	100

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



Cost of Sales

Cost of sales of the Group for the first half of 2013 decreased by 25.9 % year on year to RMB1,218.6 million, and accounted for 61.0% of the Group's turnover. The percentage of decrease was less than the decrease on the percentage of turnover for the period under review.

Over these years, as competition in the sportswear industry has been intensive, the Group has continuously invested in its product design and choice of material to differentiate its products in the market. The changes increased the burden on the cost of production, especially on apparel. Additionally, the recruitment of young factory workers for the replacement of old or retired workers was still difficult. The younger generation tends to prefer jobs with lower wages in exchange for working places closer to home town or jobs in the services industry. The high turnover rate of labour resulted in the rising cost of running factory in general which increased the cost on both internally produced and outsourced products.

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			
	2013		2012	
	RMB'000	**% of total costs of sales**	RMB'000	% of total costs of sales
***361°* Products**				
Footwear & Apparel (Internal Production)				
Raw materials	**207,342**	**17.0**	320,555	19.5
Labour	**70,554**	**5.8**	87,173	5.3
Overheads	**113,244**	**9.3**	134,284	8.2
	391,140	**32.1**	542,012	33.0
Outsourced Products				
Footwear	**247,033**	**20.3**	425,414	25.8
Apparel	**560,007**	**45.9**	659,223	40.1
Accessories	**20,432**	**1.7**	18,415	1.1
	827,472	**67.9**	1,103,052	67.0
Cost of sales for *361°* Products	**1,218,612**	**100**	1,645,064	100

Gross profit

Gross profit for *361°* products was RMB779.5 million for the first half of 2013. Gross profit margin was 39.0%, down by 3.7 percentage points compared to the same period of 2012.

Starting from the 2013 spring/summer trade fair held in July of 2012, the Group increased the discounts it offered to its distributors from 58% to 60%.

ASP in footwear and apparel recorded a year-on-year decrease of 15.2% and 8.5% respectively which incorporated the changes of discounts to the distributors for the past trade fairs while the year-on-year 27.8% and 11.4% decrease in sales volume on footwear and apparel respectively had further lowered the amount of gross profit for the period under review. The increment by percentage in the cost of the products was higher than that in the ASP. The gross profit margin of footwear decreased to 40.1% for the first half of 2013 from the 43.1% for the same period of 2012 while the gross profit margin of apparel was severely down by 3.8 percentage point to 37.7% compared with the same period last year.

The gross profit margin of the *361°* Kids products was 39.9%. The business was still in a developing stage and the gross margin is still adjusting to suit with the target market.

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			
	2013		2012	
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %
***361°* Products – Adults**				
Footwear	**334,784**	**40.1**	589,206	43.1
Apparel	**347,692**	**37.7**	472,043	41.5
Accessories	**14,316**	**43.6**	15,473	48.3
***361°* Products – Kids**	**82,750**	**39.9**	147,305	44.2
Total	**779,542**	**39.0**	1,224,027	42.7

Selling and distribution expenses

Selling and distribution expenses decreased by 25.3% to RMB357.2 million during the six months under review, primarily as a result of the decrease in the expenses of the rack subsidy from 4.3% to 3.9% of the total turnover as well as a stable percentage of the advertising and promotional expenses to the total turnover represented by 9.8% and 9.2% for the six months ended 30 June 2013 and 2012.

The amount of the racks subsidy had been deducted to 3.9% from 4.3% of the total turnover of the period ended 30 June 2013 and 2012 respectively, which represented an amount of RMB78 million for racks to 968 retail stores. The racks are part of the fixtures and fittings for displaying products to customers at retail outlets. The Group believe that the provision of such subsidy would be a direct assistance to upgrade the retail stores and improve its competitive power in the tough market.

During the six months under review, the amount of the advertising and promotional expenses decreased by 25.6% year on year, the Group had cautiously cancelled some of the promotion projects but still kept expenses for important sponsorships for the promotion of the brand. During these six months, the Group had newly commenced the sponsorship program with the China National Swimming Team, successfully renewed the spokesman contract with the London Olympic Double Gold Medalist – Sun Yang and obtained the sponsorship of 2014 Incheon Asian Games. Together with the sponsorships entered in the past years, the Group believes that the brand image would not be affected by the reduction of expenses.

Administrative expenses

Administrative expenses slightly increased by 6.2% to RMB152.6 million for the six months ended 30 June 2013 and represented about 7.6% of the turnover of the Group.

The increase was due to an addititonal impairment losses recognised for aged debts amounted to RMB18.3 million. The Group has a long relationship and a good track record of all the accounts receivable, would continue to follow and closely monitor the debts.

Research and development expenses were RMB48.8 million represented 2.4% of the turnover for the period under review whereas it was RMB35.4 million for the last year. The increase of RMB13.4 million or 37.9% was mainly for the material used for the research and development. The Group believe that the expense is important for enhancement of the brand and will continue to invest.

Finance Costs

Finance costs increased to RMB39.3 million for the six months ended 30 June 2013, of which RMB1.3 million was related to short-term bank borrowings and a mortgage loan borrowing incurred in the period. The balance of RMB38.0 million was the relevant interest and cost in relation to the convertible bonds amortised over the period.

In April 2012, the Group issued US$150,000,000 4.5% Convertible Bonds due 2017. The net change in fair value as at 30 June 2013 and the cost and interest were accrued for the period. The short-term bank borrowing of RMB10 million was for the financing of a 51% subsidiary operated in the PRC whereas the mortgage bank loan of RMB16.7 million (HK$21 million) was for the finance of an office purchased in Hong Kong on 31 December 2012.

The Interest of the convertible bonds composed 1) an interest of 4.5% per annum to the convertible bonds amounting to RMB20.7 million for the six months ended 30 June 2013 and; 2) the balance of RMB17.3 mllion 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 RMB75.1mllion (2012:RMB99.7 mllion) and the effective tax rate for the period was 28.2% (2012: 16.2%). The percentage had excluded the effect on the net change in fair value of derivatives embedded to convertible bonds from the profit before taxation.

Starting from 1 January 2013, all the four PRC operating subsidiaries are taxable at the standard rate of 25% whereas all subsidiaries in Hong Kong are non-taxable since there wasn't any operating income generated in Hong Kong. As the interest of the convertible bonds was paid by a Hong Kong subsidiary, the expenses was not allowable to be deducted from the taxable income of the PRC subsidiaries which affected the amount of tax paid and effective tax rate on the Group level.

Profit for the period

As compared with the last corresponding period, profit for the period under review decreased to RMB205.3 million, representing a decline of 65.6%. This was mainly attributed to the increase in the cost of sales and administrative expenses, resulting in decrease in operating profit margin from 22.4% for the six months ended 30 June 2012 to 15.3% for the period. Earnings per share for the period under review was RMB9.9 cents, down 65.6% year-on-year.

INTERIM DIVIDEND

The Board resolved to declare an interim dividend of RMB4.0 cents (equivalent to HK5.1 cents) per share for the six months ended 30 June 2013. The dividend amounted to RMB82.7 million and represented 40.3% of the unaudited profit for the period. It is expected that the interim dividend will be paid to shareholders on or about 17 September 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 4 September to Friday, 6 September 2013, both days inclusive, for the purpose of determining shareholders' entitlements to the interim dividend. In order to qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 3 September 2013.

LIQUIDITY AND FINANCIAL RESOURCES

During the six months ended 30 June 2013, net cash inflow from operating activities of the Group amounted to RMB554.0 million. As at 30 June 2013, cash and cash equivalents, including bank deposits and cash in hand, and fixed deposits with original maturities not exceeding three months, amounted to RMB2,717.3 million, representing a net increase of RMB610.3 million as compared to the position as at 31 December 2012. The increase was attributed to the following items:

	For the six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Net cash generated from operating activities	**554,001**	1,408,063
Net capital expenditure	**(21,269)**	(35,441)
Dividends paid	**(144,732)**	(144,732)
Proceeds from new bank loans	**–**	213,697
Net proceeds from Convertible Bonds	**–**	922,894
Repayment of bank loans	**(15,395)**	(215,921)
Repayment of other loan	**–**	(150,000)
Withdrawal/(placement) of deposits (with maturity over three months)	**193,650**	(417,483)
Other net cash inflow	**44,014**	10,280
Net increase in cash and cash equivalents	**610,269**	1,591,357

Due to the reduction on orders received from trade fairs, the amount of inventories and prepayment to suppliers decreased to RMB439.7 million and RMB385.1 million from RMB460.7 million and RMB388.9 million six months ago, respectively. Although the trade and bills receivable totaled RMB2,142.9 million was still higher than the amount recorded as at 31 December 2012 by 1.5%, the increase of 14.7% of trade and bills payable as at 30 June 2013 compensated the increase on the trade and bills receivable and helped to generate a positive operating cash inflow to the Group.

During the six months ended 30 June 2013, the Group had repaid RMB15.4 million for a bank loan of the 51% owned subsidiary and a mortgage bank loan for the finance of a Hong Kong office acquired on 31 December 2012. As at 30 June 2013, the balances of the loans were RMB10.0 million and RMB16.7 million respectively.

The Group's gearing ratio has decreased to 10.5% as at 30 June 2013, compared with the 11.0% as at 31 December 2012.

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 six months ended 30 June 2013, 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 2013, a building with net book value of RMB44,264,000 (31 December 2012: RMB45,423,000) was pledged as security for a banking facility of the Group of RMB21,305,000 (31 December 2012: RMB21,646,000).

The aforesaid banking facility was for the finance of a newly acquired office unit in Hong Kong. The office unit is for the Group own use and not for any investment purpose.

Bills payable as at 30 June 2013 were secured by pledged bank deposits of RMB55.0 million.

WORKING CAPITAL MANAGEMENT

The average working capital cycle for the six months ended 30 June 2013 was 94 days (year ended 31 December 2012: 109 days). It was mainly due to the increase in trade and bills payable days helped to improve the working capital cycle when compared with six months ago.

After the deduction of an additional impairment losses on trade receivables of RMB18.3 million provided by the Group the average trade and bills receivable cycle was 193 days as at 30 June 2013 (31 December 2012: 165 days). It showed an increase of 28 days. The trade and bills receivable rose by 1.5% to RMB2,142.9 million compared to six months ago. Over 84.9% of the trade debtors and bill receivable were considered as neither past due nor impaired whereas 62.8% of the trade debts were within 90 days. The Group has close contacts with all the distributors and will continue to monitor all the debts.

Over the past two and a half years, sportswear industry experienced severe price competition and market glut. Although the duration accounts receivable turnover was still high, the Group believed that the supports to its distributors and retailers in running their stores network were important. We estimate that the sportswear market may rebound after the market glut is substantially cleared by the end of 2013.

The average inventory turnover cycle increased to 67 days for the six months ended 30 June 2013 (year ended 31 December 2012: 56 days). The inventories amounted to RMB439.7 million, down by 4.6% when compared to the RMB460.7 million as at 31 December 2012. About 77.4% of the stock were finished goods and were mainly the products of the 2013 summer and autumn season. As reported by the distributors in the first and second quarters of 2013, retail stores still facing tough competition, the channel inventory level was 4.3 times the monthly sales in the first quarter of 2013 and 4.4 times in the second quarter of the year. Although retail discounts has narrowed recently, distributors were still cautious on arranging of the delivery schedule as well as placing of orders as reflected by the orders of 2013 Winter trade fair, a decrease by 17% of last year, held in April 2013.

As at 30 June 2013, prepayments to suppliers were RMB385.1 million, representing a 1.0% decrease when compared with the RMB388.9 million of the year ended 31 December 2012. The prepayments were upfront deposits paid to suppliers for the acceptance of orders for the 2013 winter products. Since the amount of orders received by the Group decreased, the relevant deposits paid declined.

The reduction on the balance of other prepayments to RMB44.4 million from RMB106.4 million as at 31 December 2012 represented a decrease by 58.3% was mainly the prepaid expenses in relation to the deduction of advertising and promotion contracts and other selling and distribution expenses.

The average trade and bills payable cycle was 166 days for the six months ended 30 June 2013, compared with the 112 days for the year ended 31 December 2012. The average trade payable cycle was 105 days, compared with the 53 days for the year ended 31 December 2012. The duration of credit for the issuance of bills payable to suppliers was 180 days. The extra credit was mainly granted by the OEM suppliers to attract orders in short term, thus to increase the chance of survival and wait for the turnaround of industry.

CONVERTIBLE BONDS

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 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 subsequently adjusted to HK$3.40 after a declaration of the final dividend on 27 April 2013. If the Convertible Bonds was fully converted into Shares, the number of Shares will be increased by 342,300,000, representing about 14.2% of the issued share capital as enlarged.

At any time 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 conditions. 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 2013 was still higher than the time of issuance, it incurred a net gain on the fair value change to the Group amounting to RMB13.6 million after deducting the changes derived from the valuation for both the redemption option of the issuer and bondholder.

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). As at 30 June, the utilized net proceeds from the listing amounted to HK$1,739.4 million.

In view of the prevailing market conditions, the Group announced on 22 April 2013 that it has decided to change the use of the unutilized net proceeds from its listing. Instead of using the proceeds to open directly-owned flagship stores and directly-owned retail outlets for *361°* Kids. It would spend the proceeds on advertising and promotion of its products for adults and kids.

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 2013)	Unutilised (as at 30 June 2013)
Developing and increasing brand awareness	741.2	653.4	87.8
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	1,739.4	166.0

EMPLOYEES AND EMOLUMENTS

As at 30 June 2013, the Group employed a total of 8,765 full time employees in the PRC which included management staff, technicians, salespersons and workers. For the six months ended 30 June 2013, the Group's total remuneration of employees was RMB164.5 million, representing 8.2% 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 mandatory provident fund scheme (operating in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees), the 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 on fringe benefits.

PROSPECTS

The difficulties of China's sportswear market in year 2012 continued well into the first half of 2013. It is expected that the market conditions will last into the second half of the year before a recovery as early as the end of 2013, after the market glut is substantially cleared and the country's demand for sportswear returns. Although there are signs of improvement in terms of oversupply, market glut clearance, inventory control at sales channels, product innovation and developing a distinctive brand image will be the themes in the sportswear industry.

The government's policies of encouraging people to live a healthy life with more frequent physical exercise will continue to provide support for the long-term healthy growth of the sportswear industry. Industry players who can differentiate or even distinguish themselves from their peers with good products and distinctive brand images will become the market winner.

Being visionary, the Group has already clearly positioned itself as a professional sportswear firm. It has been developing and enhancing its competitiveness with a distinctive brand image, innovative designs, good quality and high performance of the products, and a new product line for children.

Specifically, it will continue its product innovation through cooperation with its research and development partners and increase the application of special fabrics in its products to enhance their functionality for specific sports. It will keep developing the *361°* Kids to capture the opportunities of a promising market for children's wear and cultivate the future market. *361°* Kids will become a growth driver in the future. It will also continue to promote its brand image by sponsoring major sports events and through partnership with the national sports TV channel CCTV-5. Meanwhile, it will work closely with its distributors and retailers to boost sales and control inventory. Specific measures will include helping the stores improve the presentation of goods and the shopping environment and raising their efficiency with the ePOS. All these measures aim at generating better returns to the Group's shareholders.

Corporate Governance and Other Information

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

As at 30 June 2013, 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)	377,774,000	18.27%
	Short	Interest in controlled corporation		44,927,030	2.17%
Mr Ding Huihuang	Long	Interest in controlled corporation	(2)	360,000,000	17.41%
	Short	Interest in controlled corporation		44,819,124	2.17%
Mr Ding Huirong	Long	Interest in controlled corporation	(3)	360,000,000	17.41%
	Short	Interest in controlled corporation		44,819,124	2.17%
Mr Wang Jiabi	Long	Interest in controlled corporation	(4)	187,500,000	9.07%
	Short	Interest in controlled corporation		22,463,861	1.09%

Notes:

(1) Mr Ding Wuhao is deemed to be interested in 377,774,000 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 44,927,030 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 44,819,124 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 44,819,124 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 22,463,814 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 2013, 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 2013 are as follows:

			Number of Shares issuable under the options				
	Date of grant	Exercise price per share	as at 31 December 2012	exercised during the six month	lapsed during six month	cancelled during six month	as at 30 June 2013
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 2013.

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 2013.

Apart from the foregoing, at no time during the six months ended 30 June 2013 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 2013, 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	377,774,000	18.27%
		S	44,927,030	2.17%
Ming Rong International Company Limited	(3)	L	360,000,000	17.41%
		S	44,819,124	2.17%
Hui Rong International Company Limited	(4)	L	360,000,000	17.41%
		S	44,819,124	2.17%
Jia Wei International Co., Ltd.	(5)	L	187,500,000	9.07%
		S	22,463,861	1.09%
Jia Chen International Co., Ltd.	(6)	L	187,500,000	9.07%
		S	22,463,861	1.09%
Credit Suisse Group AG	(7)	L	130,568,811	6.31%
		S	40,060,970	1.94%
Bank of America Corporation	(8)	L	420,428,600	20.33%
		S	211,339,600	10.22%

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.24 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.24 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.24 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.24 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 22,463,861 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 held by various entities directly or indirectly controlled by it.

8. The interests held by Bank of America Corporation were held by various entities indirectly controlled by it.

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 2013.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

In the opinion of the directors, the Company has complied with the code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2013.

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 2013.

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 four independent non-executive directors of the Company, Mr. Yan Man Sing Frankie, Mr. Sun Xianhong, Mr. Tsui Yung Kwok 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 2013 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 2013 – unaudited (Expressed in Renminbi)

		Six months ended 30 June	
		2013	2012
	Note	**RMB'000**	RMB'000
Turnover	3	**1,998,154**	2,869,091
Cost of sales		**(1,218,612)**	(1,645,064)
Gross profit		**779,542**	1,224,027
Other revenue	4	**32,437**	49,529
Other net gain/(loss)	4	**3,974**	(7,714)
Selling and distribution expenses		**(357,218)**	(478,286)
Administrative expenses		**(152,613)**	(143,719)
Profit from operations		**306,122**	643,837
Net change in fair value of derivatives embedded to convertible bonds	14	**13,640**	80,634
Finance costs	5(a)	**(39,280)**	(27,301)
Profit before taxation	5	**280,482**	697,170
Income tax	6	**(75,147)**	(99,673)
Profit for the period		**205,335**	597,497
Attributable to:			
Equity shareholders of the Company		**205,264**	595,588
Non-controlling interests		**71**	1,909
Profit for the period		**205,335**	597,497
Earnings per share	7		
Basic (cents)		**9.9**	28.8
Diluted (cents)		**9.6**	28.8

The notes on pages 36 to 52 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 15(c).

Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2013 – unaudited (Expressed in Renminbi)

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Profit for the period	**205,335**	597,497
Other comprehensive income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements	**2,635**	3,267
Total comprehensive income for the period	**207,970**	600,764
Attributable to:		
Equity shareholders of the Company	**207,899**	598,855
Non-controlling interests	**71**	1,909
Total comprehensive income for the period	**207,970**	600,764

The notes on pages 36 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 2013 – unaudited (Expressed in Renminbi)

	Note	**At 30 June 2013 RMB'000**	At 31 December 2012 RMB'000
Non-current assets			
Fixed assets	8		
– Property, plant and equipment		**945,964**	958,049
– Interests in leasehold land held for own use under operating leases		**98,678**	99,754
		1,044,642	1,057,803
Other financial asset		**17,550**	17,550
Deposits and prepayments	9	**124,199**	142,140
Deferred tax assets		**63,086**	61,730
		1,249,477	1,279,223
Current assets			
Inventories	10	**439,746**	460,715
Trade debtors	9	**2,139,497**	1,928,040
Bills receivable	9	**3,381**	183,470
Deposits, prepayments and other receivables	9	**511,375**	567,223
Pledged bank deposits	11	**55,014**	95,730
Deposits with banks	11	**397,141**	590,791
Cash and cash equivalents	11	**2,717,287**	2,107,018
		6,263,441	5,932,987
Current liabilities			
Trade and other payables	12	**1,800,814**	1,591,474
Bank loans	13	**26,650**	42,315
Current taxation		**128,366**	92,379
		1,955,830	1,726,168
Net current assets		**4,307,611**	4,206,819
Total assets less current liabilities		**5,557,088**	5,486,042
Non-current liabilities			
Deferred tax liabilities		**4,073**	2,517
Convertible bonds	14	**759,314**	753,062
		763,387	755,579
NET ASSETS		**4,793,701**	4,730,463

	Note	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
CAPITAL AND RESERVES	15		
Share capital		**182,298**	182,298
Reserves		**4,558,929**	4,495,762
Total equity attributable to equity shareholders of the Company		**4,741,227**	4,678,060
Non-controlling interests		**52,474**	52,403
TOTAL EQUITY		**4,793,701**	4,730,463

The notes on pages 36 to 52 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2013 – 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 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	15c	-	(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
Balance at 1 Jan 2013		182,298	459,903	156,252	82,724	473,658	12,859	(38,478)	3,348,844	4,678,060	52,403	4,730,463
Changes in equity for the six months ended 30 Jun 2013:												
Profit for the period		-	-	-	-	-	-	-	205,264	205,264	71	205,335
Other comprehensive income		-	-	-	-	-	-	2,635	-	2,635	-	2,635
Total comprehensive income		-	-	-	-	-	-	2,635	205,264	207,899	71	207,970
Appropriation to statutory reserve		-	-	-	-	25,082	-	-	(25,082)	-	-	-
Dividends declared and paid during the period	15c	-	(144,732)	-	-	-	-	-	-	(144,732)	-	(144,732)
Balance at 30 Jun 2013		182,298	315,171	156,252	82,724	498,740	12,859	(35,843)	3,529,026	4,741,227	52,474	4,793,701

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2013 – unaudited (Expressed in Renminbi)

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Cash generated from operations	**592,961**	1,470,691
Income tax paid	**(38,960)**	(62,628)
Net cash generated from operating activities	**554,001**	1,408,063
Net cash generated from/(used in) investing activities	**238,412**	(433,485)
Net cash (used in)/generated from financing activities	**(182,144)**	616,779
Net increase in cash and cash equivalents	**610,269**	1,591,357
Cash and cash equivalents at 1 January	**2,107,018**	459,762
Cash and cash equivalents at 30 June	**2,717,287**	2,051,119

The notes on pages 36 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

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 20 August 2013.

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 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 2012 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2012 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2012 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 5 March 2013.

2. CHANGES IN ACCOUNTING POLICIES

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

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- Annual Improvements to HKFRSs 2009-2011 Cycle

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

2. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the abillity to use its power to affect the amount of those returns.

The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker (CODM) and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. The amendment does not have any impact on the segment disclosure of the Group because the Group's segment assets and segment liabilities are not disclosed on the basis that the amounts are not regularly provided to the CODM.

3 TURNOVER AND SEGMENT REPORTING

(a) Turnover

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Footwear	**906,950**	1,461,102
Apparel	**1,055,192**	1,372,094
Accessories	**36,012**	35,895
	1,998,154	2,869,091

The Group's customer base is diversified and includes only two customers (2012: two) with whom transactions have exceeded 10% of the Group's revenues. During the period ended 30 June 2013, 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 RMB592 million (2012: RMB742 million). These sales arose in both reportable segments (see note 3(b)).

Further details regarding the Group's principal activities are disclosed below.

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- *361°* Products – Adults: this segment derives turnover from manufacturing and trading of adults sporting goods.

- *361°* Products – Kids: this segment derives turnover from trading of kids sporting goods.

The Group's revenue and results were derived from sales in the PRC and the principal assets employed by the Group were located in the PRC during the period. Accordingly, no analysis by geographical segments has been provided for the period. In addition, no information on segment assets and liabilities was prepared for review by the Group's most senior executive management for the period for the purpose of resource allocation and performance assessment.

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and expenses incurred by these segments. The measure used for reporting segment profit is gross profit.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2013 and 2012 is set out below.

	361° Products – Adults Six months ended 30 June		*361°* Products – Kids Six months ended 30 June		Total Six months ended 30 June	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Reportable segment revenue	**1,790,943**	2,536,157	**207,211**	332,934	**1,998,154**	2,869,091
Cost of sales	**(1,094,151)**	(1,459,435)	**(124,461)**	(185,629)	**(1,218,612)**	(1,645,064)
Reportable segment profit (gross profit)	**696,792**	1,076,722	**82,750**	147,305	**779,542**	1,224,027

3 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(ii) Reconciliations of reportable segment revenues and profit or loss

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Revenue		
Reportable segment revenue and consolidated turnover (note 3(a))	**1,998,154**	2,869,091
Profit		
Reportable segment profit	**779,542**	1,224,027
Other revenue	**32,437**	49,529
Other net gain/(loss)	**3,974**	(7,714)
Selling and distribution expenses	**(357,218)**	(478,286)
Administrative expenses	**(152,613)**	(143,719)
Net change in fair value of derivatives embedded to convertible bonds	**13,640**	80,634
Finance costs	**(39,280)**	(27,301)
Consolidated profit before taxation	**280,482**	697,170

4 OTHER REVENUE AND NET GAIN/(LOSS)

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Other revenue		
Bank interest income	**25,315**	5,931
Government grants	**440**	38,570
Others	**6,682**	5,028
	32,437	49,529
Other net gain/(loss)		
Net loss on disposal of fixed assets	**–**	(775)
Net foreign exchange gain/(loss)	**3,974**	(6,939)
	3,974	(7,714)

Government grants of RMB440,000 (2012: RMB38,570,000) were received from several local government authorities for the Group's contribution to local economies, of which the entitlement was unconditional and under the discretion of the relevant authorities.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		Six months ended 30 June	
		2013	2012
		RMB'000	RMB'000
(a)	Finance costs:		
	Interest on bank borrowings wholly repayable within five years	**1,331**	9,158
	Finance charges on convertible bonds (note 14)	**37,949**	18,143
	Total finance costs	**39,280**	27,301
(b)	Other items:		
	Amortisation of land lease premium	**1,076**	1,005
	Depreciation	**32,241**	37,846
	Impairment losses on trade and other receivables	**18,332**	–
	Staff costs	**164,547**	190,796
	Operating lease charges in respect of properties	**10,614**	6,130
	Research and development costs*	**48,799**	35,374
	Cost of inventories**	**1,218,612**	1,645,064

* Research and development costs include RMB16,390,000 (2012: RMB16,596,000) 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 RMB118,259,000 (2012: RMB132,339,000) relating to staff costs and depreciation, which amount is also included in the respective amount disclosed separately above.

6 INCOME TAX

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Current tax – PRC income tax		
Provision for the period	**78,233**	79,858
(Over)/under provision in respect of prior periods	**(3,286)**	2,973
	74,947	82,831
Deferred tax		
Origination and reversal of temporary differences	**200**	16,842
	75,147	99,673

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 ended 30 June 2012, a PRC subsidiary is subject to tax at 50% of the standard tax rates under the relevant tax rules and regulations.

7 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 RMB205,264,000 (six months ended 30 June 2012: RMB595,588,000) and the weighted average number of shares in issue during the interim period of 2,068 million (2012: 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 RMB229,573,000 (six months ended 30 June 2012: RMB595,588,000) and the weighted average number of ordinary shares of 2,397 million (2012: 2,068 million) adjusted for the potential dilutive effect caused by the conversion of convertible bonds and share options granted under Pre-IPO share option scheme.

8 FIXED ASSETS

During the six months ended 30 June 2013, the Group acquired items of property, plant and equipment of approximately RMB21,269,000 (six months ended 30 June 2012: approximately RMB35,441,000).

9 TRADE AND OTHER RECEIVABLES

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Trade debtors		
Trade debtors	**2,197,349**	1,967,560
Less: Allowance for doubtful debts (note 9(b))	**(57,852)**	(39,520)
	2,139,497	1,928,040
Bills receivable	**3,381**	183,470
Deposits, prepayments and other receivables		
Current		
Deposits	**5,494**	3,586
Prepayments	**429,501**	495,295
Other receivables	**76,242**	51,884
Derivative financial instruments (note 14)	**138**	16,458
	511,375	567,223
Non-current		
Deposit and prepayment	**124,199**	142,140

Included in prepayments are amounts prepaid to suppliers of RMB385,091,000 (31 December 2012: RMB388,906,000).

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 current deposits of RMB5,494,000 (31 December 2012: RMB3,586,000) are expected to be recovered or recognised as expenses after more than one year.

9 TRADE AND OTHER RECEIVABLES (CONTINUED)

(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 balance sheet date:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Within 90 days	**1,344,946**	1,088,602
Over 90 days but within 180 days	**740,079**	1,022,723
Over 180 days but within 365 days	**57,853**	185
	2,142,878	2,111,510

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly.

The movement in the allowance for doubtful debts during the period, including both specific and collective loss components, is as follows:

	Six months ended 30 June	
	2013 RMB'000	2012 RMB'000
At the beginning of the period	**39,520**	39,520
Impairment loss recognised	**18,332**	–
At the end of the period	**57,852**	39,520

At 30 June 2013, the Group's trade debtors and bills receivable of RMB57,852,000 (2012: RMB39,520,000) were determined to be impaired. The impaired receivables related to a number of customers and management assessed that the receivables are considered doubtful. Consequently, allowances for doubtful debts were recognised. The Group does not hold any collateral over these balances.

9 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

The ageing analysis of trade debtors and bills receivable that are past due as at 30 June 2013 but neither individually nor collectively considered to be impaired are as follows:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Neither past due nor impaired	**1,819,996**	1,961,452
Within 30 days past due	**113,353**	75,930
Over 30 days but within 90 days past due	**148,009**	70,414
Over 90 days but within 180 days past due	**61,520**	3,714
Amount past due	**322,882**	150,058
	2,142,878	2,111,510

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.

10 INVENTORIES

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Raw materials	**50,172**	28,077
Work in progress	**49,232**	116,075
Finished goods	**340,342**	316,563
	439,746	460,715

11 CASH AND BANK DEPOSITS

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Pledged bank deposits	**55,014**	95,730
Deposits with banks		
– More than three months to maturity when placed	**397,141**	590,791
– Within three months to maturity when placed	**116,413**	585,133
Cash at bank and in hand	**2,600,874**	1,521,885
Cash and bank deposits	**3,169,442**	2,793,539
Represented by:		
Pledged bank deposits	**55,014**	95,730
Deposits with bank	**397,141**	590,791
Cash and cash equivalents	**2,717,287**	2,107,018
	3,169,442	2,793,539

At 30 June 2013, the balances that were placed with banks or on hand in the PRC in the cash and bank deposit amounted to RMB3,047,791,000 (31 December 2012: RMB2,670,561,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

12 TRADE AND OTHER PAYABLES

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Trade creditors	**861,653**	548,936
Bills payable	**331,120**	491,140
Receipts in advance	**13,441**	43,217
Other payables and accruals	**453,754**	335,205
Derivative financial instruments (note 14)	**140,846**	172,976
	1,800,814	1,591,474

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 2013 and 31 December 2012 were secured by pledged bank deposits.

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

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Due within 1 month or on demand	**188,156**	420,644
Due after 1 month but within 3 months	**730,117**	328,764
Due after 3 months but within 6 months	**274,500**	290,668
	1,192,773	1,040,076

13 BANK LOANS

As at 30 June 2013, the bank loans were repayable within one year or on demand and secured as follows:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Bank loans		
– secured	**16,650**	17,315
– unsecured	**10,000**	25,000
	26,650	42,315

As 30 June 2013 and 31 December 2012, secured bank loans of the Group were secured by a property.

14 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 year ended 31 December 2012, the conversion price of the convertible bonds was adjusted to HK$3.40 per share with effective from 27 April 2013.

	Liability component convertible bonds RMB'000 (note 14(a))	**Redemption call option** RMB'000 (note 9 and note 14(b))	**Redemption put option** RMB'000 (note 12 and note 14(c))	**Conversion option** RMB'000 (note 12 and note 14(d))	**Total** RMB'000
At 1 January 2012	–	–	–	–	–
Issuance of the convertible bonds	753,885	(22,450)	40,473	173,059	944,967
Transaction costs (note 14(e))	(17,626)	–	–	–	(17,626)
Finance charges amortised during the period (note 5(a))	18,143	–	–	–	18,143
Interest paid and payable	(10,286)	–	–	–	(10,286)
Change in fair value	–	9,780	29,384	(119,798)	(80,634)
Exchange adjustments	6,165	(147)	460	942	7,420
At 30 June 2012	750,281	(12,817)	70,317	54,203	861,984
At 1 January 2013	753,062	(16,458)	51,992	120,984	909,580
Finance charges amortised during the period (note 5(a))	37,949	–	–	–	37,949
Interest paid and payable	(20,687)	–	–	–	(20,687)
Change in fair value	–	16,193	26,728	(56,561)	(13,640)
Exchange adjustments	(11,010)	127	(937)	(1,360)	(13,180)
At 30 June 2013	759,314	(138)	77,783	63,063	900,022

14 CONVERTIBLE BONDS (CONTINUED)

(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 2013, 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 9).

(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 12).

(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 12).

(e) For the six months ended 30 June 2012, 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.

15 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital and reserves

	At 30 June 2013		At 31 December 2012	
	No. of shares '000	**HK$'000**	No. of shares '000	HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**10,000,000**	**1,000,000**	10,000,000	1,000,000

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

	No. of shares '000	**HK$'000**	**RMB'000**
Ordinary shares, issued and fully paid:			
At 1 July 2012/31 December 2012/ 1 January 2013/30 June 2013	**2,067,602**	**206,760**	**182,298**

15 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) At 30 June 2013, the outstanding options of the Company were:

Date of options granted	Exercise period	Exercise price	Number of options outstanding At 30 June 2013 '000	At 31 December 2012 '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

(c) Dividends

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

	Six months ended 30 June 2013 RMB'000	2012 RMB'000
Interim dividend declared after the interim period of RMB4.0 cents per ordinary share (2012: RMB7.0 cents per ordinary share)	**82,704**	144,732

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

15 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Dividends

(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	
	2013	2012
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved/declared and paid during the following interim period, of RMB7.0 cent per ordinary share (six months ended 30 June 2012: RMB7.0 cents per ordinary share)	**144,732**	144,732

16 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Short-term employee benefits	**16,491**	16,656
Equity-settled share-based payments	**–**	444
Post-employment benefits	**645**	700
	17,136	17,800

17 COMMITMENTS

(a) Contractual commitments outstanding at 30 June 2013 not provided for in the interim financial report were as follows:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Advertising and marketing expenses	**461,074**	650,240

(b) Capital commitments outstanding at 30 June 2013 not provided for in the interim financial report were as follows:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Authorised and contracted for	**56,936**	69,525

(c) At 30 June 2013, the total future minimum lease payments under non-cancellable operating leases payable as follows:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Within 1 year	**13,467**	11,865
After 1 year but within 5 years	**15,029**	19,088
	28,496	30,953

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

18 PLEDGE OF ASSETS

At 30 June 2013 and 31 December 2012, certain bank facilities and bills payable of the Group were secured by a property and pledged bank deposits.

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