Interim Report 2014

中期報告

361 DEGREES INTERNATIONAL LIMITED

361度國際有限公司

STOCK CODE 股份代號: 1361

Contents

Company Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Yan Man Sing Frankie（甄文星）
Sun Xianhong（孫先紅）*(Resigned and effective from 1 June 2014)*
Tsui Yung Kwok（徐容國）
Liao Jianwen（廖建文）*(Appointed and effective from 1 June 2014)*

BOARD COMMITTEES

Audit Committee

Yan Man Sing Frankie（甄文星）*(Chairman)*
Sun Xianhong（孫先紅）*(Resigned and effective from 1 June 2014)*
Tsui Yung Kwok（徐容國）
Liao Jianwen（廖建文）*(Appointed and effective from 1 June 2014)*

Remuneration Committee

Liao Jianwen（廖建文）*(Chairman) (Appointed and effective from 1 June 2014)*
Wang Jiabi（王加碧）
Yan Man Sing Frankie（甄文星）
Sun Xianhong（孫先紅）*(Resigned and effective from 1 June 2014)*

Nomination Committee

Tsui Yung Kwok（徐容國）*(Chairman)*
Ding Wuhao（丁伍號）
Yan Man Sing Frankie（甄文星）

COMPANY SECRETARY

Choi Mun Duen（蔡敏端）*FCCA, HKICPA*

AUTHORISED REPRESENTATIVES

Ding Wuhao（丁伍號）
Choi Mun Duen（蔡敏端）

REGISTERED OFFICE

Cricket Square, Hutchins Drive
PO Box 2681
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HEAD OFFICE IN THE PRC

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Xiamen, Fujian Province 361009
the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

STOCK CODE

01361

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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
Industrial and Commercial Bank of China
Citic Bank International Limited

COMPANY WEBSITE

www.361sport.com

Financial Highlights

FINANCIAL PERFORMANCE

Turnover increased by 4.6% to RMB2,090.1 million

Gross profit increased by 6.6% to RMB830.7 million

Operating profit increased by 18.0% to RMB361.1 million

Profit attributable to the equity shareholders was RMB263.4 million, representing an increase of 28.3%

Gross profit margin increased by 0.7 percentage point to 39.7%

Basic earnings per share is RMB12.7 cents, representing an increase by 28.3%

Resolved to declare an interim dividend of RMB5.0 cents (HK6.2 cents) per share

BUSINESS PERFORMANCE

Total number of *361°* Sport's outlets decreased from 7,299 to 7,140

Total number of *361°* retail kids' wear outlets increased from 1,858 to 1,965 of which 742 were counters in *361°* Sport's outlets

***361°* Kids revenue accounted for 10.3% of the Group's turnover**

Last date of registration for shareholders' entitlements to 2014 interim dividend: 3 September 2014

Payment date of 2014 interim dividend: on or about 17 September 2014

Financial Summary

	For the six months ended 30 June	
	2014	2013
Profitability Data (RMB'000)		
Turnover	**2,090,076**	1,998,154
Gross profit	**830,710**	779,542
Operating profit	**361,144**	306,122
Profit attributable to equity shareholders	**263,380**	205,264
Earnings per share		
– basic (RMB cents)	**12.7**	9.9
– diluted (RMB cents)	**10.7**	9.6
Profitability Ratios (%)		
Gross profit margin	**39.7**	39.0
Operating profit margin	**17.3**	15.3
Margin of profit attributable to equity shareholders	**12.6**	10.3
Effective tax rate (Note 2)	**30.5**	28.2
Return on shareholders equity (Note 1)	**5.5**	4.4
Operating Ratios (as percentage of turnover) (%)		
Advertising and marketing expenses	**8.3**	9.8
Rack subsidy	**6.0**	3.9
Administrative staff costs	**1.5**	1.5
Research and development	**2.5**	2.4

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 RMB325.8 million, excluding the net change of derivative embedded to convertible bonds and net loss on repurchase of convertible bonds.

	As at 30 June 2014	As at 31 December 2013
Assets and Liabilities data (RMB'000)		
Non-current assets	**1,319,156**	1,303,183
Current assets	**6,356,793**	5,816,122
Current liabilities	**2,666,218**	1,605,653
Non-current liabilities	**7,786**	772,971
Equity attributable to equity shareholders	**4,931,440**	4,676,346
Non-controlling interests	**70,505**	64,335
Asset and Working Capital data		
Current asset ratios	**2.4**	3.6
Gearing ratios (%) (Note 3)	**8.8**	11.0
Net asset value per share (RMB) (Note 4)	**2.4**	2.3
Inventory turnover days (days) (Note 5)	**59**	73
Trade and bills receivables turnover days (days) (Note 6)	**165**	205
Trade and bills payables turnover days (days) (Note 7)	**146**	158
Working capital turnover days (days)	**78**	120

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 2014) and 365 days (for the year ended 31 December 2013).

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 2014) and 365 days (for the year ended 31 December 2013).

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 2014) and 365 days (for the year ended 31 December 2013).

Management Discussion and Analysis

INDUSTRY REVIEW

China's sportswear industry recorded a modest recovery in the first half of 2014 as its tremendous efforts to clear the market glut and streamline the retail network began to yield results. The issues of oversupply and high inventory, which were resulted from the rapid and volume-driven expansion and has lasted for several years, was gradually resolved. With substantial clearance of inventory, leaner sales networks, stricter cost control measures and a prudent approach to placing and accepting orders, the stronger sportswear manufacturers are now in better shape.

361 Degrees International Limited ("361 Degrees" or the "Company") is pleased to see an improvement of its operations based on a renewed emphasis on retail network productivity and a strong product line-up. Inventory levels declined and retail discounts were narrowed. There was also marked improvement in the performance of *361°* stores which had been re-organized into "3-in-1" composite stores to carry all three product lines of the Group's brand: *361°* Sport, Innofashion and *361°* Kids. Such enhancement of the retail network enabled the adjustments to the pricing structure on the back of higher foot traffic, thus enabling retailers to operate on more favorable profit margins, and providing a better foothold for the Group's long-term development. Moreover, the 2014 winter trade fair closed successfully with 8% increase of the wholesale order book as compared with the same tade fair last year and ended the successive negative growth at trade fairs.

To take advantage of the improved industry conditions, the Group continued to make efforts to differentiate itself from its competitors with innovative products and distinctive brand image in addition to controlling the inventory in the sales channels, optimizing the planning of points of sales, and raising the efficiency of retail outlets.

The Group continued to enhance the quality and functionality of its products and strengthen product research and development, marketing, thus consolidating its position in its principal mid-priced and low-end markets in the country's third-tier and smaller cities. *361°* Sport saw encouraging improvement while *361°* Kids reported sustained growth.

The Group is also delighted for the launch of "One Way" products in China. The Finnish brand is expected to open its first self-operated store in the second half of 2014.

Meanwhile, the Group continued to diversify its business by tapping into the growth potential of other businesses. Starting from 2014, the Group ended the distributorship of the overseas business with a distributor and started to run it by itself. It also made necessary preparation for the opening of sales offices in Brazil and the United States, thus increasing overseas exposure.

BUSINESS REVIEW

Sales and distribution network

The sales and distribution network was greatly enhanced with better image, higher operating efficiency and improved profitability. Such improvement was attributable to the Group's investment to optimize its retail network and product offerings, enhance the sales and marketing effort and control inventory level at the sales channel.

During the period, the Group rolled out the new "3-in-1" composite store format nationwide. This new format was re-organized from standalone stores to benefit from the higher operating efficiency in terms of rental, as well as sales and marketing efforts. The stores of such format, which carry all three product lines of the Group, accounted for over 14% of the Group's retail outlets as at the end of 30 June 2014, with average floor area increased to over 180 square metres (sq.m.), as compared to the average size of over 100 sq.m. as at the end of last year.

The Group also enhanced the retail network by opening stores in better locations and by closing non-performing stores. There was a net decrease of 159 stores (511 openings and 670 closings) during the period. The franchised network comprised 7,140 stores at the end of June. Of this total, 1,007 were "3-in-1" composite stores.

By city tiers, about 71% 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 (2,798 stores) and eastern China (1,750 stores). Of the total number of points of sales, 4,477 were standalone stores as at the end of June 2014, accounting for approximately 63% of the total retail sales outlets for adults' sportswear. The average size of a typical store, including "3-in-1" composite stores, increased to approximately 101.2 sq.m..

As at 30 June 2014, the number of exclusive distributors was 31. The distributors themselves oversaw 3,186 authorized dealers, who in turn owned and managed the retail outlets.

Authorized retail outlets by regions:

	As at 30 June 2014		As at 31 December 2013		
	Number of *361°* authorized retail outlets	**% of total number of *361°* authorized retail outlets**	Number of *361°* authorized retail outlets	% of total number of *361°* authorized retail outlets	Change (%)
Eastern region[1]	**1,750**	**24.5**	1,821	25.0	(3.9)
Southern region[2]	**1,134**	**15.9**	1,153	15.8	(1.6)
Western region[3]	**1,458**	**20.4**	1,491	20.4	(2.2)
Northern region[4]	**2,798**	**39.2**	2,834	38.8	(1.3)
Total	**7,140**	**100**	7,299	100	(2.2)

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.

There was sequential improvement in sales growth of comparable stores during the period. Same store sales ("SSS") has grown for two consecutive quarters since the last quarter of 2013. SSS growth was 2.8% in the second quarter of 2014, and 1.8% in the first quarter, underlining a continuing build-up of momentum that began in the first quarter as the industry recovered from the excessive stock overhang of the past.

The channel inventories at the retail level remained healthy at 4.2 times the monthly sales for the first quarter of 2014 and 4.1 times for the second quarter of the year.

During the period, the Group continued to strength its online business by selling apparel, footwear and accessories through independent third parties on taobao.com（淘寶網）, tmall.com（天貓網）and 360buy.com（京東商城）.

As for exports, the Group's products are now available in certain countries in the Middle East, South America and South East Asia. As at 30 June 2014, there were 39 stores in these countries. The Group is also exploring the possibility of expanding its business to Brazil and the United States.

Trade Fair

The trade fair order books improved gradually as enhanced operations and profitability at the retail outlets and a strong product line-up translated into growing demand from distributors. The trade fair book saw a turnaround at the 2014 winter trade fair which took place in April 2014. The wholesale order book closed 8% higher than that of the previous winter trade fair, and represented the first positive growth since the 2012 spring/summer trade fair. The 2013 winter trade fair reported a decline of 17% in wholesale order book, and the 2014 spring/summer trade fair saw a decrease of 8%. Then at the 2014 autumn trade fair was another decline by 7%.

Unlike earlier trade fairs, the 2014 winter trade fair focused on products in five major categories: basketball, running, outdoor activities, cross-training and lifestyle. For products for basketball, which remains the most popular and most watched sport in China, the themes evolved around Kevin Love and Stephon Marbury, the two basketball players sponsored by the Group who had excellent performances in the NBA and CBA recently. Significant overall improvement in both the design and quality of materials led to very encouraging results at the trade fair even though the wholesale discount on this collection increased from 63% to 65%.

The Group retained the wholesale discount of 65% for the distributors in general, a pricing policy adopted since its 2014 spring/summer trade fair. This leaves room for the wholesalers to pass on the discount to the retailers, leading to improved operating margins for retailers.

A breakdown of the orders placed in the 2014 winter trade fair showed that the value of the orders placed for its *361°* Sport brand increased by 8% year on year, while the value of the orders for the children's wear of *361°* Kids rose by 3% year on year.

Meanwhile, the Group continued to deliver the balance of its 2013 winter trade fair orders and also began fulfilling most of its 2014 spring/summer and part of 2014 autumn orders.

In order to boost sales at the retail outlets, the Group continued to provide rack subsidies in the amount of approximately RMB125.6 million to improve the presentation of goods and shopping environment. The support was aimed at raising awareness of the brand and boosting sales.

361° Kids

For the first half of 2014, the revenue of *361°* Kids increased by 4.0% year on year to RMB215.6 million, and accounted for 10.3% of the Group's turnover.

As at 30 June 2014, *361°* Kids' points of sales increased to 1,965, representing a net increase of 107 from the 1,858 at the end of 2013. Of the 1,965 points of sales, 499 were counters at the department stores or hypermarkets, 724 were standalone stores, and 742 were booths at the adults' sportswear stores.

In order to increase the brand awareness and strengthen the brand image of *361°* Kids, the Group has appointed three ambassadors who are Bai Er Nuo (拜爾娜), Jasmyn Aisin Gioro (愛新覺羅•媚) and Zhou Zhang Chi (周張弛). The Group also continued to sponsor the children's singing contest programme "Let's Sing Kids" ("中國新聲代"), which was broadcasted 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 TV channels for children in mainland China. The sponsorship has proven to be successful in enhancing brand recognition of *361°* Kids.

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 further developed in the future.

Joint venture with One Way Sport Oy

In order to develop a niche market for premium sports goods, thus differentiating itself from competitors, the Group formed a joint venture with a Finnish premium sports goods company, One Way Sport Oy in October 2013. The Group has a 70% interest in the joint-venture company, which holds the rights to the brand for Greater China.

In April 2014, the One Way brand was officially launched in China, and its products were introduced to the Group's wholesalers and retailers for the first time in the country. The Group is now preparing products in anticipation for the opening of the first self-operated store of the joint venture before the end of the year.

The Finnish brand had exceptional success in the recent Sochi Winter Olympics, where athletes using its products won more than 30 medals.

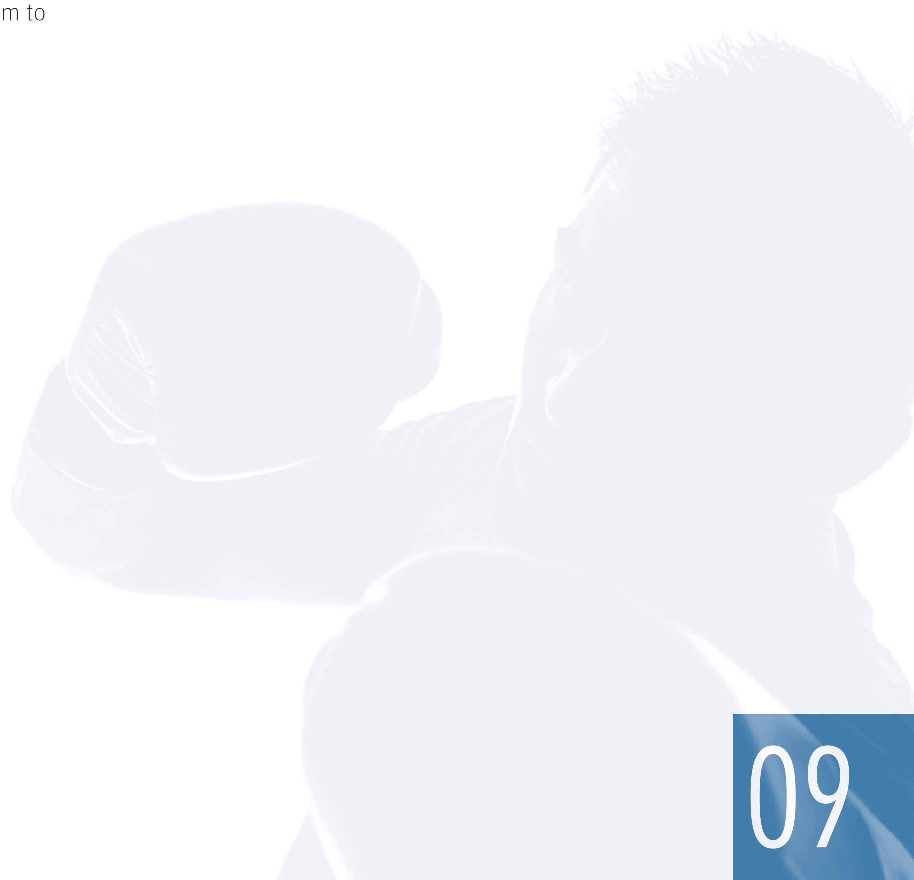
Increased use of ePOS at the retail outlets

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 2014, 4,869 stores, or 68.2% of the Group's total 7,140 retail outlets for *361°* Sport adopted ePOS. Continuous effort will be made to upgrade and improve our system to cope with business development and expansion.

Brand promotion and marketing

The competition of China's sportswear market has become intense, and it is especially so as strong foreign sportswear brands are expanding their presence in the country. Domestic competitors are also trying to find a way out of the homogeneity of products. As such, it is crucial to build and promote a distinct brand in order to stand out from the highly competitive sportswear market. 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.

During the period, the Group secured the rights to sponsor the Egyptian and Taiwanese delegations to the Rio 2016 Olympics in Brazil. The Second Youth Olympic Games in Nanjing, in which the Group obtained the exclusive rights to be the official sports apparel sponsor, and the 17th Asian Games Incheon 2014, of which the Group will be a prestige partner, are both to be held this year. The sponsorship and partnership will help further strengthen the Group's promotion and marketing strategies.



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 an NBA All-Star player Stephon Marbury, who is a two-time NBA All-Star player, a current player with the Beijing Ducks, the 2011/12 winner of the Chinese Basketball Association championships and has been 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 female pop singer, Jikejunyi（吉克雋逸）and popular Taiwanese male singer Jam Hsiao（蕭敬騰）as the spokespersons of its products under its lifestyle brand – Innofashion（"尚"）, to boost retail sales with their influence. Jikejunyi 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 in 2012. Jam Hsiao rose to fame in the first season of China Television's (CTV) star search show in 2007, "One Million Star", and has since captivated a huge following in the country.

For *361°* Kids, the Group has appointed three ambassadors who are Bai Er Nuo（拜爾娜）, Jasmyn Aisin Gioro（愛新覺羅•媚）and Zhou Zhang Chi（周張弛）.

The Group continue the very successful "One cares one" ("買一善一") charity campaign at the retail stores. As at 30 June 2014, 41,668 students received donated footwear from the program. The charity programme itself covered about 44 schools at Daifong County（大方縣）, 34 schools at Nayong County（納雍縣）in Guizhou province（貴州省）, 79 schools at Meigu County（美姑縣）, 31 schools at Zhaojue County（昭覺縣）and 23 schools at Bushi County（布施縣）in Sichuan province（四川省）.

The Group also invited other corporates to join the charity program, such as reputable fashion magazine publisher and a renowned international bank, who helped in designing of footwear and sending volunteers together with the Group's volunteer to deliver the footwear products to the schools.

Sponsorship of professional sports teams

During the period under review, the Group gained exposure to target consumers effectively by sponsoring a number of professional sports teams, including:

China National Cycling Team
China National Handball Team
China National Softball Team
China National Hockey Team
China National Swimming Team
Egyptian delegation to Rio 2016 Olympics in Brazil
Taiwanese delegation to Rio 2016 Olympics in Brazil
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
2013-2014	World Women's Curling Championship	Designated Apparel Sponsor
2013-2014	17th Asian Games Incheon 2014	Prestige Partner
2013-2016	World Wushu Championship	Prestige Partner
2014	Nanjing 2014 Youth Olympics	Official Sports Apparel Sponsor

Product design and development

In order to stand out in China's highly competitive sportswear market, the Group has been developing products with special materials and design, with emphasis on functionality. Positioned as a professional sportswear company, the Group maintains an edge in product innovation and research and development to differentiate itself from its competitors.

The Group continued to make good use of special fabrics in its products to enhance their functionality for specific sports. For examples, it adopted Teflon, a special material which is resistant to extreme temperatures and erosion and is water– and grease-proof in its apparels. It also used other special materials such as Sorona, which is warm, light and porous, and Shine-warm, which applies the principle of heat reflection to maintain body heat under extreme climates. In its footwear products, the Group adopted such technologies as SAC-air and NFO.

Besides, the Group continued to improve or upgrade its products in terms of functionality, comfort, and design, and the efforts yielded 51 patents as at 30 June 2014 including Engulf, Archlock, NFO, Tri-Grip and Rubest Tech.

Meanwhile, the Group's partnership with Beijing Institute of Fashion Technology was making contribution in the development of quality sportswear with new fabrics and designs to enhance athletes' performance. As at 30 June 2014, the Group obtained 47 patents on the innovation of new fabrics and clothes designs. The partnership helped foster a crop of design professionals who specialize 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 at 30 June 2014, there were 91 research and development staff for footwear and 164 research and development staff for the apparel, accessories and children's wear. The Group's research and development spending accounted for about 2.5% of turnover for the period under review, compared with the 2.4% for the six months ended 30 June 2013.

Production

As at 30 June 2014, 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 in-house and outsourced production, taking into account 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.

Due to the market weakness and reduction in production, the Group rented three production lines to an original equipment manufacturer "OEM" supplier to lower the cost of running spare machineries and save the cost on keeping excess labour. The combined annual production capacity of these three production lines is three million pairs of footwear and the rental period was extended to March 2015.

During the period under review, about 41.0% of the soles used for the Group's in-house manufacturing of footwear under its own brand were supplied by its 51% owned 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 authorized 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 standardized outlet design and layout in the authorized 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 usually take 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 were no returned goods for the six months ended 30 June 2014;

(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 period ended 30 June 2014, 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 2014, 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 RMB2,090.1 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 authorized retailer to sell our *361°* products and to use the *361°* logo in a *361°* authorized 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 authorized retailers do not sell *361°* products outside their respective territories. Authorized 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 authorization to sell our *361°* products.

Principal risks and uncertainties

In addition to the industry risks and uncertainties faced by the Group as disclosed in "Management Discussion and Analysis – Industry review" on page 6 of this report, the Group also faces other principal risks and uncertainties in its business.

For instance, the Group adopts the distributorship model whereby the Group's distributors will sell the Group's products to authorized retailers, who will then sell the Group's products to consumers. As such, the Group has limited control over the authorized retailers to ensure their compliance with the policies, including operational requirements, exclusivity, customer service, store image and pricing. Non-compliance of the Group's policies may cause unfair competitions among the authorized retailers, erosion of goodwill, a decrease in market value of the Group's products and unfavorable public perception about the quality of the Group's products, which may result in a material adverse effect on the business, financial condition, results of operations and prospects of the Group. During the period under review, the Group was not aware of any material non-compliance of the Group's policies by the authorized retailers which resulted in a material adverse effect on the business, financial condition, results of operations and prospects of the Group.

Further, the Group's business is subject to laws and regulations applicable to foreign investment in the PRC as well as laws and regulations applicable to foreign-invested enterprises. These laws and regulations are subject to change and their interpretation and enforcement involves uncertainties that could limit the legal protections available to the Group. In addition, the PRC legal system is based in part on government policies that may have retrospective effect, which could cause uncertainties to the Group's business as it will not be possible to predict the effect of future developments in the PRC legal system, including promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. If any of the Group's past operations are deemed to be non-compliant with PRC law, the Group may be subject to penalties and the Group's business and operations may be adversely affected. During the period under review, the Group has not experienced any material adverse effect on the business, financial condition, results of operations and prospects of the Group due to the change in laws and regulations in the PRC.

FINANCIAL REVIEW

Turnover

During the period under review, although the orders of spring/summer 2014 trade fair recorded a 8% decrease year to year, turnover for the six months recorded a slight increase by 4.6%. This was mainly due to the deliveries were blended with a higher proportion of deliveries from the winter 2013 trade fairs because of the late coming winter in 2013 than the same period last year. Over 90% of the spring/summer 2014 trade fair's products were delivered in this period. The deliveries for the second half of this year will be mainly the autumn and winter 2014 trade fairs' products.

Sales momentum continues in retail stores which encourages both distributors and retailer to increase the amount of order. This can be reflected by the reduction on the average discount at retail level and improvement in the foot traffic in the revamped "3-in-1" composite stores.

Turnover of the business of footwear was almost flat whereas apparel and accessories increased by 8.8% and 7.4%, respectively. Such changes were due to 1) the adjustment of discount to distributors at the trade fair and 2) a bigger volume of 2013's winter apparel and accessories were delivered in the period which pushed the turnover and the average wholesale selling price ("AWP") up when compared with the same period last year. Since the seasonality factor in footwear was much less significant than in apparel, the AWP of footwear for the period recorded a downturn despite the sales volume increased. The AWP of the footwear products decreased by 7.0% to RMB84.8, while that of apparel and accessories increased by 10.5% and 41.2% to RMB63.1 and RMB18.5, respectively.

Sales volume of footwear increased by 7.5% to 9.8 million pairs and that of apparel and accessories decreased by 1.4% and 24.1% to 15.9 million and 1.9 million pieces. The decrease in apparel was mainly due to a higher competition in the apparel retail market and distributors were cautious on the volume of orders at the trade fairs.

The revenue of *361°* Kids for the six months ended 30 June 2014 increased by 4.0% to RMB215.6 million, accounted for 10.3% of the Group's turnover, about the same as the period last year. The increase in revenue reflected the strong customer base established for the kids wear business in a segment that has continued to show potential for further growth.

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

	For the six months ended 30 June			
	2014		2013	
	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)	**9,845**	**84.8**	9,158	91.2
Apparel (pieces)	**15,924**	**63.1**	16,153	57.1
Accessories (pieces/pairs)	**1,908**	**18.5**	2,515	13.1
***361°* Products – Kids**	**3,383**	**63.7**	4,093	50.6

Note:

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

A breakdown of turnover by product categories for the period under review shows that footwear and apparel comprised 39.9% and 48.1% respectively while accessories and *361°* Kids made up the remaining 1.7% and 10.3%.

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			
	2014		2013	
	RMB'000	**% of Turnover**	RMB'000	% of Turnover
By Products				
Turnover				
***361°* Products – Adults**				
Footwear	**834,864**	**39.9**	835,192	41.8
Apparel	**1,004,334**	**48.1**	922,902	46.2
Accessories	**35,283**	**1.7**	32,849	1.6
***361°* Products – Kids**	**215,595**	**10.3**	207,211	10.4
Total	**2,090,076**	**100**	1,998,154	100

During the period, the Group has started to develop its own overseas business instead of through a distributor and overseas sales accounted for about 1.1% to the total turnover. The Group believes a higher amount of turnover will be contributed from the Brazil office for the second half of the year.

	For the six months ended 30 June			
	2014		2013	
	RMB'000	**% of Turnover**	RMB'000	% of Turnover
By Regions				
Eastern region(1)	**466,304**	**22.3**	530,300	26.5
Southern region(2)	**500,184**	**23.9**	432,757	21.7
Western region(3)	**399,407**	**19.1**	436,895	21.9
Northern region(4)	**702,388**	**33.6**	598,202	29.9
Overseas(5)	**21,793**	**1.1**	–	–
Total	**2,090,076**	**100**	1,998,154	100

Notes:

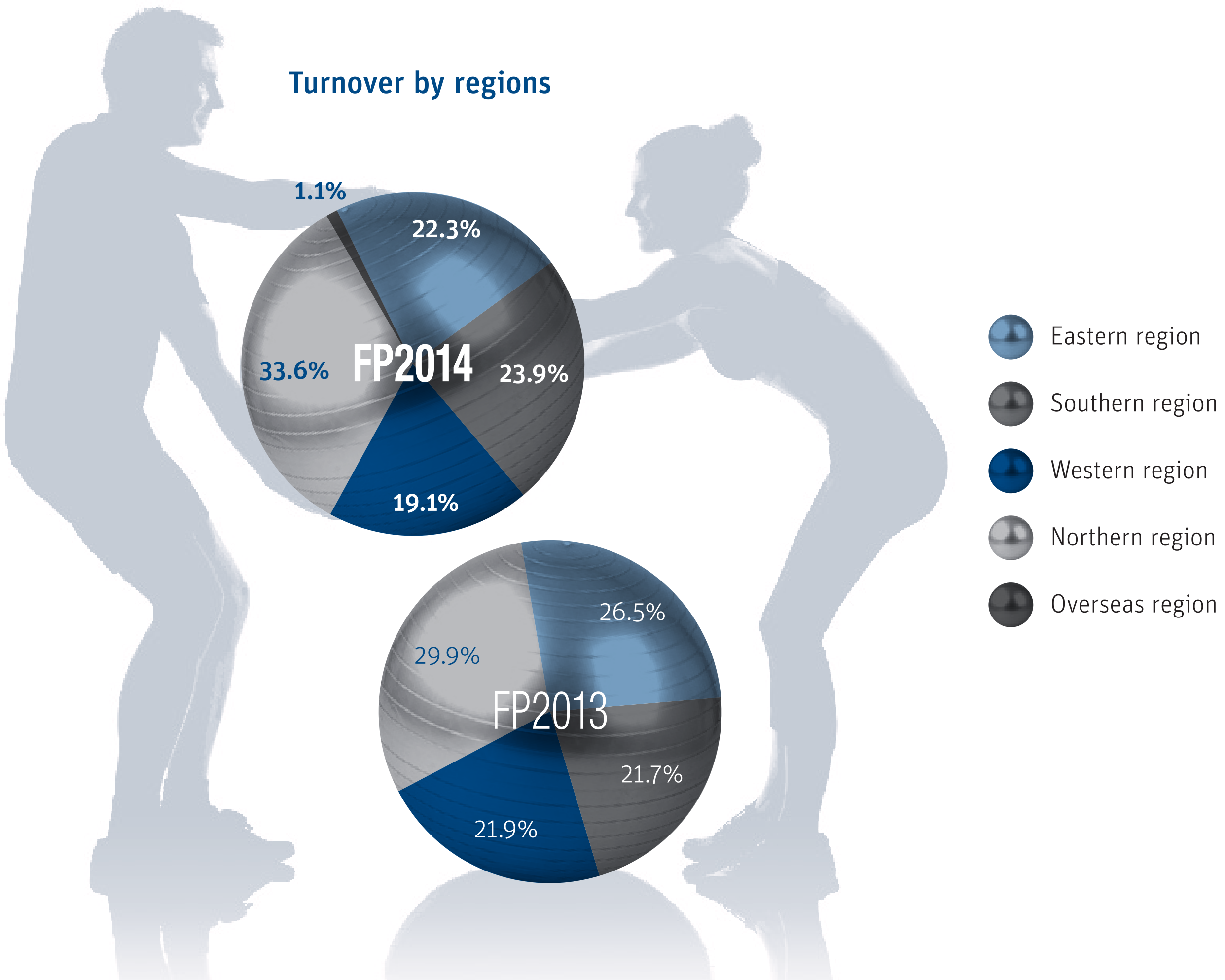
(1) Eastern region includes Jiangsu, Zhejiang, Hubei, Anhui, Hunan, Shanghai and Jiangxi.

(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.

(5) Overseas include countries in the Middle East, South America and South East Asia.



Cost of Sales

Cost of sales of the Group for the first half of 2014 increased by 3.3% to RMB1,259.4 million, and accounted for 60.3% of the Group's turnover representing a slight decrease of 0.7 percentage point year-on-year.

Although the Group has streamlined the numbers of SKUs at each trade fair, the innovation on new models and design of footwear necessitated high quality and functionality materials, thus increasing both raw material costs and overheads, some of which cannot be immediately passed on to consumers.

On the other hand, the Group was still able to obtain favourable pricing from the OEM suppliers. At the same time, the self-produced apparel business of the Group became mature. As a result, the percentage increase in its cost was much less than the percentage increase in its AWP. This helped to reduce the total cost of sales from 61.0% to 60.3%.

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			
	2014		2013	
	RMB'000	**% of total costs of sales**	RMB'000	% of total costs of sales
***361°* Products**				
Footwear & Apparel (Internal Production)				
Raw materials	**319,653**	**25.4**	207,342	17.0
Labour	**79,992**	**6.4**	70,554	5.8
Overheads	**189,454**	**15.0**	113,244	9.3
	589,099	**46.8**	391,140	32.1
Outsourced Products				
Footwear	**183,317**	**14.5**	247,033	20.3
Apparel	**464,776**	**36.9**	560,007	45.9
Accessories	**22,174**	**1.8**	20,432	1.7
	670,267	**53.2**	827,472	67.9
Cost of sales for *361°* Products	**1,259,366**	**100**	1,218,612	100

Gross profit and gross profit margin

Gross profit was RMB830.7 million for the first half of 2014 and gross profit margin was 39.7%, increased by 0.7 percentage points compared to that for the same period of 2013.

Starting from the 2013 spring/summer trade fair held in July 2012, the Group increased the discounts offered to its distributors from 58% to 60%. It later increased the discounts from 60% to 65% in the 2014 spring/summer trade fair held in August of 2013.

The adjustment on discount did not have significant effect on the gross profit and the percentage increase in the gross profit was in line with the increase in turnover. The Group was able to maintain a reasonable gross profit margin mainly because it was able to reduce cost by successfully negotiating bargain prices with the OEM suppliers as well as the benefit from the in-house apparel production.

The gross profit margins of the footwear and accessories dropped to 35.9% and 39.3% respectively while those of the apparel grew to 43.0% and kids wear businesses maintained at about 39.8%.

Overall, a higher turnover on apparel in the period outweighed the decrease of gross profit margin from footwear, thus enabling the Group to maintain the gross profit margin for the period under review at a level similar to that for the previous year.

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			
	2014		2013	
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %
***361˚* Products – Adults**				
Footwear	**299,651**	**35.9**	334,784	40.1
Apparel	**431,449**	**43.0**	347,692	37.7
Accessories	**13,881**	**39.3**	14,316	43.6
***361˚* Products – Kids**	**85,729**	**39.8**	82,750	39.9
Total	**830,710**	**39.7**	779,542	39.0

Selling and distribution expenses

Selling and distribution expenses decreased by 3.3% to RMB345.5 million during the first half of 2014. The decrease was primarily a result of the decrease in advertising and promotional expenses. As a percentage of turnover, rack subsidies increased to 6.0% for the first half of 2014 from 3.9% a year ago. Advertising and promotional expenses accounted for 8.3% of the Group's turnover in 2014 and 9.8% in 2013.

During the period under review, rack subsidies increased from RMB78.0 million to RMB125.6 million year-on-year as more stores were revamped as the 3-in-1 composite stores. These subsidies were given to 1,163 retail stores are part of the fixtures and fittings for displaying products to customers at retail outlets. The Group ordered the racks directly with the suppliers and the tailor-made fixtures and fittings were delivered to the retail outlets accordingly. The Group believes that the provision of such subsidies were direct assistance for retailers to upgrade the retail stores and improve their competitive strength in the tough market. The Group believes that such program will still continue for the second half of the year.

During the period under review, the amount of advertising and promotional expenses decreased by 12.0% as the Group cautiously cancelled some of the promotion projects but still incurred expenses for important sponsorships for the promotion of the brand. The Group newly commenced the sponsorship program with the Egyptian and Taiwanese delegation to Rio 2016 Olympics in Brazil, newly signed a spokesman contract with a popular Taiwanese male singer Jam Hsiao. Together with the two important event sponsorship, namely the Nanjing 2014 Youth Olympic Games launched on 16 August 2014 and the 17th Asian Games Incheon to be launched on 19th September 2014, respectively, the Group believes that these endeavours would gain an extensive exposure to the public and be able to maintain its brand image despite the reduction of some of the advertising and promotional expenses.

Administrative expenses

Administrative expenses decreased by 3.1% to RMB147.8 million for the period ended 30 June 2014 and represented about 7.1% of the Group's turnover.

The decrease was mainly due to the fact that no impairment losses being recognized during the period as compared to RMB18.3 million impairment losses recognized in the same period last year. The Group has been staying in touch with all the distributors and believe that account receivables could further improve in the forthcoming period.

Research and development expenses were RMB51.8 million, or 2.5% of the turnover for the period under review, compared with 2.4% for the same period of 2013. The Group believes that the expense is necessary for enhancing the Group's competitiveness.

Finance Costs

For the six months ended 30 June 2014, financing costs reduced to RMB35.4 million, including mainly the RMB34.8 million for the relevant interest and cost in relation to the convertible bonds amortized over the period. The balance of about RMB0.6 million was in relation to short-term bank borrowings and a mortgage loan. The short-term bank borrowing of RMB15.8 million was a mortgage bank loan for financing the purchase of an office in Hong Kong on 31 December 2012.

In April 2012, the Group issued US$150,000,000 4.5% Convertible Bonds due 2017. Between January to April 2014, the Group repurchased convertible bonds in the principal amount of US$26.5 million and cancelled the same immediately thus reduced the amount of the respected cost charge in the period. The net change in fair value for the period ended 30 June 2014, the realization for the amount of repurchase, the cost and interest were fully recognized and accrued for the period.

The interest for the convertible bonds comprised 1) the interest of 4.5% per annum on the convertible bonds amounting to RMB18.0 million for the six months ended 30 June 2014 and 2) the balance of RMB16.8 million, which was the adjustment for the amortization cost of accrued interest and cost incurred for the issuance of convertible bonds with the tenor of five years.

Income tax expenses

During the period under review, income tax expenses of the Group amounted to RMB99.2 million (2013: RMB75.1 million) and the effective tax rate for the period was 30.5% (2013: 28.2%). The percentage had excluded the effect of the profit before taxation from the net change in fair value of derivatives embedded in convertible bonds and the realization of net loss on repurchase of convertible bond in the period.

All of the Group's four mainland China-based operating subsidiaries are subject to the standard corporate income tax rate of 25% whereas all of the Group's subsidiaries in Hong Kong are not subject to taxation because they did not generate any operating income in the city. As the interest of the convertible bonds was paid by a Hong Kong subsidiary, the expense was not allowed to be deducted from the taxable income of the PRC subsidiaries, and this affected the amount of tax paid and the effective tax rate at the Group level.

Profit for the period

Profit for the period increased by 31.3% to RMB269.6 million. This was mainly attributable to the increase in sales, decrease in both selling and distribution cost and administrative expenses, which in turn increased the operating profit margin to 17.3% for the six months ended 30 June in 2014 from 15.3% in the same period of 2013. Basic earnings per share for the six months ended 30 June 2014 increased by 28.3% to RMB12.7 cents.

INTERIM DIVIDEND

The Board resolved to declare an interim dividend of RMB5.0 cents (equivalent to HK6.2 cents) per ordinary share for the six months ended 30 June 2014. The dividend amounted to RMB103.4 million and represented 39.3% of the unaudited profit attributable to equity shareholders for the period. It is expected that the interim dividend will be paid to shareholders on or about 17 September 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 4 September to Monday, 8 September 2014, both days inclusive, for the purpose of determining shareholders' entitlements to the interim dividend. In order to qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 3 September 2014.

LIQUIDITY AND FINANCIAL RESOURCES

Net cash inflow from operating activities of the Group for the first half of 2014 amounted to RMB768.9 million. As at 30 June 2014, cash and cash equivalents, including bank deposits and cash in hand, and fixed deposits with original maturities not exceeding three months, amounted to RMB1,763.3 million, representing a net decrease of RMB730.9 million as compared to the position as at 31 December 2013. The net decrease in cash and cash equivalents was attributable to the following items:

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Net cash generated from operating activities	**768,926**	554,001
Payment for the purchase of property, plant and equipment	**(34,143)**	(21,269)
Dividends paid	**–**	(144,732)
Repayment of bank loans	**(489)**	(15,395)
Payment for repurchase of convertible bonds	**(161,582)**	–
(Placement)/withdrawal of deposits (with maturity over three months)	**(1,262,534)**	193,650
Other net cash (outflow)/inflow	**(41,111)**	44,014
Net (decrease)/increase in cash and cash equivalents	**(730,933)**	610,269

The positive net cash generated from operating activities amounted of RMB768.9 million for the six months ended 30 June 2014 was mainly from the operating profit for the period under review and the net increase in the working capital from the decrease in amount of trade and bills receivable, other debtors and prepayment as well as an increase in the trade and bills payable, other payables and accruals compared with six months ago.

During the six months ended 30 June 2014, certain capital expenditure amounted RMB34.1 million was incurred mostly for the new headquarter in Xiamen. The Group also repurchased convertible bonds in the principal amount of US$26.5 million by the use of approximately RMB161.6 million and increased an approximately RMB1,262.5 million banks deposits with maturity of more than 3 months which substantially reduced the amount of cash and cash equivalent as at 30 June 2014.

The Group's gearing ratio decreased to 8.8% as at 30 June 2014, compared with the 11.0% as at 31 December 2013.

During the period under review, the Group did 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 2014, 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 2014, a building with net book value of RMB43,923,000 (31 December 2013: RMB43,286,000) was pledged as security for a banking facility of the Group of RMB40,101,000 (31 December 2013: RMB21,047,000).

The aforesaid banking facility was used to finance the acquisition of an office unit in Hong Kong. The office unit is for the Group's own use and not for any investment purpose.

Bills payable as at 30 June 2014 were secured by pledged bank deposits of RMB73.6 million.

WORKING CAPITAL MANAGEMENT

The average working capital cycle for the six months ended 30 June 2014 was 78 days (year ended 31 December 2013: 120 days). The decrease was mainly due to the improvement from both trade and bills receivable days and inventory turnover days however the trade and bills payable turnover days has also been shortened.

The average trade and bills receivable cycle was 165 days as at 30 June 2014 (31 December 2013: 205 days) with the inclusion of the impairment losses brought forward from previous year showed a decrease of 40 days. The amount of trade and bills receivable were reduced by 0.6% to RMB1,905.2 million, with the increase in the turnover compared to six months ago. Over 98.1% of the trade debts and bill receivable were within 180 days and 82.1% were neither considered as past due nor impaired. The Group has been staying in touch with all distributors and believe a there will be improvement in the trade and bills receivables cycle in the second half of the year.

Over the past three years, the sportswear industry experienced severe price competition and market glut. Although the accounts receivable turnover days are still long, the Group believed that providing support to its distributors and retailers in running their store network is important. During the period under review, the Group could see the light from the end of the tunnel and believed that the sportswear market has been rebounding as the market glut was substantially cleared by the end of 2013.

The average inventory turnover cycle reduced to 59 days for the six months ended 30 June 2014 (year ended 31 December 2013: 73 days). The inventories amounted to RMB412.4 million, slightly increased by 0.7% when compared to the RMB409.4 million as at 31 December 2013. About 77.6% of the stock were finished goods and were mainly products of spring/summer and autumn of 2014. The channel inventory level was 4.2 times in the fourth quarter of 2013, remained at 4.2 times for the first quarter and improved further to 4.1 times for second quarter of 2014 respectively. Although retail discounts narrowed, distributors were still cautious and took a prudent approach towards placing orders.

For the six months ended 30 June 2014, prepayments to suppliers were RMB462.6 million, representing a 1.3% decrease compared to the RMB468.8 million as at 31 December 2013. The prepayments were upfront deposits paid to suppliers for the acceptance of orders for the products of the autumn and winter of 2014.

The balance of other prepayments increased by 11.5% to RMB98.6 million as at 30 June 2014 from the RMB88.4 million as at 31 December 2013. The prepayments for the six months ended 30 June 2014 were mainly the prepaid expenses in relation to the advertising and promotion contracts and other selling and distribution expenses.

The average trade and bills payable cycle was 146 days for the six months ended 30 June 2014, compared with the 158 days for the year ended 31 December 2013. The terms of credit has been shortened by 12 days. In view of the sportswear industry has been turning around, some of the OEM suppliers requested to shorten payment terms in exchange for better terms of pricing for production.

CONVERTIBLE BONDS

On 13 March 2012, the Group launched the US$150 million 4.5% convertible bonds due 2017 ("the Convertible Bonds"). The Convertible Bonds were 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$3.31 after the declaration of the interim dividend for the six months ended 30 June 2013 on 9 September 2013.

On 23, 24, 27 and 29 January 2014, 4 to 7, 10 and 12 February 2014, 18 March 2014, 10 and 11 April 2014 the Company repurchased Convertible Bonds having an aggregate principal amount of US$26,500,000 (the "Repurchased Bonds"), representing approximately 17.7% of the an aggregate principal amount of the US$150,000,000 outstanding Convertible Bonds, by way of over-the-counter purchases. Immediately following the cancellation of the Repurchased Bonds, the aggregate principal amount of the remaining outstanding principal amount of the Convertible Bonds was US$123,500,000.

If the outstanding Convertible Bonds are fully converted, the number of Shares will be increased by 289,489,969, representing about 12.3% 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 2014 was still higher than the time of issuance, it incurred a net gain in the fair value change to the Group amounting to RMB47.8 million together with the fair value gain derived from the valuation for both the redemption option of the issuer and bondholder. The net loss on repurchase of convertible bonds amounted RMB4.8 million was a realized loss derived from the consideration paid for repurchased convertible bonds over the carrying amount of liability and derivative components of convertible bonds at the time purchased in the period.

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 underwriting commissions and related expenses were deducted). As at 30 June 2014, net proceeds from the listing have been fully utilized.

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

The use of net proceeds from the global offing (HK$ million):

Use of net proceeds	**Available for use**	**Utilized (as at 30 June 2014)**	**Unutilized (as at 30 June 2014)**
Developing and increasing brand awareness	741.2	741.2	–
Developing new production facilities	613.5	613.5	–
Developing children's footwear and apparel sub-brands	171.5	171.5	–
Establishment of a new product testing and R&D laboratory	114.3	114.3	–
Establishment of an ERP system	74.3	74.3	–
General working capital	190.6	190.6	–
	1,905.4	1,905.4	–

EMPLOYEES AND EMOLUMENTS

As at 30 June 2014, the Group employed a total of 9,770 full time employees in the PRC which included management staff, technicians, salespersons and workers. For the six months ended 30 June 2014, the Group's total remuneration to employees was RMB174.3 million, representing 8.3% of the Group's turnover. 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, which is operating in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees, the state-managed retirement pension scheme for the PRC-based 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 emphasis on fringe benefits.

PROSPECTS

Looking ahead to China's sportswear market in the second half of the year, things will continue to improve as inventories at the retail channels were substantially cleared and industry players were shifting from volume-driven business expansion to differentiation with innovative products and distinctive brand images. Consumer spending will keep gaining momentum on the back of enhanced retail productivity and a strong product line-up at the retail outlets of sportswear brands.

Sustained economic growth and 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.

The Group positions clearly itself as a professional sportswear firm. To strengthen its competitiveness, the Group will continue to enhance its brand awareness and brand image while improving its product performance through designs and innovations. The Group will also continue its efforts in improving sales and distribution network and channel management, in order to ensure healthy and efficient operations. With the initial success, the Group will continue to consolidate the standalone stores to the "3-in-1" composite stores in the second half of the year.

While consolidating the leading position of the *361°* Sport and *361°* Kids brands, the Group will look into ways to diversify into potential businesses. In the second half of the year, the Group will branch out into a niche market for premium Nordic sportswear and sport products with the One Way brand by opening its first self-operated store in China. The Group will also continue to expand its business to other overseas markets. The Group plans to set up an office in the United States in the second half of the year, and aims to start selling the *361°* Sport branded products in Brazil.

The Group is reasonably confident that the modest recovery in the first half of the year will pave the way for stronger sales in the ensuing quarters, leading to healthier order books for next year's deliveries. The above-mentioned measures have also laid a solid foundation for generating better returns to the shareholders in the long term.

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

As at 30 June 2014, 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 2014, 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 have lapsed on 30 June 2014, being the fifth anniversary of which the shares of the Company commenced trading on the Main Board of the Stock Exchange.

Details of the share options granted under the Pre-IPO Share Option Scheme as at 30 June 2014 are as follows:

			Number of Shares issuable under the options				
	Date of grant	Exercise price per share	as at 31 December 2013	exercised during the six month	lapsed during six month	cancelled during six month	as at 30 June 2014
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	–	–

No options granted under the Pre-IPO Share Option Scheme were exercised or cancelled during the six months ended 30 June 2014. All outstanding share options granted under the Pre-IPO Share Option Scheme have expired and lapsed on 30 June 2014, being the fifth anniversary of the date of which the shares of the Company commenced trading on the Main Board of the Stock Exchange,

The vesting period of the share options granted under the Pre-IPO Share Option Scheme was 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, being 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 2014.

Apart from the foregoing, at no time during the six months ended 30 June 2014 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 2014, 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	Nature of interest		Long/Short position in ordinary shares held[1]	Percentage of total issued shares
Dings International Company Limited	(2)	Beneficial owner	L S	377,774,000 44,927,030	18.27% 2.17%
Ming Rong International Company Limited	(3)	Beneficial owner	L S	360,000,000 44,819,124	17.41% 2.17%
Hui Rong International Company Limited	(4)	Beneficial owner	L S	360,000,000 44,819,124	17.41% 2.17%
Jia Wei International Co., Ltd.	(5)	Beneficial owner	L S	187,500,000 22,463,861	9.07% 1.09%
Jia Chen International Co., Ltd.	(6)	Beneficial owner	L S	187,500,000 22,463,861	9.07% 1.09%
Wang Jiachen	(6)	Interest in controlled corporation	L S	187,500,000 22,463,861	9.07% 1.09%
Credit Suisse Group AG	(7)	Interest in controlled corporation	L S	144,318,678 16,712,001	6.98% 0.81%
Bank of America Corporation	(8)	Interest in controlled corporation	L S	390,882,015 182,040,015	18.91% 8.8%

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 page 26 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 page 26 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 page 26 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.26 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 2014.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

In the opinion of the directors of the Company, 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 2014.

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 of the Company that they had complied with the required standard set out in the Model Code throughout the six months ended 30 June 2014.

REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The Company has established an audit committee which is accountable to the Board and the primary duties of which include the review and supervision of the Group's financial reporting process and internal control measures. The audit committee is composed of three independent non-executive directors of the Company, Mr. Yan Man Sing Frankie, Mr. Tsui Yung Kwok and Dr. Liao Jianwen. 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 of the Group for the six months ended 30 June 2014. They considered that the unaudited interim financial statements of the Group for the six months ended 30 June 2014 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been made.

Consolidated Statement of Profit or Loss

for the six months ended 30 June 2014 – unaudited (Expressed in Renminbi)

		Six months ended 30 June	
		2014	2013
	Note	**RMB'000**	RMB'000
Turnover	3	**2,090,076**	1,998,154
Cost of sales		**(1,259,366)**	(1,218,612)
Gross profit		**830,710**	779,542
Other revenue	4	**27,902**	32,437
Other net (loss)/gain	4	**(4,120)**	3,974
Selling and distribution expenses		**(345,542)**	(357,218)
Administrative expenses		**(147,806)**	(152,613)
Profit from operations		**361,144**	306,122
Net change in fair value of derivatives embedded to convertible bonds	14	**47,810**	13,640
Net loss on repurchase of convertible bonds		**(4,792)**	–
Finance costs	5(a)	**(35,371)**	(39,280)
Profit before taxation	5	**368,791**	280,482
Income tax	6	**(99,241)**	(75,147)
Profit for the period		**269,550**	205,335
Attributable to:			
Equity shareholders of the Company		**263,380**	205,264
Non-controlling interests		**6,170**	71
Profit for the period		**269,550**	205,335
Earnings per share	7		
Basic (cents)		**12.7**	9.9
Diluted (cents)		**10.7**	9.6

The notes on pages 37 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(b).

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30 June 2014 – unaudited (Expressed in Renminbi)

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Profit for the period	**269,550**	205,335
Other comprehensive income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements	**(8,286)**	2,635
Total comprehensive income for the period	**261,264**	207,970
Attributable to:		
Equity shareholders of the Company	**255,094**	207,899
Non-controlling interests	**6,170**	71
Total comprehensive income for the period	**261,264**	207,970

The notes on pages 37 to 52 form part of this interim financial report. There was no tax effect relating to the components of other comprehensive income.

Consolidated Statement of Financial Position

at 30 June 2014 – unaudited (Expressed in Renminbi)

	Note	**At 30 June 2014 RMB'000**	At 31 December 2013 RMB'000
Non-current assets			
Fixed assets	8		
– Property, plant and equipment		**977,251**	974,627
– Interests in leasehold land held for own use under operating leases		**96,526**	97,602
		1,073,777	1,072,229
Other financial asset		**17,550**	17,550
Deposits and prepayments	9	**105,581**	121,148
Deferred tax assets		**122,248**	92,256
		1,319,156	1,303,183
Current assets			
Inventories	10	**412,448**	409,358
Trade debtors	9	**1,903,353**	1,831,184
Bills receivable	9	**1,895**	84,780
Deposits, prepayments and other receivables	9	**617,872**	636,873
Pledged bank deposits	11	**73,597**	37,900
Deposits with banks	11	**1,584,281**	321,747
Cash and cash equivalents	11	**1,763,347**	2,494,280
		6,356,793	5,816,122
Current liabilities			
Trade and other payables	12	**1,801,995**	1,469,179
Bank loans	13	**15,807**	15,898
Convertible bonds	14	**663,382**	–
Current taxation		**185,034**	120,576
		2,666,218	1,605,653
Net current assets		**3,690,575**	4,210,469
Total assets less current liabilities		**5,009,731**	5,513,652
Non-current liabilities			
Deferred tax liabilities		**7,786**	5,432
Convertible bonds	14	**–**	767,539
		7,786	722,971
NET ASSETS		**5,001,945**	4,740,681

Consolidated Statement of Financial Position

at 30 June 2014 – unaudited (Expressed in Renminbi)

	Note	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
CAPITAL AND RESERVES	15		
Share capital		**182,298**	182,298
Reserves		**4,749,142**	4,494,048
Total equity attributable to equity shareholders of the Company		**4,931,440**	4,676,346
Non-controlling interests		**70,505**	64,335
TOTAL EQUITY		**5,001,945**	4,740,681

The notes on pages 37 to 52 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2014 – 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 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	15b	–	(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
Balance at 1 Jan 2014		182,298	232,467	156,252	90,489	504,227	12,859	(31,782)	3,529,536	4,676,346	64,335	4,740,681
Changes in equity for the six months ended 30 Jun 2014:												
Profit for the period		–	–	–	–	–	–	–	263,380	263,380	6,170	269,550
Other comprehensive income		–	–	–	–	–	–	(8,286)	–	(8,286)	–	(8,286)
Total comprehensive income		–	–	–	–	–	–	(8,286)	263,380	255,094	6,170	261,264
Appropriation to statutory reserve		–	–	–	–	10,355	–	–	(10,355)	–	–	–
Balance at 30 Jun 2014		182,298	232,467	156,252	90,489	514,582	12,859	(40,068)	3,782,561	4,931,440	70,505	5,001,945

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2014 – unaudited (Expressed in Renminbi)

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	**831,347**	592,961
Income tax paid	**(62,421)**	(38,960)
Net cash generated from operating activities	**768,926**	554,001
Investing activities		
Payment for the purchase of property, plant and equipment	**(34,143)**	(21,269)
(Increase)/decrease in deposit with bank	**(1,262,534)**	193,650
(Increase)/decrease in pledged deposits	**(35,697)**	40,716
Other cash flows arising from investing activities	**13,873**	25,315
Net cash (used in)/generated from investing activities	**(1,318,501)**	238,412
Financing activities		
Payment for repurchase of convertible bonds	**(161,582)**	–
Dividends paid to equity shareholders of the Company	**–**	(144,732)
Other cash flows arising from financing activities	**(19,776)**	(37,412)
Net cash used in financing activities	**(181,358)**	(182,144)
Net (decrease)/increase in cash and cash equivalents	**(730,933)**	610,269
Cash and cash equivalents at 1 January	**2,494,280**	2,107,018
Cash and cash equivalents at 30 June	**1,763,347**	2,717,287

The notes on pages 37 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 19 August 2014.

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 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 2013 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 2013 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 2013 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 17 March 2014.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs and one new Interpretation 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 32, *Offsetting financial assets and financial liabilities*
- HK(IFRIC) 21, *Levies*

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 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the group's interim financial report as they are consistent with the policies already adopted by the group.

HK(IFRIC) 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the group’s interim financial report as the guidance is consistent with the groups existing accounting policies.

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	
	2014	2013
	RMB’000	RMB’000
Footwear	**906,583**	906,950
Apparel	**1,146,885**	1,055,192
Accessories	**36,608**	36,012
	2,090,076	1,998,154

The Group’s customer base is diversified and includes only one customer (2013: two) with whom transactions have exceeded 10% of the Group’s revenues. During the period ended 30 June 2014, revenues from sales of footwear, apparel and accessories to this customer, including sales to entities which are known to the Group to be under common control with this customer, amounted to approximately RMB298 million (2013: RMB592 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 2014 and 2013 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**	
	2014 RMB'000	2013 RMB'000	**2014 RMB'000**	2013 RMB'000	**2014 RMB'000**	2013 RMB'000
Reportable segment revenue	**1,874,481**	1,790,943	**215,595**	207,211	**2,090,076**	1,998,154
Cost of sales	**(1,129,500)**	(1,094,151)	**(129,866)**	(124,461)	**(1,259,366)**	(1,218,612)
Reportable segment profit (gross profit)	**744,981**	696,792	**85,729**	82,750	**830,710**	779,542

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	
	2014	2013
	RMB'000	RMB'000
Revenue		
Reportable segment revenue and consolidated turnover (note 3(a))	**2,090,076**	1,998,154
Profit		
Reportable segment profit	**830,710**	779,542
Other revenue	**27,902**	32,437
Other net (loss)/gain	**(4,120)**	3,974
Selling and distribution expenses	**(345,542)**	(357,218)
Administrative expenses	**(147,806)**	(152,613)
Net change in fair value of derivatives embedded to convertible bonds	**47,810**	13,640
Finance costs	**(35,371)**	(39,280)
Net loss on repurchase of convertible bonds	**(4,792)**	–
Consolidated profit before taxation	**368,791**	280,482

4 OTHER REVENUE AND NET (LOSS)/GAIN

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Other revenue		
Bank interest income	**9,473**	25,315
Government grants	**17,943**	440
Others	**486**	6,682
	27,902	32,437
Other net (loss)/gain		
Net gain on disposal of fixed assets	**24**	–
Net foreign exchange (loss)/gain	**(4,144)**	3,974
	(4,120)	3,974

Government grants of RMB17,943,000 (2013: RMB440,000) 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	
		2014	2013
		RMB'000	RMB'000
(a)	Finance costs:		
	Interest on bank borrowings wholly repayable within five years	**577**	1,331
	Finance charges on convertible bonds (note 14)	**34,794**	37,949
	Total finance costs	**35,371**	39,280
(b)	Other items:		
	Amortisation of land lease premium	**1,076**	1,076
	Depreciation	**32,608**	32,241
	Impairment losses on trade and other receivables	**–**	18,332
	Staff costs	**174,261**	164,547
	Operating lease charges in respect of properties	**7,689**	10,614
	Research and development costs*	**51,798**	48,799
	Cost of inventories**	**1,259,366**	1,218,612

* Research and development costs include RMB15,879,000 (2013: RMB16,390,000) 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 RMB127,149,000 (2013: RMB118,259,000) relating to staff costs and depreciation, which amounts are also included in the respective amount disclosed separately above.

6 INCOME TAX

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Current tax – PRC income tax		
Provision for the period	**120,474**	78,233
Under/(over) provision in respect of prior periods	**6,405**	(3,286)
	126,879	74,947
Deferred tax		
Origination and reversal of temporary differences	**(27,638)**	200
	99,241	75,147

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 subsidiaries.

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB263,380,000 (six months ended 30 June 2013: RMB205,264,000) and the weighted average of 2,068 million (2013: 2,068 million) ordinary shares in issue during the interim period.

(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 RMB255,155,000 (six months ended 30 June 2013: RMB229,573,000) and the weighted average number of ordinary shares of 2,379 million (2013: 2,397 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 2014, the Group acquired items of property, plant and equipment of approximately RMB13,759,000 (six months ended 30 June 2013: approximately RMB21,269,000).

9 TRADE AND OTHER RECEIVABLES

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Trade debtors		
Trade debtors	**2,094,874**	2,022,705
Less: Allowance for doubtful debts (note 9(b))	**(191,521)**	(191,521)
	1,903,353	1,831,184
Bills receivable	**1,895**	84,780
Deposits, prepayments and other receivables		
Current		
Deposits	**4,051**	3,885
Prepayments	**561,187**	557,209
Other receivables	**49,454**	75,424
Derivative financial instruments (note 14)	**3,180**	355
	617,872	636,873
Non-current		
Deposit and prepayment	**105,581**	121,148

Included in prepayments are amounts prepaid to suppliers of RMB462,566,000 (31 December 2013: RMB468,765,000).

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 RMB4,051,000 (31 December 2013: RMB3,885,000) are expected to be recovered or recognised as expenses after more than one year.

9 TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable, based on the invoice date and net of allowance for doubtful debt is as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Within 90 days	**1,292,554**	947,799
Over 90 days but within 180 days	**577,232**	775,818
Over 180 days but within 365 days	**35,462**	192,347
	1,905,248	1,915,964

Trade debtors and bills receivable are due within 30-180 days from the date of billing.

(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 is as follows:

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
At the beginning of the period	**191,521**	39,520
Impairment loss recognised	**–**	18,332
At the end of the period	**191,521**	57,852

At 30 June 2014, the Group's trade debtors and bills receivable of RMB191,521,000 (30 June 2013: RMB57,852,000) were determined to be impaired. The impaired receivables related to a number of customers which management assessed that a portion of the receivables were doubtful. Consequently, specific 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 neither individually nor collectively considered to be impaired are as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Neither past due nor impaired	**1,563,995**	1,400,718
Within 30 days past due	**125,923**	176,464
Over 30 days but within 90 days past due	**215,330**	318,257
Over 90 days but within 180 days past due	**–**	20,525
Amount past due	**341,253**	515,246
	1,905,248	1,915,964

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 2014 RMB'000	At 31 December 2013 RMB'000
Raw materials	**47,815**	18,530
Work in progress	**44,626**	75,710
Finished goods	**320,007**	315,118
	412,448	409,358

11 CASH AND BANK DEPOSITS

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Pledged bank deposits	**73,597**	37,900
Deposits with banks		
– More than three months to maturity when placed	**1,584,281**	321,747
– Within three months to maturity when placed	**160,000**	102,203
Cash at bank and in hand	**1,603,347**	2,392,077
Cash and bank deposits	**3,421,225**	2,853,927
Represented by:		
Pledged bank deposits	**73,597**	37,900
Deposits with bank	**1,584,281**	321,747
Cash and cash equivalents	**1,763,347**	2,494,280
	3,421,225	2,853,927

At 30 June 2014, the balances that were placed with banks or on hand in the PRC in the cash and bank deposit amounted to RMB3,394,761,000 (31 December 2013: RMB2,780,555,000). 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 2014 RMB'000	At 31 December 2013 RMB'000
Trade creditors	**754,761**	621,748
Bills payable	**444,512**	213,452
Receipts in advance	**6,216**	7,289
Other payables and accruals	**545,389**	515,371
Derivative financial instruments (note 14)	**51,117**	111,319
	1,801,995	1,469,179

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 2014 and 31 December 2013 were secured by pledged bank deposits as disclosed in note 11.

As of the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), is as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Due within 1 month or on demand	**746,785**	409,598
Due after 1 month but within 3 months	**154,168**	227,810
Due after 3 months but within 6 months	**298,320**	197,792
	1,199,273	835,200

13 BANK LOANS

As at 30 June 2014, the bank loans were repayable within one year or on demand and secured as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Bank loans		
– secured	**15,807**	15,898

As 30 June 2014 and 31 December 2013, 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.

During January to April 2014, the Company repurchased convertible bonds with the principal amount of US$26,500,000 at a consideration of US$26,167,000. The carrying amount of liability and derivative components of the repurchased convertible bonds were approximately RMB139,233,000 and RMB17,557,000 respectively. The difference between the consideration paid and the carrying amounts of both components was recognised in the profit or loss account of the Group.

14 CONVERTIBLE BONDS (CONTINUED)

As at 30 June 2014, the conversion price of the convertible bonds was adjusted to HK$3.31 per share with effective from 9 September 2013, as a result of the declaration of interim dividend for the period ended 30 June 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 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
At 1 January 2014	767,539	(355)	38,147	73,172	878,503
Finance charges amortised during the period (note 5(a))	34,794	–	–	–	34,794
Interest paid and payable	(17,965)	–	–	–	(17,965)
Change in fair value	–	(4,069)	(15,110)	(28,631)	(47,810)
Repurchase of convertible bonds	(139,233)	1,270	(6,587)	(12,240)	(156,790)
Exchange adjustments	18,247	(26)	809	1,557	20,587
At 30 June 2014	663,382	(3,180)	17,259	33,858	711,319

(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 2014, the liability component of the convertible bonds was repayable after nine months but within three 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).

15 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	At 30 June 2014 No. of shares '000	At 30 June 2014 HK$'000	At 31 December 2013 No. of shares '000	At 31 December 2013 HK$'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 2013/31 December 2013/ 1 January 2014/30 June 2014	**2,067,602**	**206,760**	**182,298**

(b) Dividends

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

	Six months ended 30 June 2014 RMB'000	Six months ended 30 June 2013 RMB'000
Interim dividend declared after the interim period of RMB5.0 cents per ordinary share (2013: RMB4.0 cents per ordinary share)	**103,380**	82,704

The interim dividend declared has not been recognised as a liability at the end of the reporting period.

15 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividends (Continued)

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of RMB Nil per ordinary share (2013: RMB7.0 cents per ordinary share)	**–**	144,732

16 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Short-term employee benefits	**14,420**	16,491
Post-employment benefits	**311**	645
	14,731	17,136

17 COMMITMENTS

(a) Contractual commitments outstanding at 30 June 2014 not provided for in the interim financial report were as follows:

	At 30 June	At 31 December
	2014	2013
	RMB'000	RMB'000
Advertising and marketing expenses	**274,082**	409,118

17 COMMITMENTS (CONTINUED)

(b) Capital commitments outstanding at 30 June 2014 not provided for in the interim financial report were as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Authorised and contracted for	**5,973**	9,845

(c) At 30 June 2014, the total future minimum lease payments under non-cancellable operating leases payable as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Within 1 year	**12,842**	14,041
After 1 year but within 5 years	**6,878**	12,010
After 5 years	**1,442**	1,380
	21,162	27,431

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 eight 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 2014 and 31 December 2013, certain bank facilities and bills payable of the Group were secured by a property and pledged bank deposits.

361 DEGREES INTERNATIONAL LIMITED 361度國際有限公司

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