361°

INTERIM REPORT 2016 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)
(Resigned and effective from 1 July 2016)
Tsui Yung Kwok (徐容國)
Liao Jianwen (廖建文)
Li Yuen Fai Roger (李苑輝)
(Appointed and effective from 1 July 2016)

BOARD COMMITTEES

Audit Committee

Yan Man Sing Frankie (甄文星) *(Chairman)*
(Resigned and effective from 1 July 2016)
Tsui Yung Kwok (徐容國) *(Chairman)*
(Appointed and effective from 1 July 2016)
Liao Jianwen (廖建文)
Li Yuen Fai Roger (李苑輝)
(Appointed and effective from 1 July 2016)

Remuneration Committee

Liao Jianwen (廖建文) *(Chairman)*
Wang Jiabi (王加碧)
Yan Man Sing Frankie (甄文星)
(Resigned and effective from 1 July 2016)
Tsui Yung Kwok (徐容國)
(Appointed and effective from 1 July 2016)

Nomination Committee

Tsui Yung Kwok (徐容國) *(Chairman)*
(Ceased as Chairman and effective from 1 July 2016)
Li Yuen Fai Roger (李苑輝) *(Chairman)*
(Appointed and effective from 1 July 2016)
Ding Wuhao (丁伍號)
Yan Man Sing Frankie (甄文星)
(Resigned and effective from 1 July 2016)

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
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Cayman Islands

HEAD OFFICE IN THE PRC

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the PRC

FACTORIES IN THE PRC

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the PRC

Wuli Industrial Park
She Ma Lu
Jinjiang City
Fujian Province 362261
the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1609
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Wanchai
Hong Kong

STOCK CODE

01361

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
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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
China Citic Bank International Limited
Industrial Bank Co., Ltd.
Industrial and Commercial Bank of China

INVESTOR RELATIONS CONTACT

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COMPANY WEBSITE

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FINANCIAL HIGHLIGHTS

FINANCIAL PERFORMANCE

Revenue increased by 15.7% to RMB2,555.5 million

Gross profit increased by 16.2% to RMB1,059.0 million

Operating profit increased by 4.2% to RMB506.1 million

Profit attributable to the equity shareholders increased by 1.3% to RMB273.1 million

BUSINESS PERFORMANCE

Total number of *361°* Sport's stores streamlined from 7,208 to 6,853

Total number of *361°* kids' points-of-sale increased from 2,350 to 2,416, of which 1,134 were in *361°* adults' stores

361° Kids revenue accounted for 10.7% of the Group's revenue

Gross profit margin increased by 0.1 percentage point to 41.4%

Basic earnings per share increased by 1.5% to RMB13.2 cents

Resolved to declare an interim dividend of HK5.8 cents (RMB5.0 cents) and a special dividend of HK5.8 cents (RMB5.0 cents) per ordinary share

Last date of registration for shareholders' entitlements to 2016 interim dividend and special dividend: 1 September 2016
Payment date of 2016 interim dividend and special dividend: on or about 14 September 2016

FINANCIAL SUMMARY

	For the six months ended 30 June	
	2016	2015
Profitability Data (RMB'000)		
Revenue	**2,555,549**	2,208,344
Gross profit	**1,058,955**	911,342
Operating profit	**506,136**	485,503
Profit attributable to equity shareholders	**273,082**	269,585
Earnings per share		
– basic (RMB cents)	**13.2**	13.0
Profitability Ratios (%)		
Gross profit margin	**41.4**	41.3
Operating profit margin	**19.8**	22.0
Margin of profit attributable to equity shareholders	**10.7**	12.2
Effective income tax rate *(Note 1)*	**35.1**	35.5
Return on shareholders equity *(Note 2)*	**5.1**	5.3
Operating Ratios (as percentage of revenue) (%)		
Advertising and promotional expenses	**12.2**	12.2
Staff costs	**8.1**	8.8
Research and development	**2.8**	2.5

Note:

1) Effective income tax rate is equal to the income tax divided by the profit before taxation for the period.

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

FINANCIAL SUMMARY

	As at 30 June 2016	As at 31 December 2015
Assets and Liabilities data (RMB'000)		
Non-current assets	**1,522,660**	1,431,873
Current assets	**10,105,608**	7,354,779
Current liabilities	**2,066,353**	1,930,449
Non-current liabilities	**4,018,058**	1,489,746
Equity attributable to equity shareholders	**5,443,339**	5,282,572
Non-controlling interests	**100,518**	83,885
Asset and Working Capital data		
Current asset ratios	**4.9**	3.8
Gearing ratios (%) *(Note 3)*	**34.7**	17.1
Net asset value per share (RMB) *(Note 4)*	**2.7**	2.6
Inventory turnover days (days) *(Note 5)*	**70**	78
Trade and bills receivables turnover days (days) *(Note 6)*	**163**	160
Trade and bills payables turnover days (days) *(Note 7)*	**138**	169
Working capital turnover days (days)	**95**	69

Notes:

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

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

5) Inventory turnover days is equal to the average opening and closing inventory divided by costs of sales and multiplied by 182 days (for the six months ended 30 June 2016) and 365 days (for the year ended 31 December 2015).

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 revenue and multiplied by 182 days (for the six months ended 30 June 2016) and 365 days (for the year ended 31 December 2015).

7) Trade and bills payables turnover days is equal to the average opening and closing trade and bills payables divided by cost of sales and multiplied by 182 days (for the six months ended 30 June 2016) and 365 days (for the year ended 31 December 2015).

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

According to the data from the National Bureau of Statistics of the People's Republic of China (the "PRC"), China's economic growth remained steady at 6.7% in the first half of 2016 and retail sales of consumer goods increased by 10.3% year-on-year in total. In particular, rising awareness of healthy lifestyles among Chinese consumers has continued to spur sportswear consumption and demand despite the lingering economic uncertainties. As sportswear consumption in China is still relatively low compared to other developed countries, the Chinese market offers tremendous growth potential. According to Euromonitor International, a London-based business intelligence and market research company, total sales value of the PRC sportswear industry has increased substantially to RMB165 billion in 2015, and is expected to reach RMB247 billion in 2020, representing a CAGR of 8.0%. In addition, the termination of the national "one-child" policy and adoption of the universal "two-child" policy will likely increase the population in China in the near future especially in urban areas.

The purchasing behavior of Chinese consumers has become increasingly sophisticated in recent years. With persistent upgrading of consumption in China, consumers are shifting their focus to functionality of sportswear for specific sports categories or physical exercise activities. Under the new social ethos of "Sports for All", Chinese consumers' awareness of sportswear and their actual sports participation rates also grew sustainably thanks to the expansion of middle-class families, who pursue high quality and healthy lifestyles. In addition, the development of more innovative technologies and user-friendly applications will continue to bode well for the growth in domestic demand for sporting goods.

The consumer demand for sportswear has also been fueled by encouraging policies or initiatives from the PRC government, including the Opinions on Accelerating the Development of the Sports Industry and Promoting Sports Consumption passed by the State Council of the PRC in 2014, and the China Football Sports Reform Program adopted in March 2015, Medium- and Long-Term Development Guidelines for Football in China issued by the PRC National Development and Reform Commission in April 2016, which set short-term targets of over 30 million elementary and high school students and over 50 million PRC residents who will regularly play football, and more than 70,000 football fields in the country. Furthermore, the PRC government announced the goals and targets for the development of the PRC sports sector under the 13th Five Year Plan in May 2016, which will reinforce its support for the development of China's sportswear industry.

To achieve these targets, the PRC government intends to encourage hosting of professional sporting events, construction of and improvement in sporting infrastructures, as well as promoting team sports. With Beijing to host the 2022 Winter Olympic Games, the Chinese government is engaged in improving public awareness and participation in winter sports by launching the "300 Million People Winter Sports Plan", which involves promoting winter sports as well as constructing winter sports facilities. We believe our joint-venture with ONE WAY, the Nordic brand which specializes in skiing, cycling, and outdoor sports, is well positioned to benefit from the anticipated surge in interest in winter sports.

Running has becoming increasingly popular in China, as seen in recent years with the tremendous growth in the numbers of marathons and runners. In 2014, only 51 marathons were held in China; this number soared to 134 in 2015. The surging interest in running has triggered enormous demand for professional and high performance running shoes, rapidly drying tops, sports bras, and other related apparel. We are well-positioned to leverage our strong competitiveness in product innovation and have applied cutting-edge technology in its running shoes. Our self-developed "iMate" smart running shoes, which combines shoes, smart chip and mobile App, were introduced to market in May this year and has been well received by runners at different quarters.

MANAGEMENT DISCUSSION AND ANALYSIS

Supported by President Xi's hard-pressed promotion of football and the enactment of China Football Sports Reform Program in 2015, football, especially children's football, will be increasingly important in the future. The base of children's football will expand due to the growing establishment of more schools dedicated to football and increasing participation in football training. As a result, it is expected that demand for children's football boots and apparel will increase in the coming future. 361 Degrees was a first mover that actually launched football products in China back in September, 2015. We have also signed up with Mr. YANG Xu, the striker in China's national soccer team, to promote our soccer product series.

Competition remains fierce in China's sportswear industry, particularly as international brands aggressively expand and seek to penetrate into lower-tier cities in China. However, well-established sportswear brands which had been first movers in offering innovative and value-for-money products through multi-brand and omni-channel strategies are well-positioned to gain market share and capitalize on future rapid growth opportunities.

BUSINESS REVIEW

361° Brand and Positioning

The Group, *361°*, is a leading sportswear brand enterprise in China with a growing international presence. The Group designs, develops, manufactures and sells high performance, innovative and stylish sportswear products to cater to the active, athletic and casual sportswear needs of adults, young adults and children. The Group's positioning has been consistent since day one of its establishment in 2003, which is to provide high-performance driven and value-for-money sportswear products targeted at mass market.

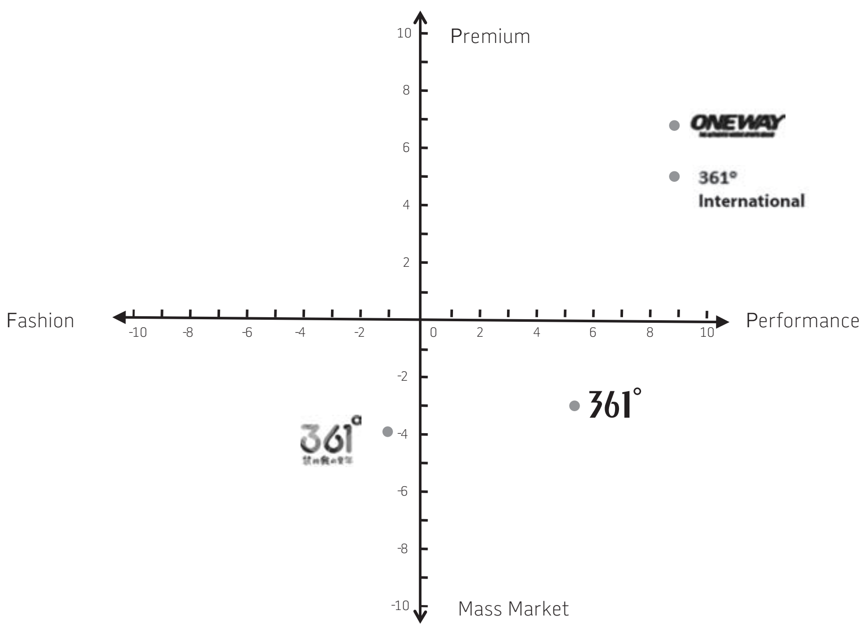
The *361°* main brand engages in brand management, research and development, design, manufacturing and distribution for functional and professional footwear, apparel, and accessory products.

The *361°* kids, which is an independently run business unit, principally caters to sporting apparel, footwear, and accessory needs of children between the ages of 3 to 12.

ONE WAY is a professional Nordic brand specializing in skiing, cycling, mountain hiking, outdoor and other extreme sports. The Group holds a 70% equity interests while One Way Oy of Finland, our joint-venture partner, holds 30% equity interests. ONE WAY is positioned as a brand of high-end and extremely professional product lines and all its products are sold via self-operated stores run by the Group in Greater China.

We also offer product differentiation through our international business segment which specializes in high performance and functional running and cross-training products. The initial target markets are Brazil, the United States and Europe.

The following chart is a snapshot of our brand positioning.



MANAGEMENT DISCUSSION AND ANALYSIS

Business Model

During the review period, the distributorship business model adopted by the Group remained unchanged. The 31 exclusive distributors distributed the products under the *361°* main brand in its exclusive geographical territory. Distributors could choose to open stores directly, subject to approval by the Group's retail channel management department. Distributors could also choose to further distribute the products under the *361°* main brand to authorized retailers. This business model allows maximum flexibility at the provincial level for local city promotions, re-juggling of inventories within retailers and standardized pricing.

The contracts with distributors are generally renewed annually based on satisfactory review of both operational and financial performances. The contracts bind the distributor to observe certain covenants, including safeguarding the brand identity and following the Group's pricing policy guidelines. The Group also provides training programs for distributors and retailers several times a year on inventory management and authorized product knowledge. Furthermore, the Group also insists on projecting a consistent store image across our nationwide distribution network and the standardization of product display equipment and POP materials highlighting quarterly marketing themes. During the review period, we continued to encourage distributors and authorized retailers to upgrade their store layouts in-line with our eighth-generation store image, which provides more eye-catchy layouts and decorations.

The Group currently hosts four trade fairs every year for the *361°* main brand to showcase new season products, in which all distributors and authorized retailers are invited to attend. The finalized orders will be consolidated at the respective distributors, who in turn, will place such orders with the Group. The Group provides precise order guidelines to its distributors and authorized retailers in order to allow better accuracy in orders, prevent deep retail discounts and stabilize retailers' profitability and sustainability. These Trade Fairs are generally hosted six months ahead of their respective display and launch seasons to allow the orders to be manufactured and delivered to the distributors. Revenue is recognized once the products are manufactured and delivered. Apart from the e-commerce order placed by outsourced e-commerce distributor, the bulk of the Group's revenue is 100% contributed by orders made at the trade fairs.

During the review period, the Group organized two trade fairs for *361°* main brand products, with the following results:

	Winter 2016	Spring 2017
Delivery Period	**From August 2016**	**From November 2016**
% Growth (compared against the same trade fair held last year)	high single digit	high single digit

Retail Network

As at the end of June 2016, the network of the *361°* brands stores comprises 6,853 stores, of which about 80% are stand-alone, street-level stores. 1,468 of these stores operate as composite stores, which sells more than one product. Geographically, approximately 72.0% are located in third-tier and below cities in China, while 8.7% and 19.3% are located in first- and second-tier cities in China, respectively.

During the review period, a total of 491 stores opened and a total of 846 stores closed. The closure of stores was mainly attributable to urban construction planning and the impact of heavy rainfall in the Southern China on street stores. The Group will keep focusing on enhancing store efficiency and profitability in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

Authorized retail stores of *361°* main brand by regions are listed as following:

	As at 30 June 2016		As at 31 December 2015	
	Number of *361°* authorized retail stores	**% of total number of *361°* authorized retail stores**	Number of *361°* authorized retail stores	% of total number of *361°* authorized retail stores
Eastern region(1)	**1,649**	**24.1**	1,760	24.4
Southern region(2)	**1,149**	**16.8**	1,234	17.1
Western region(3)	**1,410**	**20.5**	1,470	20.4
Northern region(4)	**2,645**	**38.6**	2,744	38.1
Total	**6,853**	**100**	7,208	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.

Brand Promotion and Marketing

The Group generally dedicated 12% to 14% of annual revenue to brand promotion and marketing. The Group took the opportunity of sponsoring various international games which helped *361°* gain wide recognition as a credible sports brand. *361°* successfully sponsored the 16th Asian Games in Guangzhou in 2010, the 26th Summer Universiade in Shenzhen in 2011 and the 2nd Youth Olympic Games in Nanjing in 2014, the 17th Asian Games in South Korea in 2014. In 2016, *361°* has sponsored the 2016 Rio Summer Olympics and Paralympic Games as Official Tier-2 supporter, making *361°* the first Chinese sportswear brand that became a sponsor of the Olympics.

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

China National Cycling Team

China National Swimming Team

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth all of the Group's existing sponsorships:

Period	Event	Capacity
2013–2017	World Women's Curling Championship	Designated Apparel Sponsor
	World Men's Curling Championship	Designated Apparel Sponsor
2013–2016	World Wushu Championships	Prestige Partner
	World Junior Wushu Championships	Prestige Partner
2014–2018	Jinmen Marathon	Designated Sportswear Sponsor
2014–2016	Rio 2016 Olympic and Paralympic Games	Official Tier-2 Supporter

The following table sets forth the Group's existing athletes signed up as our spokesperson:

Athletes signed up as spokespersons	Key achievements
Mr. Stephon Marbury	plays for the Beijing Ducks in the CBA Championships
Mr. Yang Xu	striker of China National Football Team
Mr. Dexter Lee	two-time winner of World Junior Championships in Athletics
Mr. Sun Yang	won gold medals in the 400 m and 1500 m freestyle at the 2012 London Olympic Games
Mr. Ning Zetao	won the gold medal in 100 m freestyle at the 2015 World Aquatics Championships
Ms. Ye Shiwen	won gold medals in the 400 m and 200 m individual medley at the 2012 London Olympic games

361° Kids

361° Kids has been in operation as an independent business unit since its launch in 2010. It is positioned in the low- to mid-price range and primarily targets at children between ages of 3 and 12 who are looking for active wear for participation in sports activities.

As at 30 June, 2016, there were 2,416 points-of-sale offering *361°* Kids products, of which 1,134 were within the adults' stores, selling both *361°* main brands products and *361°* Kids products. Of the 2,416 points-of-sales, approximately 731 stores were stand-alone, street levels stores. Geographically, approximately 67.2% were located in third-tier and below cities in China, while 10.9% and 21.9% were located in first- and second-tier cities in China, respectively.

Authorized retail stores of *361°* Kids by regions are listed as following:

	As at 30 June 2016		As at 31 December 2015	
	Number of *361°* Kids authorized points-of-sale	**% of total number of *361°* Kids authorized points-of-sale**	Number of *361°* Kids authorized points-of-sale	% of total number of *361°* Kids authorized points-of-sale
Eastern region(1)	**793**	**32.8**	771	32.8
Southern region(2)	**521**	**21.6**	538	22.9
Western region(3)	**351**	**14.5**	333	14.2
Northern region(4)	**751**	**31.1**	708	30.1
Total	**2,416**	**100**	2,350	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.

During the review period, there was one trade fair hosted for *361°* Kids, namely the 2016 Fall/Winter Fair which produced a high single digit growth in orders, compared with the same trade fair hosted last year.

During the review period, *361°* Kids won awards including "March 15th Most Influential Bands in China Consumer Market and Industry" ("3.15中國消費市場行業影響力品牌"), "China's Top 10 Kids Brands" ("中國十大童裝品牌") and "China's Best Kids Brands" ("中國最佳童裝品牌"). The success of *361°* Kids speaks for itself and the brand has already established a foothold in the growing market. The ongoing sponsorship of the very popular "Let's Sing Kids" (中國新聲代), a children's talent show on Hunan TV, further helped boost brand awareness of *361°* Kids in kids and their parent communities.

During the review period, *361°* Kids contributes to 10.7% of the Group's revenue and is expected to maintain fast growth going forward due to the rapidly rising disposable income and the relaxation of the one-child policy in the PRC.

361° International

The Group has achieved good result in overseas sales in Middle East, South America and South East Asia in the past. In order to further diversify its business and explore growth potential, the Group engaged a dedicated team formed by experienced professionals to actively tap into international market targeting at Brazil, the United States and Europe in 2015. This international business segment is operated independently, supported by Taiwan based research and development team and the production is outsourced to factories in Vietnam for tariff reasons.

MANAGEMENT DISCUSSION AND ANALYSIS

Currently, the Group has established wholly-owned subsidiaries in Brazil and the United States, and sold *361°* products to multi-brand sportswear end-retailers in those countries. In Middle East, South America and South East Asia, the Group sold *361°* products through local distributors.

361° is still a relatively new brand in international market but its product performance is comparable to leading international brands. *361°* USA has launched a series of running shoes, of which, the *361°* Sensation and STRATA have won critical acclaim, including being nominated as the "Best Buy" in 2015 and 2016, respectively, by Runners' World, a specialist magazine for running enthusiasts. This has made *361°* the only domestic Chinese sportswear brand which has ever been recommended by the specialist magazine as one of the Ten Best Buy products. Other products such as KgM2, SPIRE, Omni-Fit were also recommended by Runners' World for its superior performance in comfort, durability and value-for-money. In addition, Kgm2 and SPIRE have won the 2016/2017 ISPO Award. The *361°* team is carrying out a number of campaigns at the grass-root level by hosting local running events and working directly with personal trainers, fitness instructors and sports clubs to appeal directly to the end-users.

As at 30 June 2016, there were 908, 180 and 52 points of sales in multi-brand sportswear specially stores carrying out *361°* products in Brazil, the United States, and Europe, respectively. Currently, the Europe network covers the United Kingdom, Germany, Greek and Poland. The Group will continue to explore more countries with growth potential in order to promote its international products in the future. The Group considers international business to play an increasingly important role in terms of revenue contribution in the next three to five years.

As at 30 June 2016, international products were also available in 65 *361°* stores mainly located in the first-tier cities in China such as Beijing, Shanghai, Guangzhou and Shijiazhuang. To optimize the product differentiation and meet the demand from consumer upgrading in domestic market, the Group will continue to introduce international products to more *361°* stores in China going forward.

MANAGEMENT DISCUSSION AND ANALYSIS

ONE WAY

The ski and outdoor sportswear industry in China is still in the early stage of development. However, the demand has already picked up due to the government's supportive policies and the publicity given to winter sports on Beijing's host of the 2022 Winter Olympic Games. ONE WAY will stand to benefit due to its superior product features. ONE WAY offers high-end professional products including footwear, apparel, and equipment. Its apparel uses extremely high performance fabrics and ONE WAY is widely acknowledged as a successful brand in Northern European markets.

As at 30 June 2016, there were 65 self-operated ONE WAY stores in China. The majority of those stores were located in well-known shopping malls in 29 first-tier and second-tier cities in China. The Group will continue to open more ONE WAY stores to lay the groundwork for its rapid growth in the future.

ONE WAY has been building up its brand in the Greater China through entering exclusive cooperation agreement with China Ski Association, sponsoring the national cross-country skiing team and sponsoring the national ski-jumping team.

Contemporary E-Commerce

Due to growing use of the internet, improved infrastructure and a wider range of products, online shopping has become increasingly popular and has revolutionized the traditional retail stores. The Group currently outsourced operations of all its e-commerce business such as our official website and other renowned e-commerce platforms in China including Tmall, Taobao, JD, VIP Shop, etc, to an e-commerce company which acts as its sole distributor of the Group's products on the online platforms. This company is authorized to sell web-exclusive products as well as acting as a central clearance channel for the distributors'/authorized retailers' slow-moving products at the retail level. The current sales contribution from those two major groups maintained at a 50:50 ratio. The Group expects web-exclusive products to dominate in the future.

Web-exclusive products include those that are specially commissioned for the internet; which are often rather basic in design and quality but are much attractively priced, as well as those specially developed "smart" products. As an example, the *361°* smart kids shoe jointly developed with Baidu Inc., and the "iMate" smart running shoe self-developed by *361°*, are available online and well-received by e-commerce customers.

Production

There has been no change to the Group's production policy to strike an equitable balance between self-production and OEMs, having regard to costs, production scheduling and intellectual property rights. For footwear, the Group manufactures up to about 70% of its footwear products by the two factories located in Jiangtou and Wuli in Jinjiang City, and outsources the remainder to a number of factories in the Quanzhou area. Jiangtou factory houses 14 production lines and has an annual production capacity of 12 million pieces of footwear. The Wuli Industrial Complex in the Economic Zone houses nine production lines with an annual production capacity of nine million pieces of footwear. For apparel, the Group operates production facilities that have the capacity to produce 20% of the Group's needs whilst the remainder is contracted to OEMs in the Fujian and Guangdong provinces.

Research and Development

The Group has been consistently strengthening its product innovation and optimizing its research and development capabilities to yield better product differentiation. During the review period, the Group adopted a number of constructive ideas in fashion design, shape and fabric selection, to constantly optimize its product design. *361°* timely introduced advanced materials made of cutting-edge technology and integrated popular elements into the design concept by leveraging its own design teams in Quanzhou and Xiamen as well as collaborating with the Beijing Institute of Fashion Technology and other professional institutions. Performance fabrics are of special interest to sporting brands and in recent years, they have been incorporated into the latest products to enhance functionality for different sports. Each high-performance fabric carries its own characteristics such as 3M reflective patterned fabric, colorful reflective material, SORONA fabric, and Dry Smart fabric.

The Group also builds on its self-developed technologies such as SAC- air, NFO, Quikfoam, Bumper MD, REV Air and Archlock to tailor each product group in footwear to specific functionalities so as to enhance performance. As at 30 June 2016, the Group has obtained 194 patents. There was a total of 130 research and development staffs for footwear, 113 for apparel, 39 for accessories and kids products, respectively.

The Group's expenditure on research and development accounted for 2.8% of the Group's revenue during the review period and is expected to increase due to the Group's intensifying efforts to create a more distinctive product differentiation.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

During the review period, the Group recorded revenue of RMB2,555.5 million (2015: RMB2,208.3 million) represented a growth by 15.7%. The increase was mainly a reflection of 15% order book growth from the 2016's spring and summer trade fairs.

Revenue from footwear and apparel grew by 19.1% and 8.6%, respectively, whereas accessories decreased by 43.6%. Above 96% of 2016's spring and summer products were delivered. In the second half of 2016, deliveries will be mainly the 2016's autumn and winter products. With the firm policy support by the Chinese government and public awareness of the importance of health, the Group believes that the demand for the sportswear products will be continued. This has also been demonstrated by recent 2017 spring trade fair held in June 2016 which recorded a high single digit order book growth.

For the six months ended 30 June 2016, the proportion of footwear sales to the total revenue increased to 45.1% from 43.8% year-on-year which was higher than the 41.2% of apparel sales to the total revenue. The increase was primarily due to the Group became more focused on the development of footwear products and the contribution from the increased footwear sales from overseas business. With the continuous improvement on products, both the volume sold and the average wholesale selling price (the "AWP") of footwear recorded an increase by 10.6% and 7.7%, respectively year-on-year.

On the apparel front, the growth driver was primarily from the sales volume with an increase by 17.5% whereas the AWP recorded a decrease by 7.7% year-on-year because of the stiff competition in apparel market.

For accessories, both the sales volume and AWP recorded a downturn by 23.7% and 25.9%, respectively, which was because a certain amount of 2016's summer accessories were delivered right after the cut-off date in July 2016. The Group always regards this category of products as complimentary to the core sales of footwear and apparel. The reduction in the AWP was because of the change of marketing strategy. The Group introduced more low-priced with high performance accessories in order to induce a higher volume of sales.

The revenue of *361°* Kids for the six months ended 30 June 2016 increased by 16.5% to RMB272.1 million, accounted for 10.7% of the Group's revenue. The growth driver was from sales volume with an increase by 28.0% whereas the AWP recorded a downturn by 8.9%. Such decrease was mainly due to a higher proportion of summer apparels were ordered and delivered compared with the same period of last year.

Starting from this year, the Group reclassified income earned from the sales of soles to independent third party by a 51% owned subsidiary as the Group's revenue. In January 2010, the Group entered a joint-venture with a company incorporated in Taiwan which is the specialist in manufacturing of sole. Over the past 5 years' development, this factory becomes the major sole supplier of the Group's self-produced footwear. Over 55% of this factory's products were sold to the Group and the remaining portion was sold to third parties. As the business has built up into a sizeable scale, the Group determined to reclassify the income earned as the part of the Group's revenue and such amount of RMB56.8 million accounted for about 2.2% of total revenue of the Group for the six months ended 30 June 2016.

Being one of the sponsors of the 2016 Rio Olympic and Paralympic Games, the overseas business sales more than doubled to RMB45.2 million (2015: RMB20.5 million) and contributed about 1.7% of the total revenue of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	For the six months ended 30 June				
	2016		2015		
		% of		% of	Changes
	RMB'000	Revenue	RMB'000	Revenue	%
By Products					
Adults					
Footwear	**1,153,457**	**45.1**	968,818	43.8	+19.1
Apparel	**1,052,155**	**41.2**	968,827	43.9	+8.6
Accessories	**20,970**	**0.8**	37,207	1.7	-43.6
Kids	**272,120**	**10.7**	233,492	10.6	+16.5
Others	**56,847**	**2.2**	–	–	–
Total	**2,555,549**	**100**	2,208,344	100	+15.7

The following table sets forth the number of units sold and the AWP of the products under the Group's brand during the review period:

	For the six months ended 30 June					
	2016		2015		Changes	
	Total units sold '000	Average wholesale selling price[(1)] RMB	Total units sold '000	Average wholesale selling price[(1)] RMB	Units sold (%)	Average wholesale selling price (%)
By Volume and AWP						
Adults						
Footwear (pairs)	**11,644**	**99.1**	10,532	92.0	+10.6	+7.7
Apparel (pieces)	**16,827**	**62.5**	14,315	67.7	+17.5	-7.7
Accessories (pieces/pairs)	**1,754**	**12.0**	2,298	16.2	-23.7	-25.9
Kids	**5,124**	**53.1**	4,004	58.3	+28.0	-8.9

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

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Sales

Cost of sales of the Group for the first half of 2016 increased by 15.4% to RMB1,496.6 million.

During the period under review, the cost of self-produced footwear increased which was primarily due to the use of costly high-technology material for the production of innovative products despite both per unit labor and overhead cost slight reduced. The cost of outsourced footwear could be maintained because of less complicated production process.

On the apparel front, a higher proportion of lower cost outsourced apparels were delivered during the review period, which reduced the overall cost. The Group has a good bargaining power with all its OEM suppliers given the long-term relationship built up in past.

All in all, the total cost of sales as percentage of revenue remained stable at 58.6% year-on-year.

The following table sets forth a breakdown of cost of sales during the review period:

	For the six months ended 30 June			
	2016		2015	
	RMB'000	**% of total costs of sales**	RMB'000	% of total costs of sales
Footwear & Apparel				
Internal Production				
Raw materials	**348,528**	**23.3**	263,617	20.3
Labour	**86,640**	**5.8**	82,839	6.4
Overheads	**170,929**	**11.4**	158,827	12.3
	606,097	**40.5**	505,283	39.0
Outsourced Products				
Footwear	**470,562**	**31.5**	280,742	21.6
Apparel	**359,132**	**24.0**	486,653	37.5
Accessories	**13,734**	**0.9**	24,324	1.9
	843,428	**56.4**	791,719	61.0
Cost of sales — *361°* products	**1,449,525**	**96.9**	1,297,002	100
Cost of sales — Others	**47,069**	**3.1**	–	–
	1,496,594	**100**	1,297,002	100

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

Gross profit and gross profit margin was RMB1,059.0 million and maintained at 41.4% for the six months ended 30 June 2016, respectively.

Apart from the slight drop of 0.3 percentage point on the footwear business, all the other businesses recorded a positive growth on the gross profit margin. Although the AWP of the footwear business increased by 7.7%, the Group did not fully transfer the increased cost to customer in order to stimulate the sales volume thus reduced the gross profit earned in the period.

For apparels and kids' businesses, a higher proportion of products with better profit margin were delivered in the period which pushed up the gross profit margin to 43.1% and 43.0%, respectively.

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				
	2016		2015		
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %	Changes percentage point
Adults					
Footwear	**469,852**	**40.7**	397,063	41.0	-0.3
Apparel	**453,687**	**43.1**	405,328	41.8	+1.3
Accessories	**8,561**	**40.8**	14,948	40.2	+0.6
Kids	**117,077**	**43.0**	94,003	40.3	+2.7
Others	**9,778**	**17.2**	–	–	–
Total	**1,058,955**	**41.4**	911,342	41.3	+0.1

Other revenue

Other revenue of RMB36.9 million (2015: RMB76.8 million) mainly comprised of accrued interest income of RMB35.9 million (2015: RMB61.2 million) earned from bank deposits both in Hong Kong and the PRC.

Other net gain

Other net gain of RMB 11.9 million was mainly attributable to the exchange difference incurred by the RMB1.5 billion 7.5% senior unsecured notes due 2017, which were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (bond stock code: 85992) (the "CNH Notes"). Although the CNH Notes were denominated in Renminbi, it was issued in Hong Kong and was booked under the holding Company with functional currencies other than Renminbi. The gain has also been offset by the foreign exchange loss from the placement of Renminbi deposits in Hong Kong and the exchange loss of overseas offices denominated in currencies other than Renminbi.

Selling and distribution expenses

For the six months ended 30 June 2016, selling and distribution expenses increased by 11.1% to RMB381.9 million (2015: RMB343.7 million). The increase was slightly less than the growth of revenue which was primarily due to better control on the selling expenses. Advertising and promotional expenses were RMB310.9 million (2015: RMB269.4 million) accounting for approximately 12.2% (2015: 12.2%) of the Group's revenue. All the costs of sponsorship contracts started to amortise from the effective date of the contract.

Administrative expenses

Administrative expenses increased by 43.3% to RMB219.7 million for the period ended 30 June 2016 (2015: RMB153.2 million) and represented about 8.6% (2015: 6.9%) of the Group's revenue. The increase was mainly due to the additions of research and development expenses, management staff salaries for the developing overseas business unit and the depreciation cost incurred by the new Xiamen headquarter.

MANAGEMENT DISCUSSION AND ANALYSIS

Research and development expenses were RMB72.4 million (2015: RMB54.4 million) accounted for 2.8% (2015: 2.5%) of the revenue for the period under review. In order to enhance the development and competitiveness of products, the Group continuously invests in expenses in relation to the research and development purpose, such as recruitment of experienced staff and purchases of advanced machineries. A new research and development centre was built in Wuli Industrial Park, Jinjiang and commenced in use in the first half of 2016.

In exploitation of overseas market, the Group set up two subsidiaries in Brazil and USA and recruited ex-senior hires from reputable sports brand companies. The amount of administrative staff costs of the Group increased to RMB46.7 million (2015: RMB38.4 million) for the six months ended 30 June 2016.

Besides, the newly established headquarter in Xiamen increased the depreciation cost to RMB33.9 million (2015: RMB18.0 million) for the six months ended 30 June 2016.

Finance Costs

For the six months ended 30 June 2016, financing costs increased to RMB78.1 million (2015: RMB62.8 million) of which RMB1.0 million in relation to short-term bank borrowings and the balance was mainly the RMB77.1 million for the relevant interest and cost in relation to the two senior unsecured notes amortised over the period. As at 30 June 2016, the short-term bank borrowings were RMB3.2 million for the finance of running a 51% owned subsidiary and RMB14.8 million, a mortgage bank loan, for financing the acquisition of an office in Hong Kong. On 12 September 2014 and 3 June 2016, the Group issued an aggregate principal amount of RMB1,500,000,000 7.5% senior unsecured notes due 2017 (the "CNH Notes") and an aggregate principal amount of US$400,000,000 7.25% senior unsecured notes due 2021 (the "US$ Notes"), respectively. The finance cost of the two senior unsecured notes accrued for the period was RMB77.1 million in which RMB69.3 million was in relation to the accrued interest for the period and RMB7.8 million was the relevant cost incurred for the issuance of the two senior unsecured notes amortised over the tenor of three years and five years, respectively.

Income tax expenses

During the period under review, income tax expenses of the Group amounted to RMB149.7 million (2015: RMB150.1 million) and the effective tax rate for the period was 35.1% (2015: 35.5%). The Group's four mainland China-based operating subsidiaries are subject to the standard corporate income tax rate of 25% whereas no provision has been made for profit tax of the subsidiaries in Hong Kong since no operating income was generated in the city. Since the CNH Notes and the US$ Notes (as defined below) were both issued and listed in Hong Kong, the relevant interest and cost have been all accrued and paid by the holding company. Such finance costs were not allowed to be deducted from the taxable income of the China-based operating subsidiaries, thus the effective tax rate was higher than the PRC standard corporate income tax rate of 25%.

DIVIDENDS

The Board resolved to declare an interim dividend of HK5.8 cents (equivalent to RMB5.0 cents) per ordinary share and a special dividend of HK5.8 cents (equivalent to RMB5.0 cents) for the six months ended 30 June 2016. The dividends amounted to RMB206.8 million and is expected to be paid to shareholders on or about 14 September 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 2 September 2016 to Tuesday, 6 September 2016, both days inclusive, for the purpose of determining shareholders' entitlements to the interim dividend and special dividend. In order to qualify for the interim dividend and special 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 Thursday, 1 September 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

Net cash inflow from operating activities of the Group for the first half of 2016 amounted to RMB372.4 million. As at 30 June 2016, cash and cash equivalents, including bank deposits and cash in hands, and fixed deposits with original maturities not exceeding three months, amounted to RMB3,774.6 million, representing a net increase of RMB1,492.9 million as compared to the position as at 31 December 2015. The net increase in cash and cash equivalents was attributable to the following items:

	For the six months ended 30 June 2016 RMB'000	2015 RMB'000
Net cash generated from operating activities	**372,445**	233,052
Payment for the purchase of property, plant and equipment	**(119,022)**	(47,157)
Interest paid	**(57,622)**	(56,259)
Dividends paid	**(109,583)**	(62,028)
Proceeds from the issuance of US$ notes	**2,596,451**	–
Payment for repurchase of CNH Notes	**(70,772)**	–
Placement of deposits (with maturity over three months)	**(1,112,354)**	(200,000)
Interest received	**17,830**	39,694
Other net cash outflow	**(24,470)**	(37,830)
Net increase/(decrease) in cash and cash equivalents	**1,492,903**	(130,528)

The positive net cash generated from operating activities amounted of RMB372.4 million for the six months ended 30 June 2016 was mainly from the operating profit for the period under review. During the six months ended 30 June 2016, capital expenditure amounted RMB119.0 million was mainly incurred for the maintenance of facilities in relation to production and workers in Wuli Industrial Park, Jinjiang and the capital expenditure for the new headquarter in Xiamen. The interest of RMB57.6 million for the period was mainly the semi-annual interest of CNH Notes. As at 30 June 2016, the Group repurchased and cancelled approximately RMB69 million CNH Notes in principal amount by the use of RMB70.8 million. Such funding was from the proceeds of RMB2,596.5 million by the issuance of US$ Notes in June 2016. The receipt of interest amounted RMB17.8 million was mainly interest income generated by the fixed deposits placed in the PRC and Hong Kong.

The Group's gearing ratio was 34.7% as at 30 June 2016 (31 December 2015: 17.1%). The increase was due to the Group carried two senior notes at cut-off date but the percentage will be reduced as at 31 December 2016 since the Group repurchased and cancelled another RMB1,119.5 million principal amount of CNH Notes on 15 July 2016 and the immediate remaining outstanding balance was reduced to about RMB311 million.

During the period under review, the Group did not enter 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 review period, 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 2016, a building with net book value of RMB45,070,000 (31 December 2015: RMB46,000,000) was pledged as security for a banking facility of the Group of RMB42,917,000 (31 December 2015: RMB42,387,000). 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 2016 were secured by pledged bank deposits of RMB167.8 million.

MANAGEMENT DISCUSSION AND ANALYSIS

WORKING CAPITAL MANAGEMENT

The average working capital cycle for the six months ended 30 June 2016 was 95 days (year ended 31 December 2015: 69 days). The increase was mainly due to the extension of the trade and bills receivable days and the shorten of trade and bills payable turnover days.

The average trade and bills receivable cycle was 163 days as at 30 June 2016 (31 December 2015: 160 days), which represented an increase by 3 days. All the trade debts and bill receivable were within 180 days and 93.8% were neither considered as past due nor impaired. The Group has been staying in touch with all the distributors and believes that there will be further improvement in the collection of debts.

The average inventory revenue cycle was 70 days for the six months ended 30 June 2016 (year ended 31 December 2015: 78 days). About 72.6% of the stock were finished goods and mainly autumn products of 2016. All the goods were either self-produced or supplied by OEMs in accordance to the orders received from distributors at the trade fairs held in the year, no extra stock was produced or kept by the Group.

As at 30 June 2016, prepayments to suppliers were RMB432.0 million, representing a 17.1% decrease compared to the RMB520.8 million as at 31 December 2015. The prepayments were deposits paid to suppliers for the acceptance of orders for production of products in relation to the 2016 autumn and winter trade fairs' products. The total size of these two trade fairs were smaller than the others held in second half of 2016, therefore, the amount required was less. The balance of other prepayments, RMB32.1 million, was mainly the payment in relation to the advertising and promotion contracts and suppliers for rack subsidies.

The average trade and bills payable cycle was 138 days for the six months ended 30 June 2016, compared with the 169 days for the year ended 31 December 2015. The shorten of the bills payable cycle was due to the increase in the use of high-tech material suppliers. As the percentage of functionality products increased, suppliers in the provision of high technology material generally requested a shorter payment terms thus reduced the overall payable turnover days.

SENIOR UNSECURED NOTES

On 12 September 2014, the Company issued the CNH Notes with an aggregate principal amount of RMB1.5 billion at an interest rate of 7.5% per annum due 12 September 2017 at an offering price of 99.472% of the aggregated principal amount of RMB1.5 billion and listed on the Stock Exchange in Hong Kong (bond stock code: 85992).

On 3 June 2016, the Company issued the US$ Notes with an aggregate principal amount of US$400 million at an interest rate of 7.25% per annum due 3 June 2021 at an offering price of 99.055% of the aggregated principal amount of US$400 million and listed on the Stock Exchange in Hong Kong (bond stock code: 5662). The net proceeds were mainly used for the finance of redemption of the CNH Notes, development of overseas business and general working capital.

As at 30 June 2016, the Company repurchased and cancelled approximately RMB69 million CNH Notes in principal amount by the way of purchases from the open market and the relevant loss of RMB0.9 million was recorded in the period. Such purchases were funded by proceeds from the issuance of the US$ Notes.

On 20 June 2016, the Company also invited all holders of the CNH Notes to tender their balance CNH Notes for repurchase by the Company for cash. The tender offer is not closed as at 30 June 2016.

EMPLOYEES AND EMOLUMENTS

As at 30 June 2016, the Group employed a total of 11,072 full time employees in the PRC which included management staff, technicians, salespersons and workers. For the six months ended 30 June 2016, the Group's total remuneration to employees was RMB208.1 million, representing 8.1% of the Group's revenue. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

With the Chinese Central Government's directive to promote sports in all schools, the future generation of youth will have an education that is firmly based on physical activities which will evolve to be part of their life-style and form the bedrock of a healthy society. The Group expects the sportswear industry to continue to advance in a healthy and stable manner in 2016 and beyond, leveraging on stronger policy support and the accelerating pace of industrial transformation, enhance a bright future for its business and its products which are highly competitive in both design and price.

Competition will always remain intense and often stifling but the Group will continue to invest in research and development to ensure that it remains at the leading edge of new product technology.

With China's slowing economy and rising competition, there will be difficult challenges in the path ahead. However, the Group's strong financial position and stable share structure lend firm support to its operations and will help it to overcome future challenges.

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

As at 30 June 2016, 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%
Mr Ding Huihuang	Long	Interest in controlled corporation	*(2)*	360,000,000	17.41%
Mr Ding Huirong	Long	Interest in controlled corporation	*(3)*	360,000,000	17.41%
Mr Wang Jiabi	Long	Interest in controlled corporation	*(4)*	187,500,000	9.07%

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. He is the brother-in-law of both Mr Ding Huihuang and Mr Ding Huirong.

(2) Mr Ding Huihuang is deemed to be interested in 360,000,000 shares of the Company held by Ming Rong International Company Limited by virtue of it being controlled by Mr Ding Huihuang. He is the elder brother of Mr Ding Huirong and the brother-in-law of Mr Ding Wuhao.

(3) Mr Ding Huirong is deemed to be interested in 360,000,000 shares of the Company held by Hui Rong International Company Limited by virtue of it being controlled by Mr Ding Huirong. He is 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.

Apart from the foregoing, as at 30 June 2016, 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

Share Option Scheme

The Company 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, which represented about 9.7% of the total issued share capital of the Company as at the date of this report. 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.

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an option impose any conditions, restrictions or limitations in relation thereto in addition to those set those in the Share Option Scheme as the Board may think fit, including the time or period before the right to exercise the option in respect of all or any of the shares shall vest, provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme.

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. As at the date of this report, the remaining life of the Share Option Scheme was about 2 years and 11 months.

No options have been granted under the Share Option Scheme up to 30 June 2016.

Apart from the foregoing, at no time during the six months ended 30 June 2016 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2016, 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	377,774,000	18.27%
Ming Rong International Company Limited	*(3)*	Beneficial owner	L	360,000,000	17.41%
Hui Rong International Company Limited	*(4)*	Beneficial owner	L	360,000,000	17.41%
Jia Wei International Co., Ltd.	*(5)*	Beneficial owner	L	187,500,000	9.07%
Jia Chen International Co., Ltd.	*(6)*	Beneficial owner	L	187,500,000	9.07%
Wang Jiachen	*(6)*	Interest in controlled corporation	L	187,500,000	9.07%

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.

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.

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.

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.

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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF SECURITIES

On 3 June 2016, the Company issued the US$ Notes on the Stock Exchange, which became effective on 6 June 2016. The net proceeds received was approximately US$390.1 million. Please refer to the announcements of the Company dated 18 and 24 May 2016, and 3 June 2016 for more details.

Between 6 June 2016 and 17 June 2016, the Company purchased and cancelled approximately RMB69 million principal amount of the CNH Notes listed on the Stock Exchange through the open market on the Stock Exchange for a total price of approximately RMB70.8 million.

On 20 June 2016, the Company announced a tender offer to purchase the remaining approximately RMB1,431 million of the CNH Notes. As of 30 June 2016, the tender offer is not closed. Please refer to the announcement of the Company dated 20 June 2016 for details.

Except as disclosed in this section, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016.

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 as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2016.

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 2016.

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. For the six months ended 30 June 2016, the audit committee comprised of three independent non-executive directors of the Company, namely, Mr Yan Man Sing Frankie, Dr. Liao Jianwen and Mr Tsui Yung Kwok, with Mr. Yan serving as the chairman. As Mr. Yan resigned as an independent non-executive director of the Company effective on 1 July 2016, from 1 July 2016, the audit committee is comprised of three independent non-executive directors of the Company, Mr Tsui Yung Kwok, Dr. Liao Jianwen and Mr Li Yuen Fai Roger. Mr Tsui Yung Kwok serves as the chairman of the audit committee of the Company. The chairmen of the audit committee both have 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 2016. They considered that the unaudited interim financial statements of the Group for the six months ended 30 June 2016 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 2016 – unaudited (Expressed in Renminbi)

	Note	Six months ended 30 June 2016 RMB'000	Six months ended 30 June 2015 RMB'000
Revenue	3	**2,555,549**	2,208,344
Cost of sales		**(1,496,594)**	(1,297,002)
Gross profit		**1,058,955**	911,342
Other revenue	4	**36,866**	76,788
Other net gain/(loss)	4	**11,892**	(5,690)
Selling and distribution expenses		**(381,919)**	(343,704)
Administrative expenses		**(219,658)**	(153,233)
Profit from operations		**506,136**	485,503
Loss on repurchase of senior unsecured notes		**(858)**	–
Finance costs	5(a)	**(78,120)**	(62,853)
Profit before taxation	5	**427,158**	422,650
Income tax	6	**(149,742)**	(150,103)
Profit for the period		**277,416**	272,547
Attributable to:			
Equity shareholders of the Company		**273,082**	269,585
Non-controlling interests		**4,334**	2,962
Profit for the period		**277,416**	272,547
Earnings per share	7		
Basic (cents)		**13.2**	13.0
Diluted (cents)		**13.2**	13.0

The notes on pages 32 to 46 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 2016 – unaudited (Expressed in Renminbi)

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Profit for the period	**277,416**	272,547
Other comprehensive income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements	**(2,732)**	1,029
Total comprehensive income for the period	**274,684**	273,576
Attributable to:		
Equity shareholders of the Company	**270,350**	270,614
Non-controlling interests	**4,334**	2,962
Total comprehensive income for the period	**274,684**	273,576

The notes on pages 32 to 46 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 2016 — unaudited (Expressed in Renminbi)

	Note	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Non-current assets			
Property, plant and equipment	8	**1,234,777**	1,174,446
Interests in leasehold land held for own use under operating leases		**118,184**	119,260
		1,352,961	1,293,706
Other financial asset		**11,700**	17,550
Deposits and prepayments	9	**98,299**	92,080
Deferred tax assets		**59,700**	28,537
		1,522,660	1,431,873
Current assets			
Inventories	10	**593,214**	551,957
Trade debtors	9	**2,153,056**	2,017,676
Bills receivable	9	**183,339**	235,510
Deposits, prepayments and other receivables	9	**621,308**	641,385
Pledged bank deposits	11	**167,766**	122,026
Deposits with banks	11	**2,612,354**	1,500,000
Cash and cash equivalents	11	**3,774,571**	2,286,225
		10,105,608	7,354,779
Current liabilities			
Trade and other payables	12	**1,769,172**	1,659,426
Bank loans	13	**17,960**	15,116
Current taxation		**279,221**	255,907
		2,066,353	1,930,449
Net current assets		**8,039,255**	5,424,330
Total assets less current liabilities		**9,561,915**	6,856,203
Non-current liabilities			
Deferred tax liabilities		**–**	351
Interest-bearing borrowings	14	**4,018,058**	1,489,395
		4,018,058	1,489,746
NET ASSETS		**5,543,857**	5,366,457

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2016 — unaudited (Expressed in Renminbi)

	Note	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
CAPITAL AND RESERVES	*15*		
Share capital		**182,298**	182,298
Reserves		**5,261,041**	5,100,274
Total equity attributable to equity shareholders of the Company		**5,443,339**	5,282,572
Non-controlling interests		**100,518**	83,885
TOTAL EQUITY		**5,543,857**	5,366,457

The notes on pages 32 to 46 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2016 – unaudited (Expressed in Renminbi)

		Attributable to equity shareholders of the Company									
		Share capital	Share premium	Capital reserve	Other reserve	Statutory reserve	Exchange reserve	Retained profits	Total	Non-controlling interests	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 Jan 2015		182,298	129,087	156,252	90,489	533,062	(37,349)	3,911,202	4,965,041	71,905	5,036,946
Changes in equity for the six months ended 30 Jun 2015:											
Profit for the period		–	–	–	–	–	–	269,585	269,585	2,962	272,547
Other comprehensive income		–	–	–	–	–	1,029	–	1,029	–	1,029
Total comprehensive income		–	–	–	–	–	1,029	269,585	270,614	2,962	273,576
Appropriation to statutory reserve		–	–	–	–	5,355	–	(5,355)	–	–	–
Dividends declared and paid during the period	*15(b)*	–	(62,028)	–	–	–	–	–	(62,028)	–	(62,028)
Balance at 30 Jun 2015		182,298	67,059	156,252	90,489	538,417	(36,320)	4,175,432	5,173,627	74,867	5,248,494
Balance at 1 Jan 2016		**182,298**	**67,059**	**156,252**	**90,489**	**545,845**	**(72,049)**	**4,312,678**	**5,282,572**	**83,885**	**5,366,457**
Changes in equity for the six months ended 30 Jun 2016:											
Profit for the period		**–**	**–**	**–**	**–**	**–**	**–**	**273,082**	**273,082**	**4,334**	**277,416**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**(2,732)**	**–**	**(2,732)**	**–**	**(2,732)**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**(2,732)**	**273,082**	**270,350**	**4,334**	**274,684**
Capital contribution received by a non-wholly owned subsidiary from non-controlling shareholder		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**12,299**	**12,299**
Appropriation to statutory reserve		**–**	**–**	**–**	**–**	**7,582**	**–**	**(7,582)**	**–**	**–**	**–**
Dividends declared and paid during the period	*15(b)*	**–**	**–**	**–**	**–**	**–**		**(109,583)**	**(109,583)**	**–**	**(109,583)**
Balance at 30 Jun 2016		**182,298**	**67,059**	**156,252**	**90,489**	**553,427**	**(74,781)**	**4,468,595**	**5,443,339**	**100,518**	**5,543,857**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2016 – unaudited (Expressed in Renminbi)

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	**530,386**	309,506
Income tax paid	**(157,941)**	(76,454)
Net cash generated from operating activities	**372,445**	233,052
Investing activities		
Payment for the purchase of property, plant and equipment	**(119,022)**	(47,157)
Increase in deposit with bank	**(1,112,354)**	(200,000)
Increase in pledged deposits	**(45,740)**	(39,626)
Interest received	**17,830**	39,694
Other cash flows arising from investing activities	**6,317**	125
Net cash used in investing activities	**(1,252,969)**	(246,964)
Financing activities		
Proceeds from issuance of senior unsecured notes	**2,596,451**	–
Payment for repurchase of senior unsecured notes	**(70,772)**	–
Dividends paid	**(109,583)**	(62,028)
Interest paid	**(57,622)**	(56,259)
Other cash flows arising from financing activities	**14,953**	1,671
Net cash generated from/(used in) financing activities	**2,373,427**	(116,616)
Net increase/(decrease) in cash and cash equivalents	**1,492,903**	(130,528)
Cash and cash equivalents at 1 January	**2,286,225**	2,130,237
Effect of foreign exchange rate changes	**(4,557)**	(617)
Cash and cash equivalents at 30 June	**3,774,571**	1,999,092

The notes on pages 32 to 46 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"). This interim financial report was authorised for issue on 16 August 2016.

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2015 annual financial statements. Details of any 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 2015 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 2015 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2015 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 8 March 2016.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group.

- Annual Improvements to HKFRSs 2012–2014 Cycle
- Amendments to HKAS 1, Presentation of Financial Statement: Disclosure Initiative.

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are manufacturing and trading of sporting goods, including footwear, apparel and accessories in the PRC. Revenue 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	
	2016	2015
	RMB'000	RMB'000
Footwear	**1,349,036**	1,048,169
Apparel	**1,183,236**	1,119,311
Accessories	**23,277**	40,864
	2,555,549	2,208,344

The Group's customer base is diversified and includes only two (2015: two) with whom transactions have exceeded 10% of the Group's revenues. During the period ended 30 June 2016, revenues from sales of footwear, apparel and accessories to these customers, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately RMB792 million (2015: RMB551 million). These sales arose in both reportable segments (see note 3(b)).

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

(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 identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

— *361°* Products — Adults: this segment derives revenue from manufacturing and trading of adults sporting goods.

— *361°* Products — Kids: this segment derives revenue from trading of kids sporting goods.

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

The Group's revenue and results were mainly 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 2016 and 2015 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	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
Reportable segment revenue	**2,283,429**	1,974,852	**272,120**	233,492	**2,555,549**	2,208,344
Cost of sales	**(1,341,551)**	(1,157,513)	**(155,043)**	(139,489)	**(1,496,594)**	(1,297,002)
Reportable segment profit (gross profit)	**941,878**	817,339	**117,077**	94,003	**1,058,955**	911,342

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Revenue		
Reportable segment revenue and consolidated revenue *(note 3(a))*	**2,555,549**	2,208,344
Profit		
Reportable segment profit	**1,058,955**	911,342
Other revenue	**36,866**	76,788
Other net gain/(loss)	**11,892**	(5,690)
Selling and distribution expenses	**(381,919)**	(343,704)
Administrative expenses	**(219,658)**	(153,233)
Loss on repurchase of senior unsecured notes	**(858)**	–
Finance costs	**(78,120)**	(62,853)
Consolidated profit before taxation	**427,158**	422,650

4 OTHER REVENUE AND NET GAIN/(LOSS)

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Other revenue		
Bank interest income	**35,861**	61,186
Government grants	**48**	10,430
Others	**957**	5,172
	36,866	76,788
Other net gain/(loss)		
Net (loss)/gain on disposal of fixed assets	**(28)**	19
Net foreign exchange gain/(loss)	**11,920**	(5,709)
	11,892	(5,690)

Government grants of RMB48,000 (2015: RMB10,430,000) 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	
	2016	2015
	RMB'000	RMB'000
(a) Finance costs:		
Interest on bank borrowings wholly repayable within five years	**978**	1,035
Finance charges on senior unsecured notes *(note 14)*	**77,142**	61,818
Total finance costs	**78,120**	62,853
(b) Other items:		
Amortisation of land lease premium	**1,076**	1,076
Depreciation	**46,100**	34,319
Staff costs	**208,094**	194,112
Operating lease charges in respect of properties	**2,652**	6,305
Research and development costs*	**72,444**	54,350
Cost of inventories**	**1,496,594**	1,297,002

* Research and development costs include RMB17,799,000 (2015: RMB17,162,000) 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 RMB121,162,000 (2015: RMB136,727,000) 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	
	2016	2015
	RMB'000	RMB'000
Current tax — PRC income tax		
Provision for the period	**179,460**	160,493
Under provision in respect of prior periods	**1,796**	11,013
	181,256	171,506
Deferred tax		
Origination and reversal of temporary differences	**(31,514)**	(21,403)
	149,742	150,103

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.

(Expressed in Renminbi unless otherwise indicated)

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 RMB273,082,000 (six months ended 30 June 2015: RMB269,585,000) and the weighted average of 2,068 million (2015: 2,068 million) ordinary shares in issue during the interim period.

(b) Diluted earnings per share

For the period ended 30 June 2015 and 2016, diluted earnings per share is the same as basic earnings per share as the Company did not have dilutive potential shares outstanding during the period.

8 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired items of property, plant and equipment of approximately RMB105,902,000 (six months ended 30 June 2015: approximately RMB47,157,000).

9 TRADE AND OTHER RECEIVABLES

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Trade debtors		
Trade debtors	**2,233,211**	2,097,831
Less: Allowance for doubtful debts *(note 9(b))*	**(80,155)**	(80,155)
	2,153,056	2,017,676
Bills receivable	**183,339**	235,510
Deposits, prepayments and other receivables		
Current		
Deposits	**1,457**	2,696
Prepayments	**482,716**	574,241
Other receivables	**137,135**	64,448
	621,308	641,385
Non-current		
Deposits and prepayments	**98,299**	92,080

9 TRADE AND OTHER RECEIVABLES (CONTINUED)

Included in prepayments are amounts prepaid to suppliers of RMB432,045,000 (31 December 2015: RMB520,838,000).

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 RMB1,457,000 (31 December 2015: RMB2,696,000) are expected to be recovered or recognised as expenses after more than one year.

(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 2016 RMB'000	At 31 December 2015 RMB'000
Within 90 days	**2,087,095**	1,704,642
Over 90 days but within 180 days	**249,300**	548,544
	2,336,395	2,253,186

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. There are no movement in the allowance for doubtful debts during the six months ended 30 June 2016 and 2015.

At 30 June 2016, the Group's trade debtors and bills receivable of RMB80,155,000 (30 June 2015: RMB80,155,000) 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 2016 RMB'000	At 31 December 2015 RMB'000
Neither past due nor impaired	**2,192,951**	2,119,134
Within 30 days past due	**87,627**	80,154
Over 30 days but within 90 days past due	**55,817**	53,898
Amount past due	**143,444**	134,052
	2,336,395	2,253,186

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 2016 RMB'000	At 31 December 2015 RMB'000
Raw materials	**129,260**	19,860
Work in progress	**33,326**	21,330
Finished goods	**430,628**	510,767
	593,214	551,957

11 CASH AND BANK DEPOSITS

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Pledged bank deposits	**167,766**	122,026
Deposits with banks		
— More than three months to maturity when placed	**2,612,354**	1,500,000
— Within three months to maturity when placed	**1,836,499**	723,436
Cash at bank and in hand	**1,938,072**	1,562,789
Cash and bank deposits	**6,554,691**	3,908,251
Represented by:		
Pledged bank deposits	**167,766**	122,026
Deposits with bank	**2,612,354**	1,500,000
Cash and cash equivalents	**3,774,571**	2,286,225
	6,554,691	3,908,251

At 30 June 2016, the balances that were placed with banks or on hand in the PRC in the cash and bank deposit amounted to RMB4,097,161,000 (31 December 2015: RMB3,631,716,000). 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 2016 RMB'000	At 31 December 2015 RMB'000
Trade creditors	**541,861**	733,881
Bills payable	**587,865**	407,297
Receipts in advance	**71,529**	38,782
Other payables and accruals	**567,917**	479,466
	1,769,172	1,659,426

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 2016 and 31 December 2015 were secured by pledged bank deposits as disclosed in note 11.

(Expressed in Renminbi unless otherwise indicated)

12 TRADE AND OTHER PAYABLES (CONTINUED)

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 2016 RMB'000	At 31 December 2015 RMB'000
Due within 1 month or on demand	**261,332**	356,921
Due after 1 month but within 3 months	**262,005**	271,120
Due after 3 months but within 6 months	**606,389**	513,137
	1,129,726	1,141,178

13 BANK LOANS

As at 30 June 2016, the bank loans were repayable within one year or on demand and secured as follows:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Bank loans		
— secured	**14,753**	15,116
— unsecured	**3,207**	–
	17,960	15,116

As 30 June 2016 and 31 December 2015, secured bank loans of the Group were secured by a property.

14 NON-CURRENT INTEREST-BEARING BORROWINGS

(a) The analysis of the carrying amount of interest-bearing borrowings is as follows:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Senior unsecured notes due 2017 *(note 14(b)(i))*	**1,420,825**	1,489,395
Senior unsecured notes due 2021 *(note 14(b)(ii))*	**2,597,233**	–
	4,018,058	1,489,395

14 NON-CURRENT INTEREST-BEARING BORROWINGS (CONTINUED)

(b) Significant terms and repayment schedule of non-bank borrowings

(i) On 12 September 2014, the Company issued senior unsecured notes with principal amount of RMB1,500,000,000 due 2017 (the "CNH Notes"). The CNH Notes are interest bearing at 7.5% per annum, and payable on a semi-annual basis in arrears. The maturity date of senior unsecured notes is 12 September 2017. The effective interest rate of the senior unsecured notes is 8.42% per annum.

Between 6 June 2016 and 17 June 2016, the Company purchased and cancelled approximately RMB69 million principal amount of the aggregate principal amount of RMB1.5 billion CNH Notes for a total price of approximately RMB70.8 million.

On 20 June 2016, the Company announced a tender offer to purchase the remaining approximately RMB1,431 million of the CNH Notes. As of 30 June 2016, the tender offer is not closed.

(ii) On 3 June 2016, the Company issued senior unsecured notes with principal amount of US$400 million due 2021 (the "US$ Notes"). The US$ Notes are interest bearing at 7.25% per annum, and payable on semi-annual basis in arrears. The maturity date of the US$ Notes is 3 June 2021. The effective interest rate of the US$ Notes is 7.86% per annum.

15 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	At 30 June 2016		At 31 December 2015	
	No. of shares '000	**HK$'000**	No. of shares '000	HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**10,000,000**	**10,000,000**	10,000,000	10,000,000

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 2015/31 December 2015/ 1 January 2016/30 June 2016	**2,067,602**	**206,760**	**182,298**

15 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividends

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Interim dividend declared after the interim period of HK5.8 cents (equivalent to RMB5.0 cents) per ordinary share (2015: RMB5.0 cents per ordinary share)	**103,380**	103,380
Special dividend declared after the interim period of HK5.8 cents (equivalent to RMB5.0 cents) per ordinary share (2015: RMB Nil per ordinary share)	**103,380**	–

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

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period of HK6.3 cents (equivalent to RMB5.3 cents) per ordinary share (2015: RMB 3.0 cents per ordinary share)	**109,583**	62,028

16 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Short-term employee benefits	**14,139**	14,418
Post-employment benefits	**319**	365
	14,458	14,783

17 COMMITMENTS

(a) Contractual commitments outstanding at 30 June 2016 not provided for in the interim financial report were as follows:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Advertising and marketing expenses	**153,773**	120,526

(b) Capital commitments outstanding at 30 June 2016 not provided for in the interim financial report were as follows:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Authorised and contracted for	**2,689**	5,222

(c) At 30 June 2016, the total future minimum lease payments under non-cancellable operating leases payable as follows:

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Within 1 year	**2,485**	4,473
After 1 year but within 5 years	**1,993**	2,294
After 5 years	**131**	380
	4,609	7,147

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 2016 and 31 December 2015, certain bank facilities and bills payable of the Group were secured by a property and pledged bank deposits.

19 SUBSEQUENT EVENT

In July 2016, the tendered CNH Notes of the principal amount of approximately RMB1,119 million were fully settled and cancelled. The principal amount of the CNH Notes remaining outstanding is about RMB311 million.

361°

361 DEGREES INTERNATIONAL LIMITED
361度國際有限公司

INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY
於開曼群島註冊成立的有限公司

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