INTERIM REPORT 2017

361 DEGREES INTERNATIONAL LIMITED

Stock Code : 1361

ONE DEGREE BEYOND

CONTENTS

This interim report is printed on environmentally friendly paper

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

Tsui Yung Kwok (徐容國)
Liao Jianwen (廖建文)
Li Yuen Fai Roger (李苑輝)

BOARD COMMITTEES

Audit Committee

Tsui Yung Kwok (徐容國) *(Chairman)*
Liao Jianwen (廖建文)
Li Yuen Fai Roger (李苑輝)

Remuneration Committee

Liao Jianwen (廖建文) *(Chairman)*
Wang Jiabi (王加碧)
Tsui Yung Kwok (徐容國)

Nomination Committee

Li Yuen Fai Roger (李苑輝) *(Chairman)*
Ding Wuhao (丁伍號)
Tsui Yung Kwok (徐容國)

COMPANY SECRETARY

Choi Mun Duen (蔡敏端) *FCCA, HKICPA*

AUTHORISED REPRESENTATIVES

Ding Wuhao (丁伍號)
Choi Mun Duen (蔡敏端)

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the PRC

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Fujian Province 362261
the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

STOCK CODE

01361

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Cayman Islands

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Investor Services Limited
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Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

AUDITOR

KPMG

LEGAL ADVISERS

As to Hong Kong law:

Luk & Partners in Association with
Morgan, Lewis & Bockius

As to Cayman Islands law:

Conyers Dill & Pearman

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China Construction Bank Corporation
China Citic Bank International Limited
Industrial Bank Co., Ltd.
Industrial and Commercial
Bank of China

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COMPANY WEBSITE

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FINANCIAL HIGHLIGHTS

FINANCIAL PERFORMANCE

Revenue increased by 9.5% to RMB2,798.1 million

Gross profit increased by 11.8% to RMB1,184.1 million

Operating profit increased by 24.3% to RMB629.1 million

Profit attributable to the equity shareholders increased by 16.5% to RMB318.3 million

BUSINESS PERFORMANCE

Total number of *361°* core brands stores were 5,859

Total number of *361°* kids' points-of-sale were 1,791 of which 735 were in *361°* core brands stores

361° Kids revenue accounted for 11.0% of the Group's revenue

Gross profit margin increased by 0.9 percentage point to 42.3%

Basic earnings per share increased by 16.7% to RMB15.4 cents

Resolved to declare an interim dividend of HK7.0 cents (RMB6.1 cents) per ordinary share

Last date of registration for shareholders' entitlements to 2017 interim dividend: 5 September 2017
Payment date of 2017 interim dividend: on or about 18 September 2017

FINANCIAL SUMMARY

	For the six months ended 30 June	
	2017	2016
Profitability Data (RMB'000)		
Revenue	**2,798,142**	2,555,549
Gross profit	**1,184,094**	1,058,955
Operating profit	**629,082**	506,136
Profit attributable to equity shareholders	**318,254**	273,082
Earnings per share		
– basic (RMB cents)	**15.4**	13.2
Profitability Ratios (%)		
Gross profit margin	**42.3**	41.4
Operating profit margin	**22.5**	19.8
Margin of profit attributable to equity shareholders	**11.4**	10.7
Effective income tax rate *(Note 1)*	**38.7**	35.1
Return on shareholders equity *(Note 2)*	**5.8**	5.1
Operating Ratios (as percentage of revenue) (%)		
Advertising and promotional expenses	**7.7**	12.2
Staff costs	**8.7**	8.1
Research and development	**2.9**	2.8

Notes:

(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 2017	As at 31 December 2016
Assets and Liabilities data (RMB'000)		
Non-current assets	**1,419,882**	1,455,861
Current assets	**9,780,449**	9,033,964
Current liabilities	**2,772,734**	2,343,103
Non-current liabilities	**2,661,820**	2,729,000
Equity attributable to equity shareholders	**5,650,371**	5,303,260
Non-controlling interests	**115,406**	114,462
Asset and Working Capital data		
Current asset ratios	**3.5**	3.9
Gearing ratios (%) *(Note 3)*	**24.5**	26.7
Net asset value per share (RMB) *(Note 4)*	**2.8**	2.6
Inventory turnover days (days) *(Note 5)*	**69**	69
Trade and bills receivables turnover days (days) *(Note 6)*	**152**	163
Trade and bills payables turnover days (days) *(Note 7)*	**155**	156
Working capital turnover days (days)	**66**	76

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 181 days (for the six months ended 30 June 2017) and 366 days (for the year ended 31 December 2016).

(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 181 days (for the six months ended 30 June 2017) and 366 days (for the year ended 31 December 2016).

(7) Trade and bills payables turnover days is equal to the average opening and closing trade and bills payables divided by cost of sales and multiplied by 181 days (for the six months ended 30 June 2017) and 366 days (for the year ended 31 December 2016).

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2017, economic growth in China has begun to pick up and showed an upward trend with improving balance of international payment, which appeared to be in a good shape. 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 6.9% in the first half of 2017. Enhanced supply-side structural reform not only facilitated industrial optimisation and upgrading, but also strengthened the foundation for economic sustainability. In addition, the total retail sales of consumer goods increased by 10.4% in the first half of 2017 as compared to the corresponding period of last year, reflecting that under the upgrade of demand structure in the PRC, consumption had become the key driver for economic growth. Among the "Troika" (exports, investment and consumption) in support of domestic economic growth, final consumption expenditure, which showcased the highest growth rate, became the greatest contributor to the economic growth in the PRC. For the first quarter of the year, final consumption expenditure contributed up to 77.2% of the economic growth, suggested that consumption had become the mainstay of economic development. While China is now at the key stage of structural upgrades of domestic consumption, stable income growth and enhanced implementation of new industrialisation and urbanisation, it will continue to further unleash the potential of consumption and investment.

Benefitting from continuous release of consumption demand in China, sporting goods market also entered into a fast growth phase. The Opinions on Accelerating the Development of the Sports Industry and Promoting Sports Consumption (《關於加快發展體育產業促進體育消費的若干意見》) published by the State Council of the PRC in 2014 suggested that the period between 2015 and 2025 will be the "Golden Decade" for development of the sporting goods market. With continuous progress of urbanisation in China and the lifestyle changes of people, individuals are willing to spend more on sporting goods and equipment in pursuit of a healthier lifestyle. Enormous demand in sporting goods and equipment manifested huge development potential of the industry. According to the "China gets its game on: The emerging power of China's sports and fitness industry" published by the Economist Corporate Network on the current sports market of China, the total value of the all participating category including sportswear market was approximately RMB1,200 billion. According to a report prepared by Euromonitor International Limited, a London-based business intelligence and market research company, the sales in China's sportswear increased by approximately 12.0% to RMB186.6 billion in 2016 and is expected to increase to RMB269.6 billion by 2021 at a CAGR of 8%, which is much higher than the CAGR of only 5.6% during the past five years. According to the research report published by Kim Eng Securities in June 2017, current per capita consumption of sportswear in China was US$22, which remained far behind the per capita consumption of more than US$300 in developed countries like the United States, demonstrating a big room for growth of the sporting goods market in China.

With increasing per capita disposable income and rising health awareness, Chinese citizens have improved their regular exercise habits and sports participation rate is anticipated to experience explosive growth. Leveraging on the PRC central government's emphasis on and support to national health in recent years, the running boom has been sweeping across the country. Amongst this sport category, marathon is regarded as the one most popular long-distance running event worldwide. Since 2011, we have also witnessed its impressive growth in China. As of 2016, there were a total of 328 marathons and similar running events registered by the Chinese Athletics Association ("CAA"). As predicted by Du Zhaocai, vice president and secretary-general of CAA, its strong momentum will continue, with over 800 marathons and all sorts of road running competitions anticipating to stage in China in 2020, targeting to attract more than 10 million participants. In this context, we expect China's running sports to continue its vibrant development going forward.

As the sports industry flourishes, the national sports craze has been spreading to some alternative and unusual sports. Some relatively new sport activities previously little-known by the general public have also begun to draw unprecedented attention. As Beijing and Zhangjiakou won the bid to host the 2022 Winter Olympics, winter sports are going to enjoy enormous development opportunities. According to The Winter Sports Development Plan (2016–2025) (《冰雪運動發展規劃(二零一六至二零二五年)》) published by the General Administration of Sports, total size of the winter sports industry in China is expected to reach RMB600 billion by 2020, and RMB1,000 billion by 2025. Winter sports is expected to become the hottest market segment in the sports industry in future. Moreover, according to the "Public Promotion Plan for Winter Sports (2016–2020) (《群衆冬季運動推廣普及計劃(二零一六至二零

MANAGEMENT DISCUSSION AND ANALYSIS

二零年)》) jointly published by 23 relevant authorities in the PRC, including the General Administration of Sports, in order to achieve the goal of “having 300 million winter sports participants in the country” set by President Xi Jingping, active and intense promotion for winter sports will be carried out. In the press conference of World Winter Sports Expo, Xu Zhou, vice president of IDG Asia, stated that the number of winter sports participants in China in 2016 was 11.33 million and was expected to increase to 26.00 million by 2022. Looking forward, the winter sports industry is expected to be increasingly popular among the public winter sports and such growth momentum is anticipated to usher in the golden age of the industry.

BUSINESS REVIEW

361° Brand and Positioning

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

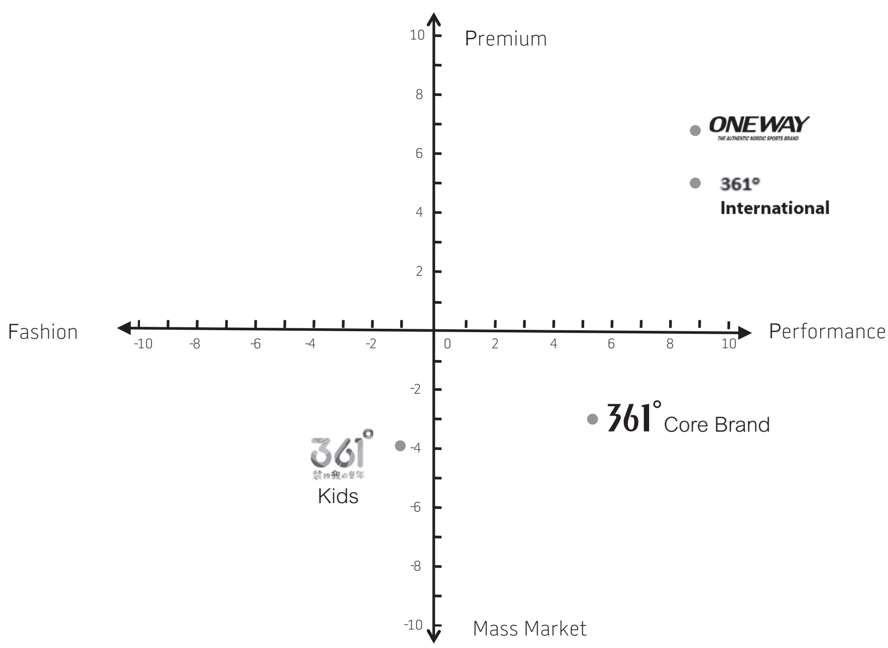
The *361°* core brand engages in brand management, research and development, design, manufacturing and distribution for functional and professional footwear, apparel, and accessory products.

The *361°* Kids brand, which is an independently run business unit, principally caters to sporting apparel, footwear, and accessory needs of children between the ages of three to twelve.

ONE WAY is a professional Nordic sporting goods brand specialising in skiing, cycling, mountain hiking, outdoor and other extreme sports. The Group has established a joint venture with ONE WAY Oy of Finland, for the design, production distribution and marketing of ONE WAY products in the Greater China region. The Group holds 70% equity interests while ONE WAY Oy of Finland, our joint-venture partner, holds 30% equity interests of ONE WAY International Enterprise Limited, a subsidiary of the Company. ONE WAY is positioned as a brand of high-end and professional sporting product lines, and all its products are sold via self-operated stores run by the Group in the PRC.

We also offer product differentiation through our *361°* international business segment which specialises in high performance and functional running and cross-training products, which target markets such as Brazil, the United States, Europe and Taiwan.

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°* core brand in their respective 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°* core brand to authorised retailers. This business model allows maximum flexibility at the provincial level for local city promotions, re-distribute of inventories within retailers and standardise 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 authorised retailers several times a year on inventory management and authorised product knowledge. Furthermore, the Group also insists on projecting a consistent store image across our nationwide distribution network and the standardisation of product display equipment and POP materials highlighting quarterly marketing themes. During the review period, we continued to encourage distributors and authorised 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°* core brand to showcase new season products, in which all distributors and authorised retailers are invited to attend. The finalised orders will be consolidated by the respective distributors, who in turn, will place such orders with the Group. The Group provides precise order guidelines to its distributors and authorised retailers in order to allow better accuracy in orders, prevent deep retail discounts, and stabilise 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.

During the review period, the Group organised two trade fairs for *361°* core brand products, namely the 2017 Winter Trade Fair and the 2018 Spring Trade Fair. The 2017 Winter Trade Fair orders achieved a low double-digit increase in wholesale value on a year-on-year basis. In order to provide a more precise guidance on production according to market demand, the Group has adopted a supplementary order system in the trade fair for the fourth quarter of 2017, in which distributors and authorised retailers are encouraged to place orders in a conservative manner. As a result of adopting the supplementary order system and rapid development in the Group's three segments which are the *361°* international, ONE WAY, and E-commerce other than the core brands and the kids segment, the Group decides not to announce the data of the trade fair orders growth by way of announcement starting from 2018.

Retail Network

As at 30 June, 2017, the network of the *361°* core brands stores comprises 5,859 stores, of which approximately 80% are stand-alone, street-level stores. 1,227 of these stores operate as composite stores, which sells a variety of products. Geographically, approximately 73.7% are located in third-tier and below cities in China, while 8.5% and 17.8% are located in first- and second-tier cities in China, respectively. The Group will continue to focus on enhancing store efficiency and profitability in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

Authorised retail stores of *361°* core brand by regions are listed as following:

	As at 30 June 2017		As at 31 December 2016	
	Number of *361°* authorised retail stores	**% of total number of *361°* authorised retail stores**	Number of *361°* authorised retail stores	% of total number of *361°* authorised retail stores
Eastern region[(1)]	**1,333**	**22.7**	1,504	23.7
Southern region[(2)]	**965**	**16.5**	1,014	15.9
Western region[(3)]	**1,177**	**20.1**	1,320	20.8
Northern region[(4)]	**2,384**	**40.7**	2,519	39.6
Total	**5,859**	**100**	6,357	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 budgeted 10% to 13% of annual revenue to brand promotion and marketing. The Group took the opportunity of sponsoring various international games which helped *361°* gained 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 and the Rio Summer Olympics and Paralympic Games in 2016. During the review period, the group has also obtained the sponsorship for the 2018 18th Asian Games in Indonesia. The group's brand has gained considerable exposures in the world-class event and further increased our branding influence world-wide.

During the review period, the Group gained exposure to target consumers effectively by sponsoring a number of professional sports teams such as China National Swimming Team and China National Cycling Team.

China National Swimming Team

China National Cycling Team

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth all of the Group's subsisting sporting events sponsorships during the review period:

Period	Event	Capacity
2013–2017	World Women's Curling Championship	Designated Apparel Sponsor
	World Men's Curling Championship	Designated Apparel Sponsor
2014–2018	Jinmen Marathon	Designated Sportswear Sponsor
2017–2018	The 18th Asian Games 2018 in Jarkarta	Official Partner

The following table sets forth the Group's existing athletes as our spokesperson during the review period:

Athletes signed up as spokespersons	Key achievements
Mr. Stephon MARBURY	plays for the Beijing Ducks of the Chinese Basketball Association (CBA) who won three CBA championships with Beijing Ducks in 2012, 2014 and 2015, and was a winner of the CBA Finals MVP (most valuable player) in 2014–15 season and CBA International MVP in the 2012–13 season. He is also a former NBA All-Star
Mr. Jimmer FREDETTE	plays for the Shanghai Sharks of the CBA and a CBA All-Star
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 and won gold medal in the in the 200 metre freestyle and a silver medal in the 400 metre freestyle at the 2016 Rio Olympic Games
Ms. YE Shiwen	won gold medals in the 400 m and 200 m individual medley at the 2012 London Olympic games
Ms. LIU Xiang	won the bronze medal in 50 m backstroke at the 2015 World Aquatics Championships
Ms. ZHANG Yufei	held a world junior record in the 200 m butterfly swimming

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 children between ages of three and twelve who are looking for active wear for participation in sports activities.

As at 30 June, 2017, there were 1,791 points-of-sale offering *361°* Kids products, of which 735 were within the *361°* core brand authorised retail stores, selling both *361°* core brand products and *361°* Kids products. Of the 1,791 points-of-sales, 554 stores were stand-alone, street levels stores. Geographically, approximately 67.8% were located in third-tier and below cities in China, while 10.2% and 22.0% were located in first- and second-tier cities in China, respectively.

Authorised points-of-sale of *361°* Kids (including those operate within the *361°* core brand authorised retail stores) by regions are listed as following:

	As at 30 June 2017		As at 31 December 2016	
	Number of *361°* Kids authorised points-of-sale	% of total number of *361°* Kids authorised points-of-sale	Number of *361°* Kids authorised points-of-sale	% of total number of *361°* Kids authorised points-of-sale
Eastern region(1)	**512**	**28.6**	596	29.8
Southern region(2)	**395**	**22.0**	475	23.7
Western region(3)	**286**	**16.0**	313	15.7
Northern region(4)	**598**	**33.4**	616	30.8
Total	**1,791**	**100**	2,000	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.

Delivery Period	Autumn 2017 From June 2016	Winter 2017 From August 2017
% Growth (compared against the same trade fair held last year)	High Double-Digit	High Double-Digit

MANAGEMENT DISCUSSION AND ANALYSIS

During the review period, there were two trade fairs hosted for *361°* Kids, namely the 2017 Autumn Trade Fair and the 2017 Winter Trade Fair. The trade fair orders have achieved satisfactory growth, which locks in the future revenue growth for the *361°* Kids segment.

The children underwear series of *361°* Kids was launched in 2017 with more products in the series to be released to satisfy the growing demand in the future.

During the review period, *361°* Kids contributes to 11.0% of the Group's revenue, representing a growth rate of 12.8%. This segment is expected to maintain fast growth going forward due to the rapidly rising disposable income and the relaxation of the one-child policy by the Chinese government.

361° International

The 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. The Group has established wholly-owned subsidiaries in Brazil, the United States and Europe, and sold *361°* international products outright to multi-brand sportswear stores in those regions through local sales teams. In other regions such as Middle East, South America and South East Asia regions, the Group opened local *361°* boutiques and sold *361°* international 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°* international has launched a series of running shoes, of which, the *361°* Sensation has won critical acclaim, and has been recommended by Runners' World, a specialist magazine for running enthusiasts, numerous times.

During the review period, the product of *361°* Sensation 2 has also been awarded as the Best Debut in the Runner's World Germany Issue 4 in April 2017. It has also been recommend as the 14 Best Running Shoes for Spring 2017 by Women's Running Magazine and the 23 Best Running Shoes in Spring Shoe Guide by Runners' World Magazine. Last but not least, *361°* Sensation 2 has also been included in the Triathlete Sports 2017 Guide book in the United States.

As at 30 June 2017, there were 1,116, 848, 135 and 23 points-of-sales in multi-brand sportswear specially stores carrying out *361°* products in Brazil, the United States, Europe and Taiwan, respectively. Currently, the European network covers the United Kingdom, Germany, France, Austria and Switzerland. 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 2017, *361°* International products were also available in 125 *361°* stores mainly located in the first-tier and second-tier cities in China. To optimise the product differentiation and meet the demands from consumption upgrading in domestic market, the Group will continue to introduce *361°* International products to more *361°* stores in China going forward.

MANAGEMENT DISCUSSION AND ANALYSIS

During the review period, *361˚* International business contributes to 2.3% of the Group's revenue, representing a growth rate of 44.2%.

ONE WAY

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.

The ski and outdoor sportswear industry in China is still in the infant stage of development. However, the demand has already picked up pursuant 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.

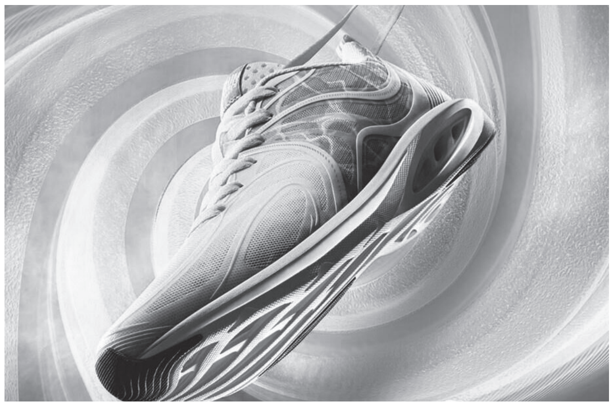
As at 30 June 2017, there were 51 self-operated ONE WAY stores in China. The majority of these stores were located in well-known shopping malls in China. The Group will continue to open more ONE WAY stores to lay the groundwork for its rapid growth in the future.

ONE WAY has been building up its brand in the PRC 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

The Group conducts its modern e-commerce business mainly through official website and other renowned e-commerce platforms in China including Tmall, Taobao, and JD. Those online platforms are authorised to sell web-exclusive products as well as helping the distributors/authorised retailers to clear their slowing-moving or obsolete stocks at retail level.

Our e-commerce business achieved explosive growth which is a result of rapid development of the e-commerce industry. During the review period, *361˚* E-Commerce contributes to 4.1% of the Group's revenue.



Production

There has been no change to the Group's production policy to strike an equitable balance between self-production and original equipment manufacturers (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 Wuli 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Research and Development

The Group has been consistently strengthening its product innovation, enhancing its research and development (R&D) capabilities, optimising product design and attempting product differentiation through technology, so as to cater to demands of different markets and consumers. Regarding the R&D of *361°* products, the Group strives to continuously enhance level of comfort, functionality and technology edge of its products through application of human factors and ergonomics principles as the theoretical basis and testing through scientific experiments in kinesiology, with a view to improve workout performance of sports enthusiasts.

Through two major R&D systems, namely the R&D team based in Taiwan which focuses on the design of overseas product lines, and the R&D team based in Jinjiang which focuses on the design of domestic product lines, *361°* timely introduced advanced materials made with cutting-edge technology and integrated popular elements into the design concept. 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, such as 3M reflective patterned fabric, colorful reflective material, SORONA fabric, and Dry Smart fabric, carries its own characteristics.

The Group also builds on its self-developed technologies such as SAC-air, NFO, Quikfoam, Bumper MD, REV Air and Arch Lock to tailor each product group in footwear to specific functionalities so as to enhance performance. As at 30 June 2017, the Group has obtained 212 patents. There was a total of 271 research and development staffs for footwear, 178 for apparel, 48 for accessories and kids products, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

The construction of the *361°* R&D centre in Jinjiang, Fujian commenced in the second half of 2015 and completed in May 2017. The centre comprises five functional departments, including the human factors and ergonomics research centre for sportswear, the R&D centre for functional sportswear, technology centre for footwear/garment and the physicochemical testing centre. With the R&D centre now in operation, the Group will gather and analyse the large quantity of data collected into productivity, and provide sportswear with strong cost-performance that combines technology and design to customers for enhancing their sports performance.

During the review period, the Group's expenditure on research and development accounted for 2.9% of the Group's revenue and is expected to increase due to the Group's intensifying efforts to create a more distinctive product differentiation.

FINANCIAL REVIEW

Revenue

During the review period, the Group recorded revenue of RMB2,798.1 million (2016: RMB2,555.5 million) representing a growth of 9.5%. The increase was mainly a reflection of high single digit growth on the order book of both 2017 spring and summer trade fairs as compared to the same trade fairs in 2016.

Revenue from the Group's three core products namely, footwear, apparel and accessories, all showed an upward trend, grew by 13.5%, 6.3% and 40.2%, respectively. Above 95% of 2017's spring and summer products were delivered and revenue recognised in the period under review. In the second half of 2017, deliveries will be mainly the 2017 autumn and winter products. The two trade fairs recorded a high single digit growth on order books and low double digit growth year-on-year, respectively.

For the six months ended 30 June 2017, the proportion of footwear sales to the total revenue increased to 46.8% from 45.1% year-on-year, and was higher than the 40.0% of apparel sales to the total revenue. The increase was primarily driven by the demand from the local PRC and overseas market. With the continuous improvement on products, both the volume sold and the average wholesale selling price (the "AWP") of footwear recorded positive growth by 4.9% and 8.2%; and apparel growth by 3.5% and 2.7%, respectively year-on-year.

For accessories, the Group regards this category of products as complimentary to the footwear and apparel products, and the product mix was wide. Owing to the change of the Group's marketing strategy, more low-priced accessories with higher performance were launched in the market during the period under review. As a result, the sales volume of accessories increased by 45.9% as compared to the same period in 2016 while the AWP of accessories shrank by 4.2%, which led to the revenue on accessories slightly increased by 1.0% year-on-year.

To the developing overseas business, the Group was honored to be one of the sponsors of the 2016 Rio Olympic and Paralympic Games which aroused huge public awareness of the Group's brand in Brazil. The overseas business sales for the first half of 2017 increased to RMB65.2 million (2016: RMB45.2 million), representing an increase of 44.2% and contributed about 2.3% of the total revenue of the Group for the six months ended June 2017.

The revenue of *361°* Kids for the six months ended 30 June 2017 increased by 12.8% year-on-year to RMB306.9 million, and accounted for 11.0% of the Group's revenue. The growth was mainly attributable to the significant increase in the sales volume of apparels, hence, the overall units of *361°* kids' product sold recorded a year-on-year increase of 19.9% whereas the AWP recorded a moderate year-on-year decrease by 6.0%.

Starting from 30 August 2016, the Group switched the online business from the distributorship model to self-operation model and 80% of equity interest of the on-line business company is owned by the Group. During the six months ended 30 June 2017, the e-commerce business contributed approximately RMB115.2 million of revenue and accounted for approximately 4.1% of the total revenue for the period under review.

The revenue grouped under "Others" represented the revenue from sales of shoe soles to independent third parties by a 51% owned subsidiary. The business has been running on a joint-venture basis with a company incorporated in Taiwan since 2010. As the shoe soles business has built up to a sizeable scale, the Group reclassified such income as other revenue starting from the last financial year. For the period under review, over 65% of this joint venture partner's products were sold to the Group and the remaining portion was sold to third parties. The revenue for the six months ended 2017 was RMB33.7 million accounted for about 1.2% of 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				
	2017		2016		
	RMB'000	% of Revenue	RMB'000	% of Revenue	Changes %
By Products					
Adults					
Footwear	**1,309,714**	**46.8**	1,153,457	45.1	+13.5
Apparel	**1,118,449**	**40.0**	1,052,155	41.2	+6.3
Accessories	**29,400**	**1.0**	20,970	0.8	+40.2
Kids	**306,867**	**11.0**	272,120	10.7	+12.8
Others[1]	**33,712**	**1.2**	56,847	2.2	-40.7
Total	**2,798,142**	**100**	2,555,549	100	+9.5

Note (1): Others comprised of sales of shoe soles.

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					
	2017		2016		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)	**12,214**	**107.2**	11,644	99.1	+4.9	+8.2
Apparel (pieces)	**17,424**	**64.2**	16,827	62.5	+3.5	+2.7
Accessories (pieces/pairs)	**2,559**	**11.5**	1,754	12.0	+45.9	-4.2
Kids	**6,146**	**49.9**	5,124	53.1	+19.9	-6.0

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

Cost of Sales

Cost of sales of the Group for the first half of 2017 increased by 7.8% year-on-year to RMB1,614.0 million.

During the period under review, the cost of self-produced footwear reduced principally due to the reduction of raw material cost despite the increase in both labor and overhead cost year-on-year. The raw material cost was benefited from better pricing received from high technology material suppliers as well as the increased supply from the 51% owned shoe sole business. On the other hand, the cost of outsourced footwear increased because of the production process for the new model was relatively more complicated than the products produced in the same period last year, thus the cost raised.

On the apparel front, the cost of self-produced apparel also reduced year-on-year which was primarily due to the decrease on factory and labor cost despite a slight increase in the material cost year-on-year. Although the Group's apparel factory became mature and production volume gradually increased through the stable and experienced labor force, the use of costly innovative fabric increased the cost of both the self-produced and outsourced apparel which the Group did not fully transfer to customers.

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

	For the six months ended 30 June			
	2017		2016	
	RMB'000	% of total costs of sales	RMB'000	% of total costs of sales
Footwear & Apparel				
Internal Production				
Raw materials	**306,517**	**19.0**	395,597	26.4
Labour	**84,104**	**5.2**	86,640	5.8
Overheads	**169,791**	**10.5**	170,929	11.4
	560,412	**34.7**	653,166	43.6
Outsourced Products				
Footwear	**487,657**	**30.2**	470,562	31.5
Apparel	**544,315**	**33.7**	359,132	24.0
Accessories	**21,664**	**1.4**	13,734	0.9
	1,053,636	**65.3**	843,428	56.4
Cost of sales	**1,614,048**	**100**	1,496,594	100

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

Gross profit was RMB1,184.1 million representing an increase in the gross profit margin by 0.9 percentage point year-on-year to 42.3%.

During the period under review, the key contributor for the growth of gross profit margin was footwear business, which improved by 2.6 percentage point whereas apparel and *361°* Kids business slightly dropped by 1.0 and 0.7 percentage point, respectively.

With the benefit of both in-house and outsourced productions and the increase of AWP of new design and innovated footwear, the gross profit margin of footwear business boosted to 43.3%. Apart from the increased demand of the footwear products of the core brand, the increased sales from both overseas and on-line businesses, over 90% and 65% of sales were footwear, respectively which also helped to enhance the gross profit margin.

On the other side, the gross profit margin of apparel business slightly reduced to 42.1%. Although the AWP of apparel products recorded a positive growth by 2.7%, the increased cost could not be fully transferred to customers because of stiff competition, which limited the pricing ability and in turn reduced the gross profit margin.

For accessories, the gross profit margin reduced by 2.3 percentage points to 38.5% and the fluctuation was due to the Group is in the process of changing the marketing strategy.

The gross profit margin of the *361°* Kids business slightly adjusted to 42.3%, reduced by 0.7 percentage point, the reduction was due to a higher proportion of kids apparel sales, which had a lower margin, were delivered and sold in the period under review.

The gross profit margin of shoe soles, categorised under "others", was 13.7%, reduced by 3.5 percentage points year-on-year. As the business is still in development stage, the gross profit margin therefore might be unstable.

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				
	2017		2016		
	Gross profit RMB'000	**Gross profit margin %**	Gross profit RMB'000	Gross profit margin %	Changes percentage point
Adults					
Footwear	**567,538**	**43.3**	469,852	40.7	+2.6
Apparel	**470,710**	**42.1**	453,687	43.1	-1.0
Accessories	**11,316**	**38.5**	8,561	40.8	-2.3
Kids	**129,907**	**42.3**	117,077	43.0	-0.7
Others(1)	**4,623**	**13.7**	9,778	17.2	-3.5
Total	**1,184,094**	**42.3**	1,058,955	41.4	+0.9

Note (1): Others comprised of sales of shoe soles.

Other revenue

Other revenue of RMB76.6 million (2016: RMB36.9 million) mainly comprised of (i) accrued interest income of RMB40.9 million (2016: RMB35.9 million) earned from bank deposits both in Hong Kong and the PRC; (ii) the discretionary government subsidies of RMB28.6 million (2016: less than RMB1 million) was mainly in relation to the Group's contribution to local economies; and (iii) the commission of RMB4.6 million (2016: nil) earned from the selling of distributors' inventories through the acquired e-commerce business commenced in September 2016.

Other net gain

The other net gain of RMB4.4 million was mainly attributable to the net foreign exchange gain. The Group's principal business is in the PRC and adopting Renminbi as its functional currency. The recent appreciation of Renminbi incurred currencies gain to a few subsidiaries with the use of functional currencies other than Renminbi. It is common that subsidiaries have temporary current accounts' movements among each other, the timing difference of converting local currencies to Renminbi along the time of advancements and repayments may incur currency gain or loss.

Selling and distribution expenses

For the six months ended 30 June 2017, selling and distribution expenses increased by 2.5% to RMB391.6 million (2016: RMB381.9 million). The increase was less than the growth of revenue which was primarily due to the reduction in advertising and promotional expenses.

Advertising and promotional expenses were RMB215.9 million (2016: RMB310.9 million) accounted for approximately 7.7% (2016: 12.2%) of the Group's revenue. The decrease was mainly due to one of the major event sponsorship contract, 2016 Rio Olympic and Paralympic Games, ended last year and some of the new contracts were not entered at the beginning of this year. As a brand company, the Group always seek for the right opportunity to gain public awareness with a balance use of money.

With the commencement of on-line business in September 2016, commission and other service fees paid to the e-platforms, e.g. Tmall and JD.com, was RMB27.5 million and the other expenses in relation to running of this business amounted to RMB14.8 million which were new to the Group.

Administrative expenses

Administrative expenses increased by 11.2% to RMB244.3 million for the period ended 30 June 2017 (2016: RMB219.7 million) and represented about 8.7% (2016: 8.6%) of the Group's revenue. The increase was mainly due to the additions of research and development expenses.

Research and development expenses were RMB82.2 million (2016: RMB72.4 million) accounted for 2.9% (2016: 2.8%) of the revenue for the period under review. In order to enhance the development and competitiveness of the Group's products, the Group continuously invests in expenses in relation to research and development purpose, such as recruitment of experienced staff and purchases of advanced machineries in the new research and development centre in Wuli Industrial Park, Jinjiang.

To further develop overseas market, the Group set up subsidiaries in Brazil, USA and Taiwan, and recruited ex-senior hires from reputable sports brand companies. As a result, the amount of administrative staff costs of the Group increased by 17.6% to RMB54.9 million (2016: RMB46.7 million) for the six months ended 30 June 2017.

Finance Costs

For the six months ended 30 June 2017, financing costs increased to RMB108.3 million (2016: RMB78.1 million) of which RMB3.1 million in relation to short-term bank borrowings and the balance of RMB105.2 million was mainly the relevant interest and cost in relation to the senior unsecured notes with an aggregate principal amount of US$400,000,000 7.25% due 2021 (the "US$ Notes") issued on 3 June 2016 amortised over the period.

As at 30 June 2017, the short-term bank borrowings were RMB60 million for the finance of a subsidiary running in the PRC and RMB19.2 million, a mortgage bank loan for financing the acquisition of an office and the trust receipts of a subsidiary in Hong Kong.

The finance cost of the US$ Notes accrued for the period was RMB105.2 million in which RMB98.4 million was in relation to the accrued interest for the period and RMB6.8 million was the relevant cost incurred for the issuance of the US$ Notes amortised over the tenor of five years.

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax expenses

During the period under review, income tax expenses of the Group amounted to RMB201.6 million (2016: RMB149.7 million) and the effective tax rate for the period was 38.7% (2016: 35.1%). The Group's four mainland China-based operating subsidiaries are all 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 US$ Notes were 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 HK7.0 cents (equivalent to RMB6.1 cents) per ordinary share for the six months ended 30 June 2017. The dividends amounted to RMB126.1 million is expected to be paid to shareholders on or about 18 September 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 6 September 2017 to Friday, 8 September 2017, both days inclusive, for the purpose of determining shareholders' entitlements to the interim dividend. In order to qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 5 September 2017.

LIQUIDITY AND FINANCIAL RESOURCES

Net cash inflow from operating activities of the Group for the first half of 2017 amounted to RMB488.1 million. As at 30 June 2017, cash and cash equivalents, including bank deposits and cash in hands, and fixed deposits with original maturities not exceeding three months, amounted to RMB3,582.1 million, representing a net increase of RMB701.1 million as compared to the position as at 31 December 2016.

The net increase in cash and cash equivalents was attributable to the following items:

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Net cash generated from operating activities	**488,123**	372,445
Payment for the purchase of property, plant and equipment	**(24,915)**	(119,022)
Interest paid	**(102,524)**	(57,622)
Dividends paid	**(20,676)**	(109,583)
Proceeds from the issuance of US$ Notes	**–**	2,596,451
Payment for repurchase of CNH Notes	**–**	(70,772)
Withdrawal/(placement) of deposits (with maturity over three months)	**326,595**	(1,112,354)
Interest received	**21,662**	17,830
Other net cash inflow/(outflow)	**12,919**	(24,470)
Net increase in cash and cash equivalents	**701,184**	1,492,903

MANAGEMENT DISCUSSION AND ANALYSIS

The positive net cash generated from operating activities amounted of RMB488.1 million for the six months ended 30 June 2017 was mainly from the operating profit and the increase from the other payables and accruals for the period under review. The increase was mainly due to the increase in accrued expenses for advertising contracts and value added tax ("VAT") payable of the Group's subsidiaries in the PRC. The amount of advertising contracts and VAT payable entered close to the cut-off period was higher than the amount in the same period last year.

During the six months ended 30 June 2017, capital expenditure amounted RMB24.9 million was mainly incurred for the maintenance of facilities in relation to production and workers in Wuli Industrial Park, Jinjiang. The interest paid of RMB102.5 million for the period was mainly the semi-annual interest of the US$ Notes. The receipt of interest amounted RMB21.7 million was mainly interest income generated by the fixed deposits placed in the PRC and Hong Kong.

The Group's gearing ratio was 24.5% as at 30 June 2017 (31 December 2016: 26.7%). During the period under review, the Group did not enter into any interest rate swap arrangements to hedge against interest rate risks.

Other than the short-term bank borrowings, the mortgage and the US$ Notes, the Group has not used other debt instruments to finance its operations for the six months ended 30 June 2017.

TREASURY POLICY AND 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.

The Group manages its foreign exchange risk by matching the currency of its loans and borrowings with the Group's functional currency of major cash receipts and underlying assets as far as possible. As at 30 June 2017, only the borrowings from US$ Notes were at fixed rate and the others were at floating rate. As part of its policy, the Group continues to monitor its borrowing profiles (including fixed and floating interest rates) taking into consideration of the funding needs and market conditions to minimise the interest rate exposures. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may have a financial impact on the Group.

During the review period, the Group did not carry out any hedging activity against foreign currency risk.

PLEDGE OF ASSETS

As at 30 June 2017, a building with net book value of RMB44,728,000 (31 December 2016: RMB47,824,000) was pledged as security for a banking facility of the Group of RMB43,528,000 (31 December 2016: RMB45,004,000). 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 2017 were secured by pledged bank deposits of RMB176.1 million.

WORKING CAPITAL MANAGEMENT

The average working capital cycle for the six months ended 30 June 2017 was 66 days (year ended 31 December 2016: 76 days). The reduction was mainly due to the improvement of the trade and bills receivable days.

The average trade and bills receivable cycle was 152 days for the six months ended 30 June 2017 (31 December 2016: 163 days), representing a reduction by 11 days. All the trade debts and bill receivable were within 180 days and 80.3% 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 kept as 69 days for the six months ended 30 June 2017 (year ended 31 December 2016: 69 days). About 79.6% of the stock was finished goods and mainly autumn products of 2017. All the goods were either self-produced or supplied by OEMs in accordance to the orders received from distributors, no extra stock was produced or retained by the Group.

As at 30 June 2017, prepayments to suppliers were RMB508.4 million, representing a 13.2% decrease compared to the RMB585.9 million as at 31 December 2016. The prepayments were deposits paid to suppliers for the acceptance of orders for production of products in relation to the 2017 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, RMB40.2 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 maintained as 155 days for the six months ended 30 June 2017, compared with the 156 days for the year ended 31 December 2016 with only one day less. The Group has long-term relationships with the suppliers and majority of them are in the same province.

MANAGEMENT DISCUSSION AND ANALYSIS

SENIOR UNSECURED NOTES

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 RMB1.5 billion 7.5% senior unsecured notes due 2017 issued in September 2014 (bond stock code: 85992), development of overseas business and general working capital purposes.

EMPLOYEES AND EMOLUMENTS

As at 30 June 2017, the Group employed a total of 9,629 full time employees in the PRC which included management staff, technicians, salespersons and workers. For the six months ended 30 June 2017, the Group's total remuneration paid to employees was RMB244.1 million, representing 8.7% of the Group's revenue. The Group's emolument policies are based on the performance of individual employees and 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 and 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. The Group also continuously offers comprehensive training to employees aims to foster a learning culture that could strengthen employees' professional knowledge and skills.

PROSPECTS

The Chinese government continues to support the development of the Chinese sports industry since 2014 by launching a series of encouraging policies and measures, which will encourage sport participation by the general public, thus driving a growing demand for sportswear products. However, competition will always remain intense but the Group is well positioned to lead and outperform in the next "Golden Decade" of China's sportswear industry through the implementation of our multi-brand strategy by focusing on the five pillars which are *361°* core brands, *361°* Kids, *361°* International, E-commerce, and ONE WAY.

Our goal is not only to become a reputable and leading sportswear brand in China by being a professional running products provider, but also a respectable world-class sportswear company in the long run. We will further utilise our research and development resources and apply innovative technologies to offer competitive and differentiated products to satisfy the specific needs of customers at all levels. In addition, we will continue to implement retail-oriented strategy to help our distributors and authorised retailers maximise profitability and enhance store efficiency. We are encouraging our distributors and authorised retailers to roll over to the eighth generation of store layouts, and opening more composite stores to carry more than one products, which will significantly increase the store efficiency and potentially increasing small store sales by offering a diverse range of products. We believe with such strategies, we will be able to capture the growth in this next "Golden Decade" of China's sportswear industry.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2017, 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, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by the directors of listed issuers (the "Model Code") as set out in Appendix 10 to 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 2017, 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).

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 optimise their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the total number of shares in issue at 30 June 2009, 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 1 year and 11 months.

No options have been granted under the Share Option Scheme up to 30 June 2017.

Apart from the foregoing, at no time during the six months ended 30 June 2017 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 2017, 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 as recorded in the register required to be kept under section 336 of the SFO 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 of the Company. 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 of the Company. 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

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 2017.

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 (the "Corporate Governance Code") during the six months ended 30 June 2017 other than the inadvertent oversight to include the statement that the Company has established an internal audit function under code provision C.2.1 of the Corporate Governance Code to be set out in the corporate governance report to the annual report of the Company for the year ended 31 December 2016 (the "2016 Annual Report"). The Company will include the required statement in the upcoming corporate governance report for the year ending 31 December 2017.

UPDATES OF BIOGRAPHIES OF DIRECTORS

Mr. Tsui Yung Kwok (徐容國), an independent non-executive director of the Company, has resigned as the company secretary of Ju Teng International Limited (stock code: 3336) with effect from 1 March 2017.

Dr. Liao Jianwen (廖建文), an independent non-executive director of the Company, has resigned as the Associate Dean, Academic Director of Innovation Center, and Professor of Managerial Practice in Strategy, Innovation and Entrepreneurship at the Cheung Kong Graduate School of Business, and have joined JD Group (京東集團) on 31 March 2017 as its chief strategy officer.

Other than these updates, the directors of the Company have confirmed that their respective biography has no other update as required under the Listing Rules since the 2016 Annual Report.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its 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 2017.

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 2017, the audit committee comprised of three independent non-executive directors of the Company, namely, 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, who has the professional qualification and experience in financial matters in compliance with the requirements 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 2017. They considered that the unaudited interim financial statements of the Group for the six months ended 30 June 2017 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 2017 – unaudited (Expressed in Renminbi)

		Six months ended 30 June	
		2017	2016
	Note	**RMB'000**	RMB'000
Revenue	*3*	**2,798,142**	2,555,549
Cost of sales		**(1,614,048)**	(1,496,594)
Gross profit		**1,184,094**	1,058,955
Other revenue	*4*	**76,559**	36,866
Other net gain	*4*	**4,409**	11,892
Selling and distribution expenses		**(391,652)**	(381,919)
Administrative expenses		**(244,328)**	(219,658)
Profit from operations		**629,082**	506,136
Loss on repurchase of senior unsecured notes		**–**	(858)
Finance costs	*5(a)*	**(108,299)**	(78,120)
Profit before taxation	*5*	**520,783**	427,158
Income tax	*6*	**(201,585)**	(149,742)
Profit for the period		**319,198**	277,416
Attributable to:			
Equity shareholders of the Company		**318,254**	273,082
Non-controlling interests		**944**	4,334
Profit for the period		**319,198**	277,416
Earnings per share	*7*		
Basic (cents)		**15.4**	13.2
Diluted (cents)		**15.4**	13.2

The notes on pages 33 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 2017 – unaudited (Expressed in Renminbi)

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Profit for the period	**319,198**	277,416
Other comprehensive income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements	**49,533**	(2,732)
Total comprehensive income for the period	**368,731**	274,684
Attributable to:		
Equity shareholders of the Company	**367,787**	270,350
Non-controlling interests	**944**	4,334
Total comprehensive income for the period	**368,731**	274,684

The notes on pages 33 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 2017 — unaudited (Expressed in Renminbi)

	Note	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Non-current assets			
Property, plant and equipment	*8*	**1,172,732**	1,207,903
Interests in leasehold land held for own use under operating leases		**115,851**	117,108
		1,288,583	1,325,011
Other financial asset		**6,763**	6,763
Deposits and prepayments	*9*	**89,860**	101,586
Deferred tax assets		**34,676**	22,501
		1,419,882	1,455,861
Current assets			
Inventories	*10*	**684,023**	540,593
Trade debtors	*9*	**2,368,691**	2,036,914
Bills receivable	*9*	**101,000**	184,405
Deposits, prepayments and other receivables	*9*	**658,044**	667,727
Pledged bank deposits	*11*	**176,095**	185,580
Deposits with banks	*11*	**2,210,518**	2,537,113
Cash and cash equivalents	*11*	**3,582,078**	2,881,632
		9,780,449	9,033,964
Current liabilities			
Trade and other payables	*12*	**2,314,765**	1,927,674
Bank loans	*13*	**79,168**	76,236
Current taxation		**378,801**	339,193
		2,772,734	2,343,103
Net current assets		**7,007,715**	6,690,861
Total assets less current liabilities		**8,427,597**	8,146,722
Non-current liabilities			
Deferred tax liabilities		**–**	2,071
Interest-bearing borrowings	*14*	**2,661,820**	2,726,929
		2,661,820	2,729,000
NET ASSETS		**5,765,777**	5,417,722

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2017 — unaudited (Expressed in Renminbi)

	Note	**At 30 June 2017 RMB'000**	At 31 December 2016 RMB'000
CAPITAL AND RESERVES	*15*		
Share capital		**182,298**	182,298
Reserves		**5,468,073**	5,120,962
Total equity attributable to equity shareholders of the Company		**5,650,371**	5,303,260
Non-controlling interests		**115,406**	114,462
TOTAL EQUITY		**5,765,777**	5,417,722

The notes on pages 33 to 46 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2017 – unaudited (Expressed in Renminbi)

		Attributable to equity shareholders of the Company									
	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
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
Balance at 1 Jan 2017		**182,298**	**–**	**–**	**90,489**	**557,026**	**(137,670)**	**4,611,117**	**5,303,260**	**114,462**	**5,417,722**
Changes in equity for the six months ended 30 Jun 2017:											
Profit for the period		**–**	**–**	**–**	**–**	**–**	**–**	**318,254**	**318,254**	**944**	**319,198**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**49,533**	**–**	**49,533**	**–**	**49,533**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**49,533**	**318,254**	**367,787**	**944**	**368,731**
Appropriation to statutory reserve		**–**	**–**	**–**	**–**	**680**	**–**	**(680)**	**–**	**–**	**–**
Dividends declared and paid during the period	*15(b)*	**–**	**–**	**–**	**–**	**–**		**(20,676)**	**(20,676)**	**–**	**(20,676)**
Balance at 30 Jun 2017		**182,298**	**–**	**–**	**90,489**	**557,706**	**(88,137)**	**4,908,015**	**5,650,371**	**115,406**	**5,765,777**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2017 – unaudited (Expressed in Renminbi)

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	**664,347**	530,386
Income tax paid	**(176,224)**	(157,941)
Net cash generated from operating activities	**488,123**	372,445
Investing activities		
Payment for the purchase of property, plant and equipment	**(24,915)**	(119,022)
Decrease/(increase) in deposit with bank	**326,595**	(1,112,354)
Decrease/(increase) in pledged deposits	**9,485**	(45,740)
Interest received	**21,662**	17,830
Other cash flows arising from investing activities	**11**	6,317
Net cash generated from/(used in) investing activities	**332,838**	(1,252,969)
Financing activities		
Proceeds from issuance of senior unsecured notes	**–**	2,596,451
Payment for repurchase of senior unsecured notes	**–**	(70,772)
Dividends paid	**(20,676)**	(109,583)
Interest paid	**(102,524)**	(57,622)
Other cash flows arising from financing activities	**3,423**	14,953
Net cash (used in)/generated from financing activities	**(119,777)**	2,373,427
Net increase in cash and cash equivalents	**701,184**	1,492,903
Cash and cash equivalents at 1 January	**2,881,632**	2,286,225
Effect of foreign exchange rate changes	**(738)**	(4,557)
Cash and cash equivalents at 30 June	**3,582,078**	3,774,571

The notes on pages 33 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 22 August 2017.

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 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 2016 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 2016 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 2016 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 14 March 2017.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

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

(Expressed in Renminbi unless otherwise indicated)

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	
	2017	2016
	RMB'000	RMB'000
Footwear	**1,448,300**	1,292,189
Apparel	**1,281,420**	1,183,236
Accessories	**34,710**	23,277
Others	**33,712**	56,847
	2,798,142	2,555,549

The Group's customer base is diversified and includes only two (2016: two) with whom transactions have exceeded 10% of the Group's revenues. During the period ended 30 June 2017, 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 RMB638 million (2016: RMB792 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.

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

— 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 2017 and 2016 is set out below.

	Adults Six months ended 30 June		Kids Six months ended 30 June		Total Six months ended 30 June	
	2017 RMB'000	2016 RMB'000	**2017 RMB'000**	2016 RMB'000	**2017 RMB'000**	2016 RMB'000
Reportable segment revenue	**2,491,275**	2,283,429	**306,867**	272,120	**2,798,142**	2,555,549
Cost of sales	**(1,437,088)**	(1,341,551)	**(176,960)**	(155,043)	**(1,614,048)**	(1,496,594)
Reportable segment profit (gross profit)	**1,054,187**	941,878	**129,907**	117,077	**1,184,094**	1,058,955

(Expressed in Renminbi unless otherwise indicated)

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	
	2017	2016
	RMB'000	RMB'000
Revenue		
Reportable segment revenue and consolidated revenue *(note 3(a))*	**2,798,142**	2,555,549
Profit		
Reportable segment profit	**1,184,094**	1,058,955
Other revenue	**76,559**	36,866
Other net gain	**4,409**	11,892
Selling and distribution expenses	**(391,652)**	(381,919)
Administrative expenses	**(244,328)**	(219,658)
Loss on repurchase of senior unsecured notes	**–**	(858)
Finance costs	**(108,299)**	(78,120)
Consolidated profit before taxation	**520,783**	427,158

4 OTHER REVENUE AND NET GAIN

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Other revenue		
Bank interest income	**40,931**	35,861
Government grants	**28,566**	48
Others	**7,062**	957
	76,559	36,866
Other net gain		
Net loss on disposal of fixed assets	**(28)**	(28)
Net foreign exchange gain	**4,437**	11,920
	4,409	11,892

Government grants of RMB28,566,000 (2016: RMB48,000) 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	
		2017	2016
		RMB'000	RMB'000
(a)	Finance costs:		
	Interest on bank borrowings wholly repayable within five years	**3,075**	978
	Finance charges on senior unsecured notes *(note 14)*	**105,224**	77,142
	Total finance costs	**108,299**	78,120
(b)	Other items:		
	Amortisation of land lease premium	**1,257**	1,076
	Depreciation	**58,519**	46,100
	Staff costs	**244,133**	208,094
	Operating lease charges in respect of properties	**3,239**	2,652
	Research and development costs*	**82,202**	72,444
	Cost of inventories**	**1,614,048**	1,496,594

* Research and development costs include RMB25,692,000 (2016: RMB17,799,000) 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 RMB123,874,000 (2016: RMB121,162,000) relating to staff costs and depreciation, which amounts are also included in the respective amount disclosed separately above.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

6 INCOME TAX

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current tax — PRC income tax		
Provision for the period	**204,806**	179,460
Under provision in respect of prior periods	**11,026**	1,796
	215,832	181,256
Deferred tax		
Origination and reversal of temporary differences	**(14,247)**	(31,514)
	201,585	149,742

Notes:

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

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

(iii) Pursuant to the income tax rules and regulations of the PRC, provision for PRC corporate income tax is calculated based on a statutory rate of 25% of the assessable profits of the PRC subsidiaries.

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB318,254,000 (six months ended 30 June 2016: RMB273,082,000) and the weighted average of 2,068 million (2016: 2,068 million) ordinary shares in issue during the interim period.

(b) Diluted earnings per share

For the period ended 30 June 2016 and 2017, 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 2017, the Group acquired items of property, plant and equipment of approximately RMB24,915,000 (six months ended 30 June 2016: approximately RMB105,902,000).

9 TRADE AND OTHER RECEIVABLES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Trade debtors		
Trade debtors	**2,425,346**	2,093,569
Less: Allowance for doubtful debts *(note 9(b))*	**(56,655)**	(56,655)
	2,368,691	2,036,914
Bills receivable	**101,000**	184,405
Deposits, prepayments and other receivables		
Current		
Deposits	**1,020**	1,234
Prepayments	**548,654**	598,907
Other receivables	**108,370**	67,586
	658,044	667,727
Non-current		
Deposits and prepayments	**89,860**	101,586

9 TRADE AND OTHER RECEIVABLES (CONTINUED)

Included in prepayments are amounts prepaid to suppliers of RMB508,427,000 (31 December 2016: RMB585,861,000).

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 RMB1,020,000 (31 December 2016: RMB1,234,000) 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 2017 RMB'000	At 31 December 2016 RMB'000
Within 90 days	**2,239,074**	2,070,222
Over 90 days but within 180 days	**230,617**	151,297
	2,469,691	2,221,319

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 2017 and 2016.

At 30 June 2017, the Group's trade debtors and bills receivable of RMB516,739,000 (31 December 2016: RMB297,066,000) were determined to be impaired. The individually 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 of RMB56,655,000 (31 December 2016: RMB56,655,000) 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 2017 RMB'000	At 31 December 2016 RMB'000
Neither past due nor impaired	**1,983,940**	1,951,561
Within 30 days past due	**17,772**	15,844
Over 30 days but within 90 days past due	**7,895**	13,503
Amount past due	**25,667**	29,347
	2,009,607	1,980,908

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 2017 RMB'000	At 31 December 2016 RMB'000
Raw materials	**109,102**	36,131
Work in progress	**30,727**	24,225
Finished goods	**544,194**	480,237
	684,023	540,593

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

11 CASH AND BANK DEPOSITS

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Pledged bank deposits	**176,095**	185,580
Deposits with banks		
— More than three months to maturity when placed	**2,210,518**	2,537,113
— Within three months to maturity when placed	**229,587**	80,219
Cash at bank and in hand	**3,352,491**	2,801,413
Cash and bank deposits	**5,968,691**	5,604,325
Represented by:		
Pledged bank deposits	**176,095**	185,580
Deposits with bank	**2,210,518**	2,537,113
Cash and cash equivalents	**3,582,078**	2,881,632
	5,968,691	5,604,325

At 30 June 2017, the balances that were placed with banks or on hand in the PRC in the cash and bank deposit amounted to RMB5,704,970,000 (31 December 2016: RMB4,913,860,000). 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 2017 RMB'000	At 31 December 2016 RMB'000
Trade creditors	**862,401**	681,843
Bills payable	**561,220**	652,686
Receipts in advance	**75,476**	88,036
Other payables and accruals	**815,668**	505,109
	2,314,765	1,927,674

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 2017 and 31 December 2016 were secured by pledged bank deposits as disclosed in note 11.

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 2017 RMB'000	At 31 December 2016 RMB'000
Due within 1 month or on demand	**352,671**	263,985
Due after 1 month but within 3 months	**316,009**	360,030
Due after 3 months but within 6 months	**613,841**	710,514
Due after 6 months but within 12 months	**141,100**	–
	1,423,621	1,334,529

13 BANK LOANS

As at 30 June 2017, the bank loans were repayable within one year or on demand and secured as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Bank loans		
— secured	**19,168**	14,983
— unsecured	**60,000**	61,253
	79,168	76,236

As 30 June 2017 and 31 December 2016, secured bank loans of the Group were secured by a property.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

14 NON-CURRENT INTEREST-BEARING BORROWINGS

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Senior unsecured notes due 2021 *(note 14(b))*	**2,661,820**	2,726,929

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

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 2017		At 31 December 2016	
	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 2016/31 December 2016/ 1 January 2017/30 June 2017	**2,067,602**	**206,760**	**182,298**

(Expressed in Renminbi unless otherwise indicated)

15 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividends

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Interim dividend declared after the interim period of HK7.0 cents (equivalent to RMB6.1 cents) per ordinary share (2016: RMB5.0 cents per ordinary share)	**126,124**	103,380
Special dividend declared after the interim period of HKNil (equivalent to RMBNil) per ordinary share (2016: RMB5.0 cents per ordinary share)	**–**	103,380

The interim 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	
	2017	2016
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period of HK1.1 cents (equivalent to RMB1.0 cent) per ordinary share (2016: RMB 5.3 cents per ordinary share)	**20,676**	109,583

16 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Short-term employee benefits	**16,005**	14,139
Post-employment benefits	**659**	319
	16,664	14,458

17 COMMITMENTS

(a) Contractual commitments outstanding at 30 June 2017 not provided for in the interim financial report were as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Advertising and marketing expenses	**153,773**	148,847

(b) Capital commitments outstanding at 30 June 2017 not provided for in the interim financial report were as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Authorised and contracted for	**10,500**	12,599

(c) At 30 June 2017, the total future minimum lease payments under non-cancellable operating leases payable as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 year	**2,716**	3,076
After 1 year but within 5 years	**4,382**	5,471
	7,098	8,547

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 2017 and 31 December 2016, certain bank facilities and bills payable of the Group were secured by a property and pledged bank deposits.