361 DEGREES INTERNATIONAL LIMITED

Stock Code: 1361

2018 ANNUAL REPORT

CONTENTS

FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2018	2017	2016	2015	2014
Profitability data *(RMB'000)*					
Revenue	**5,187,446**	5,158,200	5,022,678	4,458,701	3,906,286
Gross profit	**2,105,871**	2,156,385	2,109,908	1,822,963	1,596,796
Operating profit	**782,327**	987,552	949,325	914,669	724,165
Profit attributable to equity shareholders	**303,665**	456,706	402,652	517,639	397,642
Earnings per share					
– basic *(RMB cents)*	**14.7**	22.1	19.5	25.0	19.2
– diluted *(RMB cents)*	**14.7**	22.1	19.5	25.0	19.2
Profitability ratios *(%)*					
Gross profit margin	**40.6**	41.8	42.0	40.9	40.9
Operating profit margin	**15.1**	19.1	18.9	20.5	18.5
Margin of profit attributable to equity shareholders	**5.9**	8.9	8.0	11.6	10.2
Effective income tax rate *(Note 1)*	**46.5**	39.6	40.5	32.9	33.3
Return on shareholders' equity *(Note 2)*	**5.3**	8.3	7.6	10.1	8.2
Operating ratios (as a percentage of revenue) *(%)*					
Advertising and promotion expenses	**10.7**	9.8	11.4	12.8	16.7
Staff costs	**8.8**	9.0	8.7	8.3	8.4
Research and development	**4.1**	3.4	3.7	3.1	2.4

Notes:

1) effective income tax rate is equal to the income tax divided by the profit before taxation.

2) return on shareholders' equity is equal to the profit attributable to equity shareholders divided by the average opening and closing equity attributable to equity shareholders of the company.

	As at 31 December				
	2018	2017	2016	2015	2014
Assets and liabilities data *(RMB'000)*					
Non-current assets	**1,314,958**	1,392,852	1,455,861	1,431,873	1,310,338
Current assets	**10,650,036**	9,748,472	9,033,964	7,354,779	7,224,394
Current liabilities	**3,354,251**	2,744,359	2,343,103	1,930,449	2,012,784
Non-current liabilities	**2,716,354**	2,565,480	2,729,000	1,489,746	1,485,002
Equity attributable to equity shareholders	**5,767,650**	5,706,454	5,303,260	5,282,572	4,965,041
Non-controlling interests	**126,739**	125,031	114,462	83,885	71,905
Asset and working capital data					
Current asset ratios	**3.2**	3.6	3.9	3.8	3.6
Gearing ratios *(%) (Note 3)*	**23.6**	23.1	26.7	17.1	17.6
Net asset value per share *(RMB) (Note 4)*	**2.9**	2.8	2.6	2.6	2.4
Inventory turnover days (days) *(Note 5)*	**110**	82	69	78	77
Trade and bills receivable turnover days (days) *(Note 6)*	**160**	155	163	160	167
Trade and bills payable turnover days (days) *(Note 7)*	**195**	177	156	169	169
Working capital turnover days (days)	**75**	60	76	69	75

Notes:

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

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

5) inventory turnover days is equal to the average opening and closing inventory divided by costs of sales and multiplied by 365 days (or 366 days for 2016).

6) trade and bills receivable turnover days is equal to the average opening and closing trade and bills receivables after allowance of doubtful debts divided by revenue multiplied by 365 days (or 366 days for 2016).

7) trade and bills payable turnover days is equal to the average opening and closing trade and bills payables divided by cost of sales and multiplied by 365 (or 366 days for 2016).

CHAIRMAN'S STATEMENT

By advancing the brand remodeling, the Group achieves stable high quality growth, leading the next **"Golden Decade"** of China's sportswear industry.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of 361 Degrees International Limited (the "Company"), I am pleased to present the results of the Company and its subsidiaries (collectively, the "Group" or "*361°* Group") for the year ended 31 December 2018.

For the whole year of 2018, the Group recorded a revenue of RMB5.19 billion, representing a year-on year increase of 0.6%. In view of the performance and to retain funds for future development, the Board does not recommend the payment of final dividends.

SEEKING FOR OPPORTUNITIES AMONG CHALLENGES

Overall, the scale of the Group's revenue in 2018 was basically the same as that of the previous year. In the second half of 2018, the Group decided to launch a rebranding plan, slowing down the pace of pursuing only the growth solely from sales performance. With comprehensive strategic planning, the Group reserved funds and more resources to invest in the building of a new brand image and developing more traction for new loyal consumer groups, so as to foster new profit growth factors going forward.

In 2018, the US-China trade war dragged down the global economy with uncertainty prevailing over the domestic and foreign economic prospects, and the salary income of the general public in China reduced due to lower exports and reduced factory productions. The result was that it undermined the confidence of businesses and consumers which was particularly obvious for the *361°* Group's customer base, which mainly comprised of low to middle income group. Under the gloom of China's economic slowdown and US-China trade friction, the overall retail market was under pressure, and consumers became relatively conservative in the consumption of non-essential goods which had resulted the slow-down-replenishment of orders in the third and fourth quarters of 2018.

However, in 2018, following our established business strategy, the Group has achieved satisfactory results in various aspects. During the year under review, the Company sponsored the largest comprehensive sports event in Asia, being the 2018 Jakarta Asian Games by providing Olympic Council of Asia with whole sets of sports apparels and accessories, including sportswear, various functional sports footwear and sports accessories. In this event which was broadcasted to around 4 billion people in Asia, a number of the Group's spokespersons have achieved outstanding performance, such as Mr. Sun Yang who won all the four gold medals of Men's 200, 400, 800 and 1,500 meters freestyle in swimming. While bringing glory to the nation, they have also contributed to further improve the Group's brand awareness and sales at retail level. In addition, through sponsoring 2018 Jakarta Asian Games, the Group has successfully entered the Indonesian market, creating new sales channel and growth driver.

The technologies of the Group's running products have won further recognition from the global market. SPIRE 3, *361°* cushioned shoes, won the ISPO Global Design Award in Munich, Germany in February 2018, and the Running Products Award 2018 and Newcomer Shoe of the Year awarded by The Nordic Edition in May 2018. On 26 December 2018, with *361°* SPIRE 3 as the prototype and inspirations drawing from "Merops philippinus"（栗喉蜂虎鳥）, a type of bird whose habitat is adjacent to the head office of the Company, *361°* and STAPLE DESIGN co-launched a co-branded series, namely M1° RO which represents colorfulness and freedom. This collaboration which combined freedom and fashion and integrated outstanding performance with avant-garde design, along with the "breaking the shell" vision, will lift the brand image and differentiate the brand from the past.

As one of the first sports brands entering the kids market, *361°* Kids continued to develop vigorously in 2018. In May 2018, the Group entered into a strategic cooperation with Universal Studios, under which we successfully launched children's wear featuring Jurassic World film series and animations of DreamWorks and further expanded the sales and market share of the Group's kids business. At the beginning of 2019, *361°* Kids has become the exclusive cooperation brand for football clothing and equipment of U7-U12 junior training team under Shanghai Greenland Shenhua Football Club as "Shanghai Greenland Shenhua junior training partner" and will also make active contributions to the development of football junior training in China in the future. Kids business is growing into a larger segment of the Group's business, with which we expect to establish a consumer base with brand loyalty in the future and such consumers of children's wear are expected to become the consumers of our core brand in five to ten years.

MAKING NEW ARRANGEMENTS IN RESPONSE TO MARKET CHANGES

Nowadays, the domestic consumer market is polarised. At one extreme, extremely low-price products are being offered to the target group through the improving logistics system. On the other hand, though there is an increasing demands of the mainstream consumer group for brands and commodities, the "most cost-effective" products tailored for such consumers has not been developed yet.

361° Group aims to become a century-old brand, seeking for a better long-term return for its shareholders. Having made rational considerations, the Group chose to adjust itself for sustainable development in the future, just like marathon runners adjusting their paces halfway to save strength for the rest of the journey. Therefore, the Group is committed to "fostering the brand's loyal consumers in the future", rather than just pursuing the short-term growth of a single brand.

The Group firmly believes only those with strong strategic thinking can capture new opportunities. With diversified brands in the industry strive to attract consumers with different preferences with their various brand characteristics, *361°* Group is well positioned to continue to accumulate loyal fans growing with the brand and attract new consumer groups through new offerings such as e-sports apparels, so as to create new revenue stream.

As early as four years ago, *361°* Group began to build an overseas technology platform and completed a series of technical reserves. With the established overseas technology platform to be applied to the domestic supply chain in 2019, a series of cost-effective products will be offered to mainstream consumers. This is expected to fill the gap that there is no such offerings in the market.

2019 is the year marking the tenth anniversary of the Group's listing on the Hong Kong Stock Exchange and a year of witnessing the Group's entrance onto a new stage. *361°* Group will solemnly announce to the public a brand rebuilding program to present our thoughts on the uniqueness, correlation and inheritance our brand value. We will respond to the megatrend of consumption upgrades with brand-driven development model in the consideration of the benefits that strong brand reputation and a sound consumer base will be further promoted from the branding perspective; the advanced technology resource will be utilized in industries across the country from the perspective of commodity; and the efficiency of supply chain system and distribution system will be further improved from the perspective of operations.

STRIVING FOR CREATING BETTER VALUE FOR THE SHAREHOLDERS, STAFF AND THE SOCIETY

2019 is the year for *361°* Group to carry on and further its development. As the preparation for strategic adjustment has been completed and the brand rebuilding program is soon-to-be initiated, it is expected that the business will enter into a stage of sustainable, healthy and long-term growth.

The Board believes that *361°* Group will be able to live up to the confidence and expectation of the shareholders. Looking forward, *361°* Group will proactively capture market opportunities and keep abreast of the times to successfully complete its brand rebuilding and dramatic transformation to continually forge ahead in the development direction of international and young image, through which, *361°* Group will nurture new consumption, new retail and new market to achieve quality and steady development.

On behalf of the Board, I would like to express our sincerest appreciation to all our shareholders for their persistent support for *361°* Group, and I would also like to thank all our staff and business partners. The management will be committed to implementing all effective measures to thrive for the continuous development of the Company's business, its supply chain and business partners so as to create better value for the shareholders, staff and the society.

Ding Huihuang
Chairman
Hong Kong, 15 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

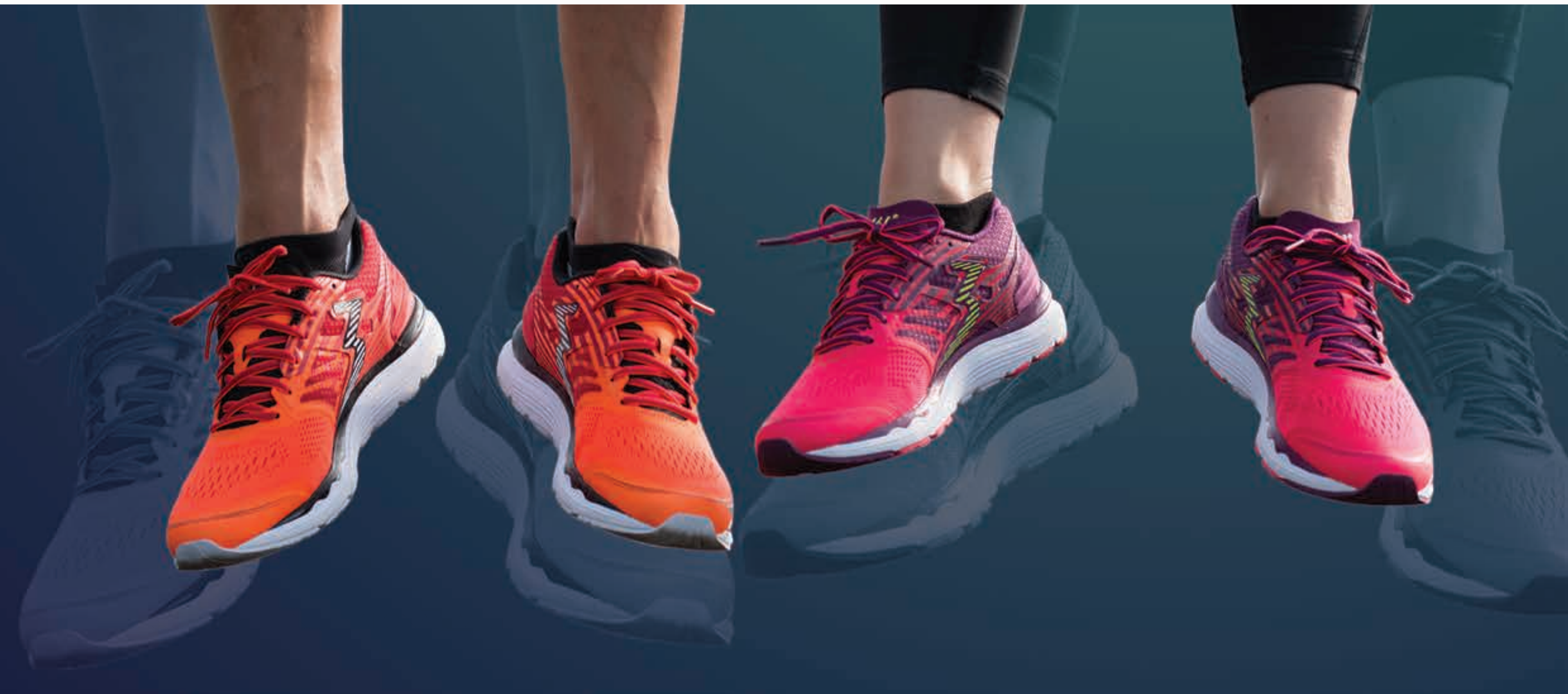
INDUSTRY REVIEW

In 2018, under the complicated domestic and international environment, the overall economic growth of Mainland China further slowed down despite the overall economy has progressed and stabilised. According to the data from the National Bureau of Statistics of the People's Republic of China (the "PRC"), China's gross domestic products ("GDP") reached RMB90 trillion in 2018, representing a year-on-year increase of 6.6%, the lowest level in 28 years; China's per capita disposable income reached RMB28,228, with a nominal growth of 8.7%; and China's consumer price index (CPI) rose by 2.1%, lower than the expected growth of 3% for the whole year.

The US-China trade war has dragged down the global economy. The domestic and international economic prospects are full of uncertainties, which have affected the confidence of enterprises and consumers. Along with the decline in exports and production reductions in factories, which have impacted the general public's income, all of these have resulted in a weak consumer sentiments and spendings, these in turn have impacted *361°* Group as the Group's customer base mainly compose of low and middle income group.

China's economy is undergoing of transformation and enhancement. Consumption plays a fundamental role in domestic economic development, and is important for promoting economic transformation and upgrading, achieving high-quality development, ensuring and improving people's livelihood. According to the data from the National Bureau of Statistics of the PRC, the total retail sales of consumer goods in China reached RMB38 trillion in 2018, representing a year-on-year increase of 9%, and the contribution rate of final consumption expenditure to GDP growth reached 76.2%, which demonstrated that consumption became the main driving force of economic growth. At the same time, with the popularity of the Internet and the diversification of consumption patterns, online retailing became another driving force for China's consumption growth. In 2018, China's online retail sales amounted to RMB9 trillion, up by 23.9% over 2017. Driven by the innovation and advancement of public consumption pattern, enterprises are also constantly strengthening the development of modern E-commerce, using new technologies to achieve online and offline sales integration, and to create their own E-commerce operating model.

On the other hand, the PRC government continues to promulgate policies to support the development of the sports industry. In recent years, China has continuously improved related policies including revising the relevant supporting policies concerning the Certain Opinions on Accelerating the Development of Sports Industry and the Promotion of Sports Consumption (《關於加快發展體育產業促進體育消費的若干意見》) (Circular 46) issued by the State Council of the PRC. The Guiding Opinions on Accelerating the Development of Sports Competition and Show Industry(《關於加快發展體育競賽表演產業的若干意見》)issued by the State Council of the PRC in December 2018 suggested the promotion of professional, brand-marketing and integrative development of the sports competitions and the targeted scale to reach RMB2 trillion for the sports competition and show industry by 2025. In the future, with the growth of China's sports competition



and show events coupled with the increasing demand for professional and commercial development of competitive sporting events, peripheral industries such as sporting goods will benefit from the rapid development accordingly. In addition, China will host two important international events in 2022 namely, the Hangzhou Asian Games and the Beijing Winter Olympics, which represent major development opportunities for China's sports industry.

With the growing demand for diverse sports cultures among the population in China, new sports interests such as winter sports and E-sports have been highly sought-after in recent years. According to the 2018 PwC Research Report on Sports Industry (《2018年普華永道體育行業調查報告》) released by PricewaterhouseCoopers (PwC), an international institution, it is estimated that the annualized growth rate of China's sports industry will reach 15% in the next five years, among which, winter sports, track and field and E-sports will become the fastest growing sports categories.

Furthermore, accounting to the Research Report on China's Winter Sports Industry Development (2018) (《中國冰雪產業發展研究報告(2018)》) published by the International Data Group (IDG) revealed that, the number of skiers reached 19.3 million in the inter-snow season statistical year from 2017 to 2018, and is expected to exceed 20 million for the first time in the snow season from 2018 to 2019. As of the end of June 2018, there were 738 ski resorts and 334 skating rinks in China. With a number of winter sports venues entering the growth stage, the scale effect of popular winter sports events is gradually taking hold. It is expected that by 2022, the market of skiing and skating equipment will reach RMB75 billion and RMB77 billion, respectively. As the 2020 Beijing Winter Olympics is approaching, the number of participants, interest and momentum for winter sports is expected to up to a greater extent.

In the 2018 Jakarta Asian Games in Indonesia, E-sports was listed as the demonstration events for the first time, and the Chinese team yielded an eye-catching result of winning two gold medals and one silver medal. The recognition of E-sports is constantly improving. E-sports will be an official competition event in the 2022 Hangzhou Asian Games, marking the beginning of an era of bringing E-sports into a professional sport. According to the 2018 China E-sports Industry Research Report (《2018中國電競行業研究報告》) published by iResearch, the overall scale of the domestic E-sports market is expected to reach RMB99.3 billion in 2019.

The cross-sectoral value chain of E-sports in terms of commercial value, industrial value and culture value have made the investments in E-sports and brand crossover a norm. The sporting goods industry began to involve in E-sports in recent years forming a synergistic effect for the industry. The sporting goods industry will also benefit from the explosive growth of E-sports industry in the future and expand its customer base and increase brand loyalty, therefore develop new business revenue stream and business growth.

BUSINESS REVIEW

361° Brand and Positioning

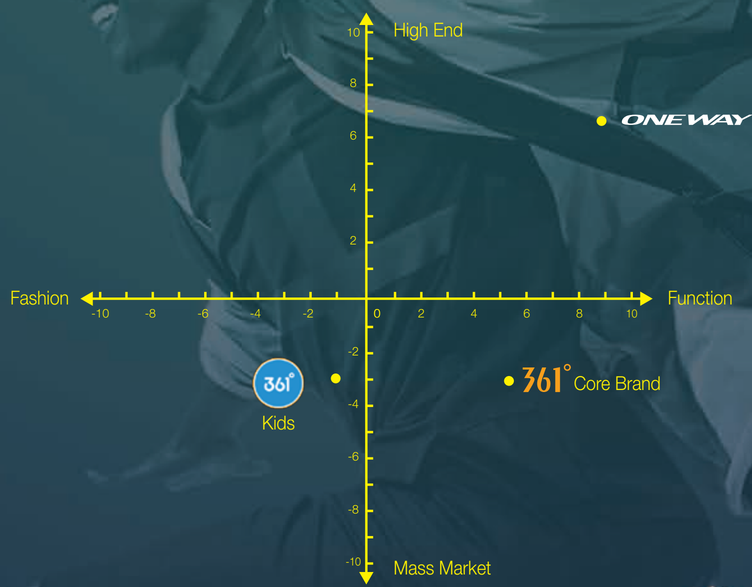
The *361°* Group, is a leading sporting goods brand enterprise in China. In 2018, *361°* brand was selected as one of the "500 Most valuable brands in China" for the 14th consecutive years. The Group designs, develops, manufactures and sells high performance, innovative and stylish sporting products 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 and value for money sporting products targeted at the mass market.

The *361°* core brand engages in brand management, R&D, design, manufacturing and distribution of functional and high performance sports 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.

The Group also owns the trademark of ONE WAY in China and has sports products of skiing, cycling, and other outdoor activities.

The following chart is a snapshot of our brand positioning.



Business Model

During the year under review, 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, redistribution of inventories between retailers and standardised 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 point-of-purchase (POP) materials highlighting quarterly marketing themes. During the year under review, 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 catching layouts and decorations.

The Group currently hosts four trade fairs per year for the *361°* core brand to showcase new season's 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 enhance accuracy in orders, prevent deep retail discounts, and stabilise retailers' profitability and support sustainable development. 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 year under review, the Group organised four trade fairs for *361°* core brand products, namely the 2018 Winter Trade Fair, 2019 Spring Trade Fair, 2019 Summer Trade Fair and the 2019 Fall Trade Fair.

Retail Network

As at 31 December, 2018, the network of the *361°* core brands stores comprised of 5,539 stores, of which approximately 74% were stand alone, street level stores. The Group targets to open more stores in shopping malls and department stores going forward. Geographically, approximately 74.0% were located in third-tier and below cities in China, while 7.4% and 18.6% are located in first- and second-tier cities in China, respectively, as at 31 December 2018. The Group will continue to focus on enhancing store efficiency and retail sales in the future.

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

	As at 31 December 2018		As at 31 December 2017	
	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)	1,160	20.9	1,285	22.1
Southern region(2)	759	13.7	915	15.8
Western region(3)	1,172	21.2	1,196	20.6
Northern region(4)	2,448	44.2	2,412	41.5
Total	5,539	100	5,808	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 budgets 8% to 11% of its annual revenue for brand promotion and marketing. The Group took the opportunity of sponsoring various international games which helped *361°* core brand to gain wide spread recognition as a credible sports brand on the international stage. *361°* Group 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 year under review, the Group has also obtained the sponsorship for the 18th Jakarta Asian Games in 2018. The Group's brand has gained considerable exposures in these world class events, which increased the Group's branding influence world-wide.

The following table sets out all of the Group's sporting event sponsorships during the year under review:

Period	Event	Capacity
2014–2018	Jinmen Marathon	Designated Sportswear Sponsor
2017–2018	The 2018 Jakarta Asian Games	Official Partner
2018–2019	Chengdu Panda Marathon	Supreme Partner
2018	Jinan International Marathon	Supreme Partner
2018	Tengchong International Marathon	Diamond Partner
2018	2018 Men's/Women's Curling Championship	The official apparel supplier of Sweden's Women's and Men's Curling Team The official supplier for the World Curling Federation

The following table sets out the Group's spokepersons for the *361°* core brand during the year under review:

Name of spokepersons	Sports	Key achievements
Athletes		
Mr. Courtney FORTSON	Basketball	Plays for the Zhejiang Lions of the Chinese Basketball Association (CBA) and won the 2017-18 Season CBA Most Valuable Player (MVP). He also previously played colleague basketball for Arkansas.
Mr. Jimmer FREDETTE	Basketball	Plays for the Shanghai Sharks of the Chinese Basketball Association (CBA) and a CBA All Star, who won the 2016-17 season CBA International most valuable player (MVP). He also previously won the 2015-16 season NBA Development League All-Star Game MVP.
Mr. GUAN Siyang	Running	A famous professional marathon runner
Mr. LI Zicheng	Running	A famous professional marathon runner
Ms. Marcia ZHOU	Running	A famous professional marathon runner
Ms. LI Bingjie	Swimming	Won a bronze medal and a silver medal in the women 400 metre freestyle and 800 metre freestyle events respectively while breaking the 800 metre freestyle Asian record at 2017 FINA World Championships
Ms. LIU Xiang	Swimming	Won the bronze medal in 50 metre backstroke at the 2015 World Aquatics Championships
Mr. SUN Yang	Swimming	Won gold medals in the 400 metre and 1500 metre freestyle at the 2012 London Olympic Games and won gold medal in the 200 metre freestyle and a silver medal in the 400 metre freestyle at the 2016 Rio Olympic Games
Ms. ZHANG Yufei	Swimming	Held a world junior record in the 200 metre butterfly swimming
Mr. XU Can	Boxing	A famous Chinese professional boxer
Mr. YANG Xu	Football	A striker of China National Football Team
Entertainers		
Mr. REN Jialun	N/A	A famous Chinese pop singer and actor
Ms. TAN Weiwei	N/A	A famous Chinese pop singer
Mr. Vision WEI Chen	N/A	A famous Chinese pop singer and actor

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 the ages of three to twelve who are looking for active apparel for sports activities.

As at 31 December 2018, there were 1,837 points-of-sale offering *361°* Kids products, of which 571 were within the *361°* core brand authorised retail stores, selling both *361°* core brand products and *361°* Kids products. Of the 1,837 points-of-sales, 32.3% of which were stand alone, street levels stores. Geographically, approximately 67.5% were located in third-tier and below cities in China, while 8.1% and 24.4% were located in first- and second-tier cities in China, respectively.

The following table sets out the authorised points-of-sale of *361°* Kids (including those operated within the *361°* core brand authorised retail stores) by regions:

	As at 31 December 2018		As at 31 December 2017	
	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)	449	24.4	482	26.8
Southern region(2)	339	18.5	371	20.7
Western region(3)	338	18.4	300	16.7
Northern region(4)	711	38.7	644	35.8
Total	1,837	100	1,797	100

Notes:

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

(2) Southern region includes Guangdong, Fujian, Guangxi and Hainan.

(3) Western region includes Sichuan, Yunnan, Guizhou, Shaanxi, Xinjiang, Gansu, Chongqing, Qinghai, Ningxia and Tibet.

(4) Northern region includes Shandong, Beijing, Liaoning, Heilongjiang, Hebei, Henan, Shanxi, Jilin, Tianjin and Inner Mongolia.

During the year under review, there were four trade fairs hosted for *361°* Kids, namely the 2018 Winter Trade Fair, 2019 Spring Trade Fair, 2019 Summer Trade Fair and the 2019 Fall Trade Fair. The trade fair orders achieved satisfactory growth, which locked in the future revenue growth for the *361°* Kids segment.

361° Kids penetrates the domestic children's wear market through physical stores and E-commerce platforms. The Group will improve the image of retail stores and enrich marketing activities by optimising the sales channel structure, and to improve the market share and brand reputation of *361°* Kids continuously. The Group further enhance brand recognition of kids business during the year under review. For example, in May 2018, *361°* Kids announced that it cooperated with Universal Studios to launch children's wear featuring DreamWorks Animation and Jurassic World movies.

During the year under review, *361°* Kids contributed to 15.7% of the Group's revenue, representing a growth rate of 14.7%. This segment is expected to maintain fast growth going forward due to the relaxation of the one child policy by the Chinese Government.

361° International

The R&D team of international product lines of the Group is based in Taiwan, and the production is outsourced to Original Equipment Manufacturers (OEMs) in Vietnam for tariff reasons. The Group has established wholly-owned subsidiaries in the United States, Brazil 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 the Middle East, South America and South East Asia regions, the Group sold *361°* International products through local distributors.

361° International is still a relatively young in the international market but its product performance is showing promising results and being competitive against major international brands. The following table sets out some awards of the *361°* International products obtained during the year under review:

Year Awarded	Product	Award	Awarding body
February 2018	KgM2 2 running shoes	Most Popular Shoes Sole Mate Awards	Women's Running magazine (United States)
February 2018	SPIRE 3 running shoes	ISPO Award 2018 (Heath and Fitness Segment – Running Shoes Category)	ISPO Munich (Germany)
February 2018	Strata 2 running shoes	Spring 2018 Editor's Choice Award	Canadian Running magazine (Canada)
May 2018	SPIRE 3 running shoes	2018 Newcomer Award (Newcomer Shoe of the Year) of the Running Products Award 2018 – The Nordic Edition	The Nordic Editions (Nordic Europe)
June 2018	Meraki running shoes	First Award of the 2018 product of the year – shoes (Produit 2018 First Award – Chaussures)	Test 4 Outside magazine (France)
June 2018	Strata 2 running shoes	Best Choice – Stability for 2018	Runner's World (United States)
July 2018	Strata 2 running shoes	8 Best New Shoes	Runner's World (Australia)
December 2018	Strata 2 running shoes	The Best New Shoes for 2019 Launched at The Running Event (TRE)	TRE2019 (United States)

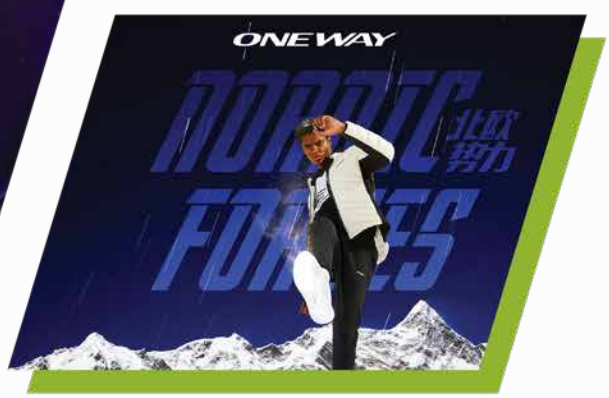
As at 31 December 2019, there were 1,446, 1,131, 619 and 147 points of sales in multi-brand sportswear specialty stores carrying *361°* products in Brazil, the United States, Europe and Taiwan, respectively. Currently, the European network covers the United Kingdom, Germany, France, Austria and Switzerland. During the year under review, the Group also tapped into new markets such as Australia and Indonesia. The Group will continue to explore and expand into more countries and regions overseas with growth potential in order to promote its international products in the future. To optimise the product differentiation and meet the demands arising from consumption upgrade in the domestic market, the Group will continue to introduce *361°* International products to more *361°* stores in China going forward.

During the year under review, the *361°* International business contributed to approximately 1.8% of the Group's revenue.

The following table sets out the Group's spokesperson for *361°* International products during the year under review:

Name of spokesperson	Sports	Key achievements
Mr. Ashton EATON	Track and field	American decathlete (retired) and two-time Olympic champion. Holder of world record in heptathlon. Mr. Ashton Eaton is the spouse of Ms. Brianne Theisen, another spokesperson for *361°* International.
Ms. Brianne THEISEN-EATON	Track and field	Canadian track and field athlete (retired). Bronze medalist of Rio 2016 Summer Olympics in heptathlon, champion in the 2016 World Indoor Champion in pentathlon and Canadian record holder of heptathlon.
Ms. Katie ZAFERES	Triathlon	American triathlete. Recent achievements include third place at the World Triathlon Grand Final Gold Coast, 2nd at the 2018 International Triathlon Union (ITU) World Triathlon Montréal and 2nd at the 2018 ITU World Triathlon Yokoham. Currently ranked 2nd for Women's World Triathlon Series (WTS).
Ms. Rachel KLAMER	Triathlon	Dutch triathlete. Top 10 in WTS ranking and top 6 in continental ranking. Recent achievements include 1st in 2018 Holten ETU Sprint Triathlon Premium European Cup and top 5 in 2018 Hamburg ITU Triathlon Mixed Relay World Championships.

Name of spokesperson	Sports	Key achievements
Mr. Morgan PEARSON	Triathlon	Triathlete representing United States. Currently ranked 54th for the Men's WTS ranking and top 10 for ITU continental ranking. Recent achievements include 1st in the 2018 Sarasota-Bradenton CAMTRI Triathlon Mixed Relay American Championships.
Mr. Niclas BOCK	Triathlon	German triathlete. Recent achievements include 1st in the 2018 Stadtwerke Ratingen Triathlon of the 76, 5er Triathlon category, top 5 in Challenge Walchsee-Kaiserwinkl 2018.
Mr. Jorik Van EGDOM	Triathlon	Dutch triathlete. Recent achievements include 1st in the 2018 NED Triathlon National Championships and top 5 in the 2018 Lausanne ITU Triathlon World Cup.
Mr. Donald HILLEBRECHT	Triathlon	Dutch triathlete. Recent achievements include 6th in the 2018 NED Triathlon National Championships.
Ms. Sarah CROUCH	Running	American long-distance runner. Placed 6th and top American at the 2018 Bank of America Chicago Marathon and a contender for 2020 US Olympic Marathon team.
Mr. Giovani DOS SANTOS	Running	Brazilian long-distance runner. Bronze medalist in the 10,000 meters event at the 2011 Pan American Games, seven times gold medalist of Volta da Internacional da Pampulha and two times gold medalist of Rio de Janeiro Half Marathons.
Mr. Jarrod SHOEMAKER	Triathlon	American triathlete and coach. Recent achievement includes top 6 in the 2017 Habana CAMTRI Sprint Triathlon American Cup. Mr. Jarrod Shoemaker is married to Ms. Alicia Kaye, another spokesperson for *361°* International.
Ms. Alicia KAYE	Triathlon	Canadian/American triathlete, and member of the USA Triathlon Project 2012 program.



ONE WAY

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.

The Group owns the trademark of ONE WAY in China. As at 31 December 2018, there were 35 self operated ONE WAY stores and 12 franchised stores in China. The majority of these stores are located in well known shopping malls in China.

Contemporary E Commerce

The Group conducts its modern E-commerce business mainly through renowned E-commerce platforms in China including Tmall, Taobao, and JD and its official website. Those online platforms are authorised to sell web-exclusive products as well as helping the distributors and authorised retailers to clear stocks with relative ease.

Our E-commerce business achieved stable growth which is a result of rapid development of the E-commerce industry. During the year under review, the web-exclusive products sales of *361°* E-Commerce contributes to 14.3% of the Group's revenue.

Production

During the year under review, there has been no change to the Group's production policy between self production and OEMs, which is determined having regard to costs, production scheduling and intellectual property rights and a strike a balance between the two. For footwear, the Group manufactures up to approximately 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 9 million pieces of footwear. For apparel, the Group operates production facilities that have the capacity to produce approximately 20% of the Group's needs whilst the remainder is contracted to OEMs in the Fujian and Guangdong provinces.

Research and Development

The Group has been consistently strengthening its product innovation, enhancing its 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 body and ergonomics principles as the theoretical basis to develop products and testing through scientific experiments in kinesiology, with a view to improving workout performance for sports enthusiasts.

Through two major R&D bases, namely the R&D team based in Taiwan which focuses on the design of international product lines, and the R&D team based in Jinjiang, Fujian Province which focuses on the design of domestic product lines.

The Group also builds on its self-developed technologies such as SAC air, NFO, QU!KFOAM, Bumper MD, REV Air and Arch Lock to tailor each product group in footwear to specific functionalities so as to enhance performance. As at 31 December 2018, the Group has obtained 335 patents. As at 31 December 2018, there were a total of 767 technicians engaging in product research and development, among which included 462 footwear research staffs, 247 apparel research staffs and 58 kids wear & accessories research staffs.

During the year under review, the Group's expenditure on R&D accounted for 4.1% of the Group's revenue and is expected to increase due to the Group's intensifying efforts to carry out the brand rebuilding program by combining functionality and design to create a more distinctive product.

FINANCIAL REVIEW

Revenue

During the year under review, the Group recorded a year-on-year revenue growth of 0.6% to RMB5,187.4 million (2017: RMB5,158.2 million) of which 15.7% and 1.6% of the total revenue was contributed by the Kids business and business grouped under others (namely, sales of shoe soles), respectively. The balance of 82.7% of the revenue was mainly contributed by the *361°* core brand products, overseas and E-commerce businesses.

During the year under review, the Group's turnover remained relatively stables as compared to the previous year primarily due to (1) a reduction of replenishment orders in the second half of the year, as conservative consumer sentiment towards non-essential commodities such as the Group's products among the general public in China, which the Directors believe was caused by the uncertainty arising from the US-China trade war; and (2) the change in the Group's business strategy whereby the delivery time of the 2018's products had been structurally adjusted and re-scheduled. The Group launched a Logistics Planning and Optimization Program in late April 2018 with a reputable e-platform company at the retail level. The collaboration shortened the delivery of order time from distributors to retailers, which could quickly respond to the changes in market demands, thus the Group was better manage inventory level of the channels.

Revenue from footwear and accessories decreased by 4.1%, and 2.3%, respectively, whereas apparel slightly grew by 0.6% year-on-year. Both the sales volumes of footwear and apparel increased by 6.0% and 8.2% year-on-year, respectively whereas the average wholesale selling price (the "AWP") recorded a decrease of 9.4% and 7.0%, respectively. The Group believe 2018 was an adjustment year affected by various factors, the revenue will normalise in 2019 and will be more comparable to the Group's past performances.

The proportion of footwear sales to the total revenue adjusted to 42.7% from 44.7% year-on-year, whereas apparel sales maintained at 38.5%. The Group stayed focused on the development of footwear and believed that the growth driver from the sportswear market was still mainly from the demand of footwear.

For accessories, more high-priced accessories were launched during the year under review. As a result, the AWP of accessories increased by 23.9% year-on-year while the sales volume decreased by 21.2%, leading to a 2.3% year-on-year decrease in revenue of accessories.

Concerning the overseas business, sales increased by 4.5% to RMB93.3 million (2017: RMB89.3 million), which contributed to about 1.8% of the total revenue of the Group for the year under review. Despite the revenue of the first half of 2018 was affected by unstable economic environment in some of the countries in the Middle East, the strong base of the awarded products and vigorous exploration of new markets in various countries by the international team, the turnover in the second half of the year made a significant turnaround.

The revenue of *361°* Kids increased by 14.7% year-on-year to RMB816.0 million (2017: RMB711.1 million), and accounted for 15.7% of the Group's revenue. The sales momentum of the kids' products was still very strong. During the year under review, the growth was mainly attributable to the apparel products, both the overall units of *361°* kids' product sold and the AWP recorded a year-on-year increase of 1.9% and 12.8%, respectively.

The revenue for the sales of web-exclusive products from the Group's 80% owned E-commerce business increased significantly by 85.3% to RMB739.2 million (2017: RMB399.0 million) and accounted for approximately 14.3% of the total revenue for the year under review. Although the revenue growth was very impressive, the business was still unprofitable. The Group believes the business is still in the development stage and will further modify and optimise the operation and marketing strategies in order to cope with the market trend.

The revenue grouped under "Others" represented the revenue from sales of shoe soles to independent third parties by a 51% owned subsidiary. During the year under review, over 60% of this joint venture company products were sold to the Group and the remaining portion was sold to third parties. The revenue for the year was RMB84.1 million (2017: RMB75.4 million) and accounted for about 1.6% of the total revenue of the Group.

The following table sets out a breakdown of the Group's revenue by products for the periods:

	For the year ended 31 December 2018		For the year ended 31 December 2017		Changes
	RMB'000	% of Revenue	RMB'000	% of Revenue	(%)
By Products					
Revenue					
Adults					
Footwear	2,212,185	42.7	2,306,195	44.7	-4.1
Apparel	1,999,181	38.5	1,987,621	38.5	+0.6
Accessories	76,005	1.5	77,811	1.5	-2.3
Kids	815,965	15.7	711,129	13.8	+14.7
Others(1)	84,110	1.6	75,444	1.5	+11.5
Total	5,187,446	100	5,158,200	100	+0.6

Note:

(1) Others comprised of sales of shoe soles.

The following tables sets out the number of units sold and the AWP of the Group's main products for the periods indicated:

	For the year ended 31 December 2018		For the year ended 31 December 2017		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)	22,607	97.9	21,337	108.1	+6.0	-9.4
Apparel (pieces)	28,033	71.3	25,909	76.7	+8.2	-7.0
Accessories (pieces/pairs)	5,418	14.0	6,874	11.3	-21.2	+23.9
Kids	12,026	67.9	11,807	60.2	+1.9	+12.8

Note:

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

Cost of Sales

Cost of sales of the Group for the year increased by 2.7% year-on-year to RMB3,081.6 million (2017: RMB3,001.8 million).

During the year under review, the cost of self-produced footwear and apparel reduced by 2.3% whereas the cost of outsourced products increased by 6.1%. The cost of internal production decreased was primarily due to the self-produced products produced in the year with a lower AWP when compared with the previous year, thus the cost of raw material and labour decreased despite the increase in sales volume.

On the other hand, the increase in the cost of outsourced footwear and apparel were due to the bounce back of overseas sales and the substantial expansion of E-commerce business in the second half of the year under review, the products were mainly produced by OEM suppliers in Vietnam and China, respectively.

According to the accounting policy of net realisable value of inventories, the Group recognises write-down on inventories based on an assessment of the net realisable value of the inventories. Write-down is applied to the inventories where event or changes in circumstances indicate that the net realisable value is less than cost. During the year under review, the inventories, mainly inventories of ONE WAY products, amounted to RMB12.1 million (2017: nil) was written down and charged to the profit or loss under the classification of cost of sales.

ONE WAY was a joint venture set-up in 2013 and the Group was interested in 70% of One Way International Enterprise Limited, the joint venture company incorporated in Hong Kong, and the trademarks of "ONE WAY' for the Greater China region was registered by One Way International Enterprise Limited and its wholly-owned subsidiary, Zhonglan Sports Goods Co., Ltd. in the PRC. The Directors acknowledged that the ONE WAY brand was not running well throughout the past years. In 2018, numerous brand revamp measures have been adopted and would like to offer a new image to the market in the year of 2019.

The following table sets out a breakdown of cost of sales for the periods indicated:

	For the year ended 31 December 2018		For the year ended 31 December 2017	
	RMB'000	% of total costs of sales	RMB'000	% of total costs of sales
Footwear & Apparel (Internal Production)				
Raw materials	707,722	23.0	733,242	24.4
Labour	160,781	5.2	177,465	5.9
Overheads	337,165	10.9	323,230	10.8
	1,205,668	39.1	1,233,937	41.1
Outsourced Products				
Footwear	727,282	23.6	732,226	24.4
Apparel	1,090,125	35.4	979,122	32.6
Accessories	58,500	1.9	56,530	1.9
	1,875,907	60.9	1,767,878	58.9
Cost of sales	3,081,575	100.0	3,001,815	100.0

Gross profit and gross profit margin

Gross profit was RMB2,105.9 million (2017: RMB2,156.4 million) for the year of 2018 representing a decrease in the gross profit margin by 1.2 percentage point year-on-year to 40.6%.

During the year under review, the gross profit margin of footwear, apparel and accessories and *361°* Kids business dropped by 2.6, 0.8 and 2.9 percentage points, respectively. The decrease of gross profit margins was due to the launch of a brand rebuilding program and the explosive growth of e-commerce business which diluted the margin of the core brand.

The gross profit margin of the *361°* Kids business recorded a remarkable growth to 42.8% (2017: 41.0%).

The gross profit margin of shoe soles, categorised under "others", was 17.6% (2017: 15.7%), increased by 1.9 percentage points.

The following tables set forth a breakdown of the gross profit and gross profit margin during the financial years under review:

	For the year ended 31 December 2018		For the year ended 31 December 2017		Changes
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	Percentage point
Adults					
Footwear	915,783	41.4	1,013,504	44.0	-2.6
Apparel	799,333	40.0	810,183	40.8	-0.8
Accessories	26,417	34.8	29,319	37.7	-2.9
Kids	349,543	42.8	291,523	41.0	+1.8
Others(1)	14,795	17.6	11,856	15.7	+1.9
Total	2,105,871	40.6	2,156,385	41.8	-1.2

Note:

(1) Others comprised of sales of shoe soles.

Other revenue

Other revenue of RMB281.9 million (2017: RMB179.8 million) mainly comprised of (i) accrued interest income of RMB97.6 million (2017: RMB85.6 million) earned from bank deposits both in Hong Kong and the PRC; (ii) the discretionary government subsidies of RMB109.5 million (2017: RMB38.8 million) was mainly in relation to the Group's contribution to local economies; (iii) the commission of RMB31.9 million (2017: RMB45.0 million) earned from the selling of distributors' inventories through the e-commerce business; and (iv) the dividend income of RMB35.3 million (2017: Nil) received from an investment project invested in 2011.

Other net loss

The other net loss of RMB81.8 million was mainly attributable to the net foreign exchange loss. The Group's principal business is in the PRC and adopts Renminbi as its functional currency. The depreciation of Renminbi incurred currencies loss 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 incur currency gain or loss.

Selling and distribution expenses

During the year under review, selling and distribution expenses increased by 9.8% to RMB979.0 million (2017: RMB892.0 million). The increase was primarily due to the increase in advertising and promotional expenses, salaries and the expenses in relation to the e-commerce business.

Advertising and promotional expenses were RMB557.3 million (2017: RMB506.5 million) accounted for approximately 10.7% (2017: 9.8%) of the Group's revenue. During the year under review, the Group endorsed some new overseas athletes, obtained license for the use of some cartoon characters on the products from the Universal Studio, sponsorships to the E-sports team and the 2018 Indonesian Jakarta Palembang Asian Games. Together with the sponsorships entered in the past years, the Group believes that these endeavours would gain an extensive exposure to the public.

The commission and other service fees paid to the e-platforms, such as Tmall and JD.com, was RMB116.3 million (2017: RMB85.9 million) and other expenses including salaries, postage and transportation in running of the e-business amounted to RMB57.8 million (2017: RMB48.2 million).

The staff salaries increased by 22.5% to RMB76.9 million (2017: RMB62.7 million) as a result of new recruitment of marketing staff and general salary increase of existing staff salaries.

Administrative expenses

Administrative expenses increased by 8.4% to RMB544.7 million for the year under review (2017: RMB502.7 million) and represented about 10.5% (2017: 9.7%) of the Group's revenue. The increase was mainly due to the additions of research and development expenses.

Research and development expenses were RMB214.6 million (2017: RMB173.2 million), which accounted for 4.1% (2017: 3.4%) of the revenue for the year under review. The Group targeted the research and development expenses will be in the region of 3-4% of the total revenue, to enhance the products' development and competitiveness.

According to the accounting policy of provision of doubtful debts, the Group recognises the provision on doubtful debts based on an assessment of the recoverability of trade debtors and bills receivable. During the year under review, a slight provision of doubtful debt amounting RMB1.2 million (2017: nil) was charged to the profit or loss under the classification of administrative expenses.The Group maintains close contact with all its distributors and have full confidence that all the outstanding debts are fully collectable.

Finance costs

During the year under review, financing costs was RMB211.6 million (2017: RMB213.8 million), of which, RMB6.7 million was to short-term bank borrowings and the balance of RMB204.9 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 31 December 2018, the short-term bank borrowings were RMB100 million for the finance of a subsidiary running in the PRC and RMB12.2 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 year was RMB204.9 million, of which, RMB192.2 million was related to the accrued interest for the year and RMB12.7 million was the relevant cost incurred for the issuance of the US$ Notes amortised over the tenor of five years.

Income tax expenses

During the year under review, income tax expenses of the Group amounted to RMB265.3 million (2017: RMB306.5 million) and the effective tax rate increased to 46.5% (2017: 39.6%). 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. As the US$ Notes were issued and listed in Hong Kong, the relevant interest and cost have all been 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. Additionally, the substantial exchange loss arose in the year was also a non-deductible item, thus the effective tax rate was higher than the previous year.

CAPITAL AND OTHER INFORMATION

Liquidity and financial resources

During the year under review, net cash inflow from operating activities of the Group amounted to RMB295.0 million. As at 31 December 2018, cash and cash equivalents, including bank deposits and cash in hand, and fixed deposits with original maturities not exceeding three months, amounted to RMB1,651.3 million, representing a net decrease of RMB470.7 million as compared to the position as at 31 December 2017.

The net increase was mainly attributable to the following items:

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Net cash generated from operating activities	**295,021**	831,535
Net capital expenditure	**(32,783)**	(43,645)
Dividends paid	**(194,355)**	(146,800)
Withdrawal/(placement) of pledged deposit	**7,878**	(149,703)
Proceeds from bank loans	**100,000**	–
Proceeds from investors	**350,000**	–
Repayment of bank loans	**(1,242)**	(62,396)
Net placement of deposits (with maturity over three months)	**(894,309)**	(1,068,578)
Interest received	**97,604**	84,796
Interest paid	**(198,929)**	(201,794)
Other net cash inflow	**390**	11
Net decrease in cash and cash equivalents	**(470,725)**	(756,574)

The positive net cash generated from operating activities amounted to RMB295.0 million for the year ended 31 December 2018 was mainly from the operating profit, the decrease in the amount of bills receivable and increase in trade and other payables. The increase in other payables mainly represented the increase in an advancement from an investor amounting RMB350 million for the acquisition of a new subsidiary formed by the Group.

During the year under review, capital expenditure amounted RMB32.8 million was mainly incurred for the maintenance of facilities in relation to production and staff accommodation in Wuli Industrial Park, Jinjiang. The withdrawal of pledged bank deposit amounting RMB7.9 million in the year was principally used for the settlement of bills payable to suppliers. The proceeds from the new short-term bank loan of RMB100 million was for the running of a PRC subsidiary. The Group also repaid a short-term bank loan amounting RMB1.2 million. The interest paid of RMB198.9 million for the year was mainly the interest of the US$ Notes. The receipt of interest amounted RMB97.6 million representing interest income generated by the fixed deposits placed in the PRC and Hong Kong.

The Group's gearing ratio was 23.6% as at 31 December 2018 (2017: 23.1%). 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 year ended 31 December 2018.

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 much as possible. As at 31 December 2018, 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 31 December 2018, a building with net book value of RMB43,953,000 (2017: RMB43,010,000) was pledged as security for a banking facility of the Group of RMB43,938,000 (2017: RMB41,812,000). 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 31 December 2018 were secured by pledged bank deposits of RMB327.4 million.

Working capital management

The average working capital cycle for the year ended 31 December 2018 was 75 days (2017: 60 days). The increase was mainly due to the increase in the inventory turnover days and trade and bill receivable turnover cycle despite an extension in the trade and bills payable turnover cycle.

The average trade and bills receivable cycle was 160 days as at 31 December 2018 (2017: 155 days), representing an increase of 5 days. Majority of the debts were within 180 days and only about 1.85% of the trade debts and bill receivable were over 180 days but within 365 days. According to the accounting policy, the Group made a slight provision to such debts in the amount of RMB1.2 million (2017: Nil). The Group maintains close contact with all the distributors and believes that accounts receivables remain healthy and all the outstanding debts are collectable.

The average inventory turnover cycle was 110 days for the year ended 31 December 2018 (2017: 82 days), representing an increase of 28 days. About 91.8% of the stock was finished goods and mainly 2018 winter and 2019 spring products. According to the accounting policy, the Group made a write down of the slow-moving inventories amounting RMB12.1 million (2017: Nil) which were mainly for One Way products. The Directors believe that the Group is now in the process of products re-branding and the management of stock should improve by the end of 2019.

As at 31 December 2018, prepayments to suppliers were RMB582.9 million, representing a 7.7% decrease as compared to the RMB631.4 million as at 31 December 2017. The prepayments were deposits paid to suppliers for the acceptance of orders for production of products in relation to the 2019 spring and summer trade fairs' products. The balance of other prepayments, RMB33.1 million, was mainly the payment in relation to the advertising and promotion contracts.

The average trade and bills payable cycle increased by 18 days to 195 days (2017: 177 days) for the year ended 31 December 2018. With the suppliers continuous support and accept bills as the settlement of payables, the Group is confident that the average trade and bills payable cycle can be maintained at or above 150 days in the long run. During the year under review, the extension of 18 days was due to more suppliers accepted bills as the settlement for payables which allowed the Group to enjoy the credit from the banks.

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.

Contingent liabilities

For the year ended 31 December 2018, the Group did not have any material contingent liabilities.

Material acquisitions and disposals

On 9 November 2018, the Group entered into an investment agreement with Zhuji Yingshi Chuangjia Equity Investment Limited Partnership（諸暨盈實創加股權投資合夥企業（有限合夥））, hereinafter Zhuji Yingshi, a limited liability partnership established in the PRC. Pursuant to the investment agreement, Zhuji Yingshi acquired approximately 14.93% of the equity interest in a new subsidiary formed by the Group at a total consideration of RMB500,000,000. The Group also planned to gradually transfer the Group's children's wear business to this new indirect non-wholly owned subsidiary over time. For further details, please refer to the announcement of the Company dated 9 November 2018.

The Directors considered the terms of the investment agreement are negotiated at arm's length basis and on normal commercial terms, which were fair and reasonable and in the interests of the Group and shareholders as a whole.

The Group also believed that the arrangement would provide the Group with access to additional source of capital to facilitate the further development of the Group's children's wear business.

Other than that, the Group had no material acquisitions or disposal of subsidiaries or associates during the year under review.

Significant investments

For the year ended 31 December 2018, the Group had no significant investments.

As at the date of this report, the Group does not have any future plans for material investment or capital assets.

Employees and emoluments

As at 31 December 2018, the Group employed a total of 7,992 full time employees in the PRC which included management staff, technicians, salespersons and workers. For the year ended 31 December 2018, the Group's total remuneration paid to employees was RMB454.3 million, representing 8.8% 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 that aims to foster a learning culture that could strengthen employees' professional knowledge and skills.

PROSPECTS

In recent years, the Chinese residents' consumption model has continued to expand and upgrade, and that more government policies guiding the sports consumption market have also been issued, which have laid a good foundation for the rapid development of the sports industry. Recently, the General Administration of Sports in the PRC issued the Action Plan for Further Promoting Sports Consumption (2019-2020) (《進一步促進體育消費的行動計劃(2019-2020年)》) jointly with the NDRC, stating that China would strive to reach RMB1.5 trillion in its total national sports consumption by 2020, and the proportion of its sports consumption expenditure per capita to total consumption expenditure is expected to increase significantly.

As the overall value of the sports industry continues to grow, the sporting goods market is expected to gain a stable and sustainable development momentum. According to the data released by the National Bureau of Statistics in early 2018, the population of China's middle-income group measured by international standards has exceeded 300 million, accounting for approximately 30% of that of the global middle-income group, and it is expected that they will be more willing to spend money on sporting goods for enhancing sports performance. Thanks to the middle-income group, more new sports events are sprouting up. Freshness, amusement, high participation and high activeness have gradually become the primary considerations for the middle-and-high-income group when selecting sports activities.

Looking forward to 2019, in order to better grasp market opportunities despite uncertainties in the micro markets at home and abroad, *361°* will stay concentrating on its multi-brand advantages and continue to leverage on the full use of its own resources and leading technologies for the innovation and research and development of products, further enhancing the quality of products and services, and focus on the value of its core brands by precision marketing. It will also carry out cooperation with influential large-scale competitive events, with a view to increase the visibility of the Group's brands and products and laying a solid foundation for the *361°* brands upgrading.

2019 marks the milestone of the Group's 10th anniversary of its listing on the Hong Kong Stock Exchange. As one of the well-known sports brands in China, the Group is planning to unveil its new brand image and strategic direction in due course, and promote the upgrading and rebuilding of its brands to position to get a head start in the sporting goods consumption upgrades, bringing about new impetus to the sustained and healthy development of the Group's business. The new *361°* brand will exhibit three characteristics, being differentiation, relevance and uniqueness, standing out as a mixture of inheritances and breakthroughs. It will not only distinguish itself from other brands in the market, but will also be highly correlated to the industry. The new brand will inherit the good assets inherent in the *361°* brand, and establish a distinct brand image of the Group.

In addition to the major brands, the Group will seize opportunities arising from the winter sports consumer market. The Group plans to strengthen the upgrading and rebuilding of the ONE WAY brand and related businesses `in 2019 onwards, and it will be repositioned as a premium brand and emerge as a premium and professional sports brand originated from Northern Europe for Chinese consumers.

Brand remodeling is a long term development which requires detailed and prudent planning. The Group expects to provide a better consumption experience to customers, so as to gain more promising returns for shareholders and reward customers and shareholders for their persistent support of the Group over the years. The effects of a brand remodeling will be gradually reflected in all aspects in the next three to five years, paving the way for better performance and brighter prospects. It is the long-term vision of the Group to become a century-old brand in China and also a respectable world-class sportswear company. The Group is convinced that, following the established business development strategy, *361°* is poised to assume leadership of China's sportswear industry in the next "Golden Decade".

REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report together with the audited financial statements for the year ended 31 December 2018.

BUSINESS REVIEW

General

For the review of the business of the Group for the year ended 31 December 2018, please refer to the section headed "Management Discussion and Analysis – Business review" on pages 10 to 19 of this report.

Principal risks and uncertainties facing the Group

The following section lists out the key risks and uncertainties faced by the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below. Besides, this annual report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company, and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

Risks pertaining to the sportswear market in the PRC

The Group's business is subject to laws and regulations applicable to the sportswear industry in the PRC. These laws and regulations are subject to change and their interpretation and enforcement involve uncertainties that could limit the legal protections available to the Group. In addition, the PRC legal system is based in part on government policies that may have retrospective effect, which could cause uncertainties to the Group's business as it will not be possible to predict the effect of future developments in the PRC legal system, including promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. If any of the Group's past operations are deemed to be non-compliant with PRC law, the Group may be subject to penalties and the Group's business and operations may be adversely affected.

Risks pertaining to the distributorship model

The Group relies primarily on a number of third-party distributors for sales of the Group's products. Each distributors has exclusive distribution rights over a certain geographical area, the failure by such distributor to perform its obligations under its distributorship agreement with the Group may result in a material adverse effect on the business of the authorized retailers in such area. Besides, the Group does not have direct control over the authorized retailers to ensure their compliance with the Group's policies, including operational requirements, exclusivity, customer service, store image and pricing. Non-compliance with the Group's policies may cause material adverse effect on the business, financial condition, results of operations and prospects of the Group.

Risk pertaining to the Group's operations

The Group's operations are subject to a number of risk factors distinctive to the sportswear market and the market in general. Default on the part of the Group's distributors, suppliers and joint ventures partners, and inadequacies or failures of internal processes, people and systems or other external factors may have various levels of negative impact on the results of operations. Additionally, accidents may happen despite systems and policies set up for their prevention, which may lead to financial loss, litigation, or damage in reputation. Furthermore, the Group's products are non-essential commodities, and thus the Group's sales may be affected by the spending power and disposable income of the retail customers and general consumer sentiments. For instance, with the US-China trade war waging and the uncertainty of whether any deal will be reached between the two countries in the near future, the Directors believe it has caused certain negative impact on the consumers' sentiment towards non-essential commodities such as the Group's products during the year under review.

Past performance and forward looking statements risks

The performance and the results of operation of the Group as set out in this annual report are historical in nature and past performance is not a guarantee of future performance. This annual report may contain forward-looking statements and opinions that involve risks and uncertainties. Actual results may also differ materially from expectations discussed in such forward-looking statements and opinions. Neither the Group nor the Directors, employees or agents of the Group assume any obligations or liabilities in the event that any of the forward-looking statements or opinions does not materialize or turns out to be incorrect.

Post year-end events

Except as disclosed in this annual report, since 31 December 2018, being the end of the financial year under review, no important event has occurred affecting the Group.

Analysis of key financial performance indicators

For details of the key financial performance indicators to the performance the Group's business, please refer to "Financial Summary" on pages 2 and 3 of this annual report.

Environmental policies and performance

The Group emphasizes in environmental protection during its production process and doing its part in curbing the global climate change.

The Group continues to update the requirements of the relevant environmental laws and regulations applicable to it to ensure compliance. The Group does not produce material waste nor emit material quantities of pollutants during its production process. During the year under review, the Group has complied with the relevant environmental laws and regulations applicable to it in all material respects, including waste water emission permit, solid waste disposal requirements and others.

The Group has also adopted measures in order to achieve efficient use of resources, energy saving and waste reduction. The measures include wastewater and solid waste managements, noise control, greenhouse gas emission and resources management.

The Company will separately publish the Environmental, Social and Governance Report for the year ended 31 December 2018 in compliance with Appendix 27 of the Listing Rules in due course.

Compliance with laws and regulations

The Group continues to update the requirement of the relevant laws and regulations in various countries, particularly in the PRC and Hong Kong, applicable to it to ensure compliance. Substantially a majority of the Group's assets are located in the PRC and the Group's revenue is mainly derived from operations in the PRC. The Group was listed on the Stock Exchange of Hong Kong on 30 June 2009. During the year under review, the Group complied with the relevant laws and regulations in various countries applicable to it in all material respects.

Account of the Group's key relationships

(i) Employees

The Group offers a comprehensive range of staff facilities and fringe benefits to attract, retain and motivate employees. Key personnel have been part of the management team since the inception of business. During the year under review, the Group considered the relationship with employees was well and the turnover rate was acceptable.

(ii) Suppliers

The Group's suppliers include raw material suppliers and contract manufacturers. A majority of footwear is produced by the Group itself while the Group outsources a portion of manufacturing of its footwear products, majority of apparel products, and all of its accessories products to third-party contract manufacturers. All key suppliers have a close and long term relationship with the Group. During the year under review, the Group considered the relationship with its suppliers was well and stable.

(iii) Distributors

The Group adopted the distributorship model for its products in the PRC ever since the beginning of 2008. Under this model, the Group primarily sells products to distributors in the PRC under distributorship agreements, which generally have a term of one year. Each of the distributors has exclusive distribution right over a certain geographical area in the PRC. The Group maintains very good relationship with all the distributors, with the number of distributors being always about 31 with a low turnover rate.

(iv) Authorized retailers

The Group sells products primarily to distributors in the PRC, who in turn sell the same to authorized retailers. Authorized retailers then sell products to consumers. The Group's distributors enter into separate agreements with authorized retailers and require them to comply with the Group's standard operating procedures or policies, which include guidelines on the design and layout of authorized retail outlets, product pricing and customer service. The Group keeps a good relationship with all the authorized retailers through distributors, who act as the bridge of communication.

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The Company is incorporated in the Cayman Islands and has its registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, Cayman Islands. Its principal place of business in Hong Kong is at Room 1609, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiaries are set out in note 12 to the financial statements on pages 89 to 90 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the sales and purchases attributable to the major customers and suppliers of the Group respectively during the financial year is as follows:

	Percentage of the Group's total sales	purchases
The largest customer	12%	
Five largest customers in aggregate	37%	
The largest supplier		7%
Five largest suppliers in aggregate		28%

At no time during the year have the directors, their close associates or any shareholder of the Company (which to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2018 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 54 to 114 of this annual report.

TRANSFER TO RESERVES AND DIVIDENDS

Profits attributable to equity shareholders, before dividends, of RMB303,665,000 (2017: RMB456,706,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

An interim dividend of HK7.6 cents per share (2017: HK7.0 cents per share) was paid on 20 September 2018. The Directors do not recommend to pay any final dividend (2017: HK3.6 cents per share) for the year ended 31 December 2018.

CHARITABLE DONATIONS

Charitable donations made by the Group during the financial year amounted to RMB350,000 (2017: RMB32,000).

FIXED ASSETS

Details of the movements in fixed assets during the year are set out in note 11 to the financial statements.

SENIOR UNSECURED NOTES

Details of the US$ Notes issued by the Company are set out in note 20 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 23(c) to the financial statements.

PURCHASES, SALES OR BUY-BACKS OF THE COMPANY'S SECURITIES

The Company or any of its subsidiaries did not make any purchase, sale or buy-back of listed securities of the Company for the year ended 31 December 2018.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association (the "Articles"), or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DIRECTORS

The Directors during the financial year were:

Executive Directors

Mr. Ding Huihuang, Chairman
Mr. Ding Wuhao, President
Mr. Ding Huirong, Vice President
Mr. Wang Jiabi, Vice President

Independent non-executive Directors

Mr. Tsui Yung Kwok
Dr. Liao Jianwen
Mr. Li Yuen Fai Roger

Pursuant to Article 84 of the Articles at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation.

By virtue to Article 84 (1) of the Articles, Mr. Ding Wuhao, Dr. Liao Jianwen, Mr. Li Yuen Fai Roger and Mr. Tsui Yung Kwok will retire from office by rotation at the forthcoming AGM. Mr Ding Wuhao, Dr Liao Jianwen and Mr Li Yuen Fai Roger are eligible and offer themselves for re-election. Mr. Tsui Yung Kwok will not offer himself for re-election due to his other commitment.

DIRECTOR'S SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

PERMITTED INDEMNITY PROVISION

Under the Articles, generally, the Directors shall be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses for acts done, concurred in or omitted in when discharging their duties in the affairs of the Company, other than any matter in respect of any fraud or dishonesty.

In addition, the Company has taken out and maintained insurance for the Directors against liabilities to third parties that may be incurred in the course of performing their duties as at the date of this report.

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

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the directors of Company (the "Model Code") contained in the Rules of Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") were as follows:

LONG AND SHORT POSITION IN THE COMPANY

Name of Director	Long/short position	Nature of interest	*Note*	Number of shares (ordinary shares)	Percentage
Mr. Ding Wuhao	Long	Interest in controlled corporation	*(1)*	340,066,332	16.46%
Mr. Ding Huihuang	Long	Interest in controlled corporation	*(2)*	324,066,454	15.67%
Mr. Ding Huirong	Long	Interest in controlled corporation	*(3)*	324,066,454	15.67%
Mr. Wang Jiabi	Long	Interest in controlled corporation	*(4)*	168,784,611	8.16%

Notes:

(1) Mr. Ding Wuhao is deemed to be interested in 340,066,332 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 324,066,454 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 324,066,454 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 168,784,611 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 31 December 2018, none of the Directors or chief executive of the Company or any of their spouses or children under eighteen years of age had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company, or any of its holding companies, subsidiaries or other associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

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

SHARE OPTION SCHEME

The Company adopted a share option scheme on 10 June 2009 ("the Share Option Scheme") 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, i.e. 200,000,000 shares. No options may be granted to any participant of the Share Option Scheme such that the total number of shares issued and to be issued upon exercise the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme any time during a period as determined by the board of Directors 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 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 of Directors 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 Hong Kong Stock Exchange's daily quotations sheets on the offer date; and

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

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

No options have been granted under the Share Option Scheme up to 31 December 2018.

As at the date of this annual report, the total number of shares available for issue under the Share Option Scheme was 200,000,000 shares, which represented approximately 9.67% of the Company's issued share capital, and the remaining life of the Share Option Scheme was about 4 months.

Apart from the foregoing, at no time during the year was the Company, or any of its holding companies or subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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

As at 31 December 2018, so far as is known to any director or chief executive of the Company, the persons (other than the directors and the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were directly or indirectly, interested in 10% of more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group were as follows:

Name of shareholders	*Note*	Nature of interest	Long/Short position in ordinary shares held [1]	Percentage of total issued shares
Dings International Company Limited	*(2)*	Beneficial owner	L 340,066,332	16.46%
Ming Rong International Company Limited	*(3)*	Beneficial owner	L 324,066,454	15.67%
Hui Rong International Company Limited	*(4)*	Beneficial owner	L 324,066,454	15.67%
Jia Wei International Co., Ltd.	*(5)*	Beneficial owner	L 168,784,611	8.16%
Jia Chen International Co., Ltd.	*(6)*	Beneficial owner	L 168,784,611	8.16%
Wang Jiachen	*(6)*	Interest in controlled corporation	L 168,784,611	8.16%

Notes:

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

2. The entire issued share capital of Dings International Company Limited is owned by Mr. Ding Wuhao, an executive director and the president of the Company. Mr. Ding Wuhao is the brother-in-law of Mr. Ding Huihuang and Mr. Ding Huirong.

3. The entire issued share capital of Ming Rong International Company Limited is owned by Mr. Ding Huihuang, an executive director and the chairman of the Company. Mr. Ding Huihuang is the brother-in-law of Mr. Ding Wuhao and the brother of Mr. Ding Huirong.

4. The entire issued share capital of Hui Rong International Company Limited is owned by Mr. Ding Huirong, an executive director. Mr. Ding Huirong is the brother-in-law of Mr. Ding Wuhao and the brother of Mr. Ding Huihuang.

5. The entire issued share capital of Jia Wei International Co., Ltd. is owned by Mr. Wang Jiabi, an executive director. Mr. Wang Jiabi is the brother of Mr. Wang Jiachen.

6. The entire issued share capital of Jia Chen International Co., Ltd. is owned by Mr. Wang Jiachen, who is the brother of Mr. Wang Jiabi. Jia Chen International Co., Ltd. is interested in 168,784,611 shares of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Directors are satisfied that the Company has maintained the prescribed minimum public float under Rule 8.08 of the Listing Rules.

MANAGEMENT CONTRACTS

Other than Directors' service contracts and employment contracts with the Group's senior management in full-time employment, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2018.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, or any of its holding companies or subsidiaries was a party, and in which director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2018, none of the Directors or their respective close associates had any business or interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group. Please also refer to the paragraph headed "Compliance with the Deed of Non-competition" below.

COMPLIANCE WITH THE DEED OF NON-COMPETITION

Each of Mr. Ding Wuhao, Dings International Company, Mr. Ding Huihuang, Ming Rong International Company Limited, Mr. Ding Huirong and Hui Rong International Company Limited (collectively the "Covenantors" and each a "Covenantor") confirmed that, as at 31 December 2018, he/it had complied with the terms of the deed of non-competition ("Deed of Non-competition") dated 10 June 2009 signed by each of them in favour of the Group.

To monitor the compliance of the terms of the Deed of Non-competition by the Covenantors, the independent non-executive Directors have reviewed, among others, the business activities undertaken by the Covenantors (if any) outside of the Group. Based on the result of such review, the independent non-executive Directors are satisfied that the Covenantors have complied with the terms of the Deed of Non-competition for the year ended 31 December 2018.

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2018 are set out in note 19 to the financial statements.

RELATED PARTY TRANSACTIONS

The related party transactions conducted during the year under review as disclosed in note 26 to the financial statements did not constitute connected transactions as defined under Chapter 14A of the Listing Rules.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on pages 2 and 3 of this annual report.

RETIREMENT SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

The employees of the subsidiaries of the Company in the PRC are members of the retirement schemes operated by the local authorities. The subsidiaries are required to contribute a certain percentage of the eligible employees' salaries to these schemes to fund the benefits. The only obligation of the Group with respect to these schemes is the required contributions under the schemes.

The Group's total contributions to retirement schemes charged to the consolidated income statement during the year ended 31 December 2018 amounted to RMB20,928,000 (2017: RMB22,037,000).

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

CORPORATE GOVERNANCE CODE PRACTICES

In the opinion of the Directors, the Company applied the principles and complied with all the code provisions as set out in the Corporate Governance Code contained in the Appendix 14 of the Listing Rules during the year under review.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Upon the Company's enquires, all the Directors have confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2018.

AUDIT COMMITTEE

The Audit Committee has reviewed with management and the external auditors the accounting principles and policies adopted by the Group and the audited annual consolidated financial statements for the year ended 31 December 2018.

AUDITORS

KPMG will retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order and on behalf of the board of Directors

DING HUIHUANG
Chairman

Hong Kong, 15 March 2019

CORPORATE GOVERNANCE REPORT

The Company has made continuous effort to ensure high standards of corporate governance. The principles of corporate governance adopted by the Company emphasizes a quality board, sound internal controls and accountability to shareholders. These are based upon our established ethical corporate culture.

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company applied the principles and complied with all the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in the Appendix 14 to the Listing Rules during the year ended 31 December 2018.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions. Having made specific enquiries with all of the Directors, all of the Directors confirmed that they had complied with the required standards set out in the Model Code for the year under review.

BOARD OF DIRECTORS

Responsibilities, accountabilities and contributions of the Board and the Management

The overall management of the business of the Group is vested in the Board. Key responsibilities of the Board include formulation of the Group's overall strategies and policies, setting of performance targets, evaluation of business performance, oversight of management, include designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement. The Board is also responsible for ensuring sound and effective internal control systems are maintained. Please refer to "Risk Management and Internal Control" in this Corporate Governance Report for further details. The management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group.

The Directors acknowledge their responsibility for preparing the financial statements for each financial year which give a true and fair view of the state of affairs of the Group. However, the above statement should be read in conjunction with, but distinguished from, the independent auditor's report in the section headed "Independent Auditor's Report" which acknowledges the reporting responsibilities of the Group's auditor.

To further accountability, the announcements containing the interim and full year financial results are signed by the chairman of the Board, Mr. Ding Huihuang, for an on behalf of the Board to confirm that it is to the best of the Board's knowledge, nothing has come to the attention of the Board which may render such results to be false or misleading in any material respects. The Board approves the financial results after review and authorize the release of the results on the websites of the Company (www.361sport.com) and the Stock Exchange (www.hkexnews.hk) to the public.

Corporate governance

The Board is entrusted with the overall responsibility of: (i) developing and reviewing the Company's policies and practices on corporate governance and make recommendations to the Board; (ii) reviewing and monitoring the training and continuous professional development of the Company's Directors and senior management; (iii) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring codes of conduct and compliance manuals (if any) applicable to the Company's employees and Directors; and (v) reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the year under review, the Board reviewed and monitored the training and continuous professional development of the Directors and company secretary of the Company in compliance with the CG Code and the Listing Rules. Further, the Board reviewed and monitored the Group's policies and practices, and noted that the Group had complied with the relevant legal and regulatory requirements in all material respects during the year under review. The Board also reviewed the employees' manual applicable to the employees of the Company. Lastly, the Board has reviewed the Company's compliance with the CG Code and the disclosure of this Corporate Governance Report.

Attendance of each Director at the Board and committee meetings held during the year under review is summarized as follows:

	Training courses	Board Meeting *iv*	Annual General Meeting *iv*	Audit Committee *iv*	Remuneration Committee *iv*	Nomination Committee *iv*
Executive Directors						
Mr. Ding Huihuang (Chairman)	i	4/4	1/1	N/A	N/A	N/A
Mr. Ding Wuhao (President)	i	4/4	0/1	N/A	N/A	1/1
Mr. Ding Huirong (Vice President)	i	4/4	0/1	N/A	N/A	N/A
Mr. Wang Jiabi (Vice President)	i	4/4	1/1	N/A	1/1	N/A
Independent Non-executive Directors						
Dr. Liao Jianwen	i	4/4	0/1	3/3	1/1	N/A
Mr. Tsui Yung Kwok	i, ii	4/4	1/1	3/3	1/1	1/1
Mr. Li Yuen Fai Roger	i, iii	4/4	1/1	3/3	N/A	1/1

Notes:

i. Directors who attended Corporate Governance training course organised by the Company's legal adviser during the year under review.

ii. Directors who attended courses organised by professional bodies during the year.

iii. Directors who attended courses organised by the Hong Kong Institute of Certified Public Accountants.

iv. Number of meetings attended/number of meetings held.

The Chairman held one meeting with all the independent non-executive Directors without the presence of other executive Directors to discuss of the Company's business during the year under review.

Board composition

For the year ended 31 December 2018 and as at 31 December 2018, the Board comprised of four executive Directors and three independent non-executive Directors. Biographical details of the current Directors and the relationships between the Directors (if any) are set out in the section headed "Directors and Senior Management" of this annual report.

Among the members of the Board, Mr. Ding Huihuang and Mr. Ding Huirong are brothers and Mr. Ding Wuhao is the brother-in-law of both Mr. Ding Huihuang and Mr. Ding Huirong.

The composition of the Board is well balanced with the Directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The executive Directors and independent non-executive Directors bring a variety of experience and expertise to the Company. In determining the independence of the independent non-executive Directors, the Board follows the requirements as set out in Rule 3.13 of the Listing Rules. The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

THE ROLES OF THE CHAIRMAN AND PRESIDENT

The divisions of responsibilities between the Chairman of the Board, Mr. Ding Huihuang, and the President, Mr. Ding Wuhao, who effectively performs the functions of the chief executive officer of the Group, are clearly defined and have been approved by the Board.

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. He is primarily responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda.

The President is directly in charge of the daily operations of the Group and are accountable to the Board for the financial and operational performance of the Group.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 30 June 2009 which is renewable upon expiry, subject to compliance with the Listing Rules and termination in accordance with the provisions of the service contract or by either party giving the other not less than three months' prior written notice.

Each of the independent non-executive Directors has entered into a service contract with the Company for an initial term of three years from their respective dates of appointment which is renewable upon expiry, subject to compliance with the Listing Rules and termination in accordance with the provisions of the service contract or by either party giving the other not less than three months' prior written notice.

In accordance with the Company's articles of association, each year, one third of the Directors (including executive Directors and independent non-executive Directors) for the time being will retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years at the general meeting.

TERMS OF APPOINTMENT OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 30 June 2009, renewable upon expiry, and each of such service contracts was renewed on 30 June 2012, 30 June 2015 and 30 June 2018, respectively. Mr. Tsui Yung Kwok, Dr. Liao Jianwen and Mr. Li Yuen Fai Roger, independent non-executive Directors, have entered into a service contract with the Company for a term of three years commencing from 1 September 2012, 1 June 2014 and 1 July 2016, respectively, which are also renewable upon expiry. The service contracts of Mr. Tsui Yung Kwok and Dr. Liao Jianwen have been renewed to the effect that the term of his existing service contract is three years commencing from 1 September 2015 and 1 September 2018 and 1 June 2017, respectively.

No Director has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

COMPANY SECRETARY

Ms. Choi Mun Duen, the company secretary of the Company, reports to Mr. Ding Wuhao, the President. The details of her biographical is set out in the section headed "Director and Senior Management" of this annual report. Ms. Choi has also confirmed that she has taken no less than 15 hours relevant professional training during the financial year.

BOARD COMMITTEES

As an integral part of good corporate governance practices, the Board has established the following Board committees to oversee particular aspects of the Group's affairs. These committees are governed by their respective written terms of reference approved by the Board.

AUDIT COMMITTEE

The audit committee of the Board (the "Audit Committee") was established on 10 June 2009 with written terms of reference in compliance with the CG Code. During the reporting period, the Audit Committee comprised three members who all are independent non-executive Directors, namely, Mr. Tsui Yung Kwok, Dr. Liao Jianwen and Mr. Li Yuen Fai Roger. Mr. Tsui Yung Kwok is the chairman of the Audit Committee.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2018, including the accounting principles and practice adopted by the Group.

The primary duties of the Audit Committee are mainly to: (i) make recommendations to the Board on the appointment, reappointment and removal of the external auditors; (ii) approve the remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal; (iii) review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; (iv) discuss with the external auditors regarding the nature and scope of the audit and reporting obligations before the audit commences; (v) develop and implement policy on engaging an external auditors to supply non-audit services, identifying and making recommendations on any matters where action or improvement is needed; (vi) monitor integrity of the Company's financial statements, annual report, accounts and half-year report; (vii) review significant financial reporting judgements contained in them; and (viii) assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems. In reviewing these reports before their submission to the Board, the Audit Committee has focused particularly on:

(i) any changes in accounting policies and practices;

(ii) major judgmental areas;

(iii) significant adjustments resulting from audit;

(iv) the going concern assumptions and any qualifications;

(v) compliance with accounting standards; and

(vi) compliance with the Listing Rules and legal requirements in relation to financial reporting.

The duties of the Audit Committee also include reviewing the arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control, risk management systems or other matters. The Audit Committee has ensured that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up actions, and acts as the key representative body for overseeing the Company's relations with the external auditors.

The Audit Committee held three meetings during the year ended 31 December 2018 with two meetings having been attended by external auditors. The meetings discussed the auditing, internal audit function, internal controls and financial reporting matters of the Company. The Audit Committee has: (i) considered significant or unusual items that are, or may need to be, reflected in the reports and accounts and matters that have been put forward by the Company's staff responsible for the accounting and financial reporting function as well as external auditors; (ii) oversighted the Company's financial reporting system and internal control procedures to review the Company's financial controls, internal control and risk management systems; (iii) reviewed the effectiveness of internal audit function by the review of internal audit reports and meeting with the head of internal audit department; and (iv) discussed with the management about the internal control system of the Company to ensure that management has performed its duty to have an effective internal control system. The discussion also included (a) the adequacy of resources; (b) staff qualifications and experience; (c) training programmes and budget of the Company's accounting and financial reporting function; (d) major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings; (e) ensured co-ordination between the internal and external auditors; (f) ensured the internal audit function is adequately resourced and has appropriate standing within the Company; (g) reviewed and monitored the effective of the internal audit function of the Group; (h) review of the Group's financial and accounting policies and practices and the external auditors' management letter; (i) material queries raised by the external auditors to management about accounting records, and financial accounts and systems of control as well as management's responses. During the year under review, the Audit Committee has also reviewed the consolidated financial statements of the Group for the six months ended 30 June 2018 and the year ended 31 December 2018. For the details of members' attendance of the Audit Committee's meeting, please refer to the table on P.39.

REMUNERATION COMMITTEE

The remuneration committee of the Board (the "Remuneration Committee") was established on 10 June 2009 with written terms of reference in compliance with the CG Code. During the reporting period, the Remuneration Committee comprised three members, namely, Mr. Wang Jiabi, Dr. Liao Jianwen and Mr. Tsui Yung Kwok. Dr. Liao Jianwen, an independent non-executive Director, is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee include to: (i) make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; (iii) make recommendation to the Board on the remuneration packages of individual executive Directors and senior management including benefits in kind, pension rights and compensation payments; (iv) make recommendations to the Board on the remuneration of non-executive Directors; (v) consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group; (vi) review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; and (vii) ensure that no director or any of his associates is involved in deciding his own remuneration.

The emolument policy of the employees of the Group is determined on the basis of their merit, qualifications and competence.

The emolument of the Directors are recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance, experience, responsibility, workload and time devoted to the Company and comparable market statistics. Each of the executive Directors is entitled to a basic salary which is reviewed annually. In addition, each of the executive Directors may receive a discretionary bonus as the Board may recommend, the aggregate amount for all executive Directors shall not exceed 5% of the audited consolidated net profits after tax of the Group for the relevant financial year. Such amount has to be approved by the Remuneration Committee.

The Remuneration Committee held one meeting to assess performance of the executive Directors, and review and approve the remuneration packages of Directors and senior management of the Group during the year ended 31 December 2018.

For the details of members' attendance of the Remuneration Committee Meeting, please refer to the table on P.39.

NOMINATION COMMITTEE

The nomination committee of the Board (the "Nomination Committee") was established on 10 June 2009 with written terms of reference in compliance with the CG Code. During the reporting year, the Nomination Committee comprised of three members, namely Mr. Ding Wuhao, Mr. Tsui Yung Kwok and Mr. Li Yuen Fai Roger. Mr. Li Yuan Fai Roger is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee include to: (i) review the structure, size and composition (including the skills, knowledge and experience) of the Board annually and make recommendations on any proposed changes to the Board to complement the corporate's strategy; (ii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; (iii) assess the independence of independent non-executive Directors; and (iv) make recommendations to the Board on the appointment or reappointment of Directors and succession planning for directors, in particular the Chairman and the President of the Company.

The Company has adopted the board diversity policy on 29 August 2013, which was revised on 1 January 2019 (the "Board Diversity Policy"). The purpose of the Board Diversity Policy is to set out the basic principles to be followed to ensure that the Board has appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. Under the Board Diversity Policy, the selection of Board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to, gender, age cultural background, educational background, and professional experience, which are the measurable objectives for implementing the Board Diversity Policy. The Nomination Committee is also responsible for reviewing the Board Diversity Policy, developing and reviewing measureable objectives for implementing the policy and monitoring the progress on achieving these measurable objectives. The review of the Board Diversity Policy and the measureable objectives shall be carried out at least annually to ensure the continued effectiveness of the Board.

The Nomination Committee has primary responsibility for identifying suitably qualified candidates to become members of the Board and shall give adequate consideration to the Board Diversity Policy in selection of Board candidates. Board nomination and appointments will continue to be made on merit basis based on the Group's business needs from time to time with adequate consideration of diversity of Board members.

During the year under review, the Nomination Committee held one meeting in the year ended 31 December 2018 to nominate the members of Board for retirement and re-election at the forthcoming AGM and to review the structure, size and composition of the Board. For the details of members' attendance of the Nomination Committee meeting, please refer to P.39. The Nomination Committee also considered the Board Diversity Policy and whether the Board had the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. After due consideration, the Nomination Committee has concluded that based on the Company's existing business model and specific needs, the current composition of the Board satisfies the Board Diversity Policy for the year under review.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration of the members of the senior management by band for the year ended 31 December 2018 is set out below:

Remuneration bands (HK$)	Number of persons
HK$2,000,001 to HK$2,500,000	2
HK$2,500,001 to HK$3,000,000	2
HK$3,000,001 to HK$3,500,000	1

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 7 and 8 to the financial statements, respectively.

AUDITORS' REMUNERATION

During the year ended 31 December 2018, the remuneration paid or payable to the external auditors, in respect of their audit services are as follows:

	2018
Statutory audit services	RMB3,960,000

During the year ended 31 December 2018, the external auditors did not provide any non-audit services.

RISK MANAGEMENT AND INTERNAL CONTROL

Overview

The Board acknowledges its responsibility for ensuring that sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interest of shareholders. The Board has developed and established its systems of internal control and risk management and established the internal audit function. The systems of internal control and risk management are designed to manage rather than to eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

Annual Review

During the year under review, the Board conducted reviews of the internal control systems of the Company from time to time and considered that such the internal control systems of the Company had been implemented effectively. The reviews covered all material controls, including financial, operational and compliance controls, internal audit function and risk management functions. The Board also considered the Group's adequacy of resources, qualifications and experience of staff in its accounting and financial reporting functions, and their training programmes and budget. Based on the reviews carried out during the year under review, the Board is of the view that the risk management system, the internal control system and the internal audit function are effective and adequate.

Policy and Procedures of Handling and Dissemination of Inside Information

The Company has adopted an internal policy on the handling and the dissemination of inside information, which is drawn-up in accordance with the Listing Rules and the SFO, and with reference to the *Guideline on Disclosure of Inside Information published* by the Hong Kong Security and Future Commission in June 2012.

Each business unit is responsible to monitor any potential inside information within its operations. If there is any potential inside information, such information will be escalated to the senior management and the company secretary of the Company so that an assessment will be made whether an announcement will need to be made. If an announcement will be made including considering whether any safe harbor is available under the SFO, such announcement will be made by the Company on timely basis to enable the public, namely, shareholders, potential investors and other stakeholders of the Company to assess such information. All inside information is kept strictly confidential and is restricted to relevant parties on a need-to-know basis to ensure confidentiality until disclosure has been made to the public by way of an announcement.

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

Relationship with Investors

The Board recognises that effective and timely communication with the Company's investors plays a crucial role in maintaining existing investors' confidence and attracting new investors, so the Group continuously places great importance on proactive communication with its existing and potential investors.

The Group's Investor Relations Department has maintained close communication with shareholders and investors through email, conference call, one-on-one meetings, attending broker conferences, and non-deal roadshows, to ensure that investors and shareholders have received the Company's updates in a fair and timely manner and to facilitate their investment decision-making. Company site visits, trade fairs, store visits and other events are also arranged to deepen investors' understanding of our business and operations. The investors may also check our Investor Relations website at www.ir.361sport.com where the Group's announcements, financial information, stock quotes, analyst coverage, press releases and other information are posted. The Group welcomes all investors to continue to give their opinions and suggestions to the Group. Please feel free to contact our Investor Relations Department at nina@361sportshk.com.

During the review period, we were honored to win the "Best Investor Relations Company – Small Cap", "Best Investor Relations Officer – Small Cap", and "Best Investor Meeting – Small Cap" at the Hong Kong Investor Relations Association 4th Investor Relations Awards", which demonstrated investors' recognition of our continuous pursuit of excellence and commitment to best practices in investor relations.

Voting by Poll

Resolutions put to vote at the general meetings of the Company (other than on procedural and administrative matters) are taken by poll. Procedures regarding the conduct of voting by poll are explained to the shareholders at the commencement of each general meeting, and questions from shareholders regarding the voting procedures are answered. Results of votings would be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively.

Dividend Policy

The Company has adopted a dividend policy and the declaration and recommendation of dividends are subject to the decision of the Board after considering the Company's ability to pay dividends. The Board has complete discretion on whether to recommend and/or pay a dividend, subject to Shareholders' approval, where applicable.

The Directors will take into consideration, among other things, the financial results, operations, liquidity and capital requirements of the Group, general business conditions and strategies, future business plans of the Group and legal restrictions when determining whether or not to recommend and declare dividends. The Board will also review and reassess the dividend policy and its effectiveness on a regular basis or as required.

Convening of extraordinary general meeting on requisition by Shareholders

Pursuant to Articles 57 of the articles of association of the Company, each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

The Board may whenever it thinks fit call extraordinary general meetings. Any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for putting forward proposals at general meetings

Any shareholder of the Company who wishes to put forward proposals at general meetings of the Company shall submit such proposals to the Board in writing for the Board's consideration not less than 7 days prior to the date of a general meeting through the Company Secretary whose contact details are set out in the paragraph "Procedures for directing shareholders' enquiries to the Board" below.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary whose contact details are as follows:

The Company Secretary

361 Degrees International Limited
Room 1609, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong
Email: 361@361sportshk.com
Tel No.: +852 2907 7088
Fax No.: +852 2907 7198

The Company Secretary shall forward shareholders' enquiries and concerns to the Board and/or relevant Board committees of the Company, where appropriate, in order for the Board to respond to such enquires.

Constitutional Documents

There was no change in the memorandum and articles of association of the Company during the year ended 31 December 2018.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Ding Wuhao（丁伍號）, aged 53, joined the Group in June 2003 and has been the President of the Company since August 2008. He is primarily responsible for the Group's overall strategies, planning and business development. He has over 20 years of experience in the PRC sportswear industry. Since December 2006, he has been a member of the Chinese People's Political Consultative Conference ("CPPCC") Fujian Province Jinjiang City Committee（中國人民政治協商會議福建省晉江市委員會）. In October 2008, he received the award of the "2008 Most Socially Responsible Entrepreneur in China" (2008年度中國最具社會責任企業家）by the Annual Selection Organising Committee of China Human Resources Management（中國人力資源管理年度評選組委會）. In May 2009, he received the "Contribution Award for China TV Sports Programmes"（中國體育電視貢獻獎）by CCTV Sports Channel（中央電視台體育頻道）. In 2010, he was awarded "Top Ten Chinese Entrepreneur of Integrity of the Year（創業中國年度十大誠信人物獎）" by "Example for China (《榜樣中國》)", "Outstanding Contribution Award for Asian Games（亞運突出貢獻獎）" by 16th Asian Games Organizing Committee（第十六屆亞運會組委會）, and "Outstanding Contribution Award of Asian Games（亞洲體育傑出貢獻獎）" by Olympic Council of Asia（亞洲奧林匹克理事會）. In 2011, he was awarded "The Most Caring Chinese Entrepreneur on Staff's Development（中國最關注員工發展企業家）" at the eighth session of China Human Resource Management Innovation Summit（第八屆中國人力資源管理創新高峰會）and "Top Ten Youth Business Leader in Asia（亞洲十大青年商業領袖）" by Forbes. He completed a CEO in China's Enterprise/Finance program at the Cheung Kong Graduate School of Business in August 2012. Mr. Ding is the brother-in-law of Mr. Ding Huihuang and Mr. Ding Huirong, both of whom are executive Directors. Mr. Ding is the sole director and sole shareholder of Dings International Company Limited, a substantial shareholder of the Company.

Mr. Ding Huihuang（丁輝煌）, aged 53, joined the Group in June 2003. He was appointed as an executive Director in August 2008 and is the chairman of the Company. He is primarily responsible for overall strategies, operation planning and footwear production. He has over 20 years of experience in the PRC sportswear industry. He was awarded the "Top Ten Outstanding Youths in China Industrial Economy"（中國工業經濟十大傑出青年）by the Organising Committee of China Industry Forum（中國工業論壇組委會）in January 2008 and the "Top Ten Outstanding Youth Entrepreneurs of Quanzhou City"（泉州市十大傑出青年企業家）jointly issued by 18 governmental and commercial institutions in Quanzhou City, Fujian Province, the PRC in February 2007. He has been a standing member of the third committee of Quanzhou City Shoe Commercial Association（泉州市鞋業商會）and a vice chairman of Fujian Province Shoe Industry Association（福建省鞋業行業協會）since January 2006 and January 2007 respectively. Mr. Ding is the elder brother of Mr. Ding Huirong and the brother-in-law of Mr. Ding Wuhao, both of whom are executive Directors. Mr. Ding is the sole director and sole shareholder of Ming Rong International Company Limited, a substantial shareholder of the Company.

Mr. Ding Huirong（丁輝榮）, aged 47, joined the Group in June 2003 and was appointed as an executive Director in August 2008 and is a vice president of the Company. He is primarily responsible for financial management and infrastructure construction management of the Company, more specifically the construction of the new production facility and warehouse of the Group at the Wuli Industrial Park. He has over 20 years of experience in financial management. Mr. Ding is the younger brother of Mr. Ding Huihuang and the brother-in-law of Mr. Ding Wuhao, both executive Directors. Mr. Ding is the sole director and sole shareholder of Hui Rong International Company Limited, a substantial shareholder of the Company.

Mr. Wang Jiabi（王加碧）, aged 61, joined the Group in June 2003 and was appointed as an executive Director in August 2008 and is a vice president of the Company. He is primarily responsible for the human resources and external public relationship. Mr. Wang has over 20 years of experience in the PRC sportswear industry. He has completed an EMBA programme offered by Peking University（北京大學）in January 2010. Mr. Wang is the sole director and sole shareholder of Jia Wei International Co., Ltd., a substantial shareholder of the Company.

Independent non-executive Directors

Mr. Tsui Yung Kwok（徐容國）, aged 50, joined the Group in September 2012 and is an independent non-executive Director. Mr. Tsui has over 20 years of experience in accounting and finance. He was awarded a bachelor degree in Business (Accounting) from Curtin University of Technology, Australia and a master degree in Corporate Governance from The Hong Kong Polytechnic University. He is currently the chief financial officer and an executive director of Ju Teng International Holdings Limited (Stock code: 03336). He is also an independent non-executive director of Shenguan Holdings (Group) Limited (Stock code: 00829), SITC International Holdings Limited (Stock code: 01308) and Cabbeen Fashion Limited (Stock code: 02030) and Intron Technology Holdings Limited (Stock code: 01760). Mr. Tsui is a member of Chartered Accountants Australia and New Zealand, CPA Australia, the Hong Kong Institute of Chartered Secretaries and Hong Kong Institute of Certified Public Accountants.

Dr. Liao Jianwen（廖建文）, aged 51, joined the Group in June 2014 and is an independent non-executive Director. Dr. Liao has over 20 years of experience in cross disciplinary research in strategy, innovation and entrepreneurship, and in particular the area of business transformation through digital technologies. Dr. Liao received a bachelor degree in Engineering from Northeastern University; a master degree in Economics from Renmin University of China and a doctor degree in Business Administration from Southern Illinois University at Carbondale, United States. He is currently the Chief Strategy Officer of the JD Group（京東集團）(Stock code: NASDAQ: JD). Dr. Liao is also an independent non-executive director of Color Life Services Group Co. (Stock code: 01778); Fantasia Group (Stock Code: 01777) and a director of China United Network Communications Ltd. (Stock code: 600050.SH) and Yonghui Superstores Co Ltd (Stock code: 601933.SH).

Mr. Li Yuen Fai Roger（李苑輝）, aged 58, joined the Group in July 2016 and is an independent non-executive Director. Mr. Li has over 30 years of experience in corporate finance, accounting, auditing, corporate administration and business development. He is currently the sole practitioner for Roger Li & Co, a certified public accountant firm in Hong Kong from 2003. He is also an independent non-executive director of Kangli International Holdings Limited (Stock Code 06890). Mr. Li is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Taxation Institution of Hong Kong and was a member of the 7th, 8th and 9th Member of People's Political and Consultative Congress of Heilongjiang Province in the People's Republic of China and was appointed as the Economic Advisor of the Government of Chengde City of Hebei Province in the People's Republic of China in 1995.

SENIOR MANAGEMENT

Mr. Lu Ning（盧寧）, aged 51, is the brand president of the Group in charge of the footwear business, apparel business, product centre and operation department of the Group. He has over 20 years experiences in managing international renowned sportswear brands. He joined the Group in March 2013. Mr. Lu received his bachelor's degree in Economic Investment from the Nanjing University（南京大學）in 1996 and enrolled the Executive Master of Business Administration (EMBA) at the China Europe International Business School（中歐國際工商學院）in March 2011.

Mr. Lin Bing Huang（林炳煌）, aged 61, is the general manager of International Business Department of the Group and primarily responsible for the development and daily operation of the Group's overseas business. He has over 30 years experiences in managing international renowned sportswear brands. He joined the Group in August 2013. Mr. Lin received his bachelor's degree in International Trade from Tunghai University（東海大學）in Taiwan.

Ms. Choi Mun Duen（蔡敏端）, aged 50, is the chief financial officer, an authorized representative and the company secretary of the Group and is responsible for the overall financial management and company secretarial functions of the Group. She joined the Group in October 2008. Ms. Choi has over 20 years of experience in auditing, finance and accounting. She received her bachelor's degree in accounting and finance from University of Glamorgan in the U.K. She is a certified public accountant of the HKICPA and a fellow member of the ACCA.

Ms. Zhan Xiao Xiao（詹瀟瀟）, aged 37, is the vice-president of investor relations and is primarily responsible for the Group's investor relations programme. She joined the Group in October 2015. Ms. Zhan has over 10 years of experience in corporate finance, investor relations, corporate governance and management from her previous positions in investment banking, communication advisory and Hong Kong Listed Company. She received her bachelor's degree from Peking University, majoring in International Relations and double majoring in Economics. She received her master's degree from the University of Pennsylvania in 2005, majoring in International Political Economy.

Mr. Chen Jian Ci（陳建次）, aged 48, is the vice president of supply chain management center and primarily responsible for overall planning in warehouse, logistics and network, integrating data stream and managing enterprise information system deployment of the Group. He has over 15 years of experience in information system related works and has worked in world renowned enterprises. He joined the Group in December 2011. Mr. Chen received his bachelor's degree in information management from Tamkang University（淡江大學）in Taiwan in 1995.

Mr. James Edward Monahan, aged 52, is the vice president of one of the wholly-owned subsidiaries of the Group in the United States, and primarily responsible for directing the introduction and growth of the Group's brands in the United States, Canada, Mexico and Central America. He has over 25 years of experience in the sporting goods industry with a leading international sports brand, including global roles in both product creation and marketing. He joined the Group in May 2014. Mr. Monahan received his bachelor's degree in education from Montclair State University in the United States.

Mr. Jurian Elstgeest, aged 46, is the managing director of one of the wholly-owned subsidiaries of the Group in Europe, and primarily responsible for managing and establishment of the Group's brand and business in the Europe, the Middle East and Africa. He has over 20 years of experience in sporting goods retail and with sports brands, managing retail buying, sales, product, brand and business expansion. Mr. Elstgeest joined the Group in June 2016. He received his Bachelor in Fashion Management at the Hogeschool in Amsterdam.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of
361 Degrees International Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of 361 Degrees International Limited ("the Company") and its subsidiaries ("the Group") set out on pages 54 to 114, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition: Distributor arrangements

Refer to note 3 to the consolidated financial statements on page 80 and the accounting policy 1(s) on pages 76 and 77.

The Key Audit Matter	How the matter was addressed in our audit
Revenue of the Group mainly comprises sales of footwear, apparel and accessories through its network of distributors. The Group sources, manufactures and sells its products based on purchase orders placed by the distributors during trade fairs held by the Group. The Group enters into framework distribution agreements with its distributors every year. According to the terms of the distribution agreements, revenue is recognised when the goods are collected by the carrier companies from the Group's premises, which is the point when the control of the goods is considered to have transferred to its distributors. We have identified the recognition of revenue from sale of goods under the distributor arrangements as a key audit matter because revenue is one of the key performance indicators of the Group and because there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.	Our audit procedures to address the recognition of revenue from distribution arrangements included the following: • inspecting all distribution agreements signed in the current year and considering whether the distribution agreements contained terms allowing the distributors to make any sales returns; • For sales transactions before and after the financial year end, comparing, on a sample basis, details in the sales invoices to the relevant goods delivery notes, which were signed by the carrier companies, to assess if the related revenue had been recognised in the appropriate financial period on the basis of the terms of sales as set out in the distribution agreements; • inspecting all sales returns during the reporting period and after the financial year end to assess whether sales returns had been accounted for in the appropriate financial period; • obtaining external confirmations of the value of sales transactions for the year ended 31 December 2018 and outstanding trade receivable balances as at that date directly from distributors, on a sample basis. Where the distributors did not return the requested confirmations, inspecting the sales invoices and related goods delivery notes signed by the carrier companies and the distributors indicating the distributors' acknowledgement of delivery of the goods sold for the year ended 31 December 2018; • inspecting significant manual adjustments, if any, to revenue during the reporting period, enquiring of management the reasons for such adjustments and comparing the details of the adjustments to relevant underlying documentation.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Kim Tak.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

15 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2018 (Expressed in Renminbi)

	Note	2018 RMB'000	2017 *(Note)* RMB'000
Revenue	*3*	**5,187,446**	5,158,200
Cost of sales		**(3,081,575)**	(3,001,815)
Gross profit		**2,105,871**	2,156,385
Other revenue	*4*	**281,920**	179,838
Other net (loss)/gain	*4*	**(81,780)**	46,043
Selling and distribution expenses		**(978,973)**	(891,995)
Administrative expenses		**(544,711)**	(502,719)
Profit from operations		**782,327**	987,552
Finance costs	*5(a)*	**(211,649)**	(213,761)
Profit before taxation	*5*	**570,678**	773,791
Income tax	*6(a)*	**(265,305)**	(306,516)
Profit for the year		**305,373**	467,275
Attributable to:			
Equity shareholders of the Company		**303,665**	456,706
Non-controlling interests		**1,708**	10,569
Profit for the year		**305,373**	467,275
Earnings per share	*10*		
Basic (cents)		**14.7**	22.1
Diluted (cents)		**14.7**	22.1

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 61 to 114 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 23(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018 (Expressed in Renminbi)

	2018 RMB'000	2017 *(Note)* RMB'000
Profit for the year	**305,373**	467,275
Other comprehensive income for the year		
Items that will not be reclassified to profit or loss:		
Equity investments at FVOCI – net movement in fair value reserves (non-recycling)	**(16,772)**	–
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements	**(64,476)**	93,288
Total comprehensive income for the year	**224,125**	560,563
Attributable to:		
Equity shareholders of the Company	**222,417**	549,994
Non-controlling interests	**1,708**	10,569
Total comprehensive income for the year	**224,125**	560,563

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 61 to 114 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2018 (Expressed in Renminbi)

	Note	2018 RMB'000	2017 *(Note)* RMB'000
Non-current assets			
Property, plant and equipment	*11*	**1,035,057**	1,122,775
Interests in leasehold land held for own use under operating leases	*11*	**111,462**	114,285
		1,146,519	1,237,060
Other financial asset	*13*	**28,579**	6,763
Deposits and prepayments	*15*	**94,060**	95,815
Deferred tax assets	*22(b)*	**45,800**	53,214
		1,314,958	1,392,852
Current assets			
Inventories	*14*	**1,051,099**	813,751
Trade debtors	*15*	**2,304,199**	1,928,889
Bills receivable	*15*	**95,072**	220,900
Deposits, prepayments and other receivables	*15*	**720,980**	727,536
Pledged bank deposits	*16&17*	**327,405**	335,283
Deposits with banks	*17*	**4,500,000**	3,605,691
Cash and cash equivalents	*17*	**1,651,281**	2,116,422
		10,650,036	9,748,472
Current liabilities			
Trade and other payables	*18*	**2,766,170**	2,263,505
Bank loans	*19*	**112,176**	12,814
Current taxation	*22(a)*	**475,905**	468,040
		3,354,251	2,744,359
Net current assets		**7,295,785**	7,004,113

	Note	2018 RMB'000	2017 *(Note)* RMB'000
Total assets less current liabilities		**8,610,743**	8,396,965
Non-current liabilities			
Interest-bearing borrowings	*20*	**2,714,393**	2,565,480
Deferred tax liabilities	*22(b)*	**1,961**	–
		2,716,354	2,565,480
NET ASSETS		**5,894,389**	5,831,485
CAPITAL AND RESERVES			
Share capital	*23(c)*	**182,298**	182,298
Reserves		**5,585,352**	5,524,156
Total equity attributable to equity shareholders of the Company		**5,767,650**	5,706,454
Non-controlling interests		**126,739**	125,031
TOTAL EQUITY		**5,894,389**	5,831,485

Approved and authorised for issue by the board of directors on 15 March 2019.

Director *Director*

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 61 to 114 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018 (Expressed in Renminbi)

	Note	Attributable to equity shareholders of the Company							
		Share capital 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 January 2017		182,298	90,489	557,026	(137,670)	4,611,117	5,303,260	114,462	5,417,722
Changes in equity for 2017:									
Profit for the year		–	–	–	–	456,706	456,706	10,569	467,275
Other comprehensive income		–	–	–	93,288	–	93,288	–	93,288
Total comprehensive income		–	–	–	93,288	456,706	549,994	10,569	560,563
Appropriation to statutory reserve		–	–	1,672	–	(1,672)	–	–	–
Dividends declared and paid during the year	*23(b)*	–	–	–	–	(146,800)	(146,800)	–	(146,800)
Balance at 31 December 2017		182,298	90,489	558,698	(44,382)	4,919,351	5,706,454	125,031	5,831,485

	Note	Attributable to equity shareholders of the Company								
		Share capital RMB'000	Other reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Fair value Reserve (Non-recycling) RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 31 December 2017 *(note)*		182,298	90,489	558,698	(44,382)	–	4,919,351	5,706,454	125,031	5,831,485
Impact on initial application of HKFRS 9		–	–	–	–	33,134	–	33,134	–	33,134
Balance at 1 January 2018		182,298	90,489	558,698	(44,382)	33,134	4,919,351	5,739,588	125,031	5,864,619
Changes in equity for 2018:										
Profit for the year		–	–	–	–	–	303,665	303,665	1,708	305,373
Other comprehensive income		–	–	–	(64,476)	(16,772)	–	(81,248)	–	(81,248)
Total comprehensive income		–	–	–	(64,476)	(16,772)	303,665	222,417	1,708	224,125
Appropriation to statutory reserve		–	–	1,734	–	–	(1,734)	–	–	–
Dividends declared and paid during the year	*23(b)*	–	–	–	–	–	(194,355)	(194,355)	–	(194,355)
Balance at 31 December 2018		182,298	90,489	560,432	(108,858)	16,362	5,026,927	5,767,650	126,739	5,894,389

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transitions method chosen, comparative information is not restated. See note 1(c).

The notes on pages 61 to 114 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2018 (Expressed in Renminbi)

	Note	2018 RMB'000	2017 *(Note)* RMB'000
Operating activities			
Profit before taxation		**570,678**	773,791
Adjustments for:			
Depreciation	*5(c)*	**121,562**	117,855
Amortisation of land lease premium	*5(c)*	**2,823**	2,823
Finance costs	*5(a)*	**211,649**	213,761
Interest income	*4*	**(97,578)**	(85,564)
Dividend income	*4*	**(35,286)**	–
Net loss on disposal of property, plant and equipment	*4*	**17**	28
Impairment losses of trade receivables	*5(c)*	**1,200**	–
Write-down of inventories	*14(b)*	**12,076**	–
Effect of foreign exchange rates changes		**64,496**	(69,245)
Changes in working capital:			
Increase in inventories		**(249,424)**	(273,158)
(Increase)/decrease in trade debtors		**(376,510)**	108,025
Decrease/(increase) in bills receivable		**125,828**	(36,495)
Decrease/(increase) in deposits, prepayments and other receivables		**6,530**	(59,040)
Increase in trade and other payables		**190,479**	349,207
Cash generated from operations		**548,540**	1,041,988
People's Republic of China ("PRC") income tax paid		**(253,519)**	(210,453)
Net cash generated from operating activities		**295,021**	831,535
Investing activities			
Payment for the purchase of property, plant and equipment		**(32,783)**	(43,645)
Proceeds from disposal of property, plant and equipment		**390**	11
Decrease/(increase) in pledged bank deposits		**7,878**	(149,703)
Placements of fixed deposits held at banks with maturity over three months		**(4,500,000)**	(3,605,691)
Uplift of fixed deposits held at banks with maturity over three months		**3,605,691**	2,537,113
Interest received		**97,604**	84,796
Net cash used in investing activities		**(821,220)**	(1,177,119)

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2018 (Expressed in Renminbi)

	Note	2018 RMB'000	2017 *(Note)* RMB'000
Financing activities			
Proceeds from bank loans	*17(b)*	**100,000**	–
Proceeds from investors	*18*	**350,000**	–
Repayment of bank loans	*17(b)*	**(1,242)**	(62,396)
Interest paid	*17(b)*	**(198,929)**	(201,794)
Dividends paid	*23(b)*	**(194,355)**	(146,800)
Net cash generated from/(used in) financing activities		**55,474**	(410,990)
Net decrease in cash and cash equivalents		**(470,725)**	(756,574)
Cash and cash equivalents at 1 January	*17(a)*	**2,116,422**	2,881,632
Effect of foreign exchange rate changes		**5,584**	(8,636)
Cash and cash equivalents at 31 December	*17(a)*	**1,651,281**	2,116,422

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

The notes on pages 61 to 114 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group").

The Company and other investment holding subsidiaries incorporated in the Cayman Islands, the British Virgin Islands (the "BVI") and Hong Kong have their functional currency in Hong Kong dollars and subsidiaries established in the PRC have their functional currency in Renminbi ("RMB"). As the Group mainly operates in the PRC, RMB is used as the presentation currency of the Group's financial statements. All financial information presented is rounded to the nearest thousand except otherwise stated. The measurement basis used in the preparation of the financial statements is the historical costs basis except equity investment is stated at its fair value as explained in note 1(f).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

(Expressed in thousands of Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Change in accounting policies

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

(i) HKFRS 9, Financial instruments

(ii) HKFRS 15, Revenue from contracts with customers

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, Prepayment features with negative compensation which have been adopted at the same time as HKFRS 9.

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

Fair value reserve (non-recycling)	RMB'000
Increase in fair value reserve (non-recycling) relating to equity securities now measured at fair value through other comprehensive income (FVOCI) at 1 January 2018	44,179
Related tax	(11,045)
Net increase in fair value reserve (non-recycling) at 1 January 2018	33,134

The notes on pages 61 to 114 form part of these financial statements.

(Expressed in thousands of Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Change in accounting policies (Continued)

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation (Continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. *Classification of financial assets and financial liabilities*

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	HKFRS 9 carrying amount at 1 January 2018 RMB'000
Financial assets carried at amortised cost				
Pledged deposits	335,283	–	–	335,283
Deposits with banks	3,605,691	–	–	3,605,691
Cash and cash equivalents	2,116,422	–	–	2,116,422
Trade debtors	1,928,889	–	–	1,928,889
Bills receivable	220,900	–	–	220,900
	8,207,185	–	–	8,207,185
Financial assets measured at FVOCI (non-recyclable)				
Unlisted equity securities *(note (i))*	–	6,763	44,179	50,942
Financial assets classified as available-for-sale under HKAS 39 ***(notes (i))***	6,763	(6,763)	–	–

Notes:

(i) Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated its investment in Jinjiang Merchant Investment Co., Ltd at FVOCI (non-recycling), as the investment is held for strategic purposes (see note 13).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Change in accounting policies (Continued)

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation (Continued)

a. Classification of financial assets and financial liabilities (Continued)

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in notes 1(f), (i)(i), (l) and (m).

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities (including financial guarantee contracts) at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits, fixed deposits held at banks with maturity over three months, and trade and other receivables). Financial assets measured at fair value, including equity investments designated at FVOCI, are not subject to the ECL assessment.

For further details on the Group's accounting policy for accounting for credit losses, see note 1(i)(i).

The Group has concluded that there is no material impact for the initial application of the new impairment requirements.

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The determination of the business model within which a financial assets is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Change in accounting policies (Continued)

(ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

The Group's business model is straight forward. According to the contracts with customers for the sale of branded sporting goods, the goods are collected by the carrier companies from the Group's premises, which is the point when the control of the goods is considered to have transferred to its distributors. The Group has concluded that the initial application of HKFRS 15 does not have a significant impact on the Group's revenue recognition.

Under HKFRS 15, a contract liability, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. To reflect this change in presentation, contract liabilities, including receipts in advance from customers, with amount of RMB83,797,000 are now separately presented under trade and other payables and the adjustments have been made to the opening balance at 1 January 2018, as a result of the adoption of HKFRS 15. Comparative information is not restated.

(d) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see note 1(e)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(n) or (o) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)(ii)), unless the investment is classified as held for sale.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries, are set out below.

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 24(g). These investments are subsequently accounted for as follows, depending on their classification.

(A) Policy applicable from 1 January 2018

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 1(s)(iv).

(B) Policy applicable prior to 1 January 2018

Investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(i)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initiate estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(u)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Property, plant and equipment (Continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion

– Plant and machinery 5 – 10 years

– Office equipment and other fixed assets 2 – 10 years

– Motor vehicles 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits, fixed deposits held at banks with maturity over three months, and trade and other receivables);

Financial assets measured at fair value, including equity securities designated at FVOCI (non-recycling), are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the effective interest rate determined at initial recognition or an approximation thereof for fixed-rate financial assets, trade and other receivables where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

For trade and other receivables, the Group has measured the loss allowance at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For cash and cash equivalents, pledged bank deposits, fixed deposits held at banks with maturity over three months, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial asset assessed at the end of reporting period with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, and available-for-sale investments). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– pre-paid interests in leasehold land classified as being held under an operating lease;

– investments in subsidiaries in the company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 1(s)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(l)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 1(s)).

(l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(i)(i)).

Bills receivable are derecognised if substantially all the risks and rewards of ownership of the bills receivable are transferred. If substantially all the risks and rewards of ownership of bills receivable are retained, the bills receivable are continued to be recognised in the statement of financial position.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 1(i)(i).

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 1(u)).

(p) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contribution to relevant local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income tax (Continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either;

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group’s assets under leases in the ordinary course of the Group’s business.

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group’s revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when the control of the sporting goods are considered to have been transferred to the customer.

In the comparative period, revenue from sales of goods was recognised when the customer has accepted the related risks and rewards of ownership.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 1(i)(i)).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue and other income (Continued)

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

(iv) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of subsidiaries with functional currency other than RMB are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a subsidiary with functional currency other than RMB, the cumulative amount of the exchange differences relating to that subsidiary is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(v) Research and development and advertising

Expenditure on research and development and advertising activities is recognised as an expense in the period in which it is incurred. Prepayment for advertising are recognised as an expense in equal instalments over the periods covered by the agreement term.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(x) Segment reporting

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

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

No geographic information is shown as the revenue and profit from operations of the Group are mainly derived from activities in the PRC.

2 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Sources of estimation uncertainty

Notes 24 contain information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation/amortisation charges for the property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation/amortisation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(ii) Impairment losses on trade debtors and bills receivable

The Group estimates the loss allowances for trade debtors and bills receivable by assessing the ECLs. This requires the use of estimates and judgements. ECLs are based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, and an assessment of both the current and forecast general economic conditions at the end of reporting period. Where the estimation is different from the previous estimate, such difference will affect the carrying amounts of trade debtors and bills receivable and thus the impairment loss in the period in which such estimate is changed. The Group keeps assessing the expected credit loss of trade receivables during their expected lives.

(iii) Other impairment losses

If circumstances indicate that carrying value of investment in subsidiary, property, plant and equipment, interest in leasehold land held for own use under operating leases, non-current deposits and prepayments and other financial assets may not be recoverable, these assets may be considered impaired, and an impairment loss may be recognised in accordance with HKAS 36, Impairment of assets. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amount may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling prices and the value in use. It is difficult to estimate precisely selling prices because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

(iv) Net realisable value of inventories

The Group recognises write-down on inventories based on an assessment of the net realisable value of the inventories. Write-down is applied to the inventories where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgment and estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of the inventories and write-down on inventories charged to profit or loss in the period in which such estimate has been changed.

(Expressed in thousands of Renminbi unless otherwise indicated)

2 ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

(a) Sources of estimation uncertainty (Continued)

(v) Income taxes

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are manufacturing and trading of sporting goods, including footwear, apparel, accessories and others in the PRC. Revenue represents the sales value of goods sold less returns, discounts and value added taxes and other sales taxes.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2018 RMB'000	2017 *(Note)* RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
– Footwear	2,558,958	2,646,927
– Apparel	2,455,078	2,345,971
– Accessories	89,300	89,858
– Others	84,110	75,444
	5,187,446	5,158,200

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see note1(c)(ii)).

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 3(b)(i).

The Group's customer base is diversified and has two (2017: two) customers with whom transactions have exceeded 10% of the Group's revenues. In 2018, revenues from sales of footwear, apparel, accessories and others in both reportable segments (see note 3(b)) to the two (2017: two) customers, including sales to entities which are known to the Group to be under common control with these customers, were approximately RMB681 million and RMB645 million (2017: approximately RMB695 million and RMB649 million) respectively. Details of concentrations of credit risk arising from these customers are set out in note 24(a)(i).

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

(Expressed in thousands of Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting

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

- Adults: this segment derives revenue from manufacturing and trading of adults sporting goods.
- Kids: this segment derives revenue from trading of kids sporting goods.

The Group's revenue and results were primarily derived from sales in the PRC and the principal assets employed by the Group were located in the PRC during the year. Accordingly, no analysis by geographical segments has been provided for the year. In addition, no information on segment assets and liabilities was prepared for review by the Group's most senior executive management for the year 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 the expenses incurred by those segments. The measure used for reporting segment profit is gross profit.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as 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 years ended 31 December 2018 and 2017 is set out below.

	Adults		Kids		Total	
	2018	2017	**2018**	2017	**2018**	2017
		(Note)		*(Note)*		*(Note)*
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Disaggregated by timing of revenue recognition						
Point in time	**4,371,481**	4,447,071	**815,965**	711,129	**5,187,446**	5,158,200
Revenue from external customers	**4,371,481**	4,447,071	**815,965**	711,129	**5,187,446**	5,158,200
Inter-segment revenue	**25,928**	60,125	**–**	–	**25,928**	60,125
Reportable segment revenue	**4,397,409**	4,507,196	**815,965**	711,129	**5,213,374**	5,218,325
Cost of sales	**(2,637,660)**	(2,634,518)	**(469,793)**	(427,193)	**(3,107,453)**	(3,061,711)
Reportable segment profit (gross profit)	**1,759,749**	1,872,678	**346,172**	283,936	**2,105,921**	2,156,614

Note: The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see note 1(c)(ii)).

(Expressed in thousands of Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

	2018 RMB'000	2017 RMB'000
Revenue		
Reportable segment revenue	5,213,374	5,218,325
Elimination of inter-segment revenue	(25,928)	(60,125)
Consolidated revenue *(note 3(a))*	5,187,446	5,158,200
Profit		
Reportable segment profit	2,105,921	2,156,614
Elimination of inter-segment profits	(50)	(229)
Reportable segment profit derived from group's external customers	2,105,871	2,156,385
Other revenue	281,920	179,838
Other net (loss)/gain	(81,780)	46,043
Selling and distribution expenses	(978,973)	(891,995)
Administrative expenses	(544,711)	(502,719)
Finance costs	(211,649)	(213,761)
Consolidated profit before taxation	570,678	773,791

4 OTHER REVENUE AND NET (LOSS)/GAIN

	2018 RMB'000	2017 RMB'000
Other revenue		
Interest income on financial assets measured at amortised cost	97,578	85,564
Government grants	109,473	38,774
Dividend income	35,286	–
Others	39,583	55,500
	281,920	179,838
Other net (loss)/gain		
Net loss on disposal of property, plant and equipment	(17)	(28)
Net foreign exchange (loss)/gain	(81,763)	46,071
	(81,780)	46,043

Government grants of RMB109,473,000 (2017: RMB38,774,000) 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.

Dividend income of RMB35,286,000 was received from investment in unlisted equity securities (see note 13).

(Expressed in thousands of Renminbi unless otherwise indicated)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		2018 RMB'000	2017 RMB'000
(a)	**Finance costs**		
	Interest on bank and other borrowings *(note 17(b))*	6,710	6,457
	Finance charges on senior unsecured note *(note 17(b)&20)*	204,939	207,304
	Total interest expense on financial liabilities not carried at fair value through profit or loss	211,649	213,761

		2018 RMB'000	2017 RMB'000
(b)	**Staff costs**		
	Contributions to defined contribution retirement plans	20,928	22,037
	Salaries, wages and other benefits	433,418	444,242
		454,346	466,279

		2018 RMB'000	2017 RMB'000 *(Note)*
(c)	**Other items**		
	Auditors' remuneration		
	– audit services	3,960	3,960
	Amortisation of land lease premium	2,823	2,823
	Depreciation	121,562	117,855
	Impairment losses		
	– trade and other receivables *(note 24(a))*	1,200	–
	Operating lease charges in respect of properties	11,466	9,157
	Research and development costs *	214,574	173,189
	Cost of inventories **	3,081,575	3,001,815

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(c).

* Research and development costs include RMB62,895,000 (2017: RMB61,888,000) relating to staff costs of employees in the research and development department, which amount is also included in the total staff costs as disclosed in note 5(b).

** Cost of inventories include RMB231,944,000 (2017: RMB263,611,000) relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

(Expressed in thousands of Renminbi unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Income tax in the consolidated statement of profit or loss represents:

	2018 RMB'000	2017 RMB'000
Current tax – PRC income tax		
Provision for the year	266,642	337,199
(Over)/Under-provision in respect of prior years	(5,258)	2,101
	261,384	339,300
Deferred tax		
Origination and reversal of temporary differences	3,921	(32,784)
	265,305	306,516

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

(ii) No provision has been made for Profits Tax in Hong Kong, Brazil, USA and Netherlands as the Group did not earn any income subject to Profits Tax in Hong Kong, Brazil, USA and Europe during the year.

(iii) All PRC subsidiaries are subject to income tax at 25% for the year ended 31 December 2018 (2017: 25%) under the Enterprise Income Tax law ("EIT law").

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2018 RMB'000	2017 RMB'000
Profit before taxation	570,678	773,791
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	210,984	252,738
Tax effect of non-deductible expenses	26,181	23,387
Tax effect of non-taxable income	(9,349)	(560)
Tax effect of unused tax losses not recognized	32,747	–
(Over)/Under-provision in prior years*	(5,258)	2,101
Withholding tax on dividends	10,000	28,850
Actual tax expense	265,305	306,516

* Over-provision in prior years include RMB6,345,000 (2017:nil) relating to super deduction of prior years' research and development costs approved by tax authority and recognized in current year.

(Expressed in thousands of Renminbi unless otherwise indicated)

7 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2018			
	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors				
Ding Wuhao	–	1,205	15	1,220
Ding Huihuang	–	1,004	15	1,019
Ding Huirong	–	1,004	15	1,019
Wang Jiabi	–	635	15	650
Independent non-executive directors				
Tsui Yung Kwok	474	–	–	474
Liao Jianwen	361	–	–	361
Li Yuen Fai	355	–	–	355
	1,190	3,848	60	5,098

	2017			
	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors				
Ding Wuhao	–	1,316	15	1,331
Ding Huihuang	–	1,061	15	1,076
Ding Huirong	–	1,050	15	1,065
Wang Jiabi	–	626	15	641
Independent non-executive directors				
Liao Jianwen	347	–	–	347
Tsui Yung Kwok	468	–	–	468
Li Yuen Fai	351	–	–	351
	1,166	4,053	60	5,279

(Expressed in thousands of Renminbi unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, no one (2017: no one) is director whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the five (2017: five) individuals are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	10,818	9,988
Retirement scheme contributions	207	161
	11,025	10,149

The emoluments of the five (2017: five) individuals with the highest emoluments are within the following bands:

	2018 Number of individuals	2017 Number of individuals
HK$1,500,001 to HK$2,000,000	–	1
HK$2,000,001 to HK$2,500,000	2	2
HK$2,500,001 to HK$3,000,000	2	1
HK$3,000,001 to HK$3,500,000	1	1

9 OTHER COMPREHENSIVE INCOME

(a) Tax effects relating to each component of other comprehensive income

	2018			2017		
	Before-tax amount RMB'000	Tax (expense)/ benefit RMB'000	Net-of-tax amount RMB'000	Before-tax amount RMB'000	Tax (expense)/ benefit RMB'000	Net-of-tax amount RMB'000
Exchange differences on translation of: – financial statements of overseas subsidiaries	(64,476)	–	(64,476)	93,288	–	93,288
Equity investments at FVOCI: net movement in fair value reserve (non-recycling)	(22,363)	5,591	(16,772)	–	–	–
Other comprehensive income	(86,839)	5,591	(81,248)	93,288	–	93,288

(Expressed in thousands of Renminbi unless otherwise indicated)

9 OTHER COMPREHENSIVE INCOME (Continued)

(b) Components of other comprehensive income, including reclassification adjustments

	2018 RMB'000	2017 RMB'000
Equity investments measured at FVOCI		
Changes in fair value recognised during the period	(16,772)	–

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB303,665,000 (2017: RMB456,706,000) and the weighted average of 2,067,602,000 ordinary shares (2017: 2,067,602,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

For the year ended 31 December 2017 and 2018, diluted earnings per share is the same as basic earnings per share as the Company did not have dilutive potential shares outstanding during the year.

11 PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment and other fixed assets RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:								
At 1 January 2017	1,201,581	237,835	227,918	32,572	13,396	1,713,302	133,118	1,846,420
Exchange adjustments	(3,697)	(53)	(7)	–	–	(3,757)	–	(3,757)
Additions	88	8,269	8,213	1,174	18,296	36,040	–	36,040
Transfer	12,416	–	–	–	(12,416)	–	–	–
Disposals	–	–	–	(391)	–	(391)	–	(391)
At 31 December 2017	1,210,388	246,051	236,124	33,355	19,276	1,745,194	133,118	1,878,312
Accumulated depreciation and amortisation:								
At 1 January 2017	232,809	122,042	123,473	27,075	–	505,399	16,010	521,409
Exchange adjustments	(453)	(26)	(4)	–	–	(483)	–	(483)
Charge for the year	67,084	21,347	28,285	1,139	–	117,855	2,823	120,678
Written back on disposals	–	–	–	(352)	–	(352)	–	(352)
At 31 December 2017	299,440	143,363	151,754	27,862	–	622,419	18,833	641,252
Net book value:								
At 31 December 2017	910,948	102,688	84,370	5,493	19,276	1,122,775	114,285	1,237,060

(Expressed in thousands of Renminbi unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (Continued)

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment and other fixed assets RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:								
At 1 January 2018	1,210,388	246,051	236,124	33,355	19,276	1,745,194	133,118	1,878,312
Exchange adjustments	2,461	159	111	–	–	2,731	–	2,731
Additions	385	15,227	3,214	459	12,724	32,009	–	32,009
Transfer	2,200	–	–	–	(2,200)	–	–	–
Disposals	–	(747)	–	–	–	(747)	–	(747)
At 31 December 2018	1,215,434	260,690	239,449	33,814	29,800	1,779,187	133,118	1,912,305
Accumulated depreciation and amortisation:								
At 1 January 2018	299,440	143,363	151,754	27,862	–	622,419	18,833	641,252
Exchange adjustments	287	81	122	–	–	490	–	490
Charge for the year	67,870	22,965	30,047	680	–	121,562	2,823	124,385
Written back on disposals	–	(341)	–	–	–	(341)	–	(341)
At 31 December 2018	367,597	166,068	181,923	28,542	–	744,130	21,656	765,786
Net book value:								
At 31 December 2018	847,837	94,622	57,526	5,272	29,800	1,035,057	111,462	1,146,519

As at 31 December 2018, a property with net book value of RMB43,953,000 (2017: RMB43,010,000) was pledged as security for a banking facility of the Group of RMB43,938,000 (2017: RMB41,812,000).

(Expressed in thousands of Renminbi unless otherwise indicated)

12 INVESTMENTS IN SUBSIDIARIES

Particulars of the Group's subsidiaries are set out as below. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Sanliuyidu Holdings Company Limited	BVI	100 shares of US$1 each	100%	100%	–	Investment holding
361 Enterprise Company Limited	Hong Kong	1 share	100%	–	100%	Investment holding
361 Investment Company Limited	Hong Kong	1 share	100%	–	100%	Investment holding
361 Degrees (Hong Kong) Investment Limited	Hong Kong	1 share	87%	–	100%	Investment holding
Sanliuyidu (Fujian) Sports Goods Co., Ltd 三六一度(福建)體育用品有限公司 *(Notes (i) and (iv))*	PRC	HK$280,000,000	100%	–	100%	Manufacture and trading of sporting goods
Sanliuyidu (China) Co., Ltd 三六一度(中國)有限公司 *(Notes (i) and (iv))*	PRC	HK$560,000,000	100%	–	100%	Manufacture and trading of sporting goods
Sanliuyidu Xiamen Industry & Trade Co., Limited 三六一度(廈門)工貿有限公司 *(Notes (ii) and (iv))*	PRC	RMB100,000,000	100%	–	100%	Trading of sporting goods
Sanliuyidu (Fujian) Shoes and Plastics Technology Co., Ltd 三六一度(福建)鞋塑科技有限公司 *(Notes (iii) and (iv))*	PRC	HK$120,000,000	51%	–	51%	Manufacture and trading of shoes soles
361 Degrees Children's Clothing Co., Ltd. 三六一度童裝有限公司 *(Note (i) and (iv))*	PRC	HK$80,000,000	87%	–	100%	Trading of children sporting goods
Yue Lei International Limited 宇彌國際有限公司	Hong Kong	100,000 shares	100%	–	100%	Trading of sporting goods
361 Degrees Kids Wear Holdings Limited	BVI	1 share of US$1 each	100%	–	100%	Investment holding
361 Degrees Kids Wear Limited	Cayman Islands	1,000,000 shares of HK$0.01 each	87%	–	87%	Investment holding
361 Degrees Kids Wear Investment Limited	BVI	1 share of US$1 each	87%	–	100%	Investment holding
One Way International Enterprise Limited 萬唯國際實業有限公司	Hong Kong	10,000 shares	70%	–	70%	Investment holding
Zhonglan Sports Goods Co. Ltd 中蘭体育用品有限公司*(Note (i) and (iv))*	PRC	RMB49,910,463	70%	–	100%	Investment holding
Wangwei (Xiamen) Industry & Trade Co., Limited 望唯(廈門)工貿有限公司 *(Note (ii) and (iv))*	PRC	RMB5,000,000	70%	–	100%	Trading of sporting goods

(Expressed in thousands of Renminbi unless otherwise indicated)

12 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activity
361 USA, Inc	United States	USD19	100%	–	100%	Trading of sporting goods
Yue Lei do Brasil Comércio, Importação e Exportação de Artigos Esportivos Ltda	Brazil	62,310,627 shares of RIO$1 each	100%	–	100%	Trading of sporting goods
Quanzhou Jinjiang Jiangtou Minhai Gas Station Ltd. 泉州晉江江頭閩海加油站有限公司 *(Note (ii) and (iv))*	PRC	RMB25,100,000	51%	–	51%	Operating of gas station
Duoyidu (Quanzhou) E-commerce Co.,Ltd. 多一度(泉州)電子商務有限公司 *(Note (ii) and (iv))*	PRC	RMB1,000,000	80%	–	80%	Distribution and sales of the Group's *361°* products via the e-commerce platform
361° Europe Holding B.V.	Netherlands	EURO100	100%	–	100%	Investment holding
361° Europe B.V.	Netherlands	EURO100	100%	–	100%	Trading of sporting goods
Sanliuyidu (Xiamen) Investment Management Consulting Co., Ltd. 三六一度(廈門)投資管理諮詢有限公司 *(Note (ii) and (iv))*	PRC	RMB1,000,000	100%	–	100%	Investment holding
Quanzhou Shenghong Trading Co., Ltd. 泉州市晟鴻商貿有限公司 *(Note (ii) and (iv))*	PRC	RMB1,000,000	100%	–	100%	Trading of sporting goods
Quanzhou 361 Degrees Investment Company Limited 泉州三六一度投資有限公司 *(Note (ii) and (iv))*	PRC	RMB50,000,000	100%	–	100%	Investment holding
Zhuji 361 Degrees Children's Wear Co. Limited 諸暨市三六一度童裝有限公司 *(Note (ii) and (iv))*	PRC	HKD120,000,000	100%	–	100%	Trading of children sporting goods
Quanzhou Xuandong Trading Co., Ltd 泉州炫動商貿有限公司 *(Note (ii) and (iv)*	PRC	RMB1,000,000	100%	–	100%	Trading of sporting goods

Notes:

(i) These entities are wholly foreign owned enterprises established in the PRC.

(ii) These entities are limited liability companies established in the PRC.

(iii) The entity is a sino-foreign equity joint venture enterprise registered in the PRC.

(iv) The English translation of the company names is for reference only. The official names of these companies are in Chinese.

(Expressed in thousands of Renminbi unless otherwise indicated)

13 OTHER NON-CURRENT FINANCIAL ASSET

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Equity securities designated at FVOCI (non-recycling)			
– Unlisted equity securities	28,579	50,942	6,763

The unlisted equity securities are shares in Jinjiang Merchant Investment Co., Ltd, a company incorporated in PRC and engaged in property development. The Group designated its investment in Jinjiang Merchant Investment Co., Ltd at FVOCI (non-recycling), as the investment is held for strategic purposes. Dividends of RMB35,286,000 were recognized on this investment during the year (2017: nil).

14 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2018 RMB'000	2017 RMB'000
Raw materials	64,868	52,310
Work in progress	21,546	22,719
Finished goods	964,685	738,722
	1,051,099	813,751

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2018 RMB'000	2017 RMB'000
Carrying amount of inventories sold	3,069,499	3,001,815
Write down of inventories	12,076	–
	3,081,575	3,001,815

(Expressed in thousands of Renminbi unless otherwise indicated)

15 TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade debtors	2,362,054	1,985,544
Less: allowance for doubtful debts	(57,855)	(56,655)
Trade debtors, net of loss allowance	2,304,199	1,928,889
Bills receivable	95,072	220,900
Financial assets measured at amortised cost	2,399,271	2,149,789
Deposits, prepayments and other receivables		
Current		
Deposits	31	1,209
Prepayments	616,040	658,781
Other receivables	104,909	67,546
	720,980	727,536
Non-current		
Deposits and prepayments	94,060	95,815

As at 31 December 2018, the Group endorsed certain bank acceptance bills totalling RMB4,470,000 (2017: RMB342,860,000) to suppliers for settling trade payables of the same amount on a full recourse basis. The Group have derecognised these bills receivable and the payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of the reporting period. In the opinion of the directors, the Group have transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group have limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

Included in prepayments are amounts prepaid to suppliers of RMB582,878,000 (2017: RMB631,381,000).

All of the trade debtors, bills receivable and current portion of deposits, prepayments and other receivables are expected to be recovered or recognised as expenses within one year.

(Expressed in thousands of Renminbi unless otherwise indicated)

15 TRADE AND OTHER RECEIVABLES (Continued)

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 debts, is as follows:

	2018 RMB'000	2017 RMB'000
Within 90 days	1,481,001	1,634,103
Over 90 days but within 180 days	873,813	515,686
Over 180 days but within 360 days	44,457	–
	2,399,271	2,149,789

Trade debtors and bills receivable are due within 30 – 180 days from the date of billing. Further details on the Group's credit policy are set out in note 24(a).

16 PLEDGED BANK DEPOSITS

Bank deposits are pledged to banks as security for certain banking facilities (see note 19).

17 CASH AND BANK DEPOSITS AND OTHER CASH FLOW INFORMATION

(a) Cash and bank deposits comprise:

	2018 RMB'000	2017 RMB'000
Pledged bank deposits	327,405	335,283
Deposits with banks		
– More than three months to maturity when placed	4,500,000	3,605,691
– Within three months to maturity when placed	13,757	38,583
Cash at bank and on hand	1,637,524	2,077,839
Cash and bank deposits	6,478,686	6,057,396
Represented by:		
Pledged bank deposits	327,405	335,283
Deposits with banks	4,500,000	3,605,691
Cash and cash equivalents	1,651,281	2,116,422
	6,478,686	6,057,396

At 31 December 2018, the balances that were placed with banks or on hand in the PRC and included in the pledged bank deposits, deposits with banks and cash and cash equivalents amounted to RMB6,387,612,000 (2017: RMB5,838,942,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

(Expressed in thousands of Renminbi unless otherwise indicated)

17 CASH AND BANK DEPOSITS AND OTHER CASH FLOW INFORMATION (Continued)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank loans RMB'000 *(Note 19)*	Senior unsecured notes RMB'000 *(Note 20)*	Total RMB'000
At 1 January 2018	12,814	2,565,480	2,578,294
Changes from financing cash flows:			
Proceeds from new bank loans	100,000	–	100,000
Repayment of bank loans	(1,242)	–	(1,242)
Interest paid	(6,710)	(192,219)	(198,929)
Total changes from financing cash flows	92,048	(192,219)	(100,171)
Exchange adjustments	604	136,193	136,797
Other changes:			
Interest expenses *(note 5(a))*	6,710	204,939	211,649
Total other changes	6,710	204,939	211,649
At 31 December 2018	112,176	2,714,393	2,826,569

(Expressed in thousands of Renminbi unless otherwise indicated)

18 TRADE AND OTHER PAYABLES

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Trade creditors	**704,253**	588,956	588,956
Bills payable	**1,013,986**	983,658	983,658
Contract liabilities *(ii)*	**141,128**	83,797	–
Receipts in advance	**–**	–	83,797
Advances from investor *(iii)*	**350,000**	–	–
Other payables and accruals	**556,803**	607,094	607,094
	2,766,170	2,263,505	2,263,505

Notes:

(i) The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

(ii) Upon the adoption of HKFRS 15, contract liabilities, including receipt in advance from customers, as at 31 December 2018 are separately presented (see note 1(c)).

(iii) On 9 November 2018, the Group entered into the investment agreement with Zhuji Yingshi Chuangjia Equity Investment Limited Partnership ("the Investor") that the Investor agreed to acquire approximately 14.93% of the equity interest in Zhuji 361 Degrees Children's Clothing Co., Ltd ("Zhuji 361 Degrees"), an indirectly wholly-owned subsidiary of the Company, by way of subscribing for additional registered capital in amount of RMB18,526,000 at a consideration of RMB500,000,000. The subscription shall be subject to the condition precedent that the substantive operations of the Group's all kids wears business are injected into Zhuji 361 Degrees. If the Group fails to satisfy the condition precedent, the investment advancement would have to be refunded to the Investor.

As at 31 December 2018, the Group has received the investment advancement in amount of RMB350,000,000, which is recorded in advances from Investor. The injection of the Group's kids wears business to Zhuji 361 Degrees has not commenced yet.

Apart from advances from investor, 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 31 December 2018 and 2017 were secured by pledged bank deposits as disclosed in note 16.

(Expressed in thousands of Renminbi unless otherwise indicated)

18 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:

	2018 RMB'000	2017 RMB'000
Due within 1 month or on demand	384,030	256,181
Due after 1 month but within 3 months	540,334	388,178
Due after 3 months but within 6 months	717,875	659,453
Due after 6 months but within 12 months	76,000	268,802
	1,718,239	1,572,614

19 BANK LOANS

At 31 December 2018, the bank loans were repayable within one year or on demand and secured as follows:

	2018 RMB'000	2017 RMB'000
Secured bank loans	12,176	12,814
Unsecured bank loans	100,000	–
	112,176	12,814

The amounts of banking facilities and the utilisation at the end of each reporting period are set out as follows:

	2018 RMB'000	2017 RMB'000
Facilities amount	4,383,938	4,381,812
Utilisation at the end of the reporting period		
– Bills payable	1,013,986	983,658
– Bank loans	112,176	12,814
	1,126,162	996,472

For the years ended 31 December 2018 and 2017, bank loans and bills payable of the Group were secured by a property and pledged bank deposits (see notes 11 and 16).

(Expressed in thousands of Renminbi unless otherwise indicated)

20 NON-CURRENT INTEREST-BEARING BORROWINGS

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

	2018 RMB'000	2017 RMB'000
Senior unsecured notes due 2021 *(note 20(b))*	**2,714,393**	2,565,480

All of the non-current interest-bearing borrowings are carried at amortised cost.

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

Senior unsecured notes due 2021

On 3 June 2016, the Company issued senior unsecured notes with principal amount of USD400,000,000 due 2021 ("the "USD Notes"). The USD Notes are interest bearing at 7.25% per annum, and payable on a semi-annual basis in arrears. The maturity date of the USD Notes is 3 June 2021. The effective interest rate of the USD Notes is 7.86% per annum.

21 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in a defined contribution retirement benefit scheme ("the Scheme") organised by the PRC municipal government authority in the Fujian Province whereby the Group is required to make contributions to the Scheme at rates which ranged from 16% to 19% of the eligible employees' relevant salaries. The local government authority is responsible for the entire pension obligations payable to retired employees.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of pension benefits associated with the Scheme and the MPF scheme beyond the annual contributions described above.

(Expressed in thousands of Renminbi unless otherwise indicated)

22 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2018 RMB'000	2017 RMB'000
Balance at the beginning of the year	468,040	339,193
(Over)/under-provision in respect of prior years	(5,258)	2,101
Provision for PRC income tax for the year	266,642	337,199
Payment during the year	(253,519)	(210,453)
	475,905	468,040

(b) Deferred tax assets and liabilities recognised:

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Credit loss allowance RMB'000	Expenses deductible on paid basis RMB'000	Income taxable on receipt basis RMB'000	Revaluation of other financial asset RMB'000	Total RMB'000
Deferred tax arising from:					
At 1 January 2017	14,163	9,032	(2,765)	–	20,430
Credited/(charged) to profit or loss	–	34,053	(1,269)	–	32,784
At 31 December 2017	14,163	43,085	(4,034)	–	53,214
Impact of initial application of HKFRS 9	–	–	–	(11,045)	(11,045)
At 1 January 2018	14,163	43,085	(4,034)	(11,045)	42,169
Charged to profit or loss	300	(4,088)	(133)	–	(3,921)
Charged to reserves	–	–	–	5,591	5,591
At 31 December 2018	14,463	38,997	(4,167)	(5,454)	43,839

(Expressed in thousands of Renminbi unless otherwise indicated)

22 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets and liabilities recognised: (Continued)

(ii) Reconciliation to the consolidated statement of financial position

	2018 RMB'000	2017 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**45,800**	53,214
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(1,961)**	–
	43,839	53,214

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(q), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB32,747,000 (2017: Nil) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses will expire within 5 years when such losses were incurred under current tax legislation.

(d) Deferred tax liabilities not recognised

Pursuant to the EIT law, 10% withholding tax is levied on the foreign investor, (foreign investors which are registered in Hong Kong and meet certain requirements specified in the relevant tax regulations in the PRC may be entitled to a preferential 5% rate), in respect of dividend distributions arising from profit earned by a foreign investment enterprise in the PRC after 1 January 2008.

At 31 December 2018, the Group has not recognised deferred tax liabilities of RMB287,214,000 (2017: RMB257,197,000) in respect of temporary differences relating to the undistributed profits of subsidiaries amounting to RMB5,744,283,000 (2017: RMB5,143,930,000) that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

(Expressed in thousands of Renminbi unless otherwise indicated)

23 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	**Share capital** RMB'000	**Exchange reserve** RMB'000	**Retained profits** RMB'000	**Total** RMB'000
Balance at 1 January 2017		182,298	(80,111)	106,341	208,528
Changes in equity for 2017:					
Profit for the year		–	–	227,401	227,401
Other comprehensive income		–	(347)	–	(347)
Total comprehensive income for the year		–	(347)	227,401	227,054
Dividends declared and paid during the year	*23(b)*	–	–	(146,800)	(146,800)
Balance at 31 December 2017		182,298	(80,458)	186,942	288,782
Balance at 1 January 2018		**182,298**	**(80,458)**	**186,942**	**288,782**
Changes in equity for 2018:					
Loss for the year		**–**	**–**	**(24,072)**	**(24,072)**
Other comprehensive income		**–**	**4,719**	**–**	**4,719**
Total comprehensive income for the year		**–**	**4,719**	**(24,072)**	**(19,353)**
Dividends declared and paid during the year	*23(b)*	**–**	**–**	**(194,355)**	**(194,355)**
Balance at 31 December 2018		**182,298**	**(75,739)**	**(31,485)**	**75,074**

(Expressed in thousands of Renminbi unless otherwise indicated)

23 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends

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

	2018 RMB'000	2017 RMB'000
Interim dividend declared and paid of HK7.6 cents per ordinary share (2017: HK7.0 cents per ordinary share)	132,327	126,124
Final dividend proposed after the end of the reporting period of HK Nil per ordinary share (2017: HK3.6 cents per ordinary share)	–	62,028
	132,327	188,152

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2018 RMB'000	2017 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK3.6 cents per ordinary share (2017: HK1.1 cents per ordinary share)	62,028	20,676

(c) Share capital

	2018		2017	
	Number of shares '000	Amount HK$'000	Number of shares '000	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	10,000,000	1,000,000	10,000,000	1,000,000

	Number of shares '000	Amount HK$'000	 RMB'000
Ordinary shares, issued and fully paid:			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	2,067,602	206,760	182,298

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

23 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

(ii) Capital reserve

On 9 June 2009, 361 Enterprise Company Limited entered into an agreement with a shareholder of the Company whereby repayment of amounts due to the shareholder by 361 Enterprise Company Limited totalling HK$177,216,000 (equivalent to RMB156,252,000) was waived. The waiver of repayment was reflected as a reduction in the amounts due to a shareholder of the Company and a corresponding increase in capital reserve.

(iii) Other reserve

On 25 July 2008, the shareholders transferred the entire equity interest in Sanliuyidu (Fujian) Sports Goods Co., Ltd. and the business of Sanliuyidu (Hong Kong) Sports Goods Co., Ltd. to 361 Enterprise Company Limited for cash consideration of HK$1. The difference between the historical carrying value of equity acquired and acquisition consideration is treated as an equity movement and recorded in "Other reserve".

On 23 December 2013, 361 Degrees Kids Wear Limited allotted shares to non-controlling interests, which represented 13% of its enlarged share capital, and received a total consideration of RMB16,225,000. The difference between the net assets shared by the non-controlling interests and consideration received was treated as an equity movement and recorded in "Other reserve".

(iv) Statutory reserve

Pursuant to applicable PRC regulations, certain PRC subsidiaries are required to appropriate 10% of their profit-after-tax (after offsetting prior year losses) to the reserve until such reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to shareholders. The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

(v) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from translation of the financial statements of entities with functional currency other than RMB. The reserve is dealt with in accordance with the accounting policy set out in note 1(t).

(e) Distributability of reserves

At 31 December 2018, there is no aggregate amount of reserves available for distribution to equity shareholders of the Company (2017: RMB106,484,000). After the end of the reporting period, the directors do not recommend the payment of a final dividend for the current year (2017: HK3.6 cents per ordinary share, amounting to RMB62,028,000).

23 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital with reference to its debt position. The Group's strategy was to maintain the equity and debt in a balanced position and ensure there were adequate working capital to service its debt obligation. The Group's gearing ratio, being the Group's interest bearing debt over its total assets, as at 31 December 2018 was 24% (2017: 23%).

Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate, commodity price and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from the movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents, pledged bank deposits, deposits with banks and bills receivable is limited because the counterparties are banks, for which the Group considers to have low credit risk.

(i) Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 6% (2017: 17%) and 39% (2017: 41%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

(Expressed in thousands of Renminbi unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

(i) Trade receivables (Continued)

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30, 60, 90 or 180 days from the date of billing. Debtors with balances that are more than 6 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patters for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customers bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Weighted average expected loss rate	Gross carrying amount	Loss allowance
	%	RMB'000	RMB'000
Current (not past due)	0.7	2,131,273	14,919
1 – 90 days past due	10.0	182,879	18,288
More than 90 days past due	51.5	47,902	24,648
		2,362,054	57,855

Expected loss rates are based on historical actual loss experience. These rates are adjusted for factors that are specific to the debtors, and to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

(Expressed in thousands of Renminbi unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

(i) Trade receivables (Continued)

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 1(i)(i) – policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables of RMB328,774,000 were determined to be impaired.

The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017 RMB'000
Neither past due nor impaired	1,850,404
1 – 30 days past due	17,300
31 – 60 days past due	9,966
	1,877,670

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

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

Movement in the loss allowance account in respect of trade receivables and contract assets during the year is as follows:

	2018 RMB'000	2017 RMB'000
Balance at 31 December 2017 under HKAS 39	**56,655**	56,655
Impact on initial application of HKFRS 9 *(note 1(c)(i))*	**–**	–
Balance at 1 January	**56,655**	56,655
Impairment losses recognised during the year *(note 5(c))*	**1,200**	–
Balance at 31 December	**57,855**	56,655

An increase in the gross carrying amount of the trade receivables contributed to the increase in the loss allowance during 2018.

(Expressed in thousands of Renminbi unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowing exceeds certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2018 Contractual undiscounted cash outflow					2017 Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
Bank loans	115,458	–	–	115,458	112,176	13,131	–	–	13,131	12,814
Senior unsecured note	189,452	189,452	2,802,581	3,181,485	2,714,393	189,452	189,452	2,802,581	3,181,485	2,565,480
Trade and other payables	2,275,042	–	–	2,275,042	2,275,042	2,179,708	–	–	2,179,708	2,179,708
Total	2,579,952	189,452	2,802,581	5,571,985	5,101,611	2,382,291	189,452	2,802,581	5,374,324	4,758,002

(Expressed in thousands of Renminbi unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from bank loans, senior unsecured notes, pledged bank deposits, deposits with banks and cash and cash equivalents. Borrowings, deposits and cash and cash equivalents at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's net borrowings (being interest-generating financial liabilities less cash at bank and on hand and pledged bank deposits) at the end of the reporting period.

	2018		2017	
	Effective interest rate %	Amount RMB'000	Effective interest rate %	Amount RMB'000
Fixed rate borrowings/ (deposits)				
Deposits with banks	1.95 – 2.15	(4,500,000)	1.95 – 2.15	(3,605,691)
Cash and cash equivalents	2.70	(13,757)	1.48	(38,583)
Senior unsecured notes	7.86	2,714,393	7.86	2,565,480
Pledged bank deposits	0.30 – 1.55	(327,405)	0.30 – 1.55	(335,283)
		(2,126,769)		(1,414,077)
Variable rate borrowings/ (deposits)				
Cash and cash equivalents	0.001 – 0.42	(1,613,424)	0.001 – 0.42	(2,062,502)
Bank loans	2.6 – 5.01	112,176	2.47	12,814
		(1,501,248)		(2,049,688)
Total net deposits		(3,628,017)		(3,463,765)

(Expressed in thousands of Renminbi unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 100 basis points in both saving and lending interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately RMB12,739,000 (2017: RMB15,526,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2017.

(d) Currency risk

The Group is exposed to currency risk primarily through bank deposits and senior unsecured notes that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Hong Kong dollars ("HKD") and United States dollars ("USD").

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date.

Exposure of foreign currencies (expressed in RMB)

	2018			2017		
	Hong Kong dollars RMB'000	United States dollars RMB'000	Renminbi RMB'000	Hong Kong dollars RMB'000	United States dollars RMB'000	Renminbi RMB'000
Cash and bank deposits	44,991	26,776	22,582	975	82,336	2,093
Amounts due from group companies	–	–	1,311,834	–	–	1,518,110
Amounts due to group companies	–	–	(31,938)	–	–	–
Senior unsecured notes	–	(2,714,393)	–	–	(2,565,480)	–
Net exposure arising from recognised assets and liabilities	44,991	(2,687,617)	1,302,478	975	(2,483,144)	1,520,203

(Expressed in thousands of Renminbi unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(d) Currency risk (Continued)

(ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax and retained profits that would arise if the foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variable remained constant. In this respect, it is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

	2018		2017	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
Hong Kong dollars	**5%**	**1,921**	5%	37
	–5%	**(1,921)**	–5%	(37)
Renminbi	**5%**	**65,124**	5%	76,010
	–5%	**(65,124)**	–5%	(76,010)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and retained profits measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2017.

(e) Commodity price risk

The major raw materials used in the production of the Group's products include leathers, polymers and plastics. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(Expressed in thousands of Renminbi unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(f) Business risk

The Group's primary business is the design, manufacturing and distribution of branded sports footwear, apparel and related accessories. The Group's financial results are influenced by the rapidity with which designs are copied by competitors and reproduced at much lower prices, as well as by the Group's ability to continue to create new designs that find favour in the market place, maintain a larger network of distributors, manufacture sufficient quantities to meet fashionable sales, and dispose of excess inventories without excessive losses. Based on these factors, the Group may experience significant fluctuations in its future financial results.

(g) Fair value measurement

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December 2018	Fair value measurements as at 31 December 2018 categorised into		
		Level 1	Level 2	Level 3
	$'000	$'000	$'000	$'000
Recurring fair value measurement				
Financial asset:				
Unlisted equity security	28,579	–	–	28,579

During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(Expressed in thousands of Renminbi unless otherwise indicated)

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(g) Fair value measurement (Continued)

(ii) Information about Level 3 fair value measurements

The fair value of unlisted equity instruments is determined by adjusted net assets value approach. Under adjusted net assets value approach, total value of the equity was based on the sum of the net asset value, determined by marking every asset and liability on (and of) the company's balance sheet to fair value. The fair value measurement is negatively correlated to the discount for lack of marketability. As at 31 December 2018, it is estimated that with all other variables held constant, a decrease/increase in discount for lack of marketability by 10% would have increased/decreased the Group's other comprehensive income by RMB3,175,000.

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	Note	**2018** **RMB'000**
Unlisted equity securities:		
At 1 January	*13*	**50,942**
Net unrealised gains or losses recognised in other comprehensive income during the period	*9(a)*	**(22,363)**
At 31 December	*13*	**28,579**

From 1 January 2018, any gain or loss arising from the remeasurement of the Group's unlisted equity securities held for strategic purposes are recognised in the fair value reserve (non-recycling) in other comprehensive income. Upon disposal of the equity securities, the amount accumulated in other comprehensive income is transferred directly to retained earnings. Prior to 1 January 2018, any gains arising from the disposal of the unlisted equity securities were presented in the "Other income" line item in the consolidated statement of profit or loss.

(Expressed in thousands of Renminbi unless otherwise indicated)

25 COMMITMENTS

(a) Contractual commitments outstanding at 31 December 2018 not provided for in the financial statements were as follows:

	2018 RMB'000	2017 RMB'000
Advertising and marketing expenses	117,304	166,133

(b) Capital commitments outstanding at 31 December 2018 not provided for in the financial statements were as follows:

	2018 RMB'000	2017 RMB'000
Contracted for	2,249	5,168

(c) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 RMB'000	2017 RMB'000
Within 1 year	8,390	4,773
After 1 year but within 5 years	3,594	3,869
	11,984	8,642

The Group is the lessee in respect of a number of warehouses and offices held under operating leases. The leases 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 include contingent rentals.

26 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed in elsewhere in the consolidated financial statements, the Group enter into the following related party transactions:

Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2018 RMB'000	2017 RMB'000
Short-term employee benefits	28,590	29,782
Post-employment benefits	617	593
	29,207	30,375

Total remuneration is included in "staff costs" (see note 5(b)).

(Expressed in thousands of Renminbi unless otherwise indicated)

27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2018 RMB'000	2017 RMB'000
Non-current asset			
Investment in subsidiary		1	1
Current assets			
Amounts due from subsidiaries		2,831,326	2,788,595
Cash and cash equivalents		979	947
Interest receivables		–	487
Deposits with banks		–	105,691
		2,832,305	2,895,720
Current liabilities			
Amounts due to subsidiaries		30,423	28,950
Other payables		12,416	12,509
		42,839	41,459
Net current assets		2,789,466	2,854,261
Total assets less current liabilities		2,789,467	2,854,262
Non-current liability			
Interest-bearing borrowings		2,714,393	2,565,480
NET ASSETS		75,074	288,782
CAPITAL AND RESERVES	*23(a)*		
Share capital		182,298	182,298
Reserves		(107,224)	106,484
TOTAL EQUITY		75,074	288,782

28 COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 1(c).

(Expressed in thousands of Renminbi unless otherwise indicated)

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, Leases	1 January 2019
HK(IFRIC) 23, Uncertainty over income tax treatments	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

HKFRS 16, Leases

As disclosed in note 1(h), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessee.

Once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Announcement of final results	15 March 2019
Closure of register of members and record date	15 May 2019 to 20 May 2019

DIVIDENDS

The Board resolved not to pay any final dividend for the year ended 31 December 2018. The Company paid an interim dividend of HK7.6 cents (equivalent to RMB6.4 cents) per share for the six months ended 30 June 2018 which have already been paid. The dividend, amounted to RMB132.3 million, represented 43.6% of the profit attributable to equity shareholders of the Group for the year ended 31 December 2018.

CLOSURE OF REGISTER OF MEMBERS

The AGM of the Company will be held on Monday, 20 May 2019. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 15 May 2019 to Monday, 20 May 2019, both days inclusive, during which period no transfer of shares will be effected.

In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 14 May 2019.

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HONG KONG SHARE REGISTRAR

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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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Cayman Islands

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

PRINCIPAL BANKERS

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

COMPANY WEBSITE

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STOCK CODE

01361

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361 DEGREES INTERNATIONAL LIMITED

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