361°

361 DEGREES INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1361

INTERIM REPORT 2019

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FINANCIAL HIGHLIGHTS

Resolved to declare an interim dividend of HK8.2 cents (RMB7.2 cents) and a special dividend of HK1.1 cents (RMB1.0 cent) per ordinary share

Revenue increased from RMB3,016.9 million to RMB3,236.8 million

Profit attributable to the equity shareholders increased from RMB335.0 million to RMB367.4 million

	For the six months ended 30 June		
	2019	2018	Change
Profitability Data (RMB'000)			(%)
Revenue	**3,236,783**	3,016,853	7.3
Gross profit	**1,322,685**	1,255,707	5.3
Operating profit	**641,547**	630,620	1.7
Profit attributable to equity shareholders	**367,362**	335,011	9.7
Earnings per share			
– basic (RMB cents)	**17.8**	16.2	9.9
Profitability Ratios (%)			(% point)
Gross profit margin	**40.9**	41.6	-0.7
Operating profit margin	**19.8**	20.9	-1.1
Margin of profit attributable to equity shareholders	**11.3**	11.1	+0.2
Effective income tax rate (Note 1)	**33.9**	35.2	-1.3
Return on shareholders equity (Note 2)	**6.2**	5.7	+0.5
Operating Ratios (as percentage of revenue) (%)			
Advertising and promotional expenses	**8.5**	8.7	-0.2
Staff costs	**7.8**	8.5	-0.7
Research and development	**3.1**	3.6	-0.5

Notes:

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

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

FINANCIAL HIGHLIGHTS

	As at 30 June 2019	As at 31 December 2018	Change
Assets and Liabilities data (RMB'000)			(%)
Non-current assets	**1,275,201**	1,314,958	-3.0
Current assets	**11,030,313**	10,650,036	+3.6
Current liabilities	**3,405,609**	3,354,251	+1.5
Non-current liabilities	**2,645,639**	2,716,354	-2.6
Equity attributable to equity shareholders	**6,138,460**	5,767,650	+6.4
Non-controlling interests	**115,860**	126,739	-8.6
Asset and Working Capital data			
Current asset ratios	**3.2**	3.2	
Gearing ratio (%) *(Note 3)*	**22.4**	23.6	-1.2% point
Net asset value per share (RMB) *(Note 4)*	**3.0**	2.9	RMB+0.1
Inventory turnover days (days) *(Note 5)*	**94**	110	-16 days
Trade and bills receivables turnover days (days) *(Note 6)*	**149**	160	-11 days
Trade and bills payables turnover days (days) *(Note 7)*	**158**	195	-37 days
Working capital turnover days (days)	**85**	75	+10 days

Notes:

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

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

(5) Inventory turnover days is equal to the average opening and closing inventory divided by costs of sales and multiplied by 181 days (for the six months ended 30 June 2019) and 365 days (for the year ended 31 December 2018).

(6) Trade and bills receivables turnover days is equal to the average opening and closing trade and bills receivables after allowance of doubtful debts divided by revenue and multiplied by 181 days (for the six months ended 30 June 2019) and 365 days (for the year ended 31 December 2018).

(7) Trade and bills payables turnover days is equal to the average opening and closing trade and bills payables divided by cost of sales and multiplied by 181 days (for the six months ended 30 June 2019) and 365 days (for the year ended 31 December 2018).

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 interim results of the Company and its subsidiaries (collectively, the "Group" or "*361º* Group") for the six months ended 30 June 2019.

As science and technology have been continuously energizing the sports industry, sports for mass market gradually show the trend of specialization and segmentation, and consumer demand on sportswear products has also become more diverse and sophisticated. In this context, in order to grasp the opportunity from the diversified demand, during the period under review, *361º* Group continued to strengthen its brand building and optimised its product line, leading the new trend of consumption upgrading.

During the period under review, the Group achieved a revenue of RMB3,326.8 million, representing a year-on-year increase of 7.3%; profit attributable to equity shareholders of the Group was RMB367.4 million, representing a year-on-year increase of 9.7%. The Group always upholds the principle of sharing the fruits of the Company's growth and development with the Company's shareholders. In order to thank the Company's shareholders for their continued support to the Company, the Board declared an interim dividend of HK8.2 cents (equivalent to RMB7.2 cents for illustration purpose only) per ordinary share (interim dividend for 2018: HK7.6 cents) and a special dividend of HK1.1 cents (equivalent to RMB1.0 cents for illustration purpose only), representing a total dividend payout ratio of 46.2%.

LAUNCHING A REBRANDING PROGRAM TO FOCUS ON PRODUCTS FOR MORE USERS

2019 marked the 10th anniversary of *361º* Group's listing on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange" or the "Stock Exchange"). In the past decade, with the positioning of "Professional Sports for Mass", *361º* has always insisted on investing in the Research and Development ("R&D") of the product technology to provide consumers with high-value professional sports products and passed on the brand spirit of "One Extra Degree of Passion"（多一度熱愛）to consumers through its brands, products and services.

On 18 June 2019, the date falling the 10th anniversary of the Company's listing, the Group officially launched a rebranding program in Hong Kong, which reflected the innovation awareness of the Group in the brand construction as well as its determination to face the market challenges and win users with technological and product advancement against the backdrop of accelerating consumption upgrading.

According to the research, currently, 20% of mainstream consumers accounts for 70% of the total retail consumption in the People's Republic of China ("PRC") and this proportion sees room for further growth in the future. Mainstream consumer groups have more refined requirements for the material properties of the products, such as the function, price, appearance, and higher requirements for the intangible attributes of the commodity, such as the brand culture and the commodity temperament, and they are willing to pay some premium for the products and its brand value. We expect that more and more consumers will evolve in this direction in the future.

Compared with the "Finish Line" brand of the international giant in the industry, *361º* positioned itself as a "Starting Line" brand, which was in line with its positioning of "Professional Sports for Mass". It actively catered for the sports products of the Group's product users, strived to get more people engaged in sports for fun and provided quality products at an affordable price to create a brand that conforms to the image and temperament of mainstream consumers. Looking ahead, *361º* will put efforts into delivering the "Passion" culture of *361º* by taking brand, product and marketing as the footholds of rebranding, upholding the brand concept of "One Extra Degree of Passion"（多一度熱愛）, enabling consumers to generate more resonance with the brand spirit. Meanwhile, *361º* is committed to offering the right products for consumers and ensuring products with the right function, design and world-class quality to meet more diversified and refined requirements of consumers.

CHAIRMAN'S STATEMENT

CONNECTING THE INTERNATIONAL LINE TECHNOLOGY PLATFORM TO THE DOMESTIC SUPPLY CHAIN

In light of the increasingly open international market, opportunities and challenges coexist for Chinese domestic brands as consumers have plentiful of options in the market. In order to maintain its competitiveness, to stand firm in the hearts of consumers becomes the major challenge and *361°* is paving its own path.

In the first half of 2019, *361°* continuously launched popular products which boosted its brand strength. On 15 April 2019, *361°* launched the basketball shoe series featuring the traditional Chinese ceramic culture of "Tea Ware of Jian Zhan", which, in collaboration with Liao Wenxing, a famous craftsman of tea ware of Jian Zhan, revealed the fashion of traditional Chinese craft culture. On 24 June 2019, in commemoration of the 40th anniversary of the Gundam, *361°* created a brand new Gundam crossover series which received overwhelming response from the market. This series was reserved by more than 60,000 people before its launch and Gundam limited edition shoe box sets were even sold out in a second on the launch day, serving as a strong proof of *361°* Group's strong innovation and design capabilities to continue to entire customers' demand, and also reflecting its upgrading brand's image in the minds of consumers.

During the period under review, the Group accelerated the application of the international line technology to domestic supply chain, which is successfully integrated. In the future, the domestic supply chain and production system will launch more high-value and high-function products driven by the international technology platform to pay back to the market and consumers as well as comprehensively enhance the technological function of *361°* products.

EXPANDING INTO YOUTH FOOTBALL ECOSYSTEM TO STRENGTHEN THE BRAND ADVANTAGE OF THE KIDS BUSINESS

Currently, the junior football training of China is still in its infancy without sufficient football equipment for the youth and lacks professional and innovative forms of cooperation. As the first sports brands entering the kids market, *361°* Kids enjoys a first-mover advantage. On June 10 2019, *361°* Kids announced that it has become the strategic partner of Evergrande Football School and the sponsor of sports equipment for the elite team of Evergrande Football School to provide Evergrande Football School with professional football equipment and also conducted diversified and in-depth cooperation in product research and development, sporting event cooperation and other fields with Evergrande Football School. *361°* also joined hands with Evergrande Football School to launch "Finding New Football Star Program" to build a sustainable talent pipelines for Evergrande Football School and the Chinese football. On 17 June 2019, *361°* Kids also announced the cooperation with Beijing Sinobo Guoan Youth Football Training. *361°* Kids will provide Beijing Sinobo Guoan Youth Training U8-U12 age team with professional football equipment,while deepening mutual cooperation in various areas such as product R&D, youth football event and youth football training camp.

As a national sports kids wear brand in China, *361°* Kids has determination to promote the development of Chinese youth football. In the future, *361°* will proactively take advantage of its accumulation in brand resources and product R&D to make every effort to offer children the most professional and high-quality football equipment. The Group wishes to build a loyal customers base from pre-schoolers to youth and all the way to adults and become a brand that grows with kids.

CHAIRMAN'S STATEMENT

OUTLOOK

Looking forward, the Board believes *361°* will be able to live up to the confidence and expectation of the shareholders. The Group will strive to meet the requirements of consumption upgrade in the new era so as to continually provide consumers with outstanding and high-value sports equipment and thus stimulate "One Extra Degree of Passion" for sports of every consumer so as to continue the operation of the Company.

On behalf of the Board, I would like to express our sincerest appreciation to all our shareholders for their persistent support for *361°*, 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 and achieve the long-term sustainable development of the Group.

Ding Huihuang
Chairman

Hong Kong SAR of the PRC, 20 August 2019

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In the first half of 2019, the growth momentum of global economy slowed down. The World Economic Outlook released by the International Monetary Fund in April 2019 predicted a slowdown in growth this year for 70% of the global economies. However, in the face of heightened global uncertainties, the economic growth of the PRC remained resilient and maintained a steady growth trend driven by domestic demand. According to the data from the National Bureau of Statistics, China's gross domestic products ("GDP") reached RMB45.09 trillion in the first half of 2019, representing a year-on-year increase of 6.3%. Economic indicators performed well and were in line with national expectations, further promoting the economic growth transition toward a consumption-driven growth with high quality.

In recent years, with the continuous promotion of supply-side structural reform and the thorough implementation of innovation-driven development strategy, China's consumption potential has been further released. The total retail sales of consumer goods in China reached RMB19,521 billion in the first half of 2019, representing a year-on-year increase of 8.4%; and China's consumer price index (CPI) rose by 2.2% year-on-year, which was within the official target of 3%. Meanwhile, China's per capita disposable income reached RMB15,294 in the first half of 2019, with a nominal/real growth of 6.5%, higher than the CPI growth. The steady increase of residents' real income is a fundamental and important driving force for consumption upgrading. Coupled with the factors of sports leisure, sports personalization, and the promotion of sports atmosphere by electronic commerce/social media, these have provided a good growth environment for the development of the sports industry. According to China's industrial information data, the total size of China's sports industry reached RMB2.4 trillion in 2018, representing a year-on-year increase of 9.1%, and the overall industry showed a steady upward trend.

With the introduction of a number of favorable policies, the sports industry sees rosier development prospect in the future, and the sporting goods market will usher in new opportunities. At the beginning of this year, the National Development and Reform Commission ("NDRC") issued the Action Plan for Further Promoting Sports Consumption (2019-2020) (《關於進一步促進體育消費的行動計劃(2019-2020年)》), expecting that China's total national sports consumption would reach RMB1.5 trillion by 2020, and the proportion of its sports consumption expenditure per capita to total consumption expenditure would increase significantly. Specifically, the state promotes the consumption of sporting goods by building sports venues and facilities, and organizing sports events. According to Euromonitor International Limited, a market research company, China's sporting goods industry is forecasted to reach RMB356.6 billion in 2022, with an annual growth rate of 10.9%. As China vigorously supports the development of sports industry, the market of sporting goods has great growth potential in the future.

Benefiting from the right to host the 2022 Winter Olympic Games, China's winter sports market is facing an opportunity for rapid development. According to the 13th Five-Year Plan for the Sports Industry, the scale of China's winter sports industry is expected to reach RMB600 billion by 2020 and over RMB1 trillion by 2025. Since last year, the General Administration of Sports in the PRC has promulgated the Beijing 2022 Winter Olympic Games Competition Implementation Outline (《二零二二年北京冬奧會參賽實施綱要》) and the Implementation Outline for "Driving 300 Million People to Participate in Winter Sports (2018-2022)" (《「帶動三億人參與冰雪運動實施綱要(2018-2022年)」》); and the General Office of the CPC Central Committee and the State Council issued the Opinions on Vigorously Developing Winter Sports leveraging the Opportunities of the Beijing 2022 Winter Olympics (《關於以二零二二年北京冬奧會為契機大力發展冰雪運動的意見》), which have laid the foundation for winter sports to become the sports with the most potential. In June this year, the Ministry of Industry and Information Technology ("MIIT"), the General Administration of Sports and other seven departments jointly issued the Action Plan for the Development of Winter Sports Equipment Industry (2019-2022) (《冰雪裝備器材產業發展行動計劃(2019-2022年)》). In 2022, the annual sales revenue of China's winter sports equipment industry is expected to exceed RMB20 billion, with an average annual growth rate of more than 20%, which will be an opportunity for domestic sports equipment brands to stand out.

At present, the trend of diversification of sports market is more and more obvious, and competition in the traditional sports market is getting intensified. In addition to the traditional sports, which have a wide audience and a large number of participants, skiing, tennis, pilates and other minority and emerging sports have gradually entered the lives of young people. Besides, the impact of the development of E-sports on the traditional sports market should not be underestimated. According to the 2018 PwC Research Report on Sports Industry (《2018年普華永道體育行業調查報告》), the revenue of E-sports in 2018 exceeded that of football, which ranked No. 1 in 2017. It is expected that the scale of the E-sports industry will continue to grow in the next three years. Following the market trend and seizing the opportunity, the Group, as the first sports brand company in China to cooperate with E-sports, will continue to promote interaction with young consumers through the development of categories and attract new consumers.

In the future, the Group will continue to thrive and closely align with market trends to meet the increasingly professional and diverse needs of consumers with high-value goods and actively promote the full implementation of the rebranding program.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Model

During the period under review, the distributorship business model adopted by the Group remained unchanged. The first-tier exclusive distributors distributed the products under the *361º* 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 *361º* 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 Group currently hosts four trade fairs per year for the *361º* 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 period under review, the Group organised two trade fairs for *361º* core brand products, namely the 2019 Winter Trade Fair and the 2020 Spring Trade Fair.

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 period under review, we continued to encourage distributors and authorised retailers to upgrade their store layouts in line with our 8.5-generation store image, which provides more eye catching layouts and decorations.

Retail Network

As at 30 June, 2019, the network of the *361º* core brands stores comprised of 5,444 stores, of which approximately 73.9% were stand alone, street level stores. The Group targets to open more stores in shopping malls and department stores going forward. Geographically, approximately 74.9% were located in third-tier and below cities in China, while 6.6% and 18.5% are located in first- and second-tier cities in China, respectively, as at 30 June 2019. The Group will continue to focus on enhancing store efficiency and retail sales in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at 30 June 2019		As at 31 December 2018	
	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)	**1,068**	**19.6**	1,160	20.9
Southern region(2)	**722**	**13.3**	759	13.7
Western region(3)	**1,172**	**21.5**	1,172	21.2
Northern region(4)	**2,482**	**45.6**	2,448	44.2
Total	**5,444**	**100**	5,539	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.

MANAGEMENT DISCUSSION AND ANALYSIS

Brand Promotion and Marketing

The Group generally budgets 7% 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, the Rio Summer Olympics and Paralympic Games in 2016, and 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.

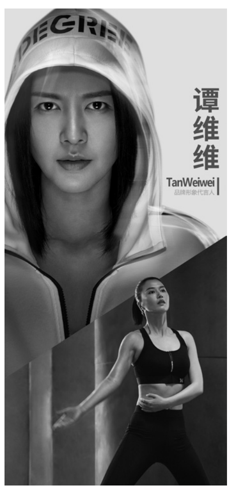
The following table lists all of the Group's sporting event sponsorships during the period under review:

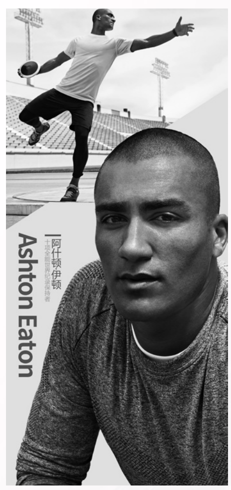
Sponsorship period	Sporting event	Capacity
2018-2019	Chengdu Panda Marathon	Supreme partner
2018-2019	*361°* She Run	Title sponsor
2018-2022	The Beijing 2022 Winter Olympic Games Preparatory Training by General Administration of Sport of China	Official sportswear partner
2018-2019	"Cross Fire" and the CFPL E-sports Event	Joint marketing cooperation
2019	The 2019 World Heritage Himeji Castle Marathon	Official supplier/Official sports brand partner
2019	The 2019 Haspa Marathon Hamburg	Official supplier/Official sports brand partner
2019	The 2019 Taiwan Tianshuiji Super Marathon	Official supplier

MANAGEMENT DISCUSSION AND ANALYSIS

The following table lists the Group's spokepersons for the *361°* core brand during the period under review:

Name of spokesperson	Sports	Key achievements
Athletics		
XU Can 徐燦	Boxing	Won the Best Male Boxer of the "Grand Annual Fight of China's Belt and Road" Won the WBA Lightweight International Golden Belt for six times and ranked second in terms of WBA around the world
Jimmer FREDETTE	Basketball	Selected as the CBA All-Star Broke the CBA All-Star three-pointer record Broke the single section score record for the fourth section of CBA
Courtney FORTSON	Basketball	Won the Foreign MVP of CBA 2017-2018 Season Won the Best Assist Player of CBA 2017-2018 Season Won the Best Assist Player for Regular Season of CBA 2018-2019 Season
YANG Xu 楊旭	Football	Ranked Top 8 in the 2018 AFC Champions League Got 3 goals in the 2019 Super League
SUN Yang 孫楊	Swimming	Won 4 gold medals and one 1 bronze medal in the 2018 National Swimming Championships Won 4 gold medals and 2 silver medals in the 2018 Jakarta Asian Games Won 1 bronze medal in the 2018 Hangzhou World Swimming Championships (25m) Won 4 gold medals medal in the 2019 Qingdao National Swimming Championships Won 2 gold medals in the 2019 FINA Swimming Championships (Guangzhou Station)
LIU Xiang 劉湘	Swimming	Won 1 gold medal and 1 silver medal in the 2018 National Swimming Championships Won 1 gold medal and 1 silver medal in the 2018 Jakarta Asian Games Won 1 gold medal in the 2019 National Swimming Championships Won 1 silver medal in the 2019 FINA Swimming Championships (Guangzhou Station)





MANAGEMENT DISCUSSION AND ANALYSIS

Name of spokesperson	Sports	Key achievements
ZHANG Yufei 張雨霏	Swimming	Won 1 gold medal and 1 silver medal in the 2018 National Swimming Championships Won 1 gold medal and 1 silver medal in the 2018 Jakarta Asian Games Won 2 gold medals in the 2018 National Swimming Championships Won 1 silver medal in the 2018 FINA Swimming World Cup (25m) (Beijing Station) Won 1 silver medal in the 2018 FINA Swimming World Cup (25m) (Singapore Station) Won 1 silver medal and 1 bronze medal in the 2018 FINA Swimming World Cup (25m) (Tokyo Station) Won 1 silver medal in the 2018 Hangzhou World Swimming Championships (25m) Won 1 gold medal and 1 silver medal in the 2019 National Swimming Championships
LI Bingjie 李冰潔	Swimming	Won one gold medal and three silver medals in the 2018 National Swimming Championships Won 1 gold medal and 3 silver medals in the 2018 Jakarta Asian Games Won 1 silver medal and 1 bronze medal in the 2018 National Swimming Tournament Won 2 gold medals in the 2018 FINA Swimming World Cup (25m) (Beijing Station) Won 1 gold medal and 1 bronze medal in the 2018 Hangzhou World Swimming Championships (25m) Won three gold medals in the 2019 National Swimming Championships Won 1 gold medal in the 2019 American Swimming Series Competition (Des Moines Station)
WANG Jianjiahe 王簡嘉禾	Swimming	Won three gold medals in the 2019 National Swimming Championships
GUAN Siyang 關思楊	Running	1st in the 2018 Jinan Half Marathon 1st in the 2018 Chengdu Panda Half Marathon 2nd in the 2019 Chengdu Panda Half Marathon
LI Zicheng 李子成	Running	1st in Men of China in the 2019 Xiamen Marathon 1st in Group Category of the 2019 Zhejiang Marathon Relay 1st in Men of China in the 2019 Wuxi International Marathon Awarded as the Top Athlete in Men's Competition Group at the award ceremony of the 2019 China Marathon Majors 1st in Men of China in the 2019 Dongying International Full Marathon 1st in Men of China in the 2019 Xinjiang Mulei International Half Marathon
MA Liangwu 馬亮武	Running	1st in Age Group of the 2019 Xiamen Marathon 1st in Age Group of the 2019 Chengdu Panda Marathon 1st in Age Group of the 2019 Wuhan International Marathon

Name of spokesperson	Sports	Key achievements
TIE Liang 鐵亮	Running	1st in China in the 2018 Qingdao Marathon 1st in Men of China in the 2019 Qinhuangdao Marathon
FU Wenguo 付文國	Running	2nd in Men of China in the 2018 Changsha Marathon
MU Luen 穆魯恩	Running	1st in the world in the 2018 Shaoxing Marathon 3rd in the 2019 Chengdu Panda Full Marathon
XU Wang 許王	Running	3rd in China in the 2018 Shenzhen Marathon 1st in Men of China in the 2019 Chongqing International Marathon
Ashton EATON	Decathlon	1st in the 2016 Rio Olympics Record-holder in the Men's Decathlon 2nd in the Heptathlon World Championships
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.
Entertainers		
Mr. REN Jialun 任嘉倫	N/A	A famous Chinese pop singer and actor
Ms. TAN Weiwei 譚維維	N/A	A famous Chinese pop singer

MANAGEMENT DISCUSSION AND ANALYSIS

361º Kids

361º 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 30 June 2019, there were 1,837 points-of-sale offering *361º* Kids products, of which 536 were within the *361º* core brand authorised retail stores, selling both *361º* core brand products and *361º* Kids products. Of the 1,837 points-of-sales, 72.0% of which were stand alone, street levels stores. Geographically, approximately 68.5% were located in third-tier and below cities in China, while 7.3% and 24.2% were located in first- and second-tier cities in China, respectively.

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

	As at 30 June 2019		As at 31 December 2018	
	Number of *361º* Kids authorised points of sale	**% of total number of *361º* Kids authorised points of sale**	Number of *361º* Kids authorised points of sale	% of total number of *361º* Kids authorised points of sale
Eastern region[(1)]	**422**	**23.0**	449	24.4
Southern region[(2)]	**325**	**17.7**	339	18.5
Western region[(3)]	**347**	**18.9**	338	18.4
Northern region[(4)]	**743**	**40.4**	711	38.7
Total	**1,837**	**100**	1,837	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.

MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, there were two trade fairs hosted for *361º* Kids, namely the 2019 Winter Trade Fair, and the 2020 Spring Trade Fair. The trade fair orders achieved satisfactory growth, which locked in the future revenue growth for the *361º* Kids segment.

361º 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 *361º* Kids continuously. The Group further enhanced brand recognition of kids business by cooperating with Universal Studios to launch children's wear featuring DreamWorks Animation and Jurassic World movies.

In 2019, *361º* children have reached strategic cooperation with Evergrande Football Club and Beijing Sinobo Guoan Youth Training so as to expand the brand's presence in the field of youth football.and strengthen the brand advantage of the children's wear business.

During the period under review, *361º* Kids contributed to 12.0% of the Group's revenue, representing a growth rate of 6.6% year-on-year. This segment is expected to maintain fast growth going forward due to the relaxation of the one child policy by the Chinese Government.

361º International

The Group owns R&D bases for the international product lines in Taiwan, complementing the advantages of domestic R&D team. The manufacturing of *361º* International shoes products are currently 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 *361º* 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 *361º* International products through local distributors.

361º International is still relatively young in the international market but its outstanding product performance is comparable with major international brands. The following table lists some awards of the *361º* International products obtained during the period under review:

361-Meraki 2	was awarded by the US "Runner's World" magazine as one of the 22 best buy running shoes in season
361-Yushan	was selected by the US Women's Health magazine as one of the 23 pairs of best cross-country running shoes
361-Strata 3	was recommended by the US "Runner's World" magazine as the most popular all-season running shoes in American markets in April

As at 30 June 2019, there were 1,505, 476, 739 and 107 points of sales in multi-brand sportswear specialty stores carrying *361º* 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 period under review, the Group also tapped into new markets such as Russia. 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 *361º* International products to more *361º* stores in China going forward.

During the period under review, the *361º* International business contributed to approximately 2.0% of the Group's revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table lists the Group's spokespersons for *361°* International products during the period under review:

Name of spokesperson	Sports	Key achievements
Katie ZAFERES	Triathlon	Champion in the Super League Triathlon 2018 1st for International Triathlon Union (ITU) 2018
Sarah CROUCH	Running	Placed top American woman runner in the 2018 Bank of America Houston Marathon Placed top American woman runner in the 2018 Bank of America Chicago Marathon
Morgan PEARSON	Triathlon	Champion in the Camtri Sprint Triathlon American Cup
Niclas BOCK	Triathlon	1st in the Oberammergau Triathlon 1st in the German Triathlon (2nd National Triathlon) 1st in the Carlsfeld Triathlon 5th in Challenge Prague 5th in Challenge Walchsee
Jorik Van EGDOM	Triathlon	3rd in the 2019 Weert ETU Triathlon European Championships 9th in the 2019 Daman World Triathlon Mixed Relay Series 8th in the 2019 Hamburg ITU Triathlon Mixed Relay World Championships
Donald HILLEBRECHT	Triathlon	3rd in the 2019 Rabat ATU Triathlon African Cup
Rachel KLAMER	Triathlon	3rd in the 2019 Hamburg Wasser World Triathlon 4th in the 2019 Discovery Triathlon World Cup Cape Town 9th in the 2019 Daman World Triathlon Mixed Relay Series Abu Dhabi 9th in the 2019 Madrid ITU Triathlon World Cup 9th in the 2019 Accenture World Triathlon Mixed Relay Series Nottingham 4th in the 2019 Hamburg ITU Triathlon Mixed Relay World Championships
HE Jinping 何盡平	Running	1st in the 2019 Taiwan Jinmen Marathon 2nd in the 2019 Markham Marathon 1st in the 2019 Taiwan Open Track and Field Championships for 10000m

MANAGEMENT DISCUSSION AND ANALYSIS

Name of spokesperson	Sports	Key achievements
ZHOU Junhong 周俊宏	Running	9th in the 2019 Taipei Marathon 2nd in the 2019 Japan Marathon Sakura
LUO Shijie 羅世傑	Running	4th in the 2019 Taiwan International Marathon Taichung 3rd in the 2019 Taichung Marathon IT Cup 2nd in the 2019 Zhenxibao Super Marathon
ZHENG Xiuru 鄭秀茹	Running	Placed top woman runner in the 2019 Zhenxibao Super Marathon 3rd in the 2019 Shengang Marathon 1st in the 2019 Marathon Tongji & Zhanghua Cup
WANG Yuling 汪禹伶	Running	7th in the 2018 Taiwan Track and Field Championships 2nd in the 2018 Taipei Youth Cup

MANAGEMENT DISCUSSION AND ANALYSIS

ONE WAY

The ski and outdoor sportswear industry in China is still in the infancy 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 30 June 2019, there were 22 self-operated ONE WAY stores and 7 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, 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 was a result of rapid development of the E-commerce industry. During the period under review, the web-exclusive products sales of *361°* E-Commerce contributed to 13.1% of the Group's revenue.

Production

During the period 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Research and Development (R&D)

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.The Group's research center based in Wuli Industrial Park, Jinjiang, Fujian Province has advanced experimental capabilities and possesses various titles, such as provincial technology center, national sports industry demonstration unit, national industrial design center and provincial academician workstation. It can support the innovation experiments of intelligent sports equipment, structural sports equipment, functional sports equipment, functional materials research and development.

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 30 June 2019, the Group has obtained 334 Patents, and there were a total of 785 technicians engaging in product research and development, among which included 481 footwear research staffs, 246 apparel research staffs and 58 kids wear & accessories research staffs.

During the period under review, the Group's expenditure on R&D accounted for 3.1% of the Group's revenue and is expected to increase due to the Group's intensifying efforts to carry out the rebranding program by combining functionality and design to create a more distinctive product.

FINANCIAL REVIEW

Revenue

During the period under review, the Group recorded a year-on-year revenue growth of 7.3% to RMB3,326.8 million (2018: RMB3,016.9 million) of which 12.0% and 1.2% of the total revenue was contributed by the Kids business and business grouped under others (namely, sales of shoe soles), respectively. The balance of 86.8% of the revenue was mainly contributed from the sales of the *361°* core brand products, and sales from the *361°* international and e-commerce businesses.

The Group's two core products namely, footwear and apparel, showed an upward trend, grew by 3.8% year-on-year and 12.1% year-on-year, respectively. Over 85% of 2019's spring and summer products were delivered and revenue recognised in the period under review. In the second half of 2019, deliveries will be mainly the 2019 autumn and winter products. Last year, the Group launched a Logistics Planning and Optimization Program which received very positive response from both distributors and retailers. The program is a collaboration with a reputable e-platform company which helped to shorten the delivery of order time from distributors to retailers, thus shortens the response time to market demand and allows us to better manage inventory level of the channels.

For the six months ended 30 June 2019, the proportion of footwear sales to the total revenue slightly adjusted to 43.7% from 45.2%, whereas apparel sales slightly increased to 41.9% from 40.1% as compared to the same period of the previous year. Footwear products were still the strongest and key growth driver for the Group during the period under review.

With the introduction of some signature products and a higher proportion of winter apparels sold in the period year-on-year, the average wholesale selling price (the "AWP") of both footwear and apparel increased 8.6% and 32.0%. However, the volume of footwear and apparel sold reduced by 4.4% and 15.0%, respectively, which was mainly due to the Group prudently produced less in order to see the response from market.

MANAGEMENT DISCUSSION AND ANALYSIS

For accessories, the Group regarded this category of products as complimentary to the footwear and apparel products, and the product mix was wide. During the period under review, more low-priced accessories were launched and accepted by the market. As a result, the sales volume of accessories increased by 19.9% year-on-year while the AWP of accessories reduced by 21.1%, which led to the revenue on accessories decreased by 5.3% year-on-year.

To the overseas business, revenue for the period under review bounced back to RMB64.3 million (2018: RMB45.5 million), representing an increase of 41.2% and contributed about 2.0% of the total revenue of the Group for the six months ended 30 June 2019.

The revenue of *361°* Kids for the six months ended 30 June 2019 increased by 6.6% year-on-year to RMB388.4 million (2018: RMB364.5 million), and accounted for 12.0% of the Group's revenue during the same period. The growth was mainly attributable to the increase of AWP of apparel products which led to the overall AWP increased by 8.8% whereas the volume slightly dropped by 2.1% year-on-year. The decrease on volume was principally due to the change of product mix, less footwear were produced and sold year-on-year.

The revenue for the sales of web-exclusive products from the 80% owned E-commerce business increased by 28.5% to RMB422.5 million (2018: RMB328.9 million) and accounted for approximately 13.1% of the total revenue for the period under review. The Group confidently believes that contribution from the E-commerce business is sustainable and will continuously maintain on an upward trend.

The revenue grouped under "Others" represented the revenue from sales of shoe soles to independent third parties by a 51% owned subsidiary. For the period under review, over 50% of this joint venture company products were sold to the Group and the remaining portion was sold to third parties. The revenue for the six months ended 2019 was RMB40.0 million (2018: RMB40.4 million) accounted for about 1.2% of total revenue of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	For the six months ended 30 June 2019 RMB'000	2019 % of Revenue	2018 RMB'000	2018 % of Revenue	Changes %
By Products					
Adults					
Footwear	**1,414,285**	**43.7**	1,362,233	45.2	+3.8
Apparel	**1,355,728**	**41.9**	1,209,112	40.1	+12.1
Accessories	**38,406**	**1.2**	40,551	1.3	-5.3
Kids	**388,407**	**12.0**	364,521	12.1	+6.6
Others[1]	**39,957**	**1.2**	40,436	1.3	-1.2
Total	**3,236,783**	**100**	3,016,853	100	+7.3

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

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

	For the six months ended 30 June 2019 Total units sold '000	2019 Average wholesale selling price[1] RMB	2018 Total units sold '000	2018 Average wholesale selling price[1] RMB	Changes Units sold (%)	Changes Average wholesale selling price (%)
By Volume and AWP						
Adults						
Footwear (pairs)	**13,333**	**106.1**	13,941	97.7	-4.4	+8.6
Apparel (pieces)	**14,739**	**92.0**	17,344	69.7	-15.0	+32.0
Accessories (pieces/pairs)	**2,701**	**14.2**	2,253	18.0	+19.9	-21.1
Kids	**6,398**	**60.7**	6,538	55.8	-2.1	+8.8

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

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Sales

Cost of sales of the Group for the first half of 2019 increased by 8.7% year-on-year to RMB1,914.1 million.

During the period under review, the cost of internal production increased by 21.7% which was primarily due to the increase in the raw material cost that increased about 35.4% year-on-year.

The material used for the self-produced footwear were much more expensive and higher quality than the same period last year. On the contrary, the cost of outsourced footwear decreased by 7.0% because of the expansion of E-commerce business with more low-priced products were produced.

On the apparel front, the internal production cost increased with a higher proportion of self-produced apparel sold year-on-year. The cost of outsourced apparels also increased by 7.9%. As more winter apparel were produced and delivered in the period, the cost was much higher than the same period last year.

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

	For the six months ended 30 June			
	2019		2018	
	RMB'000	**% of total costs of sales**	RMB'000	% of total costs of sales
Footwear & Apparel				
Internal Production				
Raw materials	**469,511**	**24.5**	346,829	19.7
Labour	**95,773**	**5.0**	84,889	4.8
Overheads	**191,595**	**10.0**	190,401	10.8
	756,879	**39.5**	622,119	35.3
Outsourced Products				
Footwear	**427,533**	**22.4**	459,621	26.1
Apparel	**700,312**	**36.6**	649,198	36.9
Accessories	**29,374**	**1.5**	30,208	1.7
	1,157,219	**60.5**	1,139,027	64.7
Cost of sales	**1,914,098**	**100**	1,761,146	100

Gross profit and gross profit margin

Gross profit was RMB1,322.7 million during the period under review (2018: RMB1,255.7 million) representing a decrease in the gross profit margin by 0.7 percentage point year-on-year to 40.9%.

During the period under review, the gross profit margin of footwear slightly increased by 0.4 percentage points whereas the apparel, accessories and *361°* Kids products dropped by 1.9, 3.8 and 0.4 percentage points, respectively.

The gross profit margin of footwear increased to 42.4% (2018: 42.0%) which was benefited by the signature products introduced in the market in the period.

On the other side, the gross profit margin of the apparel products in this period was 40.2% (2018: 42.1%), represented a drop by 1.9 percentage points year-on-year. The Group did not fully transfer the cost to customer because of stiff competition, which limited the Group's pricing ability and in turn reduced the gross profit margin.

For accessories, the gross profit margin reduced to 32.9% (2018: 36.7%) since a higher percentage of lower gross profit margin products were delivered than the same period last year. As the product mix is wide, gross profit margin varied.

The gross profit margin of the *361°* Kids business slightly dropped by 0.4 percentage point to 41.7% (2018: 42.1%). It was principally due to the Group did not fully transfer the cost of apparel products to customers.

The gross profit margin of shoe soles, categorised under "others", was 6.1% (2018: 18.2%), decreased by 12.1 percentage points. As the business is still in development stage, the gross profit margin therefore might be unstable.

The following tables set forth a breakdown of the gross profit and gross profit margin for *361°* products during the period under review:

	For the six months ended 30 June				
	2019		2018		
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin	Changes percentage point
	RMB'000	**%**	RMB'000	%	
Adults					
Footwear	**600,244**	**42.4**	571,482	42.0	+0.4
Apparel	**545,582**	**40.2**	508,568	42.1	-1.9
Accessories	**12,633**	**32.9**	14,875	36.7	-3.8
Kids	**161,795**	**41.7**	153,409	42.1	-0.4
Others(1)	**2,431**	**6.1**	7,373	18.2	-12.1
Total	**1,322,685**	**40.9**	1,255,707	41.6	-0.7

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

Other revenue

Other revenue of RMB100.8 million (2018: RMB161.8 million) mainly comprised of (i) accrued interest income of RMB56.4 million (2018: RMB45.8 million) earned from bank deposits both in Hong Kong and the PRC; (ii) the discretionary government subsidies of RMB29.6 million (2018: RMB85.6 million) was mainly in relation to the Group's contribution to local economies; and (iii) the commission of RMB10.2 million (2018: RMB22.0 million) earned from the selling of distributors' inventories through the e-commerce business.

Other net loss

The other net loss of RMB1.9 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution expenses

For the six months ended 30 June 2019, selling and distribution expenses increased by 4.6% to RMB507.8 million (2018: RMB485.5 million). During the period under review, the increase was principally from the advertising and promotional expenses.

Advertising and promotional expenses were RMB274.9 million (2018: RMB263.3 million), increased by 4.4%, accounted for approximately 8.5% (2018: 8.7%) of the Group's revenue. During the period under review, the Group endorsed some new athletes and sponsorships to some new marathon events. 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, e.g. Tmall and JD.com, was RMB42.5 million (2018: RMB43.4 million) and the other expenses in relation to running of this business amounted to RMB22.7 million (2018: RMB14.7 million).

Administrative expenses

Administrative expenses slightly reduced by 2.0% to RMB272.2 million for the period ended 30 June 2019 (2018: RMB277.7 million) and represented about 8.4% (2018: 9.2%) of the Group's revenue. The decrease was mainly due to the reduction in research and development expenses.

Research and development expenses were RMB100.5 million (2018: RMB108.5 million) accounted for 3.1% (2018: 3.6%) of the revenue for the period under review. The amount of material and consumables used for the research and development works was less year-on-year but the Group still targeted the research and development expenses is in the region of 3-4% of the total revenue.

Finance costs

For the six months ended 30 June 2019, financing costs was RMB108.2 million (2018: RMB100.9 million) of which RMB3.5 million in relation to short-term bank borrowings, RMB0.2 million was accrued for the operating lease and the balance of RMB104.5 million was mainly the relevant interest and cost in relation to the senior unsecured notes with an aggregate principal amount of US$400,000,000 7.25% due 2021 (the "US$ Notes") issued on 3 June 2016 amortised over the period.

As at 30 June 2019, the short-term bank borrowings were RMB100 million for the finance of a subsidiary running in the PRC and RMB11.7 million, a mortgage bank loan for financing the acquisition of an office and the trust receipts of a subsidiary in Hong Kong.

Under the new accounting standard, there was RMB0.2 million finance cost in relation to the properties under operating leases of the Group was accounted.

The finance cost of the US$ Notes accrued for the period was RMB104.5 million in which RMB97.9 million was in relation to the accrued interest for the period and RMB6.6 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 period under review, income tax expenses of the Group amounted to RMB183.1 million (2018: RMB186.6 million) and the effective tax rate for the period was 33.9% (2018: 35.2%). 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 been all accrued and paid by the holding company. Such finance costs were not allowed to be deducted from the taxable income of the China-based operating subsidiaries, thus the effective tax rate was higher than the PRC standard corporate income tax rate of 25%.

CAPITAL AND OTHER INFORMATION

Liquidity and financial resources

Net cash inflow from operating activities of the Group for the first half of 2019 amounted to RMB28.0 million. As at 30 June 2019, cash and cash equivalents, including bank deposits and cash in hands, and fixed deposits with original maturities not exceeding three months, amounted to RMB1,619.5 million, representing a net decrease of RMB31.3 million as compared to the position as at 31 December 2018.

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

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Net cash generated from operating activities	**28,046**	21,885
Payment for the purchase of property, plant and equipment	**(2,062)**	(27,516)
Interest paid	**(102,393)**	(97,719)
Dividends paid	**–**	(62,028)
Repurchase of US$ Notes	**(66,109)**	–
Decrease/(increase) in pledged deposits	**59,831**	(27,247)
Proceeds from the new bank loan	**–**	100,000
Withdrawal of deposits (with maturity over three months)	**–**	105,691
Interest received	**55,973**	12,588
Other net cash outflow	**(4,553)**	(549)
Net (decrease)/increase in cash and cash equivalents	**(31,267)**	25,105

The positive net cash generated from operating activities amounted of RMB28.0 million for the six months ended 30 June 2019 was mainly from the operating profit, the decrease from inventories and increase from the other payables and accruals for the period under review. The increase in other payables and accruals mainly representing the increase in value added tax ("VAT") payable of the Group's subsidiaries in the PRC and the payable in relation of the advertising and promotion expenses.

During the six months ended 30 June 2019, capital expenditure amounted RMB2.1 million was mainly incurred for the maintenance of facilities in relation to production and staff accommodation in Wuli Industrial Park, Jinjiang. The interest paid of RMB102.4 million for the period was mainly the semi-annual interest of the US$ Notes. As at 30 June 2019, the Group repurchased and cancelled US$11.0 million US$ Notes in principal amount by the use of RMB66.1 million. The decrease in the pledged deposits was due to less amount of bills was issued as at 30 June 2019 compared to six months ago. The receipt of interest amounted RMB56.0 million was mainly interest income generated by the fixed deposits placed in the PRC and Hong Kong.

The Group's gearing ratio was 22.4% as at 30 June 2019 (31 December 2018: 23.6%). Other than the short-term bank borrowings, the mortgage and the US$ Notes, the Group has not used other debt instruments to finance its operations for the six months ended 30 June 2019.

Treasury policy and foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in Renminbi. Part of the Group's cash and bank deposits are denominated in Hong Kong dollars. The Group also pays declared dividends in Hong Kong dollars.

The Group manages its foreign exchange risk by matching the currency of its loans and borrowings with the Group's functional currency of major cash receipts and underlying assets as far as possible. As at 30 June 2019, 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 period under review, the Group did not carry out any hedging activity against foreign currency risk.

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of assets

As at 30 June 2019, a building with net book value of RMB43,165,000 (31 December 2018: RMB43,953,000) was pledged as security for a banking facility of the Group of RMB38,526,000 (31 December 2018: RMB43,938,000). The aforesaid banking facility was used to finance the acquisition of an office unit in Hong Kong. The office unit is for the Group's own use and not for any investment purpose. Bills payable as at 30 June 2019 were secured by pledged bank deposits of RMB267.6 million.

Working capital management

The average working capital cycle for the six months ended 30 June 2019 was 85 days (year ended 31 December 2018: 75 days). The increase was mainly due to the reduction in the trade and bills payable turnover cycle despite an improvement of the trade and bills receivable turnover days and inventory turnover cycle.

The average trade and bills receivable cycle was 149 days for the six months ended 30 June 2019 (31 December 2018: 160 days), representing a reduction by 11 days. All the trade debts and bill receivable were within 180 days of which over 81.6% of debts were within 90 days. The Group has been staying in touch with all the distributors and believes that there will be further improvement in the collection of debts.

The average inventory turnover cycle was 94 days for the six months ended 30 June 2019 (year ended 31 December 2018: 110 days). About 85.9% of the stock was finished goods and mainly summer and autumn products of 2019. All the goods for the *361°* core brand were either self-produced or supplied by OEMs in accordance to the orders received from distributors, no extra stock was produced or retained by the Group.

As at 30 June 2019, prepayments to suppliers were RMB585.2 million, representing a 0.4% increase compared to the RMB582.9 million as at 31 December 2018. The prepayments were deposits paid to raw materials and outsourced suppliers for the acceptance of orders for production of products in relation to the 2019 autumn and winter trade fairs' products. The balance of other prepayments, RMB28.1 million, was mainly the payment in relation to the advertising and promotion contracts.

The average trade and bills payable cycle reduced by 37 days to 158 days (31 December 2018: 195 days) for the six months ended 30 June 2019. 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 about 150 days in long run. The reduction of the payable cycle was due to some suppliers requested for an earlier settlement at the time of cut-off.

Senior unsecured notes

On 3 June 2016, the Group 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.

As at 30 June 2019, the Group has repurchased and cancelled an aggregate principal amount of US$11,000,000 US$ Notes in the open market and the relevant gain of RMB6.2 million was recorded in the period. The outstanding principal amount of the US$ Notes was US$389,000,000 as at 30 June 2019.

The group always aims to optimise its financing cost, thus may further repurchase the outstanding US$ Notes in the open market if and when appropriate, taking into account factors such as market conditions and price of the US$ Notes.

Contingent liabilities

For the period ended 30 June 2019, the Group did not have any material contingent liabilities.

Material acquisitions and disposals

For the period ended 30 June 2019, the Group had no material acquisitions or disposal of subsidiaries or associates.

Significant investments

For the period ended 30 June 2019, the Group had no significant investments.

MANAGEMENT DISCUSSION AND ANALYSIS

As at the date of this report, the Group does not have any future plan for material investment or capital assets for the year ending 31 December 2019.

Employees and emoluments

As at 30 June 2019, the Group employed a total of 8,727 full time employees in the PRC which included management staff, technicians, salespersons and workers. For the six months ended 30 June 2019, the Group's total remuneration paid to employees was RMB252.4 million, representing 7.8% 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 aims to foster a learning culture that could strengthen employees' professional knowledge and skills.

PROSPECTS

In 2019, China will further accelerate its economic transformation and consumption upgrading. At the beginning of this year, ten ministries and commissions, including NDRC, the MIIT, the Ministry of Commerce ("MOFCOM") of the People's Republic of China and others, have jointly issued the Implementation Plan for Further Optimizing Supply to Push Forward A Steady Growth in Consumption and Promote the Formation of a Strong Market in China (2019) (《進一步優化供給推動消費平穩增長促進形成強大國內市場的實施方案(2019年)》), highlighting the important effect on domestic economic growth brought by consumption. With the introduction and implementation by Chinese government of a number of relevant polices in connection with sport industry in recent years, the domestic sport industry has demonstrated a vigorous development. According to the statics released by the General Administration of Sport of China, the total target value of Chinese sport industry will exceed RMB7 trillion by 2025, where sport consumption will become one of the important pillars for national economic growth.

By keeping abreast of the times, the Group has embarked on the journey of brand remodeling for the 10th anniversary of its listing on the Hong Kong Stock Exchange. In June of this year, the Group officially launched its brand remodeling campaign, which is an innovation of brand construction of the Group, as well as a proactive strategy facing with opportunities and challenge in the context of accelerating consumption upgrading.

MANAGEMENT DISCUSSION AND ANALYSIS

The continuous growth of Chinese economy has laid an important foundation for steady development of sport industry, and has promoted the continuous development of sport industry toward refinement and specialization. Meanwhile, the consumption demand of major domestic consumers has changed accordingly, mainly reflected in that they are not only being more stringent on the physical properties such as function, price and appearance of goods, but also having higher requirements on spiritual attributes such as brand culture and temperament shown by products. More and more consumers are willing to pay a premium for goods for aforementioned reasons.

Given such development trend, *361°* has launched a rebranding program. Upholding the brand concept of "One Extra Degree of Passion"（多一度熱愛）, it has delivered the sport concepts of "To Live and To Love"（去活、去愛）to the broad consumers and sport crowd through product research, brand building and marketing in a proactive way. Looking ahead, *361°* will put efforts to make the "Passion" image of *361°* vivid and full-dimensional by taking multi-dimension of brand, product and marketing as the footholds of rebranding, enabling consumers more easily to resonate with the "Passion" brand. In product level, *361°* will ensure products with the right function, simple design and world-class quality by adhering to the concept of "Offering the Right Products for Consumers"（為消費者提供恰到好處的產品）, to meet more diversified and refined product requirements of consumers.

In addition, the Group will also continue to explore and strengthen the product research and development, product manufacturing, brand promotion, market development and sales channel optimization through a multi-layered and multi-dimensional approach. Leveraging the favorable policy and the blue ocean market, the Group will take rebranding as the breakthrough to consolidate and develop itself as a respectable sport brand so as to continually contribute to the ideals of the sports industry and provide consumers with outstanding and high-value sports equipment and thus stimulate every consumer's "one extra degree of passion" for sports.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2019 — unaudited (Expressed in Renminbi)

		Six months ended 30 June	
		2019	2018
	Note	**RMB'000**	RMB'000
Revenue	*3*	**3,236,783**	3,016,853
Cost of sales		**(1,914,098)**	(1,761,146)
Gross profit		**1,322,685**	1,255,707
Other revenue	*4*	**100,765**	161,841
Other net loss	*4*	**(1,885)**	(23,744)
Selling and distribution expenses		**(507,848)**	(485,485)
Administrative expenses		**(272,170)**	(277,699)
Profit from operations		**641,547**	630,620
Profit on repurchase of US$ Notes		**6,215**	–
Finance costs	*5(a)*	**(108,204)**	(100,918)
Profit before taxation	*5*	**539,558**	529,702
Income tax	*6*	**(183,129)**	(186,622)
Profit for the period		**356,429**	343,080
Attributable to:			
Equity shareholders of the Company		**367,362**	335,011
Non-controlling interests		**(10,933)**	8,069
Profit for the period		**356,429**	343,080
Earnings per share	*7*		
Basic (cents)		**17.8**	16.2
Diluted (cents)		**17.8**	16.2

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2019 — unaudited (Expressed in Renminbi)

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Profit for the period	**356,429**	343,080
Other comprehensive income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements	**3,448**	(24,837)
Total comprehensive income for the period	**359,877**	318,243
Attributable to:		
Equity shareholders of the Company	**370,810**	310,174
Non-controlling interests	**(10,933)**	8,069
Total comprehensive income for the period	**359,877**	318,243

The notes on pages 35 to 54 form part of this interim financial report. There was no tax effect relating to the components of other comprehensive income.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2019 — unaudited (Expressed in Renminbi)

	Note	**At 30 June 2019 RMB'000**	At 31 December 2018 RMB'000
Non-current assets			
Property, plant and equipment	*8*	**992,021**	1,035,057
Interests in leasehold land held for own use under operating leases		**–**	111,462
Right of use asset		**116,133**	–
		1,108,154	1,146,519
Other financial asset		**28,569**	28,579
Deposits and prepayments	*9*	**95,445**	94,060
Deferred tax assets		**43,033**	45,800
		1,275,201	1,314,958
Current assets			
Inventories	*10*	**935,453**	1,051,099
Trade debtors	*9*	**2,899,527**	2,304,199
Bills receivable	*9*	**35,036**	95,072
Deposits, prepayments and other receivables	*9*	**773,185**	720,980
Pledged bank deposits	*11*	**267,574**	327,405
Deposits with banks	*11*	**4,500,000**	4,500,000
Cash and cash equivalents	*11*	**1,619,538**	1,651,281
		11,030,313	10,650,036
Current liabilities			
Trade and other payables	*12*	**2,833,513**	2,766,170
Lease liabilities	*13*	**4,485**	–
Bank loans	*14*	**111,672**	112,176
Current taxation		**455,939**	475,905
		3,405,609	3,354,251
Net current assets		**7,624,704**	7,295,785

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2019 — unaudited (Expressed in Renminbi)

	Note	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Total assets less current liabilities		**8,899,905**	8,610,743
Non-current liabilities			
Deferred tax liabilities		**4,083**	1,961
Long term lease liabilities	*13*	**1,367**	–
Interest-bearing borrowings	*15*	**2,640,189**	2,714,393
		2,645,639	2,716,354
NET ASSETS		**6,254,266**	5,894,389
CAPITAL AND RESERVES	*16*		
Share capital		**182,298**	182,298
Reserves		**5,956,162**	5,585,352
Total equity attributable to equity shareholders of the Company		**6,138,460**	5,767,650
Non-controlling interests		**115,806**	126,739
TOTAL EQUITY		**6,254,266**	5,894,389

The notes on pages 35 to 54 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2019 — unaudited (Expressed in Renminbi)

		Attributable to equity shareholders of the Company								
	Note	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 1 Jan 2018		182,298	90,489	558,698	(44,382)	37,360	4,919,351	5,743,814	125,031	5,868,845
Changes in equity for the six months ended 30 Jun 2018:										
Profit for the period		–	–	–	–	–	335,011	335,011	8,069	343,080
Other comprehensive income		–	–	–	(24,837)	–	–	(24,837)	–	(24,837)
Total comprehensive income		–	–	–	(24,837)	–	335,011	310,174	8,069	318,243
Appropriation to statutory reserve		–	–	602	–	–	(602)	–	–	–
Dividends declared and paid during the period		–	–	–	–	–	(62,028)	(62,028)	–	(62,028)
Balance at 30 Jun 2018		182,298	90,489	559,300	(69,219)	37,360	5,191,732	5,991,960	133,100	6,125,060
Balance at 1 Jan 2019		**182,298**	**90,489**	**560,432**	**(108,858)**	**16,362**	**5,026,927**	**5,767,650**	**126,739**	**5,894,389**
Changes in equity for the six months ended 30 Jun 2019:										
Profit for the period		**–**	**–**	**–**	**–**	**–**	**367,362**	**367,362**	**(10,933)**	**356,429**
Other comprehensive income		**–**	**–**	**–**	**3,448**	**–**	**–**	**3,448**	**–**	**3,448**
Total comprehensive income		**–**	**–**	**–**	**3,448**	**–**	**367,362**	**370,810**	**(10,933)**	**359,877**
Appropriation to statutory reserve		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Dividends declared and paid during the period		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Balance at 30 Jun 2019		**182,298**	**90,489**	**560,432**	**(105,410)**	**16,362**	**5,394,289**	**6,138,460**	**115,806**	**6,254,266**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2019 — unaudited (Expressed in Renminbi)

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	**227,702**	187,751
Income tax paid	**(199,656)**	(165,866)
Net cash generated from operating activities	**28,046**	21,885
Investing activities		
Payment for the purchase of property, plant and equipment	**(2,062)**	(27,516)
Proceed from disposal of property, plant and equipment	**(13)**	–
Decrease in deposit with bank	**–**	105,691
Decrease/(increase) in pledged deposits	**59,831**	(27,247)
Interest received	**55,973**	12,588
Other cash flows arising from investing activities	**(1,385)**	–
Net cash generated from investing activities	**112,344**	63,516
Financing activities		
Payment for repurchase of US$ Notes	**(66,109)**	–
Capital element of lease rentals paid	**(2,481)**	–
Interest element of lease rentals paid	**(179)**	–
(Repayment)/Proceeds from new bank loan	**(495)**	100,000
Dividends paid	**–**	(62,028)
Interest paid	**(102,393)**	(97,719)
Other cash flows arising from financing activities	**–**	(549)
Net cash used in financing activities	**(171,657)**	(60,296)
Net (decrease)/increase in cash and cash equivalents	**(31,267)**	25,105
Cash and cash equivalents at 1 January	**1,651,281**	2,116,422
Effect of foreign exchange rate changes	**(476)**	(658)
Cash and cash equivalents at 30 June	**1,619,538**	2,140,869

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This interim financial report was authorised for issue on 20 August 2019.

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2018 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 15 March 2019.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the group.

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases – incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The group has initially applied HKFRS 16 as from 1 January 2019. The group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

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

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 8.

Where the contract contains lease component and non-lease component, the group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the group enters into a lease in respect of a low-value asset, the group decides whether to capitalise the lease on a lease-by-lease basis. For the group, low-value assets are typically laptops or office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

(a) Changes in the accounting policies (Continued)

(ii) Lessee accounting (Continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

(i) Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the group, the group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(c) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5.0125%.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

(c) Transitional impact (Continued)

To ease the transition to HKFRS 16, the group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 19(c) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 RMB'000
Operating lease commitments at 31 December 2018	11,984
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(3,263)
	8,721
Less: total future interest expenses	(387)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	8,334
Total lease liabilities recognised at 1 January 2019	8,334

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

(c) Transitional impact (Continued)

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

The group presents right-of-use assets that do not meet the definition of investment property in 'other property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

The following table summarises the impacts of the adoption of HKFRS 16 on the group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	Capitalisation of operating lease contracts RMB'000	Carrying amount at 1 January 2019 RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Interest in leasehold land held for own use under operating leases	111,462	(111,462)	–
Right of use asset	–	119,796	119,796
Total non-current assets	1,314,958	8,334	1,323,292
Lease liabilities (current)	–	5,152	5,152
Current liabilities	3,354,251	5,152	3,359,403
Net current assets	7,295,785	(5,152)	7,290,633
Total assets less current liabilities	8,610,743	3,182	8,613,925
Lease liabilities (non-current)	–	3,182	3,182
Total non-current liabilities	2,716,354	3,182	2,719,536
Net assets	5,894,389	–	5,894,389

2 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

(d) Lease liabilities

The remaining contractual maturities of the group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	4,485	4,662	5,152	5,127
After 1 year but within 2 years	1,194	1,225	2,670	3,072
After 2 years but within 5 years	173	174	512	522
	1,367	1,399	3,182	3,594
	5,852	6,061	8,334	8,721
Less: total future interest expenses		(209)		(387)
Present value of lease liabilities		5,852		8,334

(e) Impact on the financial result, segment results and cash flows of the group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

(e) Impact on the financial result, segment results and cash flows of the group (Continued)

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the group's financial result, segment results and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under HKFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
	Amounts reported under HKFRS 16 (A)	Add back: HKFRS 16 depreciation and interest expense (B)	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note 1) (C)	Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B-C)	Compared to amounts reported for 2018 under HKAS 17
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial result for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:					
Profit from operations	641,547	2,251	(2,660)	641,138	630,620
Finance costs	(108,204)	179	–	(108,025)	(100,918)
Profit before taxation	539,558	2,430	(2,660)	539,328	529,702
Profit for the period	356,429	2,430	(2,660)	356,199	343,080

(Expressed in Renminbi unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 16, *Leases* (Continued)

(e) Impact on the financial result, segment results and cash flows of the group (Continued)

	2019			2018
	Amounts reported under HKFRS 16 (A)	Estimated amounts related to operating leases as if under HKAS 17 (notes 1 & 2) (B)	Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B)	Compared to amounts reported for 2018 under HKAS 17
	RMB'000	RMB'000	RMB'000	RMB'000
Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	227,702	(2,660)	225,042	187,751
Net cash generated from operating activities	28,046	(2,660)	25,386	21,885
Capital element of lease rentals paid	(2,481)	2,481	–	–
Interest element of lease rentals paid	(179)	179	–	–
Net cash used in financing activities	(171,657)	2,660	(168,997)	(60,296)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Footwear	**1,548,966**	1,517,217
Apparel	**1,604,065**	1,411,771
Accessories	**43,795**	47,429
Others	**39,957**	40,436
	3,236,783	3,016,853

The Group's customer base is diversified and includes two (2018: two) with whom transactions have exceeded 10% of the Group's revenues. During the period ended 30 June 2019, revenues from sales of footwear, apparel and accessories to these customers, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately RMB792 million (2018: RMB653 million). These sales arose in both reportable segments (see note 3(b)).

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

(b) Segment reporting

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

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

– Kids: this segment derives revenue from trading of kids sporting goods.

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

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2019 and 2018 is set out below.

	Adults Six months ended 30 June		Kids Six months ended 30 June		Total Six months ended 30 June	
	2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
Reportable segment revenue	**2,848,376**	2,652,332	**388,407**	364,521	**3,236,783**	3,016,853
Cost of sales	**(1,687,486)**	(1,550,034)	**(226,612)**	(211,112)	**(1,914,098)**	(1,761,146)
Reportable segment profit (gross profit)	**1,160,890**	1,102,298	**161,795**	153,409	**1,322,685**	1,255,707

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

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Revenue		
Reportable segment revenue and consolidated revenue *(note 3(a))*	**3,236,783**	3,016,853
Profit		
Reportable segment profit	**1,322,685**	1,255,707
Other revenue	**100,765**	161,841
Other net loss	**(1,885)**	(23,744)
Selling and distribution expenses	**(507,848)**	(485,485)
Administrative expenses	**(272,170)**	(277,699)
Profit on repurchase of US$ Notes	**6,215**	–
Finance costs	**(108,204)**	(100,918)
Consolidated profit before taxation	**539,558**	529,702

(Expressed in Renminbi unless otherwise indicated)

4 OTHER REVENUE AND NET LOSS

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Other revenue		
Bank interest income	**56,402**	45,760
Government grants	**29,645**	85,560
Others	**14,718**	30,521
	100,765	161,841
Other net loss		
Net foreign exchange loss	**(1,885)**	(23,744)

Government grants of RMB29,645,000 (2018: RMB85,560,000) were received from several local government authorities for the Group's contribution to local economies, of which the entitlement was unconditional and under the discretion of the relevant authorities.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
(a) Finance costs:		
Interest on bank borrowings wholly repayable within five years	**3,532**	2,359
Interest on lease liability	**179**	–
Finance charges on senior unsecured notes *(note 15)*	**104,493**	98,559
Total finance costs	**108,204**	100,918
(b) Other items:		
Amortisation	**–**	1,412
Depreciation charge		
– Owned property, plant and equipment	**47,977**	64,907
– Right of use asset	**3,663**	–
Staff costs	**252,381**	255,418
Operating lease charges in respect of properties	**5,943**	5,066
Research and development costs*	**100,496**	108,475
Cost of inventories**	**1,914,098**	1,761,146

5 PROFIT BEFORE TAXATION (Continued)

* Research and development costs include RMB37,858,000 (2018: RMB27,629,000) relating to staff costs of employees in the research and development department, which amount is also included in "staff costs" disclosed separately above.

** Cost of inventories includes RMB122,860,000 (2018: RMB118,350,000) relating to staff costs and depreciation, which amounts are also included in the respective amount disclosed separately above.

6 INCOME TAX

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Current tax – PRC income tax		
Provision for the period	**192,471**	179,055
Over provision in respect of prior periods	**(12,109)**	(6,440)
	180,362	172,615
Deferred tax		
Origination and reversal of temporary differences	**2,767**	14,007
	183,129	186,622

Notes:

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

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

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

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB367,362,000 (six months ended 30 June 2018: RMB335,011,000) and the weighted average of 2,068 million (2018: 2,068 million) ordinary shares in issue during the interim period.

(b) Diluted earnings per share

For the period ended 30 June 2018 and 2019, diluted earnings per share is the same as basic earnings per share as the Company did not have dilutive potential shares outstanding during the period.

8 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired items of property, plant and equipment of approximately RMB4,144,000 (six months ended 30 June 2018: approximately RMB23,913,000).

9 TRADE AND OTHER RECEIVABLES

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Trade debtors		
Trade debtors	**2,957,382**	2,362,054
Less: Allowance for doubtful debts *(note 9(b))*	**(57,855)**	(57,855)
	2,899,527	2,304,199
Bills receivable	**35,036**	95,072
Deposits, prepayments and other receivables		
Current		
Deposits	**238**	31
Prepayments	**613,285**	616,040
Other receivables	**159,662**	104,909
	773,185	720,980
Non-current		
Deposits and prepayments	**95,445**	94,060

9 TRADE AND OTHER RECEIVABLES (Continued)

Included in prepayments are amounts prepaid to suppliers of RMB585,218,000 (31 December 2018: RMB582,878,000).

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

(a) Ageing analysis

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Within 90 days	**2,393,715**	1,481,001
Over 90 days but within 180 days	**540,848**	873,813
Over 180 days but within 360 days	**–**	44,457
	2,934,563	2,399,271

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

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly. There are no movement in the allowance for doubtful debts during the six months ended 30 June 2019 and 2018.

10 INVENTORIES

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Raw materials	**107,746**	64,868
Work in progress	**23,798**	21,546
Finished goods	**803,909**	964,685
	935,453	1,051,099

11 CASH AND BANK DEPOSITS

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Pledged bank deposits	**267,574**	327,405
Deposits with banks		
– More than three months to maturity when placed	**4,500,000**	4,500,000
– Within three months to maturity when placed	**–**	13,757
Cash at bank and in hand	**1,619,538**	1,637,524
Cash and bank deposits	**6,387,112**	6,478,686
Represented by:		
Pledged bank deposits	**267,574**	327,405
Deposits with bank	**4,500,000**	4,500,000
Cash and cash equivalents	**1,619,538**	1,651,281
	6,387,112	6,478,686

At 30 June 2019, the balances that were placed with banks or on hand in the PRC and included in the pledged bank deposits, deposit with banks and cash and cash equivalents amounted to RMB6,289,117,000 (31 December 2018: RMB6,387,612,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

12 TRADE AND OTHER PAYABLES

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Trade creditors	**780,422**	704,253
Bills payable	**841,399**	1,013,986
Contract liabilities	**110,263**	141,128
Advances from investor *(i)*	**350,000**	350,000
Other payables and accruals	**751,429**	556,803
	2,833,513	2,766,170

12 TRADE AND OTHER PAYABLES (Continued)

(i) 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 30 June 2019, the Group has received the investment advancement in amount of RMB350,000,000, which is recorded in advances from Investor.

Except 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 30 June 2019 and 31 December 2018 were secured by pledged bank deposits as disclosed in note 11.

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Due within 1 month or on demand	**464,872**	384,030
Due after 1 month but within 3 months	**484,496**	540,334
Due after 3 months but within 6 months	**672,453**	717,875
Due after 6 months but within 12 months	**–**	76,000
	1,621,821	1,718,239

13 LEASE LIABILITIES

As a result of initial application of HKFRS 16, the accounting policy in relation to leases has been changed and the present value of the minimum lease liabilities was accounted (see note 2(d)).

14 BANK LOANS

As at 30 June 2019, the bank loans were repayable within one year or on demand and secured as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Bank loans		
– secured	**11,672**	12,716
– unsecured	**100,000**	100,000
	111,672	112,176

As 30 June 2019 and 31 December 2018, secured bank loans of the Group were secured by a property.

15 NON-CURRENT INTEREST-BEARING BORROWINGS

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Senior unsecured notes due 2021 *(note 15(b))*	**2,640,189**	2,714,393

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

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

16 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	At 30 June 2019		At 31 December 2018	
	No. of shares '000	**Amount HK$'000**	No. of shares '000	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**10,000,000**	**1,000,000**	10,000,000	1,000,000

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

	No. of shares '000	**Amount HK$'000**	**RMB'000**
Ordinary shares, issued and fully paid:			
At 1 July 2018/31 December 2018/ 1 January 2019/30 June 2019	**2,067,602**	206,760	182,298

16 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Interim dividend declared after the interim period of HK8.2 cents per ordinary share (2018: HK7.6 cents per ordinary share)	**148,867**	132,327
Special dividend declared after the interim period of HK1.1 cents per ordinary share (2018: HK Nil per ordinary share)	**20,676**	–
	169,543	132,327

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

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period of HK Nil per ordinary share (2018: HK3.6 cents per ordinary share)	**–**	62,028

17 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Short-term employee benefits	**15,881**	14,155
Post-employment benefits	**246**	324
	16,127	14,479

18 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

(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 30 June 2019	Fair value measurements as at 30 June 2019 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement				
Financial asset:				
Unlisted equity security	28,569	–	–	28,569

During the six months ended 30 June 2019, 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.

(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.

(Expressed in Renminbi unless otherwise indicated)

19 COMMITMENTS

(a) Contractual commitments outstanding at 30 June 2019 not provided for in the interim financial report were as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Advertising and marketing expenses	**75,435**	117,304

(b) Capital commitments outstanding at 30 June 2019 not provided for in the interim financial report were as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Authorised and contracted for	**1,403**	2,249

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

	At 31 December 2018 RMB'000
Within 1 year	8,390
After 1 year but within 5 years	3,594
	11,984

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases. From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2.

20 PLEDGE OF ASSETS

At 30 June 2019 and 31 December 2018, certain bank facilities and bills payable of the Group were secured by a property and pledged bank deposits.

CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

In the opinion of the directors of the Company, the Company had complied with 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 six months ended 30 June 2019.

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

As at 30 June 2019, 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	Beneficial owner		5,186,000	0.25%
		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 younger 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.

CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION

Apart from the foregoing, as at 30 June 2019, 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

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. The Share Option Scheme has lapsed on 1 July 2019.

No options have been granted under the Share Option Scheme up to 30 June 2019 and up to the Lapse of the Share Option Scheme on 30 June 2019. As at the date of this report, no option may be granted under the Share Option Scheme.

CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION

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

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

As at 30 June 2019, 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.

CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Redemption of bonds

On 3 June 2019, the Company purchased and cancelled US$11 million principal amount of US$ Notes listed on the Stock Exchange through the open market on the Stock Exchange for a total price approximately US$9.9 million.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

In the opinion of the directors of the Company, the Company has complied with the code provisions of the corporate governance code as set out in Appendix 14 to the Listing Rules (the "Corporate Governance Code") during the six months ended 30 June 2019.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the Company has confirmed with all directors of the Company that they had complied with the required standard set out in the Model Code throughout the six months ended 30 June 2019.

REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The Company has established an audit committee which is accountable to the Board and the primary duties of which include the review and supervision of the Group's financial reporting process and internal control measures. For the six months ended 30 June 2019, the audit committee comprised of three independent non-executive directors of the Company, namely, Mr. Li Yuen Fai Roger, Dr. Liao Jianwen and Mr. Hon Ping Cho Terence. Mr. Li Yuen Fai Roger serves as the chairman of the audit committee of the Company, who has the professional qualification and experience in financial matters in compliance with the requirements of the Listing Rules.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements of the Group for the six months ended 30 June 2019. They considered that the unaudited interim financial statements of the Group for the six months ended 30 June 2019 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been made.

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Announcement of interim results	20 August 2019
Ex-entitlement date for interim and special dividend	2 September 2019
Closure of register of members and record date	4 September 2019 to 9 September 2019
Dispatch of interim and special dividend warrants	17 September 2019

DIVIDENDS

The Board resolved to declare an interim dividend of HK8.2 cents (equivalent to RMB7.2 cents for illustration purpose only) and a special dividend of HK1.1 cents (equivalent to RMB1.0 cent for illustration purpose only) per ordinary share for the six months ended 30 June 2019. The dividends amounted to HK$192.3 million is expected to be paid to shareholders on or about 17 September 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 4, September 2019 to Monday, 9, September 2019, both days inclusive, for the purpose of determining shareholders' entitlements to the interim and special dividend. In order to qualify for the interim and special dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong SAR of the PRC, not later than 4:30 p.m. on Tuesday, 3 September 2019.

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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P.O. Box 1586
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Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
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INVESTOR RELATIONS CONTACT

Tel: +852 2907 7033
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Wanchai, Hong Kong SAR of the PRC

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）
(resignation effective from 20 May 2019)
Liao Jianwen（廖建文）
Li Yuen Fai Roger（李苑輝）
Hon Ping Cho Terence（韓炳祖）
(appointed on 20 May 2019)

BOARD COMMITTEES

Audit Committee

Li Yuen Fai Roger（李苑輝）
(Chairman) (appointed as chairman on 20 May 2019 and was a member prior to being a chairman)
Tsui Yung Kwok（徐容國）*(Chairman)*
(resignation as the chairman and member effective from 20 May 2019)
Liao Jianwen（廖建文）
Hon Ping Cho Terence（韓炳祖）
(appointed on 20 May 2019)

Remuneration Committee

Liao Jianwen（廖建文）*(Chairman)*
Wang Jiabi（王加碧）
Hon Ping Cho Terence（韓炳祖）
(appointed on 20 May 2019)
Tsui Yung Kwok（徐容國）
(resignation effective from 20 May 2019)

Nomination Committee

Hon Ping Cho Terence（韓炳祖）
(Chairman)
(appointed on 20 May 2019)
Ding Wuhao（丁伍號）
Li Yuen Fai Roger（李苑輝）
(ceased to be the chairman on 20 May 2019 and remained as a member)
Tsui Yung Kwok（徐容國）
(resignation effective from 20 May 2019)

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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Wuli Industrial Park
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Fujian Province 362261
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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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REGISTERED OFFICE

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PO Box 2681
Grand Cayman, KY1-1111
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

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

COMPANY WEBSITE

www.361sport.com

STOCK CODE

01361