

361°

**361 DEGREES
INTERNATIONAL LIMITED**

Stock Code: 1361



19th Asian Games
Hangzhou 2022

361°

杭州2022年第19届亚运会官方合作伙伴
Official Prestige Partner of 19th Asian Games Hangzhou 2022



2020

Interim
Report

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FINANCIAL HIGHLIGHTS

Revenue decreased from **RMB3,236.8 million to RMB2,686.1 million**

Profit attributable to the equity shareholders decreased from **RMB367.4 million to RMB302.0 million**

	For the six months ended 30 June		
	2020 (Unaudited)	2019 (Unaudited)	Change
Profitability Data (RMB'000)			(%)
Revenue	2,686,126	3,236,783	-17.0
Gross profit	1,015,758	1,322,685	-23.2
Operating profit	538,193	641,547	-16.1
Profit attributable to equity shareholders	301,966	367,362	-17.8
Earnings per share			
– basic (RMB cents)	14.6	17.8	-18.0
Profitability Ratios (%)			(% point)
Gross profit margin	37.8	40.9	-3.1
Operating profit margin	20.0	19.8	0.2
Margin of profit attributable to equity shareholders	11.2	11.3	-0.1
Effective income tax rate (Note 1)	27.3	33.9	-6.6
Return on shareholders equity (Note 2)	4.7	6.2	-1.5
Operating Ratios (as percentage of revenue) (%)			
Advertising and promotional expenses	7.4	8.5	-1.1
Staff costs	9.0	7.8	1.2
Research and development	3.8	3.1	0.7

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 2020 (Unaudited)	As at 31 December 2019 (Audited)	Change
Assets and Liabilities data (RMB'000)			
			(%)
Non-current assets	1,179,526	1,227,300	-3.9
Current assets	10,512,825	10,659,854	-1.4
Current liabilities	4,652,054	2,809,010	65.6
Non-current liabilities	101,086	2,419,130	-95.8
Equity attributable to equity shareholders	6,568,849	6,322,505	3.9
Non-controlling interests	370,362	336,509	10.1
Asset and Working Capital data			
Current asset ratio	2.3	3.8	
Gearing ratio (%) (Note 3)	20.3	21.3	-1.0 percentage point
Net asset value per share (RMB) (Note 4)	3.4	3.2	RMB+0.2
Inventory turnover days (days) (Note 5)	112	120	-8 days
Trade and bills receivables turnover days (days) (Note 6)	160	149	+11 days
Trade and bills payables turnover days (days) (Note 7)	151	179	-28 days
Working capital turnover days (days)	121	90	+31 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 182 days (for the six months ended 30 June 2020) and 365 days (for the year ended 31 December 2019).
- (6) Trade and bills receivables turnover days is equal to the average opening and closing trade and bills receivables after allowance of doubtful debts divided by revenue and multiplied by 182 days (for the six months ended 30 June 2020) and 365 days (for the year ended 31 December 2019).
- (7) Trade and bills payables turnover days is equal to the average opening and closing trade and bills payables divided by cost of sales and multiplied by 182 days (for the six months ended 30 June 2020) and 365 days (for the year ended 31 December 2019).

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of 361 Degrees International Limited (the "Company"), I present the interim results of the Company and its subsidiaries (collectively, the "Group" or "361° Group") for the six months ended 30 June 2020.

In the first half of 2020, the COVID-19 epidemic (the "epidemic") has swept across the world and caused a huge impact on the development of the sports industry. However, as the epidemic has gradually abated in the People's Republic of China ("PRC"), the economic and social recovery are trending up, the sales of offline physical businesses have continued to pick up, and sports enterprises have basically achieved full resumption of work and production. Although sports activities were suspended in the first half of the year due to the epidemic, sports culture and sports elements would never be absent in life. The epidemic has also prompted people to live an active life. In the second half of 2020, all kinds of sports events will gradually resume, and China's sports market will continue to transform and innovate in the crisis, and develop towards a more professional, standardised, and industrialised high-quality direction. According to the "Outline for the Construction of a Powerful Country in Sports (《體育強國建設綱要》)" promulgated by the State Council of the PRC, the government would take the lead to promote sports development, and it is aimed that more than 45% of the national population shall actively participate in physical exercise by the year 2035. According to the official of the General Administration of Sports of China, it is estimated that by the year 2035, the number of people in the PRC who regularly participate in physical exercise will reach more than 630 million, promoting the added value of the sports industry to RMB11.3 trillion. In the long run, the development prospects of the sports industry and its importance to national economic growth will remain unchanged.

During the period under review, the revenue of the Group was RMB2,686.1 million, and the profit attributable to equity shareholders of the Group was RMB302.0 million. Due to the impact of the current epidemic on the Company's business activities, and considering the uncertainty of the epidemic and the global economic situation in a certain period in the future, the Board of Directors made a prudent decision and recommended that no interim dividend will be distributed for the six months ended 30 June 2020.

UNDERTAKING CORPORATE SOCIAL RESPONSIBILITY AND FIGHTING THE EPIDEMIC WITH PRAGMATIC ACTIONS

In the midst of the epidemic, 361° has always been adhering to its corporate values of being responsible to our employees. On 30 January 2020, the Group took the lead in establishing an emergency management commanding team for epidemic prevention with an aim to minimise the impact of the epidemic on the Group. All in-house factories and offices of the Group have resumed operations since 10 February 2020. In addition, the Group and its partners have tided over the difficult times together. The Group has promoted operational efficiency and strengthened suppliers' confidence through policies such as operational support and credit term extension; and controlled operating costs through optimisation of supply chain system, logistics cost control and integration of information platform.

361° fully embodied the sense of social responsibility as a national enterprise while facing the epidemic. On 10 February 2020, the Group purchased 2,000 sets of medical-grade goggles and protective suits overseas, and donated them to several medical institutions including Wuhan Central Hospital. On 20 February 2020, the Group donated RMB10 million worth of cold-weather and sports apparel to Hubei Province through the China Youth Development Foundation, to show our support and appreciation for the frontline medical workers.

CHAIRMAN'S STATEMENT

GIVING TOP PRIORITY TO THE CONSUMER, CONSTANTLY UPGRADING THE CONSUMPTION EXPERIENCE

In the first half of 2020, we continued our business strategy of focusing on the core brand of 361°, continuously improving product innovation and brand awareness, giving top priority to the consumers, and constantly upgrading the consumption experience.

In terms of brand building, with the evolution of the new retail business consumption model, the Group officially launched the ninth generation of image stores, with full upgrades in multiple dimensions such as space design and decoration, product display and consumer experience, showing the brand image of 361° internationalisation, specialisation and rejuvenation by bringing consumers a new consumption experience and laying a solid foundation for winning the offline retail market in the post-epidemic era. At the same time, in addressing consumers' different consumption preferences and recent consumption habits, the Group has vigorously developed micro-malls and mini programs, to provide more flexible online purchasing experience. In addition, 361° has made use of the big data from our large membership base to predict customer preferences and consumption trends, analyse customers' consumption habits, refine member operations, and promote long-term and stable development of the Group.

In terms of international market, 361° streamlined to 959 points-of-sales due to the severe impact of the epidemic in overseas market. In the next step, 361° will adhere to the concept of "Consumer Centric", consolidate the existing core market position, further develop emerging markets such as Africa, South America, Central Asia and Eastern Europe, and establish direct sales market in regions with growth potential such as Europe, to improve the international reputation of the brand, and enhance the profitability of overseas business of 361°.



Note: The ninth generation of outlet under the main brand of the Group

CHAIRMAN'S STATEMENT

It is worth mentioning that on 21 June 2020, the Group officially announced to be the official partner of the 19th Asian Games 2022 in Hangzhou. This is the fourth consecutive Asian Games supported by 361° after the 2010 Asian Games in Guangzhou, 2014 Asian Games in Incheon and 2018 Asian Games in Jakarta, which will provide a good brand endorsement for 361° to further develop the Asian market. Over the years, our support for large-scale international sports events not only continued the brand spirit of 361°, “One Extra Degree of Passion”, but also greatly enhanced the brand's international influence.

DEPLOYING RESOURCES ON INTEGRATING FASHION TRENDS WITH PROFESSIONALISM

Since this year, 361° has continued to cooperate with various well-known and prestigious intellectual properties (IPs), such as Pepsi, Minions, Gundam and Captain Tsubasa, to achieve marketing to different fandoms. By focusing on the needs of the customers, 361° successfully converted the communication language of IPs into the design language and integrated these famous IPs in our product design of sport shoes and apparels with different functions. 361° made the most of targeted marketing to entice the core consumer groups through communication in fandoms, pursuant to which 361° continuously deepened the connection and sensation between the brand and young consumers, thereby standing out from the fierce competition in the sports goods market and launching a number of hot selling products. On 11 January 2020, the co-branded series of 361° × Gundam was awarded the Best Sports Innovation Award (最佳體育創新獎) at “Chinese Sports Industry Awards 2019”, the sixth session of such ranking, which was another shining example of our co-branded IP sports products.

Basketball products are one of the categories of sports that best reflect professional and fashion attributes. On 15 February 2020, 361° officially contracted with Aaron GORDON, a super star of international basketball, as the brand spokesperson. In the future, 361° will strive to make a breakthrough in the basketball category through in-depth development of endorsement resources represented by Aaron GORDON. At present, 361° is the sponsor of 17 national teams and professional sports teams, and contracted with 27 top athletes and celebrity spokespersons. Coupled with our premium resources and the influential power of our spokespersons and sponsored sports teams, the positive brand image of 361° and brand recognition in the market are further boosted and enhanced.

361° never stops its pace in technology breakthroughs. By advancing the QUIKFOAM technology, we launched a new Q³ professional technology platform in the PRC, which is upgraded with special effects in appearance, adopts a lighter, more practical and cost-effective configuration and realises full-category technology extension and application. International products focus on upgrades and optimisation in specialised functionality. During the period under review, 361° products won a number of international awards, for example, 361° Q Elastic Pure (Q彈•淨界) was awarded the 2020 ISPO Award – Running Shoes, 361° Air-Float down jacket was awarded the 2020 Red Dot Award – Product Design, and 361-Taroko 2 was recommended by Runner's World, a Swedish magazine, as the “Best Buy”.

INTEGRATING RESOURCES TO STRENGTHEN THE LEADING POSITION OF KID'S BUSINESS

As one of the first sports brands entering the kids market, the Group has gained a leading position in the kids market. In the first half of 2020, we further strengthened the differentiation of our kid's brands from our competitors through strong resource integration. From 2019 to date, 361° has cooperated with Evergrande Football School, Shanghai Greenland Shenhua Football Club Youth Team, Beijing Zhonghe Guoan Junior Training and Shandong Luneng Taishan F.C. Youth Team, and launched co-branded products with How to Train Your Dragon, Kung Fu Panda, Captain Tsubasa and other premium IPs to attract more user groups. The Group also integrated top professional technology resources and cooperated strategically with China State Shipbuilding Corporation to extensively apply the “Zinc” anti-microorganism technology developed by China State Shipbuilding Corporation for Chinese armed force to children's clothing products, and expanded the application scope of this technology in 35% of our Kids footwear as well as 20% of our kids apparel products through continuous scientific research and innovation.

CHAIRMAN'S STATEMENT

ACCELERATING THE EFFICIENCY OF E-COMMERCE PLATFORM TO EMBRACE NEW TRENDS

Whilst the offline sports consumption had been adversely affected by the epidemic, which has, at the same time accelerated the sports industry's shift to online platform and spawned new business structure and model of the sports industry. To embrace the new trends, the Group invited pop singers, famous athletes, popular actors/actresses, professional anchors to promote our products on live-stream, aiming to drive sales growth and promote brand image through these online channels. During the period under review, the sales of online-exclusive products through e-commerce platform was RMB315.8 million, representing 11.8% of the total revenue of the Group. In addition, the e-commerce platform of the Group, with its improving efficiency, has become an important channel to launch new and co-branded products. The Group will strategically keep certain proportion of online-exclusive products to differentiate from those of offline, as well as assist the offline distributors to achieve high efficiency linkage between online and offline. The Group, Jinjiang City Jinfa Equity Investment Partnership (晉江市晉發股權投資合夥企業) ("Jinfa Equity") and Zhejiang Yingshi Equity Investment Fund Management Partnership (浙江盈實股權投資基金管理合夥企業) ("Zhejiang Yingshi") established a limited partnership to co-invest in the e-commerce platform of the Group in July 2020. By leveraging the strength of Jinfa Equity as a state-owned enterprise and the professional management experience of Zhejiang Yingshi as well as the capital contributed, the Group will further strengthen its competitiveness in e-commerce, thereby to usher in a new round of a premium business growth.

OUTLOOK

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 staffs and business partners. The sports industry is still undergoing rapid growth in the PRC. We will surmount the epidemic eventually and usher in a promising future. As a leading sportswear brand enterprise in the PRC, 361° will commit to the belief of "One Extra Degree of Passion", constantly improving product and brand competitiveness, endeavor to thrive on the continuous development of our Company's business, its supply chain and business partners so as to create more benefits for the shareholders, staff and the society.

Ding Huihuang

Chairman

Hong Kong SAR of the PRC, 18 August 2020

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In the first half of 2020, the COVID-19 epidemic spread over the world and caused grave impact on the global economy. International Monetary Fund stated in the latest World Economic Outlook released in June 2020 that the negative impact by the epidemic on economic activities in the first half of this year outweighed the expected, and global gross domestic product (GDP) was expected to shrink by 4.9% this year. China has also been affected by the epidemic. However, thanks to the timely and effective containment measures by the government, the situation of prevention and control of the epidemic in China continued to improve, enterprises expedited the resumption of commercial and market operations, and the daily life order of residents has been substantially restored. Particularly, benefited from various policies to boost domestic demand and consumption, household consumption has been improving steadily since March 2020, and the decline in total market sales narrowed month by month, showing the great resilience of China's economic development.

According to the National Bureau of Statistics of the PRC, China's GDP in the first half of 2020 reached RMB45,661.4 billion, representing a year-on-year decrease of 1.6%. From January to February 2020, the total retail sales of social consumer goods amounted to RMB5,213 billion, representing a decrease of 20.5% year-on-year. Since March this year, the national epidemic prevention and control has been continuously improving and the market sales have started to improve as residents' pent-up and frozen demand was gradually released. According to the National Bureau of Statistics, the total retail sales of consumer goods recorded a nominal decrease of 1.8% year-on-year in June, further narrowed by 1.0 percentage points on top of the decrease of 4.7 percentage points in May. The total retail sales of goods were close to the level of the same month last year.

China has introduced a series of policies to promote consumption in the sports industry to help accelerate the recovery of the sports industry. In March 2020, the Implementation Opinions on Expanding Consumption, Improving Quality and Accelerating Formation of a Strong Domestic Market 《關於促進消費擴容提質加快形成強大國內市場的實施意見》 jointly issued by the National Development and Reform Commission of the PRC and 23 other bureaus, which stressed on following the trend of residents' consumption upgrading, speeding up the improvement of the consumption system and mechanism, further improving the consumption environment, playing the basic role of consumption, and helping form a strong domestic market. In May 2020, the Implementation Plan of The Pilot Work of Promoting Sports Consumption 《促進體育消費試點工作實施方案》 issued by the State General Administration of Sports required that the pilot cities should support sports enterprises in market promotion, investment and financing, etc. Banks and other financial institutions should make innovations in credit products and services and improve the ways of payment and credit for consumption in the sports industry. In the Government Work Report 《政府工作報告》 for 2020, the exemption period for value-added tax on sports services will be extended until the end of this year. Local governments have also responded to the central government's call to help resume work and production in the sports industry. With the normalisation of epidemic prevention and control in China, steady progress has been made in the resumption of production and work of the sports industry, and the release of pent-up and frozen demand has been accelerated. Coupled with strong policy support, the long-term overall upward trend of the sports industry remains unchanged. In the next few years, the Winter Olympic Games, Asian Games, Asian Cup and other major sports events will be held in China successively, which will continue to inject vigor and vitality into the sports market.

MANAGEMENT DISCUSSION AND ANALYSIS

Since the outbreak of COVID-19 epidemic, consumer shopping habits have changed to a great extent. More and more consumers are turning to online shopping, and e-commerce has ushered in greater opportunities for development. According to the National Bureau of Statistics of the PRC, the growth rate of online retail sales of physical goods continued to accelerate. From January to June 2020, the online retail sales of physical goods nationwide increased by 14.3% year-on-year, and the growth rate was 2.8 percentage points faster than that from January to May; the online retail sales of physical goods accounted for 25.2% of the total retail sales of consumer goods, representing an increase of 5.6 percentage points year-on-year. The “stay-at-home economy” has sprung up under the epidemic, promoting a new form of sports consumption. The “live streaming ecommerce” model has been recognised and loved by the public, and the government has also given great support. Major brands are trying new marketing methods to tap the market potential of “sports + live streaming ecommerce”. In addition, sports training, fitness and leisure, venue services and other industries have accelerated the integration of online and offline channels, and the consumption of the sports industry has shown a trend of online and diversified development.

On the other hand, China’s urbanisation has steadily advanced in recent years. According to the National Bureau of Statistics of the PRC, China’s urbanisation rate was about 61% in 2019. According to the “17th Report on China’s Urban Competitiveness” issued by the Chinese Academy of Social Sciences, the proportion of urbanisation in China is expected to exceed 70% by the year 2035, which will further promote consumer demand in the sports footwear and apparel market. Furthermore, under the guidance of the comprehensive two-child policy, China’s population aged 0-14 has resumed growth since 2011, and the birth rate has improved in recent years, ensuring the continued growth of kids wear in the future. According to the report of Shenwan Hongyuan Securities, the scale of kids wear market is expected to exceed RMB423.5 billion by the end of 2024, which demonstrated a broad development opportunity for this sector.

With the increasing health awareness of residents, the sports industry will maintain a momentum of vigorous development in the future driven by long-term market demand. Meanwhile, under the influence of the epidemic, the Matthew Effect of “the strong gets stronger and the weak gets weaker” in the industry is also more obvious. As a leading sports brand in China, the Group has established a leading position in the third-tier and lower-tier cities in China, and will continue to benefit from the development and integration of the industry in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

361° Brands and Positioning

The 361° Group is one of the leading sportswear brand enterprises in China. The Group principally engages in brand management, research and development (R&D), design, manufacturing and distribution. Its comprehensive product portfolio includes footwear, apparel and accessories which meet the needs of adults and children in their sports and casual life. The Group's core positioning has been consistent since the beginning of its establishment in 2003, which is to provide high-performance and value-for-money functional sports products targeted at the mass market.

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 361° brand in their respective exclusive geographical territory. Distributors could choose to open stores directly, subject to approval by the Group's retail channel management department. Distributors could also choose to further distribute the products under the 361° brand to second-tier authorised retailers. This business model is flexible and stable, which enable the Group to focus its resources in managing sales at the wholesale level while leverage on the capabilities of the distributors and the authorised retailers in terminal retail.



Note: The fourth generation of outlet under the Group's Kids brand

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

The 361° Kids brand, which is an independently operating business unit, principally caters to sports apparel, footwear, and accessories needs of children from toddlers to the age of twelve.

The Group also owns the trademark of ONE WAY (Finnish brand), which is targeted at high-end and professional users.

All of the distributorship agreements are valid for one year. The Group renews the agreements with its exclusive distributors on a yearly basis. The key terms of each of the distributorship agreements generally includes terms such as geographical exclusivity, product exclusivity, payment terms, and a reflection of the results of the negotiation between the Group and the relevant distributor. Distributors and authorised retailers are required to attend a number of training programs organised by the Group each year, enabling them to accurately convey the Group's latest technology and product-related knowledge to consumers, so as to assist consumers to choose the most suitable products. Furthermore, the Group also insists on projecting a consistent store image across its nationwide distribution network and the standardisation of product display equipment and point-of-purchase (POP) materials highlighting quarterly marketing themes.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has been upholding the concept of “One Extra Degree of Passion” (多一度熱愛), sticking to a consumer centric approach, continuing to meet the consumers’ upgrading consumption demand and striving to provide consumers with richer, more diversified and enjoyable sports life experience. During the period under review, the Group has carried out refined management of its supply chain and distribution chain. In terms of supply chain, the Group focused on streamlining and centralising its suppliers by establishing strategic alliances and shifting from regions with high production costs to those with lower costs, with a view to ensuring product quality and delivery time, stabilising the costs and improving respective profitability. In terms of distribution chain, on the basis of stabilising the sustained profitability of the existing distribution system, the Group has carried out channel upgrade and construction, thereby enhancing interaction with consumers, directly playing the demonstrating role of 361° brand at the retail end and conveying the 361° brand concept to consumers.

The Group currently hosts four trade fairs per year for the 361° core brand to showcase new season’s products, in which all distributors and authorised retailers are invited to attend. The orders of the distributors and authorised retailers will be consolidated by the respective first-tier distributors, who in turn will place such orders with the Group. The Group will review the orders and provide order suggestions to its distributors in order to enhance the accuracy of orders, avoid excessive inventory and discounts at the retail end, so as to 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 361° core brand products, namely the 2020 Winter Trade Fair and the 2021 Spring Trade Fair.

Due to the impact of the COVID-19 epidemic in the first half of 2020, the overall retail market in China was weak, and the Chinese public’s appetite for sports products was relatively conservative during this period. The Group flexibly adopts the online + offline ordering mode. For distributors and authorised retailers in regions seriously affected by the epidemic, the online ordering mode can be adopted.

The Group made a quick response to the epidemic. On 30 January 2020, the Group took the lead in establishing an emergency management commanding team for epidemic prevention with an aim to minimise the impact of the epidemic on the Group. All in-house factories and offices have resumed operations since 10 February 2020 to ensure the regular supply of products.

Due to the uncertainties of the impact of the epidemic on the economy, the Group actively worked with distributors and authorised retailers to weather the storm by supporting their adoption of more conservative orders in response to reduced demand for consumer discretionary products. Moreover, the Group promoted operational efficiency through the policies of operational support and credit term extension. During the epidemic period, the Group also controlled operating costs and advertising expenditures to maintain a stable financial position through optimisation of supply chain system, logistics cost control and integration of information platform. In addition, the Group fully capitalised the Mini Programs and Micro Mall on WeChat to bring consumers better quality and flexible consumption experience, reduce risks of going out, and mitigate the impact of the epidemic on the retail end.

With the outbreak of the epidemic, the Group stays firm to fulfill its corporate social responsibility, and reacted speedily to procure 2,000 sets of medical goggles and protective suits overseas and donated them to various medical institutions including Central Hospital of Wuhan. Meanwhile, the Group, through China Youth Development Foundation, also donated RMB10 million worth of winter sportswear to Hubei Province, to show our support and appreciation for the medical staff fighting on the front line.

361° Core Brand Retail Network in the PRC

As at 30 June 2020, the network of the 361° core brand stores comprised of 5,289 stores. The Group encourages its distributors and their authorised retailers to open larger stores in shopping malls and department stores going forward while streamlining retail outlets by closing smaller outlets. Geographically, approximately 75.74% of the stores were located in the third- and lower-tier cities in China, while 6.54% and 17.72% were located in first- and second-tier cities in China, respectively, as at 30 June 2020. The Group will continue to focus on enhancing store efficiency and retail sales in the future.

Despite the impact of the COVID-19 epidemic on the performance of the Group’s points-of-sale and the fact that distributors chose to close some outlets in order to reduce their costs, the Group continued to adhere to the “consumer-centric” philosophy and continuously upgraded the consumer experience. During the period under review, the Group launched its ninth generation of image stores to bring a brand new shopping experience to consumers through professional image upgrade. Meanwhile, with a large membership base, 361° refined its membership operation to support the long-term stable development of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS



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

	As at 30 June 2020		As at 31 December 2019	
	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⁾	956	18.1	1,057	19.1
Southern region ⁽²⁾	645	12.2	717	13.0
Western region ⁽³⁾	1,174	22.2	1,190	21.6
Northern region ⁽⁴⁾	2,514	47.5	2,555	46.3
Total	5,289	100	5,519	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 10% of its annual revenue for brand promotion and marketing. The brand-building strategies of the Group in the early years mainly aimed at international and domestic large-scale sports events and official sponsorship of Chinese national teams, to strive to quickly elevate the international influence of the brand. Such strategy has received a favorable response and achieved the expected results. For example, the Group successfully sponsored the 16th Asian Games in Guangzhou in 2010, the 26th Summer Universiade in Shenzhen in 2011, the 2nd Youth Olympic Games in Nanjing in 2014, the 17th Asian Games in Incheon 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 significantly increased the Group's branding influence worldwide. On 21 June 2020, the Group successfully became the official partner for the 19th Asian Games in Hangzhou in 2022, representing the fourth consecutive support of 361° for the Asian Games. 361° will further convey the brand concept of "Passion" by taking advantage of the Hangzhou Asian Games to highlight the Chinese sports brand presence in the Asian market.

Other than sponsorship, the Group also focused on its marketing efforts by closely following the consumption trends, further combining brand communication with consumer preferences, deploying resources on integrating fashion trends with professionalism and actively expanding the cooperation with well-known and classic IPs. The Group cooperated with brands such as the famous Gundam, PepsiCo, Minions and Captain Tsubasa to launch co-branded products in line with consumer preferences. These innovative products won new consumer groups, which enhanced the Group's brand image and popularity. Leveraging on its solid foundation, the Group will continue to take full advantage of the crossover trend through high quality brand crossover collaboration in 2020.

In addition, 361° invited more outstanding celebrity spokespersons in sports and deeply developed the endorsement resources. During the period under review, the Group continued to sponsor national and professional sports teams, signed a contract with the famous basketball star Aaron GORDON, which represented a breakthrough of 361° brand in the basketball field, and promoted the growth of the brand with the influential power of these outstanding spokespersons.



MANAGEMENT DISCUSSION AND ANALYSIS

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

Sponsorship period	Sporting event	Capacity
2020-2022	The 19th Asian Games in Hangzhou 2022	Official Partner
2020-2021	Xuzhou International Marathon, China	Top Partner

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

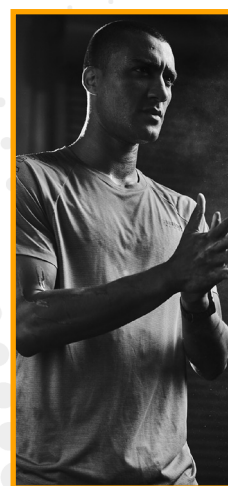
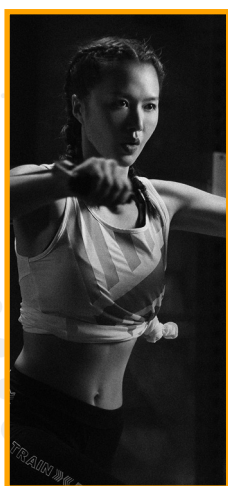
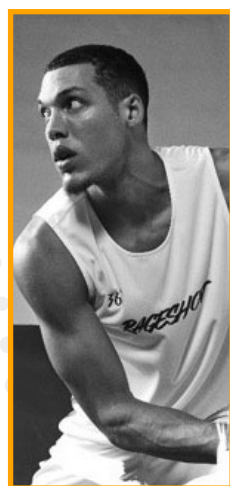
Name of sporting team
China National Swimming Team
China National Synchronised Swimming Team
China National Cycling Team
China National Handball Team
China National Women's Softball Team
China National Hockey Team
Hong Kong Women's Volleyball Team
Macau Sports Delegation
TEAM M23, China Professional Boxer Training and Brokerage Team
China National Biathlon Team
China National Nordic Combined Team
China National Ski-jumping Team
China National Freestyle Ski Halfpipe Team
China National Freestyle Ski Slopestyle Team
China National Freestyle Ski Cross Team
China National Snowboard Cross Team
LI Zicheng Club, A Professional Marathon Training Institution

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets out the Group's spokespersons during the period under review:

Athletes

Name of spokespersons	Sports	Key achievements in recent years
LI Zicheng 李子成	Running	1st in Men of China in the 2019 Xiamen International 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
TIE Liang 鐵亮	Running	1st in Men of China in the 2019 Qinhuangdao Marathon 1st in Men of China in the 2019 Shenzhen Marathon
GUAN Siyang 關思楊	Running	1st in the 2019 Tangshan Half Marathon 2nd in the 2019 Chengdu Panda Half Marathon
FU Wenguo 付文國	Running	3rd in Men of China in the 2020 Xiamen Marathon
YANG Chengxiang 楊成祥	Running	1st in Men of China in the 2019 Nanjing Marathon
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



MANAGEMENT DISCUSSION AND ANALYSIS

Name of spokespersons	Sports	Key achievements in recent years
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 10,000m
LUO Shijie 羅世傑	Running	4th in the 2019 Taiwan Taichung International Marathon 3rd in the 2019 Taichung Marathon IT Cup 2nd in the 2019 Cinsbu Ultramarathon 1st in the 2019 Taiwan Ershui Marathon
ZHOU Junhong 周俊宏	Running	9th in the 2019 Taipei Ultramarathon 2nd in the 2019 Japan Sakura Michi Ultramarathon
Aaron GORDON	Basketball	NBA all-around dunker Played for the Orlando Magic
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
Kyranbek MAKAN	Basketball	Captain of Xinjiang Guanghui team of CBA Champion of CBA 2016-2017 Season for Xinjiang men's basketball team
Ashton EATON	Decathlon	Champion in the 2016 Rio Olympics Record-holder in the Men's Decathlon
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
Katie ZAFERES	Triathlon	1st in the 2019 ITU World Triathlon Series Champion in the 2019 Super League Triathlon
Morgan PEARSON	Triathlon	2nd in the 2019 Huatulco ITU Triathlon World Cup 3rd in the 2019 ITU World Mixed Series Edmonton Town 5th in the 2019 Lima ITU Triathlon
Jorik Van EGDOM	Triathlon	3rd in the 2019 Weert ETU Triathlon European Championships 7th in the 2019 Triathlon World Cup 8th in the 2019 Hamburg ITU Triathlon Mixed Relay World Championships
Donald HILLEBRECHT	Triathlon	National champion in the 2019 NED Half Triathlon 3rd in the 2019 Rabat ATU Triathlon African Cup

MANAGEMENT DISCUSSION AND ANALYSIS

Name of spokespersons	Sports	Key achievements in recent years
Rachel KLAMER	Triathlon	8th in the 2019 ITU 6th in the 2019 World Triathlon Series 4th in the ITU Triathlon World Championships, Lausanne
Quinty SCHOENS	Triathlon	4th in the 2019 NED Half Triathlon 4th in the 2019 Funchal ETU Triathlon Mixed Relay Championships
LIU Xiang 劉湘	Swimming	Won 1 gold medal in the 2019 Swimming World Cup Won 1 gold medal in the 2019 National Swimming Championships Won 1 silver medal in the 2019 FINA Swimming Championships
ZHANG Yufei 張雨霏	Swimming	Won 2 gold medals and 1 bronze medal in the 2019 Swimming World Cup Won 1 gold medal and 1 silver medal in the 2019 National Swimming Championships Won 1 gold medal in the 2019 FINA Swimming Championships Won 1 silver medal in the 2019 American Swimming Championships
LI Bingjie 李冰潔	Swimming	Won 3 silver medals in the 2019 National Swimming Championships Won 2 silver medals in the 2019 FINA Swimming Championships Won 1 gold medal and 1 bronze medal in the 2019 American Swimming Series Competition
XU Can 徐燦	Boxing	Won the Best Male Boxer of the “Grand Annual Fight of China’s Belt and Road” WBA Featherweight World Boxing Champion
YANG Xu 楊旭	Football	Got 6 goals in the 2019 National Team Match Got 8 goals in the 2019 Super League
Celebrities		
TAN Weiwei 譚維維	N/A	A famous Chinese pop singer

MANAGEMENT DISCUSSION AND ANALYSIS

361° Kids

361° Kids has been in operation as an independent business unit since its launch in 2010. It primarily targets children between three to twelve years old who are looking for footwear and apparel for sports activities. In 2019, 361° Kids has further expanded the product coverage to a wider age group, extending its market reach to launch footwear and apparel products that are suitable for children under three years old. In 2019, through a series of internal restructuring, the Group successfully transferred its Kids business to Zhuji Sanliuyidu. By leveraging on the connection of the rich experience of investors focusing on investment in the textile and clothing industry and the

high-quality of resources, the Group's Kids segment has achieved steady development in 2020 and will continue to contribute to the Group's business growth in the future.

As at 30 June 2020, there were 1,702 points-of-sale offering 361° Kids products, of which 431 were within the 361° brand authorised retail stores, selling both 361° core brand products and 361° Kids products. Geographically, approximately 70.09% were located in third-tier and lower-tier cities in China, while 7.23% and 22.68% were located in first- and second-tier cities in China, respectively.

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

	As at 30 June 2020		As at 31 December 2019	
	Number of 361° Kids authorised points-of-sale	% of total number of 361° Kids authorised points-of-sale	Number of 361° Kids authorised points-of-sale	% of total number of 361° Kids authorised points-of-sale
Eastern region ⁽¹⁾	341	20.0	408	21.3
Southern region ⁽²⁾	277	16.3	321	16.7
Western region ⁽³⁾	331	19.5	360	18.7
Northern region ⁽⁴⁾	753	44.2	833	43.3
Total	1,702	100	1,922	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 361° Kids, namely the 2020 Winter Trade Fair and the 2021 Spring Trade Fair.

361° proactively focuses on the brand building of its kids brand and has successfully launched co-branded products with YANG Xu and Captain Tsubasa, etc. through the strong and powerful core brand spokespersons and IP resource integration, with an aim to deepen the differentiation of kids brand. In addition, the Group also focused on expanding the strategic presence in the field of youth football training. As a partner of Shanghai Greenland Shenhua Football Club Youth Team, Beijing Guoan Junior Training and Shandong Luneng Taishan F.C. Youth Team, the strategic partner of Evergrande Football School and the sponsor of sports equipment for the elite team of Evergrande Football School, the Group continued to integrate its top youth football resources in China and strengthened its linkage among youth football training systems. With the rapid development of children's sports industry in China, increasing importance is being attached to the football industry. The Group's forward-looking strategic plan could further enhance the brand value and market share of 361° Kids.

During the period under review, 361° Kids cooperated strategically with China State Shipbuilding Corporation to apply the "Zinc" anti-microorganism technology developed by China State Shipbuilding Corporation for Chinese armed force to children's clothing products, and to introduce new anti-microorganism sports equipment for kids to consumers, which realised innovation of technologies under 361° Kids brand with the advantage of 361° brands.

During the period under review, 361° Kids contributed 14.9% to the Group's revenue with a growth rate of 3.4% as compared to the corresponding period of last year. It is expected that this sector will maintain a rapid growth in the future in light of the government's relaxation of the one-child policy.

361° International

Since the year 2015, the Group actively expanded its footholds in international markets with growth potential, so as to expand the international business market scope of 361° and strengthen the international brand reputation of 361°. In the future, the Group will largely focus on the development of overseas franchise market. In addition to existing core markets, the Group will actively explore the markets with potential growth, including but not limited to Africa, South America, Central Asia and Eastern Europe. Meanwhile, the Group will proactively consolidate its direct markets in Europe and further increase its influence in overseas markets.

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

Name	Award
361-Taroko 2	Selected by the Sweden's "Runner's World" magazine as the most valuable "Recommended Product" Selected by Gearjunkie, a professional review website of outdoor gear in US, as the "Best Running Shoes for Road & Outdoor Running"



MANAGEMENT DISCUSSION AND ANALYSIS

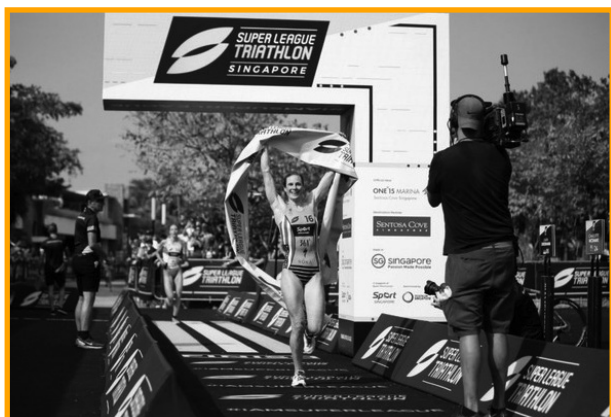
As of 30 June 2020, due to the overseas epidemic, the number of overseas points-of-sale streamlined to 959. The Group will further adjust its expansion strategies and pace in the overseas market according to the development of the epidemic promptly.

During the period under review, the 361° International business contributed to approximately 1.2% of the Group's total revenue.

ONE WAY

The ski and outdoor sportswear industry in China is a high-growth sector. In particular, given the fact that Beijing is hosting the 2022 Winter Olympic Games along with the government's supportive policies, such event will bring higher exposure, demand and development momentum to winter sports.

The Finnish brand ONE WAY owned by the Group is mainly aimed at high-end professional users. The retail operation of ONE WAY has been greatly affected by the epidemic. The Group will gradually restrain its scale after comprehensive consideration in the future to strive for break even.



Modern E-Commerce

The Group conducts its modern e-commerce business mainly through renowned e-commerce platforms in China including Tmall, Taobao, JD and its wechat stores mini-programme and official website. These online platforms are authorised to sell online-exclusive products, which forms differentiated sales and marketing as compared with the products sold in physical stores. Meanwhile, e-commerce platforms can also help the Group's distributors and their authorised retailers to clear odd-sized products or off-season products. At present, as more high-premium and popular co-branded products are launching e-commerce platforms, the development of e-commerce is more healthy and reasonable.

In 2020, with the continuous cooperation with various well-known and prestigious IPs, co-branded products launched by 361° became hot topics in the mainstream market and hot items on the e-commerce platforms. The co-operations with Gundam, PepsiCo, Minions and Captain Tsubasa attracted and drove young consumers to appreciate the core brand of 361°, and at the same time attracted more attention for e-commerce platforms.

During the period under review, the Group continued to improve the efficiency of the e-commerce platform, so as to foster it as a key platform for launching new products and co-branded products. Meanwhile, the Group responded to the upsurge in delivery of goods during live streaming in the market, and successively carried out numerous live streaming with specific themes and rich content on well-known domestic live streaming platforms such as Tiktok, Bilibili, Alipay Sports, and Tmall. Particularly, on 16 June 2020, a live streaming event was launched in the United States, Mainland China, and China Taiwan by 361° brand spokespersons, international star Aaron GORDON, idol rapper VAVA, and well-known host Tang Zhizhong on 361° Tmall flagship store, and the market responded enthusiastically with considerable sales of Aaron GORDON's basketball shoes and clothing. The implementation of live streaming has brought 361° brand professional sports products with fashionable attributes to the core consumer groups quickly. Such way of driving sales growth with recreational marketing has played a great role in brand promotion.

MANAGEMENT DISCUSSION AND ANALYSIS

In July 2020, the Group entered into a limited partnership agreement with Jinjiang City Jinfa Equity Investment Partnership (Limited Partnership)* (晉江市晉發股權投資合夥企業(有限合夥)) (“Jinfa Equity”) and Zhejiang Yingshi Equity Investment Fund Management Partnership (Limited Partnership)* (浙江盈實股權投資基金管理合夥企業(有限合夥)) (“Zhejiang Yingshi”) in respect of the establishment of a limited partnership. According to the Limited Partnership Agreement, Sanliuyidu China (a wholly-owned subsidiary of the Company) and Jinfa Equity (as limited partners) will contribute RMB550.1 million and RMB548.8 million, respectively, while Zhejiang Yingshi (as general partners) will contribute RMB1.1 million. In addition, the partnership agreed to make an investment into Duoyidu (Quanzhou) E-commerce Co., Ltd (多一度(泉州)電子商務有限公司), the e-commerce platform of the Group, of RMB1.1 billion by cash. In the future, the Group will make use of the state-owned enterprise strength of Jinfa Equity and the professional management experience of Zhejiang Yingshi, vigorously develop e-commerce business, seize the huge opportunities brought by the stay-at-home economy, continue to expand the online market share, and drive the sustainable development of the overall business.

The revenue from the sales of online-exclusive products of the Group contributed to approximately 11.8% of the Group’s total revenue as compared with the same period of last year.

Production

During the period under review, there has been no change to the Group’s production policy between self-production and original equipment manufacturers (“OEMs”), which is determined having regard to costs, production scheduling and intellectual property rights and striking a balance between the two. For footwear products, the Group manufactures up to approximately 70% of its footwear products by the two factories located in Jiangtou and Wuli in Jinjiang, Fujian Province, the PRC and outsources the remainder to a number of quality factories. Jiangtou factory houses 14 production lines and has an annual production capacity of 12 million pairs of footwear products. The Wuli Industrial Complex in the Wuli Economic Zone houses 9 production lines with an annual production capacity of 9 million pairs of footwear products. For apparel products, the Group operates production facilities in Jinjiang City that have the capacity to produce approximately 30% of the Group’s needs whilst the remainder is contracted to factories.



MANAGEMENT DISCUSSION AND ANALYSIS

Research and Development

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

The Group continued to focus on product research and development and innovation. The “bright sunshine and gentle breeze” cotton filled sportswear developed jointly by the Group and the suppliers was awarded “2019 Top 10 categories of innovative textile products”(“2019 年度十大類紡織創新產品”) issued by China National Textile and Apparel Council, and 361° Air-suspended Down Jackets (氣懸羽絨服) also won the 2020 Red Dot Award for Product Design in the Global Red Dot Competition, which fully expanded the technological edge and reflected the advantage of product research and development.

In addition, after QU!KFOAM series products winning many international professional awards, the Group continued to explore proprietary technology products and successfully released the Q³ technology platform for shoe soles. The Group also horizontally integrated science and technology, launched the QU!KFOAM family series products, such as Q Elastic Super (Q 彈超), Q Elastic Pure (Q 彈淨界), Q Elastic Mecha (Q 彈猛甲) and Q Elastic Titanium Speed (Q 彈鈦速). The Group has achieved comprehensive appearance and configuration upgraded through empowering products with technology, further expanded the application scope of the whole category of products, and promoted the improvement and breakthrough of product strength. Q Elastic Pure (Q 彈淨界) was awarded the ISPO Global Design Award of the Running Shoe Category in 2020, fully demonstrating the recognition of 361° products from the international and domestic industry.

As of 30 June 2020, the Group has obtained 369 patents with a total of 716 technicians engaging in product research and development, among which including 287 footwear research staff, 380 apparel research staff and 49 kids wear and accessories research staff.

During the period under review, the Group's expenditure on R&D accounted for 3.8% of the Group's total revenue and is expected to increase due to the Group's intensifying efforts to carry out the product upgrading program for combining functionality and design, with an aim to create more distinctive products.

FINANCIAL REVIEW

Revenue

During the period under review, the Group recorded a decrease in revenue of 17.0% to RMB2,686.1 million (2019: RMB3,236.8 million) as compared with the same period of last year, of which 14.9% and 1.0% (2019: 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 remaining 84.1% (2019: 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, dropped by 20.3% year-on-year and 18.8% year-on-year, respectively. Over 75% of the products for spring and summer of 2020 were delivered and its revenue was recognised during the period under review. In the second half of 2020, the products to be delivered will mainly by those for the 2020 fall and winter products.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2020, the proportion of footwear sales in the total revenue slightly adjusted to 42.0% from 43.7%, whereas apparel sales slightly decreased from 41.9% to 41.0% as compared to the same period of the previous year. Footwear and apparel products still remained the major contributors of the Group's sales revenue during the period under review.

The average wholesale price (the "AWP") of footwear increased by 5.5% year-on-year while that of apparel decreased by 13.6% year-on-year. The increase in footwear's AWP was mainly attributable to some high-end new products being launched to the market which was partly off-set by the downward adjustment of the AWP for the distributors across the lines of the existing footwear and apparel products in order to support the distributors in the adverse market situation caused by the epidemic in the first half of 2020. In addition, the sales volume of footwear and apparel products decreased by 24.5% and 6.1% year-on-year, respectively. This was mainly due to a more conservative approach adopted by the distributors to defer the delivery of their confirmed orders in the uncertain economic situation as affected by the epidemic during the period under review.

For accessories, the Group regarded this category of products as complementary to the footwear and apparel products, and enrichment to the product mix. During the period under review, as a result of the adverse impact caused by the epidemic, the sales volume and the AWP of accessories decreased by 3.9% and 21.8% year-on-year respectively, which led to a 24.8% year-on-year decrease in the revenue of accessories.

Revenue from the overseas business during the period under review decreased by 50.1% year-on-year to RMB32.1 million (2019: RMB64.3 million) and accounted for approximately 1.2% of the total revenue of the Group as compared with the revenue for the six months ended 30 June 2020.

Despite the adverse impact caused by the epidemic in the first half of 2020, the revenue of 361° Kids for the six months ended 30 June 2020 achieved a growth of 3.4% year-on-year to RMB401.8 million (2019: RMB388.4 million), and accounted for 14.9% (2019: 12.0%) of the Group's revenue during the period under review. The growth was mainly attributable to the increase in the AWP of footwear products which led to an increase in overall AWP by 5.8% whereas the sales volume of slightly dropped by 2.1% as compared with the same period of last year.

The decrease in sales volume was principally due to the change in the product mix, as more footwear products were produced and sold as compared with the same period of last year.

The revenue for the sales of the Group's web-exclusive products from the E-commerce business decreased by 25.3% to RMB315.8 million (2019: RMB422.5 million) and accounted for approximately 11.8% (2019: 13.0%) of the total revenue during the period under review. The Group is confident that the contribution from the E-commerce business will become significant to the Group's revenue in view of the shift change in consumers' preference from the traditional offline to online shopping amid the epidemic.

The revenue grouped under "Others" represented the revenue from the sales of shoe soles by a 51% owned subsidiary to independent third parties. During the period under review, over 50% of the products sold by this subsidiary were sold to the Group and the remaining portion was sold to independent third parties. The revenue for the six months ended 2020 was RMB27.5 million (2019: RMB40.0 million) and accounted for approximately 1.0% (2019: 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 2020		2019		Changes %
	RMB'000	% of Revenue	RMB'000	% of Revenue	
By Products					
Adults					
Footwear	1,127,245	42.0	1,414,285	43.7	-20.3
Apparel	1,100,739	41.0	1,355,728	41.9	-18.8
Accessories	28,890	1.1	38,406	1.2	-24.8
Kids	401,800	14.9	388,407	12.0	+3.4
Others⁽¹⁾	27,452	1.0	39,957	1.2	-31.3
Total	2,686,126	100	3,236,783	100	-17.0

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 2020		2019		Changes	
	Total units sold '000	Average wholesale selling price ⁽¹⁾ RMB	Total units sold '000	Average wholesale selling price ⁽¹⁾ RMB	Units sold (%)	Average wholesale selling price (%)
By Volume and the AWP						
Adults						
Footwear (pairs)	10,069	111.9	13,333	106.1	-24.5	+5.5
Apparel (pieces)	13,846	79.5	14,739	92.0	-6.1	-13.6
Accessories (pieces/pairs)	2,597	11.1	2,701	14.2	-3.9	-21.8
Kids	6,264	64.2	6,398	60.7	-2.1	+5.8

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 2020 decreased by 12.7% year-on-year to RMB1,670.4 million (2019: RMB1,914.1 million). During the period under review, the cost of internal production decreased by 9.9% year-on-year and the cost of outsourced products decreased by 14.6% year-on-year. The decreases were in line with the decrease in sales revenue resulted from the adverse market situation amid the epidemic.

The cost of outsourced products included an amount of RMB27.3 million which represented a provision for slow-moving inventories for the overseas market as the sales were adversely affected by the epidemic during the period under review.

The mix of the internally produced products and outsourced products remained stable and there was no significant change in the production mix and cost components during the period under review.

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

	For the six months ended 30 June				
	2020		2019		
	RMB'000	% of total costs of sales	RMB'000	% of total costs of sales	Changes %
Footwear & Apparel					
Internal Production					
Raw materials	417,325	25.0	469,511	24.5	-11.1
Labour	86,418	5.1	95,773	5.0	-9.8
Overheads	178,461	10.7	191,595	10.0	-6.9
	682,204	40.8	756,879	39.5	-9.9
Outsourced Products					
Footwear	359,608	21.5	427,533	22.4	-15.9
Apparel	602,119	36.1	700,312	36.6	-14.0
Accessories	26,437	1.6	29,374	1.5	-10.0
	988,164	59.2	1,157,219	60.5	-14.6
Cost of sales	1,670,368	100	1,914,098	100	-12.7

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

The Group recorded a gross profit of RMB1,015.8 million during the period under review (2019: RMB1,322.7 million), representing a decrease in the gross profit margin by 3.1 percentage point year-on-year to 37.8%.

During the period under review, the gross profit margin of footwear edged down by 1.1 percentage points while those of the apparel, accessories and 361° Kids products dropped by a year-on-year 4.2, 5.5 and 5.7 percentage points, respectively.

The gross profit margin of footwear slightly decreased from 42.4% to 41.3%, which was mainly due to a decrease of the AWP to distributors as the market demand was depressed by the epidemic. However, the negative impact was partly off-set by the introduction of new products with higher gross profit margins to the market during the period under review.

The gross profit margin of the apparel products during this period under review was 36.0% (2019: 40.2%), representing a decrease of 4.2 percentage points year-on-year as a result of the reduction of the AWP to distributors with the aim of boosting sales when the market demand was weak.

For accessories, the gross profit margin reduced from 32.9% to 27.4% as a result of the reduction of the AWP to distributors in order to boost the sales when the market demand was weak.

The gross profit margin of the 361° Kids business decreased from 41.7% to 36.0%. It was principally due to the reduction of the AWP to distributors in order to stimulate the sales when the market demand was weak.

The gross profit margin of shoe soles, categorised under "Others", was 4.7% (2019: 6.1%), down by a year-on-year 1.4 percentage points during the period under review. It was mainly due to the reduction of the AWP to distributors to cope with the change in the market situation.

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				
	2020		2019		Changes percentage point
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	
Adults					
Footwear	465,582	41.3	600,244	42.4	-1.1
Apparel	396,405	36.0	545,582	40.2	-4.2
Accessories	7,910	27.4	12,633	32.9	-5.5
Kids	144,585	36.0	161,795	41.7	-5.7
Others⁽¹⁾	1,276	4.7	2,431	6.1	-1.4
Total	1,015,758	37.8	1,322,685	40.9	-3.1

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

MANAGEMENT DISCUSSION AND ANALYSIS

Other revenue

Other revenue of RMB90.7 million (2019: RMB100.8 million) mainly comprised of (i) interest income of RMB50.5 million (2019: RMB56.4 million) earned from bank deposits both in Hong Kong and the PRC; (ii) the discretionary government subsidies of RMB34.6 million (2019: RMB29.6 million) which was mainly in relation to the Group's contribution to local economies; and (iii) the commission of RMB4.1 million (2019: RMB10.2 million) earned from the selling of distributors' inventories through the e-commerce business.

Other net gain/(loss)

The other net gain of RMB26.8 million (2019: other net loss RMB1.9 million) mainly represented the net foreign exchange gain. The net foreign exchange gain mainly arose from the unrealised exchange gain on translation of senior unsecured US dollars notes into the Hong Kong dollars as a result of the appreciation of the Hong Kong dollars against the US dollars at the end of the period under review.

Selling and distribution expenses

For the six months ended 30 June 2020, selling and distribution expenses decreased by 30.5% year-on-year to RMB352.9 million (2019: RMB507.8 million). The decrease was mainly due to the reduction of advertising and promotional expenses and was in line with the decrease in revenue during the period under review.

Advertising and promotional expenses were RMB197.7 million (2019: RMB274.9 million), decreased by a year-on-year 28.1% year-on-year, and accounted for approximately 7.4% (2019: 8.5%) of the Group's revenue. Due to the COVID-19 epidemic during the period under review, the Group incurred less expenses to sponsor some sports events and adopted a tighter control on the advertising and promotion expenses.

The commission and other service fees paid to the e-platforms, e.g. Tmall and JD.com, were RMB26.4 million (2019: RMB42.5 million) and other expenses in relation to the running of this business amounted to RMB14.4 million during the period under review (2019: RMB22.7 million).

Administrative expenses

Administrative expenses were reduced significantly by 23.8% to RMB207.2 million for the six months ended 30 June 2020 (2019: RMB272.2 million) and represented about 7.7% (2019 8.4%) of the Group's revenue. The decrease was mainly attributable to the reduction in staff costs by RMB21.7 million and the adoption of tighter cost control of its operations during the period under review.

Research and development expenses were RMB101.9 million (2019: RMB100.5 million) and accounted for 3.8% (2019: 3.1%) of the revenue during the period under review. Despite the decrease in revenue and the uncertainty of the market situation caused by COVID-19 epidemic, the Group still incurred substantial costs to finance its research and developments activities as the Group believes that research and development is key to the improvement of its competitiveness in the market.

Finance costs

For the six months ended 30 June 2020, financing costs were RMB87.2 million (2019: RMB108.2 million) of which RMB2.9 million (2019: RMB3.5 million) was in relation to bank borrowings, RMB0.1 million (2019: RMB0.2 million) was accrued for the operating lease and the balance of RMB84.2 million (2019: 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 and amortised over the period.

As at 30 June 2020, the bank borrowings were RMB200 million for the finance of two subsidiaries running in the PRC, RMB10.7 million, a mortgage bank loan for financing the acquisition of an office in Hong Kong and RMB1.0 million, a bank loan in overseas.

The finance cost of the US\$ Notes accrued for the period was RMB84.2 million (2019: RMB104.5 million) of which RMB78.5 million (2019: RMB97.9 million) was in relation to the accrued interest for the period and RMB5.7 million (2019: RMB6.6 million) was the relevant cost incurred for the issuance of the US\$ Notes amortised over the tenor of five years. The decrease in the accrued interest for the US\$ Notes was mainly due to the reduction of outstanding principal amount of the US\$ Notes through the repurchase of the US\$ Notes in the open market and the cancellation of the repurchased Notes since 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Income tax expense

During the period under review, income tax expense of the Group amounted to RMB126.4 million (2019: RMB183.1 million) and the effective tax rate for the period was 27.3% (2019: 33.9%). The Group's operating subsidiaries are mainly based in China. The reduction of effective tax rate was due to one of the Group's mainland China-based operating subsidiaries succeeded in obtaining a reduction in tax rate to 15% from the local tax authority in late 2019 and hence it was charged at a tax rate of 15% during the period under review (2019: tax rate at 25%). The Group's other major mainland China-based operating subsidiaries are still subject to the standard corporate income tax rate of 25%. No provision has been made for profit tax of the subsidiaries in Hong Kong since no operating income was generated in Hong Kong. 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 Group's China-based operating subsidiaries. Therefore, the effective tax rate was higher than the PRC standard corporate income tax rate of 25%.

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

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Net cash (used in)/generated from operating activities	(96,645)	28,046
Payment for the purchase of property, plant and equipment	(3,947)	(2,062)
Interest paid	(81,333)	(102,393)
Dividends paid	(27,804)	–
Repurchase of US\$ Notes	(259,681)	(66,109)
Decrease in pledged deposits	111,037	59,831
Proceeds from the new bank loan	201,032	–
Repayment of bank loans	(100,646)	(495)
Interest received	63,165	55,973
Other net cash outflow	(2,325)	(4,058)
Net decrease in cash and cash equivalents	(197,147)	(31,267)

Non-controlling interest

The increase in non-controlling interest was mainly due to increase in profits of 361° Kids business and the dilution effect appeared during the period under review subsequent to the completion of the restructuring of the 361° kids business by transferring the whole 361° kids operations into a 87% owned subsidiary in September 2019 and the increase in profits arising from a 80%-owned subsidiary which was engaged in the E-commerce business.

CAPITAL AND OTHER INFORMATION

Liquidity and financial resources

Net cash used in operating activities of the Group for the first half of 2020 amounted to RMB96.6 million. As at 30 June 2020, cash and cash equivalents, including bank deposits and cash in hands, and fixed deposits with original maturities not exceeding three months, amounted to RMB3,206.0 million, representing a net decrease of RMB197.1 million as compared to the position as at 31 December 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

The net cash used in operating activities amounted of RMB96.6 million for the six months ended 30 June 2020 was mainly caused by the reduction of operating profit, the decrease from inventories, increase in trade debtors and bill receivables, increase in deposits, prepayments and other receivables and decrease in trade and other payables during the period under review. The increase in trade debtors and bill receivables was mainly due to the extension of credit terms to distributors under the adverse market situation as caused by the epidemic. The decrease in trade and other payables mainly representing the decrease in bills payable issued by 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 2020, capital expenditure amounted RMB3.9 million (2019: 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 RMB81.3 million (2019: RMB102.4 million) for the period was mainly the semi-annual interest of the US\$ Notes. The payment of dividend amounted to RMB27.8 million (2019: Nil) was made during the six months ended 30 June, 2020. During the period ended review, the Group repurchased and cancelled US\$38.5 million (2019: US\$11.0 million) US\$ Notes in principal amount by the use of RMB259.7 million (2019: RMB66.1 million). The decrease in pledged deposits of RMB111.0 million was due to less amount of bills issued as at 30 June 2020 compared to six months ago. The net increase in bank loans of RMB100.4 million was mainly attributable to further enhance the Group's liquidity to cope with the uncertainties of the market caused by the adverse impact of the epidemic on the economy. The receipt of interest of RMB63.2 million was mainly interest income generated by the fixed deposits placed in the PRC and Hong Kong.

The Group's gearing ratio was 20.3% as at 30 June 2020 (As at 31 December 2019: 21.3%). Other than the 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 2020.

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 2020, only the borrowings from US\$ Notes were at a 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.

Pledge of assets

As at 30 June 2020, a property with a net book value of RMB43.8 million (As at 31 December 2019: RMB43.6 million) was pledged as security for a banking facility of the Group of RMB40.0 million (As at 31 December 2019: RMB39.3 million). 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 2020 were secured by pledged bank deposits of RMB119.6 million.

Working capital management

The average working capital cycle for the six months ended 30 June 2020 was 121 days (For the year ended 31 December 2019: 90 days). The increase was mainly due to the reduction in the trade and bills payable turnover cycle and increase in trade and bills receivable turnover days despite an improvement of inventory turnover cycle.

MANAGEMENT DISCUSSION AND ANALYSIS

The average trade and bills receivable cycle was 160 days for the six months ended 30 June 2020 (for the year ended 31 December 2019: 149 days), representing an increase by 11 days. Due to the adverse impact caused by the epidemic, the Group has extended the credit period to the distributors which led to the increase in the average trade and bills receivable cycle during the period under review. As at 30 June, 2020, an aggregated amount of RMB2,479.1 million (98.7%) of trade debtors was within 180 days of which around 71.9% was within 90 days. The Group has been staying in touch with all the distributors and believes that there will be improvement in the collection of debts for the second-half of this year.

Due to the uncertain market condition caused by the epidemic during the period under review, the Group has closely monitored the situation of its trade and other receivable and has increased the provision for doubtful debts by RMB34.9 million charged during the period under review (2019: Nil).

The average inventory turnover cycle was 112 days for the six months ended 30 June 2020 (for the year ended 31 December 2019: 120 days). About 83.6% of the stock were finished goods and were mainly summer and fall products of 2020. All the goods for the 361° core brand were either self-produced or supplied by original equipment manufactures (OEMs) according to the orders received from distributors. No extra stock was produced or retained by the Group.

As at 30 June 2020, prepayments to suppliers were RMB637.6 million, representing a 41.1% increase compared with the RMB451.8 million as at 31 December 2019. The prepayments were deposits paid for raw materials and to outsourced suppliers for the acceptance of orders for production of products in relation to the 2020 fall and winter trade fairs' products. The balance of other prepayments, RMB91.3 million (as at 31 December 2019: RMB79.8 million), was mainly the payment in relation to the advertising and promotion contracts.

The average trade and bills payable cycle decreased by 28 days to 151 days for the six months ended 30 June 2020 (for the year ended 31 December 2019: 179 days). In order to stabilise the long-term relationship with suppliers during the difficult period under epidemic, the Group shorten the settlement period as a continued support to the suppliers. The Group is confident that the average trade and bills payable cycle can be maintained at or about 150 days in the long run.

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 from the issue of the notes were mainly used for the 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 2020, the Group has repurchased and cancelled an aggregate principal amount of US\$92.3 million of the US\$ Notes on the open market and a relevant gain of RMB11.3 million was recorded during the period under review. The outstanding principal amount of the US\$ Notes was US\$307.7 million as at 30 June 2020.

Subsequent to the period, the Group further repurchased the US\$ Notes with an aggregate principal amount of US\$13.2 million in the open market, representing approximately 3.3% of the initial aggregate principal amount of the US\$ Notes. Up to the date of issue of this interim report, the remaining aggregate principal amount of the US\$ Notes outstanding was US\$294.5 million. The Group always aims to optimise its financing cost, and thus may further repurchase the outstanding US\$ Notes on the open market if and when appropriate, taking into account such factors as market conditions and the price of the US\$ Notes.

Contingent liabilities

For the period ended 30 June 2020, the Group did not have any material contingent liabilities.

Material acquisitions and disposals

For the period ended 30 June 2020, the Group did not make any material acquisitions or disposal of subsidiaries or associates.

MANAGEMENT DISCUSSION AND ANALYSIS

Significant investments

For the six months ended 30 June 2020, the Group had no significant investments.

On 16 July 2020, Sanliuyidu (China) Co., Ltd. (三六一度(中國)有限公司), a wholly-owned subsidiary of the Company, entered into a limited partnership agreement (the "Limited Partnership Agreement") with two independent third parties, in respect of the establishment of a limited partnership in the PRC (the "Partnership"). According to the Limited Partnership Agreement, the total amount of capital commitments of the Partnership is RMB1,100.0 million of which the Group and the two independent third parties will contribute RMB550.1 million, RMB548.8 million and RMB1.1 million, respectively. Up to the date of the issue of this interim report, the Group and the two independent third parties have not yet injected any capital into the Partnership.

On the same date, after the establishment of the Partnership, all the partners in the Partnership entered into a capital increase agreement (the "Capital Increase Agreement") with (i) shareholders of Duoyidu (Quanzhou) E-commerce Co., Ltd. (多一度(泉州)電子商務有限公司) # ("Duoyidu Quanzhou"), an indirect non-wholly owned subsidiary of the Company and (ii) Duoyidu Quanzhou, pursuant to which the Partnership agreed to make an investment into Duoyidu Quanzhou of RMB1,100.0 million by cash (the "Investment").

Upon completion of the Investment, the Group's effective interest in Duoyidu Quanzhou will decrease from 80% to 69.25%.

Details of the above transactions are set out in the announcements of the Company dated 7 July 2020, 16 July 2020 and 22 July 2020.

Except for what have been as disclosed above, 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 2020.

Employees and emoluments

As at 30 June 2020, the Group employed a total of 7,435 full time employees in the PRC who included management staff, technicians, salespersons and workers. For the six months ended 30 June 2020, the Group's total remuneration paid to employees was RMB242.5 million, representing 9.0% 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 that 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 with the aim of fostering a learning culture that could enhance the employees' professional knowledge and skills.

PROSPECTS

China has entered the normal stage of epidemic prevention and control. The resumption of work and production is proceeding in an orderly and powerful manner. The pent-up and frozen demand is gradually released. Although the national economy is under short-term pressure, it shows strong resilience and flexibility. The long-term trajectory of fundamentals remains positive. As a sunrise industry and a green industry, the sports industry has been playing an increasingly important role in the national economy in recent years, and it will become a powerful engine for the recovery of the national economy after the epidemic.

MANAGEMENT DISCUSSION AND ANALYSIS

After the epidemic was basically controlled, the government issued a number of stimulus policies to accelerate the recovery of the sports industry. In March 2020, 23 ministries and commissions including the National Development and Reform Commission jointly issued the Implementation Opinions on Promoting Consumption Expansion and Quality Improvement to Accelerate the Formation of a Strong Domestic Market (《關於促進消費擴容提質加快形成強大國內市場的實施意見》) to promote consumption expansion and quality improvement in terms of market supply, consumption upgrades, and consumer networks. In May 2020, the Plan for the Implementation of the Pilot Program for Promoting Sports Consumption (《促進體育消費試點工作實施方案》) issued by the State General Sports Administration proposed that a pilot program for promoting sports consumption will be carried out nationwide. In July 2020, the State General Sports Administration issued a notice on the Scientific and Orderly Recovery of Sports Events and Activities to Promote the Reinstatement of the Sports Industry (《科學有序回復體育賽事和活動推動體育行業復工復產工作方案》), requiring classified advancement and orderly restoration of sports events and activities. It is expected that in the second half of 2020, the sports industry will enter a stage of full recovery. In recent years, the State Council issued a number of top-level policies and planning documents, including the Opinions on Implementing Healthy China Action (《關於實施健康中國行動的意見》), The Healthy China Action (2019-2030) (《健康中國行動(2019-2030年)》), Outline for Building a Leading Sports Nation (《體育強國建設綱要》) and Opinions on Promoting National Fitness and Sports Consumption to Promote High-Quality Development of the Sports Industry (《關於促進全民健身和體育消費·推動體育產業高質量發展的意見》). The long-term upward trend of the industry cycle remains unchanged.

Looking forward to the second half of 2020, the COVID-19 epidemic has greatly changed the shopping habits of consumers, with the trend of both online and offline consumption being enhanced and new consumption models such as “live streaming”, “online group purchases”, and “store to home” growing, which shows e-commerce has ushered in greater opportunities for development. In July of this year, 361° took the lead in forming a partnership with state-owned enterprises and industrial funds to increase investment in “Duoyidu (Quanzhou) (多一度(泉州))”, striving for the e-commerce market and leading the Group’s e-commerce business into a new round of rapid development. In the future, the Group will continue to actively grasp the market trends, strengthen core competitiveness, continue to expand its e-commerce market share, and drive the sustainable development of its overall business.

In terms of core brand building, the Group will seize the opportunity as the official partner of the Hangzhou Asian Games in 2022 to strengthen its business expansion in the Asian market. In the context of the more prominent role of technology in brand empowerment, 361° will always adhere to the positioning of the public functional sports brand, increase investment in scientific research, enhance the core competitiveness of the brand, and attract more customer groups through the Group’s huge endorsement resources. At the same time, it will explore more IP cooperation and innovation, launch more classic co-branded products, and inject new growth momentum into the development of the Group. In terms of Kids wear, the Group will seize the opportunities of the rapid growth of the Kids’ wear market, integrate various resources in football and high-quality IP, and consolidate and expand its market share.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	3	2,686,126	3,236,783
Cost of sales		(1,670,368)	(1,914,098)
Gross profit		1,015,758	1,322,685
Other revenue	4	90,733	100,765
Other net gain/(loss)	4	26,790	(1,885)
Selling and distribution expenses		(352,936)	(507,848)
Administrative expenses		(207,215)	(272,170)
Impairment losses on trade receivables		(34,937)	–
Profit from operations		538,193	641,547
Gain on repurchase of senior unsecured notes		11,264	6,215
Finance costs	5(a)	(87,253)	(108,204)
Profit before income tax	5	462,204	539,558
Income tax expense	6	(126,385)	(183,129)
Profit for the period		335,819	356,429
Attributable to:			
Equity shareholders of the Company		301,966	367,362
Non-controlling interests		33,853	(10,933)
Profit for the period		335,819	356,429
Earnings per share			
Basic and diluted (RMB cents)	7	14.6	17.8

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Profit for the period	335,819	356,429
Other comprehensive income for the period, net of income tax		
Item that will not be reclassified to profit or loss:		
Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)	2,036	–
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements	(29,854)	3,448
Total comprehensive income for the period, net of income tax	308,001	359,877
Attributable to:		
Equity shareholders of the Company	274,148	370,810
Non-controlling interests	33,853	(10,933)
Total comprehensive income for the period	308,001	359,877

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	919,921	955,364
Right-of-use assets		112,464	113,739
		1,032,385	1,069,103
Other financial asset		27,388	24,992
Deposits and prepayments	9	90,313	91,895
Deferred tax assets		29,440	41,310
		1,179,526	1,227,300
Current assets			
Inventories	10	882,389	1,168,036
Trade debtors	9	2,349,881	2,074,796
Bills receivables	9	162,200	124,578
Deposits, prepayments and other receivables	9	792,712	639,474
Pledged bank deposits	11	119,638	230,675
Deposits with banks	11	3,000,000	3,000,000
Cash and cash equivalents	11	3,206,005	3,422,295
		10,512,825	10,659,854
Current liabilities			
Trade and other payables	12	2,023,450	2,306,167
Lease liabilities		2,334	2,763
Bank loans	13	111,772	111,186
Interest-bearing borrowings	14	2,164,752	–
Current taxation		349,746	388,894
		4,652,054	2,809,010
Net current assets		5,860,771	7,850,844

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	<i>Notes</i>	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
Total assets less current liabilities		7,040,297	9,078,144
Non-current liabilities			
Lease liabilities		1,086	526
Bank loans	13	100,000	–
Interest-bearing borrowings	14	–	2,418,604
		101,086	2,419,130
Net assets		6,939,211	6,659,014
Capital and reserves			
Share capital	15(a)	182,298	182,298
Reserves		6,386,551	6,140,207
Total equity attributable to equity shareholders of the Company		6,568,849	6,322,505
Non-controlling interests		370,362	336,509
Total equity		6,939,211	6,659,014

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity	
	Note	Share capital	Other reserves	Statutory reserve	Exchange reserve	Fair value reserve	Retained profits			Total
		(note 15(a)) RMB'000	RMB'000	RMB'000	RMB'000	(non-recycling) RMB'000	RMB'000			RMB'000
Balance at 1 January 2019 (Audited)		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 June 2019:										
Profit for the period (Unaudited)		-	-	-	-	-	367,362	367,362	(10,933)	356,429
Other comprehensive income (Unaudited)		-	-	-	3,448	-	-	3,448	-	3,448
Total comprehensive income (Unaudited)		-	-	-	3,448	-	367,362	370,810	(10,933)	359,877
Balance at 30 June 2019 (Unaudited)		182,298	90,489	560,432	(105,410)	16,362	5,394,289	6,138,460	115,806	6,254,266
Balance at 1 January 2020 (Audited)		182,298	418,491	805,295	(143,998)	15,495	5,044,924	6,322,505	336,509	6,659,014
Changes in equity for the six months ended 30 June 2020:										
Profit for the period (Unaudited)		-	-	-	-	-	301,966	301,966	33,853	335,819
Other comprehensive income (Unaudited)		-	-	-	(29,854)	2,036	-	(27,818)	-	(27,818)
Total comprehensive income (Unaudited)		-	-	-	(29,854)	2,036	301,966	274,148	33,853	308,001
Dividends declared and paid during the period (Unaudited)	15(b)	-	-	-	-	-	(27,804)	(27,804)	-	(27,804)
Balance at 30 June 2020 (Unaudited)		182,298	418,491	805,295	(173,852)	17,531	5,319,086	6,568,849	370,362	6,939,211

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Operating activities		
Cash generated from operations	57,375	227,702
Income tax paid	(154,020)	(199,656)
Net cash (used in)/generated from operating activities	(96,645)	28,046
Investing activities		
Payment for the purchase of property, plant and equipment	(3,947)	(2,062)
Proceeds from disposal of property, plant and equipment	8	(13)
Decrease in pledged bank deposits	111,037	59,831
Interest received	63,165	55,973
Other cash flows arising from investing activities	-	(1,385)
Net cash generated from investing activities	170,263	112,344
Financing activities		
Payment for repurchase of senior unsecured notes	(259,681)	(66,109)
Principal element of lease rentals paid	(2,221)	(2,481)
Interest element of lease rentals paid	(112)	(179)
Proceeds of new bank loans	201,032	-
Repayment of bank loans	(100,646)	(495)
Dividends paid	(27,804)	-
Interest paid	(81,333)	(102,393)
Net cash used in financing activities	(270,765)	(171,657)
Net decrease in cash and cash equivalents	(197,147)	(31,267)
Cash and cash equivalents at 1 January	3,422,295	1,651,281
Effect of foreign exchange rate changes	(19,143)	(476)
Cash and cash equivalents at 30 June	3,206,005	1,619,538

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. BASIS OF PREPARATION

These condensed consolidated financial statements for the six months ended 30 June 2020 (“interim financial statements”) 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 statements was authorised for issue by the Company’s board of directors on 18 August 2020.

The preparation of the interim financial statements 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.

The significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those described in the annual financial statements for the year ended 31 December 2019.

The interim financial statements contain 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 2019 annual financial statements. The 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”), and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2019. The accounting policies and methods of computation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2019.

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial statements 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 2019 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 17 March 2020.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs and revised conceptual framework for financial reporting that are first effective for the current accounting period of the Group.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

3. REVENUE AND SEGMENT REPORTING

(a) Revenue

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

Disaggregation of revenue

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

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
– Footwear	1,299,319	1,548,966
– Apparel	1,322,609	1,604,065
– Accessories	36,746	43,795
– Others	27,452	39,957
	2,686,126	3,236,783

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

The Group's customer base is diversified and has included three (six months ended 30 June 2019: two) with whom transactions have exceeded 10% of the Group's revenues. During the period ended 30 June 2020, revenues from sales of footwear, apparel and accessories to three customers (six months ended 30 June 2019: two customers), including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately RMB980 million (six months ended 30 June 2019: RMB792 million).

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

3. REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's most 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 those segments. The measure used for reporting segment profit is gross profit.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2020 and 2019 is set out below.

	Adults Six months ended 30 June		Kids Six months ended 30 June		Total Six months ended 30 June	
	2020	2019	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Disaggregated by timing of revenue recognition						
Point in time	2,284,326	2,848,376	401,800	388,407	2,686,126	3,236,783
Revenue from external customers	2,284,326	2,848,376	401,800	388,407	2,686,126	3,236,783
Inter-segment revenue	20,103	-	-	-	20,103	-
Reportable segment revenue	2,304,429	2,848,376	401,800	388,407	2,706,229	3,236,783
Cost of sales	(1,432,856)	(1,687,486)	(257,445)	(226,612)	(1,690,301)	(1,914,098)
Reportable segment profit (gross profit)	871,573	1,160,890	144,355	161,795	1,015,928	1,322,685

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

3. REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Revenue		
Reportable segment revenue	2,706,229	3,236,783
Elimination of inter-segment revenue	(20,103)	–
Consolidated revenue (<i>note 3(a)</i>)	2,686,126	3,236,783
Profit before income tax		
Reportable segment profit	1,015,928	1,322,685
Elimination of inter-segment profit	(170)	–
Consolidated profit	1,015,758	1,322,685
Other revenue	90,733	100,765
Other net gain/(loss)	26,790	(1,885)
Selling and distribution expenses	(352,936)	(507,848)
Administrative expenses	(207,215)	(272,170)
Impairment losses on trade receivables	(34,937)	–
Gain on repurchase of senior unsecured notes	11,264	6,215
Finance costs	(87,253)	(108,204)
Consolidated profit before income tax	462,204	539,558

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

4. OTHER REVENUE AND OTHER NET GAIN/(LOSS)

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Other revenue		
Interest income on financial assets measured at amortised cost	50,468	56,402
Government grants [#]	34,618	29,645
Others	5,647	14,718
	90,733	100,765
Other net gain/(loss)		
Net foreign exchange gain/(loss)	26,771	(1,885)
Gain on lease modification	19	–
	26,790	(1,885)

Note:

[#] Government grants 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

5. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
(a) Finance costs:		
Interest on lease liabilities	112	179
Interest on bank and other borrowings	2,908	3,532
Finance charges on senior unsecured notes (<i>note 14</i>)	84,233	104,493
Total interest expense on financial liabilities not carried at fair value through profit or loss	87,253	108,204
(b) Other items:		
Depreciation of property, plant and equipment	40,187	47,977
Depreciation of right-of-use assets	3,615	3,663
Staff costs	242,549	252,381
Operating lease charges in respect of properties	761	5,943
Research and development costs*	101,934	100,496
Cost of inventories**	1,670,368	1,914,098

Notes:

* Research and development costs include RMB40,952,000 (six months ended 30 June 2019: RMB37,858,000) relating to staff costs of employees in the research and development department and depreciation, which amounts are also included in the respective total amounts disclosed separately above. Research and development costs included in administrative expenses in the condensed consolidated statement of profit or loss.

** Cost of inventories includes RMB27,261,000 (six months ended 30 June 2019: nil) relating to written off of inventories and RMB122,753,000 (six months ended 30 June 2019: RMB122,860,000) relating to staff costs and depreciation, which amounts are also included in the respective amount disclosed separately above.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

6. INCOME TAX EXPENSE IN THE CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Current tax – PRC income tax		
Provision for the period	114,872	192,471
Over provision in respect of prior periods	–	(12,109)
	114,872	180,362
Deferred tax		
Origination of temporary differences	11,513	2,767
	126,385	183,129

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 (six months ended 30 June 2019: nil).
- (ii) No provision has been made for Profits Tax in Hong Kong, Brazil, United States of America and the Netherlands as the Group did not earn any income subject to Profits Tax in Hong Kong, Brazil, United States of America and the Netherlands during the six months ended 30 June 2020 (six months ended 30 June 2019: nil).
- (iii) All PRC subsidiaries are subject to income tax at 25% (six months ended 30 June 2019: 25%) for the six months ended 30 June 2020 under the Enterprise Income Tax law ("EIT law"), except for one of the subsidiaries of the Company operating in the PRC which were approved to be a high and new technology enterprise ("HNTE"). Enterprise approved to be HNTE are entitled to enjoy a reduced enterprise income tax rate of 15% and additional 75% tax reduction based on the eligible research and development expenses with a validity period of three years. The subsidiary was approved to be HNTE and enjoyed the preferential tax rate for HNTE for the six months ended 30 June 2020 and 2019.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB301,966,000 (six months ended 30 June 2019: RMB367,362,000) and the weighted average of 2,067,602,000 (six months ended 30 June 2019: 2,067,602,000) ordinary shares in issue during the six months ended 30 June 2020.

(b) Diluted earnings per share

Diluted earnings per share is the same as basic earnings per share as the Company did not have dilutive potential shares outstanding during the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired and disposed items of property, plant and equipment of approximately RMB3,947,000 (six months ended 30 June 2019: approximately RMB4,144,000) and RMB8,000 (six months ended 30 June 2019: nil) respectively.

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Trade debtors	2,435,665	2,125,643
Less: Allowance for doubtful debts (<i>note 9(b)</i>)	(85,784)	(50,847)
Trade debtors, net of loss allowance	2,349,881	2,074,796
Bills receivables	162,200	124,578
	2,512,081	2,199,374
Deposits, prepayments and other receivables		
<i>Current</i>		
Deposits	175	8
Prepayments	728,897	531,642
Other receivables	63,640	107,824
	792,712	639,474
<i>Non-current</i>		
Deposits and prepayments	90,313	91,895

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

9. TRADE AND OTHER RECEIVABLES (Continued)

Included in prepayments are amounts prepaid to suppliers of RMB637,632,000 (31 December 2019: RMB451,784,000).

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

(a) Ageing analysis

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 90 days	1,806,050	1,500,107
Over 90 days but within 180 days	673,069	667,207
Over 180 days but within 360 days	32,962	32,060
	2,512,081	2,199,374

Trade debtors and bills receivables are due within 30 to 180 days (31 December 2019: 30 to 180 days) from the date of billing.

(b) Impairment of trade debtors and bills receivables

Impairment losses in respect of trade debtors and bills receivables 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 receivables directly. During the six months ended 30 June 2020, the Group recognised impairment loss on trade receivables of approximately RMB34,937,000 (six months ended 30 June 2019: nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

10. INVENTORIES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Raw materials	96,622	23,892
Work in progress	48,005	21,958
Finished goods	737,762	1,122,186
	882,389	1,168,036

11. CASH AND BANK DEPOSITS

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Pledged bank deposits	119,638	230,675
Deposits with banks		
– More than three months to maturity when placed	3,000,000	3,000,000
– Within three months to maturity when placed	3,538	392,029
Cash at bank and on hand	3,202,467	3,030,266
	6,325,643	6,652,970
Cash and bank deposits	6,325,643	6,652,970
Represented by:		
Pledged bank deposits	119,638	230,675
Deposits with banks	3,000,000	3,000,000
Cash and cash equivalents	3,206,005	3,422,295
	6,325,643	6,652,970

Bank deposits are pledged to banks as security for certain banking facilities and bills payable.

At 30 June 2020, balances that were placed with banks or on hand in the PRC and included in the pledged bank deposits, deposits with banks and cash and cash equivalents amounted to RMB6,222,440,000 (31 December 2019: 6,394,187,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

12. TRADE AND OTHER PAYABLE

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Trade creditors	786,874	720,726
Bills payables	417,235	850,420
Contract liabilities	186,251	164,496
Other payables and accruals	633,090	570,525
	2,023,450	2,306,167

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 payables as at 30 June 2020 and 31 December 2019 were secured by pledged bank deposits as disclosed in note 11 and guaranteed by certain subsidiaries of the Company.

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Due within 1 month or on demand	355,865	745,242
Due after 1 month but within 3 months	376,050	374,472
Due after 3 months but within 6 months	304,258	451,432
Due after 6 months but within 12 months	167,936	-
	1,204,109	1,571,146

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

13. BANK LOANS

As at 30 June 2020, the bank loans were repayable within one year or on demand and secured as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Secured bank loans	10,740	11,186
Unsecured bank loans	201,032	100,000
	211,772	111,186
Non-current	100,000	–
Current	111,772	111,186
	211,772	111,186

As at 30 June 2020, secured bank loans and bills payable of the Group were secured by a property with carrying amount of approximately RMB43,829,000 (31 December 2019: approximately RMB43,571,000) and pledged bank deposits of approximately RMB119,638,000 (31 December 2019: approximately RMB230,675,000). As at 30 June 2020 and 31 December 2019, bank loans and bills payable of the Group were also guaranteed by certain subsidiaries of the Company.

14. INTEREST-BEARING BORROWINGS

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
At amortised cost:		
Senior unsecured notes due 2021		
Non-current	–	2,418,604
Current	2,164,752	–
	2,164,752	2,418,604

On 3 June 2016, the Company issued senior unsecured notes with principal amount of United States dollars (“US\$”) 400,000,000 due 2021 (the “US\$ Notes”). The US\$ Notes are interest bearing at 7.25% per annum, and payable on a 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.

During the year ended 31 December 2019, the Company repurchased an aggregate principal amount of US\$53,750,000 (equivalent to approximately RMB370,200,000) in the open market, representing approximately 13.4% of the initial aggregate principal amount of the US\$ Notes. All the repurchased notes were cancelled during the year ended 31 December 2019. As at 31 December 2019, the remaining aggregate principal amount of the US\$ Notes outstanding was US\$346,250,000.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

14. INTEREST-BEARING BORROWINGS (Continued)

During the six months ended 30 June 2020, the Company further repurchased an aggregate principal amount of US\$38,540,000 (equivalent to approximately RMB272,907,000) (six months ended 30 June 2019: US\$11,000,000 (equivalent to approximately RMB75,907,000)) ("Repurchased Notes") in the open market, representing approximately 9.64% (six months ended 30 June 2019: 2.75%) of the initial aggregate principal amount of the US\$ Notes. All the repurchased notes were cancelled during the six months ended 30 June 2020. As at 30 June 2020, the remaining aggregate principal amount of the US\$ Notes outstanding was US\$307,710,000.

The difference between the carrying amount at amortised cost of approximately RMB270,945,000 (six months ended 30 June 2019: RMB59,894,000) and the payment of the Repurchased Notes of approximately RMB259,681,000 (six months ended 30 June 2019: RMB66,109,000) is recognised in profit or loss as gain on repurchase of senior unsecured notes of approximately RMB11,264,000 (six months ended 30 June 2019: RMB6,215,000) for the six months ended 30 June 2020.

15. CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	At 30 June 2020		At 31 December 2019	
	No. of shares '000	Amount HK\$'000	No. of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.1 each	10,000,000	1,000,000	10,000,000	1,000,000

	No. of shares '000	Amount HK\$'000	RMB'000
	Ordinary shares, issued and fully paid: At 1 January 2019, 31 December 2019, 1 January 2020 and 30 June 2020	2,067,602	206,760

(b) Dividends

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

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Interim dividend declared after the period of nil cents (six months ended 30 June 2019: HK8.2 cents) per ordinary share	–	148,867
Special dividend declared after the period of nil cents (six months ended 30 June 2019: HK1.1 cents) per ordinary share	–	20,676
	–	169,543

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

15. CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends (Continued)

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

The interim and special dividend declared have not been provided in the interim financial statements during the period.

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

The board of the Company has resolved to recommend the payment of the proposed final dividend of HK1.5 cents per ordinary share (“Proposed Final Dividend”) subject to the approval of the shareholders at the annual general meeting (the “AGM”), in the annual results announcement for the financial year ended 31 December 2019 dated 17 March 2020.

Due to inadvertent oversight, the proposed resolution approving the declaration of the Proposed Final Dividend was omitted from the notice of the AGM dated 23 March 2020.

According to the announcement date on 28 April 2020, the board of the Company resolved at its meeting held on 28 April 2020 to pay a 2019 special dividend of HK1.5 cents per ordinary share, being an amount identical to the Proposed Final Dividend, in substitution of the Proposed Final Dividend.

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Special dividend in respect of the previous financial year, approved and paid during the period of HK1.5 cents (six months ended 30 June 2019: nil cents) per ordinary share	27,804	–

16. MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Short-term employee benefits	15,497	15,881
Post-employment benefits	233	246
	15,730	16,127

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets 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 measurements categorised into			
	Fair value RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement:				
At 30 June 2020				
Financial asset:				
Unlisted equity security	27,388	-	-	27,388
At 31 December 2019				
Financial asset:				
Unlisted equity security	24,992	-	-	24,992

During the six months ended 30 June 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (six months ended 30 June 2019: nil). 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets measured at fair value (Continued)

(ii) Information about Level 3 fair value measurements

The fair value of unlisted equity instruments is determined by adjusted net assets value approach. Under adjusted net assets value approach, total value of the equity was based on the sum of the net asset value, determined by marking every asset and liability on (and of) the investee's balance sheet to fair value. The fair value measurement is negatively correlated to the discount for lack of marketability. As at 30 June 2020, it is estimated that with all other variables held constant, a decrease/increase in discount for lack of marketability by 5% (31 December 2019: 5%) would have increased/decreased the Group's other comprehensive income by approximately RMB2,740,000 (31 December 2019: approximately RMB2,586,000).

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

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Balance at 1 January	24,992	28,579
Net unrealised gain/(loss) recognised in other comprehensive income during the period	2,396	(10)
Balance at 30 June	27,388	28,569

18. COMMITMENTS

(a) Contractual commitments outstanding at 30 June 2020 not provided for in the interim financial statements were as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Advertising and marketing expenses	96,052	137,483

(b) Capital commitments outstanding at 30 June 2020 not provided for in the interim financial statements were as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Authorised and contracted for	2,249	2,249

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

18. COMMITMENTS (Continued)

- (c) At 30 June 2020, the lease commitments for short-term leases not included in the lease liabilities as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 1 year	1,068	1,769
After 1 year but within 5 years	420	–
	1,488	1,769

19. EVENTS AFTER THE REPORTING PERIOD

(a) Formation of partnership

On 16 July 2020, Sanliuyidu (China) Co., Ltd. (三六一度(中國)有限公司)[#], a wholly-owned subsidiary of the Company, entered into a limited partnership agreement (the “Limited Partnership Agreement”) with two independent third parties, in respect of the establishment of a limited partnership in the PRC (the “Partnership”). According to the Limited Partnership Agreement, the total amount of capital commitments of the Partnership is RMB1,100,000,000 of which the Group and the two independent third parties will contribute RMB550,110,000, RMB548,790,000 and RMB1,100,000 respectively. Up to the date of issue of these interim financial statements, the Group and the two independent third parties have not contributed into the Partnership.

On the same date, after the establishment of the Partnership, the Partnership entered into a capital increase agreement (the “Capital Increase Agreement”) with (i) shareholders of Duoyidu (Quanzhou) E-commerce Co., Ltd. (多一度(泉州)電子商務有限公司)[#] (“Duoyidu Quanzhou”), an indirect non-wholly owned subsidiary of the Company and (ii) Duoyidu Quanzhou, pursuant to which the Partnership agreed to make an investment into Duoyidu Quanzhou of RMB1,100,000,000 by cash (the “Investment”).

Upon completion of the Investment, the Group’s effective interest in Duoyidu Quanzhou will decrease from 80% to 69.25%.

Details of the above transactions are set out in the announcements of the Company dated 7 July 2020, 16 July 2020 and 22 July 2020.

(b) Repurchase of senior unsecured notes due 2021

Subsequent to the period, the Company further repurchased US\$ Notes with an aggregate principal amount of US\$13,200,000 in the open market, representing approximately 3.30% of the initial aggregate principal amount of the US\$ Notes. Up to the date of issue of these interim financial statements, the remaining aggregate principal amount of the US\$ Notes outstanding was US\$294,510,000.

Note:

[#] The English translation of the company names is for reference only. The official names of these companies are in Chinese.

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 Appendix 14 to the Listing Rules during the six months ended 30 June 2020.

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

As at 30 June 2020, 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 associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules, were as follows:

LONG AND SHORT POSITION IN THE COMPANY

Name of Director	Long/short position	Nature of interest	Note	Number of ordinary shares	Percentage
Mr. Ding Wuhao	Long	Beneficial owner		11,962,000	0.58%
		Interest in controlled corporation	(1)	340,066,332	16.45%
Mr. Ding Huihuang	Long	Beneficial owner		9,189,000	0.44%
		Interest in controlled corporation	(2)	327,624,454	15.85%
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 327,624,454 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.

Save as disclosed above, as at 30 June 2020, none of the Directors or chief executive of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION

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

As at 30 June 2020, the interests or short positions of the persons (other than a Director or chief executive of the Company) in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of shareholders	Note	Nature of interest	Long/Short position in ordinary shares held ⁽¹⁾	Percentage of total issued shares
Dings International Company Limited	(2)	Beneficial owner	L 340,066,332	16.45%
Ming Rong International Company Limited	(3)	Beneficial owner	L 327,624,454	15.85%
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:

- The letter "L" indicates long position whereas the letter "S" indicates short position.
- 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 sole director of Dings International Company Limited.
- 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 sole director of Ming Rong International Company Limited.
- 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 sole director of Hui Rong International Company Limited.
- 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 sole director of Jia Wei International Co., Ltd..
- These shares are held by Jia Chen International Co., Ltd., which the entire issued share capital is owned by Mr. Wang Jiachen. Mr. Wang Jiachen is the brother of Mr. Wang Jiabi, an executive director.

Save as disclosed above, as at 30 June 2020, no person (other than a Director or chief executive of the Company) had registered an interest or short position in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2020, the Company had repurchased on the Stock Exchange an aggregate principal amount of US\$38,540,000 of the 7.25% senior unsecured notes due 2021 listed on the Stock Exchange (bond code: 5662) (the “Notes”) for an aggregate consideration of US\$36,651,000, and the repurchased Notes had subsequently been cancelled. As of 30 June 2020, the aggregate principal amount of the outstanding Notes amounted to US\$307,710,000, representing 76.9% of the initial aggregate principal amount of the Notes.

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 2020.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to 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 2020.

REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The Company has established an audit committee which is accountable to the Board and the primary duties of which include the review and supervision of the Group’s financial reporting process and internal control measures.

The audit committee 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 2020. They considered that the unaudited interim financial statements of the Group for the six months ended 30 June 2020 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

18 August 2020

DIVIDENDS

The Board resolved not to declare an interim dividend for the six months ended 30 June 2020.

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road, George Town
P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong SAR of the PRC

INVESTOR RELATIONS CONTACT

Room 1609, Office Tower
Convention Plaza
1 Harbour Road
Wanchai, Hong Kong SAR of the PRC
Tel: +852 2907 7033

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

Li Yuen Fai Roger (李苑輝)
(resignation effective 4 August 2020)
Hon Ping Cho Terence (韓炳祖)
Chen Chuang (陳闌)
Wu Ming Wai Louie (胡明偉)
(appointed on 4 August 2020)

BOARD COMMITTEES

Audit Committee

Wu Ming Wai Louie (胡明偉)
(Chairman) (appointed as chairman
and member on 4 August 2020)
Li Yuen Fai Roger (李苑輝) (Chairman)
(resignation as the chairman
and member effective from
4 August 2020)
Hon Ping Cho Terence (韓炳祖)
Chen Chuang (陳闌)

Remuneration Committee

Chen Chuang (陳闌) (Chairman)
Wang Jiabi (王加碧)
Hon Ping Cho Terence (韓炳祖)

Nomination Committee

Hon Ping Cho Terence (韓炳祖)
(Chairman)
Ding Wuhao (丁伍號)
Li Yuen Fai Roger (李苑輝)
(resignation effective from
4 August 2020)
Wu Ming Wai Louie (胡明偉)
(appointed on 4 August 2020)

COMPANY SECRETARY

Choi Mun Duen (蔡敏端) FCCA, HKICPA
(resignation effective 4 August 2020)
Li Yuen Fai Roger (李苑輝)
FCCA, HKICPA
(appointed on 4 August 2020)

AUTHORISED REPRESENTATIVES

Ding Wuhao (丁伍號)
Choi Mun Duen (蔡敏端)
(resignation effective 4 August 2020)
Li Yuen Fai Roger (李苑輝)
(appointed on 4 August 2020)

HEAD OFFICE IN THE PRC

361° Building
Huli High-technology Park
Xiamen, Fujian Province 361009
the PRC

FACTORIES IN THE PRC

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Jiangtuo Village
Chendai Town
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Fujian Province
the PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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REGISTERED OFFICE

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

AUDITOR

Moore Stephens CPA Limited

LEGAL ADVISERS AS TO HONG KONG LAWS

Chiu & Partners

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