361 Degrees International Limited
361度國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1361)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2009

HIGHLIGHTS

1. Successfully listed on the main board of the Hong Kong Stock Exchange on 30 June 2009.

2. Turnover increased by 161.7% from RMB1,317.1 million for the year ended 30 June 2008 to RMB3,446.6 million for the year ended 30 June 2009.

3. Gross profit increased by 243.0% from RMB348.0 million for the year ended 30 June 2008 to RMB1,193.8 million for the year ended 30 June 2009, while gross profit margin increased from 26.4% to 34.6% during the same period.

4. Profit for the year increased by 253.2% from RMB179.0 million for the year ended 30 June 2008 to RMB632.1 million for the year ended 30 June 2009.

5. Basic earnings per Share increased by 253.8% from RMB11.9 cents per share for the year ended 30 June 2008 to RMB42.1 cents per share for the year ended 30 June 2009.

6. The Board proposed to declare a final dividend of RMB6.5 cents (equivalent to HK7.4 cents) per share, subject to approval by shareholders at the forthcoming annual general meeting of the Company, representing a total payout of RMB134.3 million.

FINAL RESULTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

The board (the "Board") of directors (the "Directors") of 361 Degrees International Limited ("the Company") is pleased to announce the consolidated results of the Company and its subsidiaries (together referred to as "the Group") for the year ended 30 June 2009, with the comparative figures for the preceding financial year ended 30 June 2008, as follows:

Consolidated income statement

for the year ended 30 June 2009

	Note	**2009** **RMB'000**	2008 RMB'000
Turnover	*4*	**3,446,588**	1,317,069
Cost of sales		**(2,252,785)**	(969,041)
Gross profit		**1,193,803**	348,028
Other revenue	*5*	**8,061**	2,467
Other loss	*5*	**(56)**	(1,948)
Selling and distribution expenses		**(372,364)**	(106,409)
Administrative expenses		**(89,244)**	(39,595)
Profit from operations		**740,200**	202,543
Finance costs	*6(a)*	**(15,800)**	(5,371)
Profit before taxation	*6*	**724,400**	197,172
Income tax	*7(a)*	**(92,289)**	(18,199)
Profit for the year		**632,111**	178,973
Dividends payable to equity shareholders of the Company attributable to the year:	*8*		
Dividends declared during the year		**76,742**	—
Dividend proposed after the balance sheet date		**134,252**	—
		210,994	—
Earnings per share	*9*		
Basic (cents)		**42.1**	11.9
Diluted (cents)		**42.1**	N/A

Consolidated balance sheet

at 30 June 2009

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Fixed assets			
— Property, plant and equipment		**246,627**	88,655
— Interests in leasehold land held for own use under operating leases		**86,545**	23,425
		333,172	112,080
Current assets			
Inventories		**83,637**	181,056
Trade and other receivables	*10*	**1,591,795**	673,767
Amounts due from related parties		**—**	38,017
Pledged bank deposits		**86,700**	38,500
Cash and cash equivalents		**1,983,546**	108,895
		3,745,678	1,040,235
Current liabilities			
Bank loans		**267,000**	149,500
Trade and other payables	*11*	**1,227,297**	534,713
Amounts due to a shareholder of the Company		**—**	142,149
Current taxation		**64,851**	4,783
		1,559,148	831,145
Net current assets		**2,186,530**	209,090
Total assets less current liabilities		**2,519,702**	321,170
Non-current liabilities			
Deferred tax liabilities		**9,504**	3,584
NET ASSETS		**2,510,198**	317,586
CAPITAL AND RESERVES			
Share capital		**176,340**	82,724
Reserves		**2,333,858**	234,862
TOTAL EQUITY		**2,510,198**	317,586

1. **General information**

The Company was incorporated in the Cayman Islands on 1 August 2008. The Group is principally engaged in manufacturing and sales of sporting goods, including footwear, apparel and accessories in the People's Republic of China ("PRC"). Pursuant to a corporate reorganisation ("the Corporate Reorganisation"), the Company acquired the issued shares of Sanliuyidu Holdings Company Limited by issuing shares to the common shareholders and become the holding company of the Group on 15 August 2008. Details of the Corporate Reorganisation are set out in the prospectus of the Company dated 18 June 2009.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") on 30 June 2009.

The Group is regarded as a continuing entity resulting from the Corporate Reorganisation under common control and has been accounted for on the basis of merger accounting. The consolidated financial statements of the Group have been prepared as if the current group structure had been in existence throughout both years presented, or since the respective dates of incorporation or establishment of the group companies, rather than from the date when the Company became the holding company of the Group pursuant to the Reorganisation.

2. **Changes in accounting policies**

The Hong Kong Institute of Certified Public Accountants has issued the following new Interpretations and amendments to Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Group and the Company:

— HK(IFRIC) 11, *HKFRS 2 — Group and treasury share transactions*
— HK(IFRIC) 12, *Service concession arrangements*
— HK(IFRIC) 14, *HKAS 19, The limit on a defined benefit asset, minimum funding requirements and their interaction*
— Amendment to HKAS 39, *Financial instruments: Recognition and measurement,* and HKFRS 7, *Financial instruments: Disclosures — Reclassification of financial assets*

These HKFRS developments have had no material impact on the Group's financial statements as either they were consistent with accounting policies already adopted by the Group or they were not relevant to the Group's and the Company's operations.

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

3. **Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group operates in a single business segment, manufacturing and sales of sporting goods in the PRC. Accordingly, no segmental analysis is presented.

4. **Turnover**

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

	2009	2008
	RMB'000	*RMB'000*
Footwear	**1,616,979**	866,134
Apparel	**1,754,936**	432,737
Accessories and others	**74,673**	18,198
	3,446,588	1,317,069

5. Other revenue and other loss

	2009	2008
	RMB'000	*RMB'000*
Other revenue		
Interest income	**1,691**	362
Government grants	**6,370**	2,105
	8,061	2,467
Other loss		
Loss on disposal of fixed assets	**(56)**	(1,948)

Government grants of RMB6,370,000 (2008: RMB2,005,000) were received from several local government authorities for the Group's contribution to local economies, of which the entitlement was unconditional and under the discretion of the relevant authorities.

The remaining government grants of RMB100,000 during the year ended 30 June 2008 were granted for subsidising the Group's research project in the PRC of which the entitlement was conditional. Grants were recognised as deferred income initially and credited as other revenue in profit or loss upon the satisfaction of the conditions attaching to the grants.

6. Profit before taxation

Profit before taxation is arrived at after charging:

		2009 *RMB'000*	2008 *RMB'000*
(a)	Finance costs:		
	Interest on bank borrowings wholly repayable within five years	**15,800**	5,371
(b)	Staff costs:		
	Contributions to defined contribution retirement plans	**3,142**	315
	Equity-settled share-based payment expenses	**490**	—
	Salaries, wages and other benefits	**102,125**	70,949
		105,757	71,264
(c)	Other items:		
	Auditors' remuneration	**725**	50
	Amortisation of land lease premium	**1,420**	435
	Depreciation	**9,282**	4,600
	Impairment losses on trade and other receivables	**25,241**	8,901
	Operating lease charges in respect of properties	**3,250**	663
	Research and development costs *	**14,818**	3,639
	Cost of inventories **	**2,252,785**	969,041

* Research and development costs include RMB6,016,000 (2008: RMB772,000) relating to staff costs of employees in the research and development department, which amount is also included in the total staff costs as disclosed in note 6(b).

** Cost of inventories includes RMB85,926,000 (2008: RMB62,884,000) relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

7. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2009	2008
	RMB'000	*RMB'000*
Current tax — PRC income tax		
Provision for the year	**86,369**	13,270
Deferred tax		
Origination and reversal of temporary differences	**5,920**	4,929
	92,289	18,199

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

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

(iii) Pursuant to the income tax rules and regulations of the PRC, provision for PRC enterprise income tax is calculated based on a statutory rate of 25% of the assessable profits of the companies comprising the Group. During the year, certain PRC subsidiaries are subject to tax at 50% of the standard tax rates or fully exempt from income tax under the relevant tax rules and regulations.

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

	2009	2008
	RMB'000	*RMB'000*
Profit before taxation	**724,400**	197,172
Notional tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned	**181,100**	48,987
Tax effect of non-deductible expenses	**4,624**	532
Tax effect of profits entitled to tax exemption in the PRC	**(93,435)**	(31,320)
Actual tax expense	**92,289**	18,199

8. Dividends

Dividends payable to equity shareholders of the Company attributable to the year:

	2009 *RMB'000*	2008 *RMB'000*
Dividends declared during the year	**76,742**	—
Final dividend proposed after the balance sheet date of RMB6.5 cents per share	**134,252**	—
	210,994	—

Dividends declared during the year represent dividends declared prior to listing of the Company. The rate of dividend per share is not presented for these dividends as it is not indicative of the rate at which future dividends will be declared.

The final dividend of RMB6.5 cents per share proposed after the balance sheet date is subject to approval by the Company's shareholders at the forthcoming annual general meeting of the Company and has not been recognised as a liability at the balance sheet date.

9. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB632,111,000 (2008: RMB178,973,000) and the weighted average number of shares in issue during the year of 1,501 million (2008: 1,500 million). The weighted average number of shares in issue during the years ended 30 June 2008 and 2009 is based on the assumption that 1,500 million shares were in issue as if the shares issued at the date the Company became the holding company of the Group were outstanding throughout the entire year.

Weighted average number of ordinary shares

	2009 *'000*	2008 *'000*
Capitalisation upon legal establishment	**1,500,000**	1,500,000
Effect of shares issued upon placing and public offering on 30 June 2009	**1,370**	—
Weighted average number of ordinary shares at 30 June	**1,501,370**	1,500,000

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB632,111,000 and the weighted average number of ordinary shares of 1,502 million adjusted for the potential dilutive effect caused by the share options granted under Pre-IPO share option scheme. No disclosure of diluted earnings per share for the year ended 30 June 2008 has been made as there were no potential dilutive shares outstanding during that year.

Weighted average number of ordinary shares (diluted)

	2009
	'000
Weighted average number of ordinary shares at 30 June	**1,501,370**
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**302**
Weighted average number of ordinary shares (diluted) at 30 June	**1,501,672**

10. Trade and other receivables

	2009	2008
	RMB'000	*RMB'000*
Trade debtors	**1,453,033**	525,942
Bills receivable	**—**	25,520
Less: allowance for doubtful debts	**(39,520)**	(14,279)
	1,413,513	537,183
Deposits, prepayments and other receivables	**178,282**	136,584
	1,591,795	673,767

All of the trade and other receivables are expected to be recovered within one year, except that the Group's deposits, prepayments and other receivables totalling RMB21,963,000 (2008: RMB21,456,000) are expected to be recovered or recognised as expenses after more than one year.

(a) Ageing analysis

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following ageing analysis, based on the date of invoice, as of the balance sheet date:

	2009	2008
	RMB'000	*RMB'000*
Within 90 days	**1,079,042**	393,264
Over 91 days but less than 180 days	**312,456**	94,973
181 to 360 days	**22,015**	48,946
	1,413,513	537,183

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2009	2008
	RMB'000	*RMB'000*
At 1 July 2008/2007	**14,279**	5,378
Impairment loss recognised	**25,241**	8,901
At 30 June 2009/2008	**39,520**	14,279

At 30 June 2009, the Group's trade debtors and bills receivable of RMB39,520,000 (2008: RMB14,279,000) were individually determined to be impaired. The individually impaired receivables related to a number of customers and management assessed that the receivables were not recoverable. Consequently, specific allowances for doubtful debts were recognised. The Group does not hold any collateral over these balances.

(c) Trade debtors and bills receivable that are not impaired

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

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	2009	2008
	RMB'000	*RMB'000*
Not past due	**1,269,012**	280,852
Less than 1 month past due	**45,728**	112,412
1 to 3 months past due	**98,773**	94,973
More than 3 months past due	**—**	48,946
Amount past due	**144,501**	256,331
	1,413,513	537,183

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

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

11. Trade and other payables

	2009	2008
	RMB'000	*RMB'000*
Trade payables	**662,280**	327,276
Bills payable	**320,000**	143,500
Receipts in advance	**26,791**	32,314
Other payables and accruals	**218,226**	31,623
Total	**1,227,297**	534,713

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

Bills payable as at 30 June 2009 and 2008 were secured by pledged bank deposits.

At 30 June 2008, certain bills payable of RMB46,500,000 were guaranteed by a related party. In addition, bills payable of RMB92,000,000 were jointly guaranteed by certain shareholders of the Company and a related party. The guarantees were released during the year ended 30 June 2009.

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	2009	2008
	RMB'000	*RMB'000*
Due within 1 month or on demand	**122,009**	49,174
Due after 1 month but within 3 months	**173,357**	93,275
Due after 3 months but within 6 months	**686,914**	328,327
Total	**982,280**	470,776

MANAGEMENT DISCUSSION ANALYSIS

Financial Review

Revenues

Looking back to the year 2008/09, the vast majority of the Group's revenues was derived from sales of 361° products, consisting of footwear, apparel and accessories, and an insignificant amount was from the sales of raw materials. The following table sets forth a breakdown of the Group's revenues during the year 2008/09:

For the financial year ended 30 June

	2009		2008		
	RMB'000	**% of total revenues**	*RMB'000*	% of total revenues	Growth of revenues (%)
Revenues					
Footwear	**1,616,979**	**46.9%**	866,134	65.8%	86.7%
Apparel	**1,754,936**	**50.9%**	432,737	32.8%	305.5%
Accessories and others [(1)]	**74,673**	**2.2%**	18,198	1.4%	310.3%
Total	**3,446,588**	**100%**	1,317,069	100%	

Note:

(1) "Others" include revenues from sales of raw materials.

The significant growth of the 361° product sales was primarily due to the successful promotion of the 361° brand, rapid expansion of the 361° retail network, which grew from 4,632 361° authorized retail outlets as of the financial year ended 30 June 2008 ("the 2007/08 year" or "last year") to 6,055 as of the financial year ended 30 June 2009 ("the 2008/09 year" or "current year"), improved product design, expansion of our range of product offerings, and the Group's conversion to an exclusive distributorship business model, which encouraged the Group's distributors to concentrate their resources exclusively on the wholesale distribution of 361° products and help the Group to develop and expand the 361° retail network.

The following table sets forth the number of units sold and the average wholesale selling prices of the Group's 361° products during the year 2008/09:

For the financial year ended 30 June

	2009		2008	
	Total units sold	**Average wholesale selling price[(1)]**	Total units sold	Average wholesale selling price[(1)]
	'000	***RMB***	*'000*	*RMB*
361° Products				
Footwear (pairs)	**20,449**	**79.1**	12,095	71.6
Apparel (pieces)	**28,802**	**60.9**	8,756	49.4
Accessories (pieces/pairs)	**7,432**	**9.8**	1,442	6.8

Note:

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

The total number of pairs of 361° footwear sold increased by 69.1% from 12.1 million last year to 20.4 million during the current year. This increase was primarily due to the successful promotion of the 361° brand, rapid expansion of the 361° retail network, improved product design, expansion of the Group's range of product offerings, and the Group's conversion to an exclusive distributorship business model. Increasing market demand for sportswear products and improving economic conditions in the PRC also contributed to the increase in sales. The average wholesale selling price of the 361° footwear increased by 10.5% from RMB71.6 last year to RMB79.1 during the current year, primarily because the Group was able to increase the suggested retail price of 361° footwear due to the greater brand recognition of the 361° brand.

The total number of pieces of 361° apparel sold increased by 228.9% from 8.8 million last year to 28.8 million during the current year, primarily because the Group strategically sought to increase the sales mix of 361° apparel as apparel generally has higher profit margins than footwear products. Meanwhile, the increase in the market acceptance of 361° apparel led to an increasing demand of 361° apparel. The average wholesale selling price of 361° apparel increased by 23.3% from RMB49.4 last year to RMB60.9 during the current year.

During the current year, the total number of pieces/pairs of 361° accessories sold was 7.4 million and the average wholesale selling price was RMB9.8.

Revenues breakdown by regions

For the financial year end 30 June

	2009		2008		
	RMB'000	**% of total revenues**	*RMB'000*	% of total revenues	Growth rate (%)
361° products					
East China(1)	**985,890**	**28.6**	309,404	23.5	218.6
South China(2)	**1,184,356**	**34.4**	430,135	32.7	175.3
Southwest China(3)	**275,660**	**8.0**	96,140	7.3	186.7
Northeast China(4)	**517,434**	**15.0**	236,753	18.0	118.6
North China(5)	**402,721**	**11.7**	211,773	16.1	90.2
Northwest China(6)	**80,527**	**2.3**	32,864	2.4	145.0
Total	**3,446,588**	**100%**	1,317,069	100%	

Note:

(1) East China includes Shanghai, Jiangsu, Zhejiang, Anhui, Shandong, Jiangxi and Fujian.
(2) South China includes Hubei, Hunan, Henan, Guangxi, Guangdong and Hainan.
(3) Southwest China includes Sichuan, Guizhou, Tibet, Yunnan and Chongqing.
(4) Northeast China includes Heilongjiang, Liaoning and Jilin.
(5) North China includes Tianjin, Hebei, Shanxi, Beijing and Inner Mongolia.
(6) Northwest China includes Shaanxi, Ningxia, Gansu, Qinghai and Xinjiang.

Cost of sales

The following table sets forth a breakdown of cost of sales for 361° products (excluding the cost of sales related to the sales of raw materials) during the year:

For the financial year ended 30 June

	2009		2008	
	RMB'000	***% of total costs of sales***	*RMB'000*	*% of total costs of sales*
361° Products				
Footwear (internal production)				
Raw materials	**484,086**	**21.6**	452,026	47.0
Labour	**74,975**	**3.3**	48,300	5.0
Manufacturing costs	**119,235**	**5.3**	97,597	10.2
Subtotal for internal production	**678,296**	**30.2**	597,923	62.2
Outscourced Products				
Footwear	**406,541**	**18.1**	62,419	6.5
Apparel	**1,121,523**	**49.8**	294,823	30.7
Accessories	**44,013**	**1.9**	5,651	0.6
Subtotal for outsourced products	**1,572,077**	**69.8**	362,893	37.8
Cost of sales for 361° products	**2,250,373**	**100.0**	960,816	100.0

Cost of sales for 361° products increased by 134.2% from RMB960.8 million last year to RMB2,250.4 million during the current year, primarily as a result of an increase in sales of the 361° products. The raw materials costs for internal footwear production increased by 7.1% from RMB452.0 million last year to RMB484.1 million during the current year, primarily due to the increase in the number of pairs of footwear produced and the use of raw materials of higher quality which had higher unit cost. Labour costs for internal footwear production increased by 55.2% from RMB48.3 million last year to RMB75.0 million during the current year, primarily because the Group increased the number of employees engaged in internal production and incurred additional salary expenses due to salary increases. Internal footwear production manufacturing costs increased by 22.2% from RMB97.6 million last year to RMB119.2 million during the current year, primarily because the Group expanded its manufacturing operations and increased the number of staff involved in the production process. Outsourced production costs increased by 333.2% from RMB362.9 million last year to RMB1,572.1 million during the current year, primarily because the volume of footwear, apparel and accessories that the Group purchased from its contract manufacturers increased and the increased use of raw materials of higher quality for apparel and accessories.

Substantially all of the Group's cost of sales was incurred for manufacturing of 361° products, consisting of footwear, apparel and accessories. In addition, a small portion of the Group's cost of sales incurred during the current year related to the sales of raw materials as well as sales of certain packaging materials.

Gross profit and gross profit margin

The following table sets forth a breakdown of the gross profit and gross profit margin for 361° products (excluding gross profit (loss) and gross profit (loss) margin related to sales of raw materials) during the current year:

For the financial year ended 30 June

	2009		2008	
	Gross profit *RMB'000*	**Gross profit margin** *%*	Gross profit *RMB'000*	Gross profit margin *%*
361° Products				
Footwear	**532,142**	**32.9**	205,792	23.8
Apparel	**633,413**	**36.1**	137,914	31.9
Accessories	**28,947**	**39.7**	3,962	41.2
Total	**1,194,502**	**34.7**	347,668	26.6

Gross profit for 361° products increased by 243.6% from RMB347.7 million last year to RMB1,194.5 million during the current year, primarily due to the increase in sales. Gross profit margin for 361° products increased from 26.6% last year to 34.7% during the current year because the rate of increase of revenues outpaced the rate of increase in cost of sales, which was primarily due to the upward movement in average wholesale selling price of 361° footwear and apparel, which comprised the majority of 361° product sales, as a result of successful brand promotion, improved product design and the expansion of the range of product offerings. Gross profit margin for 361° products was also positively affected by the result of the shift in the product mix towards 361° apparel and accessories, which on average have a higher gross profit margin than the 361° footwear.

Selling and distribution expenses

Selling and distribution expenses increased by 250.0% from RMB106.4 million last year to RMB372.4 million during the current year, primarily as a result of a significant increase in the Group's advertising and marketing expenses in relation to television advertising and sponsorships. In addition, costs associated with conducting the Group's sales fairs increased because sale fairs were held in major cities such as Wuhan City and Xiamen City instead of the Company's headquarters in Jinjiang City as in the periods prior to 2008. During the current year, selling and distribution expenses represented 10.8% of the Group's total revenues, as compared to 8.1% of the Group's total revenues last year.

Administrative expenses

Administrative expenses increased by 125.4% from RMB39.6 million last year to RMB89.2 million during the current year, mainly resulting from an increase in impairment losses on doubtful debts, professional fees paid to an external design firm, as well as increases in salaries and welfare payments as the Group recruited more staff and the salary levels increased.

Income tax expense

During the current year, income tax expense of the Group amounted to RMB92.3 million (2008: RMB18.2 million) mainly because of the significant increase in net profit before tax, with an effective tax rate of 12.7% (2008: 9.2%).

Profit for the year

As compared to the 2007/08 year, profit for the current year increased from RMB179.0 million to RMB632.1 million, representing a growth of 253.2%. This was mainly attributed to a stable gross profit margin and increase in sales volume.

Liquidity and financial resources

During the current year, net cash inflow from operating activities of the Group amounted to RMB555.0 million (2008: RMB4.7 million). As at 30 June 2009, cash and cash equivalents, including bank deposits and cash in hand, and fixed deposits with original maturities not exceeding three months, amounted to RMB1,983.5 million, representing a net increase of RMB1,874.7 million as compared to the position as at 30 June 2008. The increase was attributed to the following items:

	For the financial year ended 30 June 2009 *RMB'000*
Net cash inflow generated from operating activities	**555,035**
Net capital expenditure	**(152,160)**
Dividends paid	**(76,742)**
Proceeds from new bank loans	**405,500**
Repayment of bank loans	**(288,000)**
Proceeds from new shares issued, net of issuing expenses	**1,479,172**
Other net cash outflow	**(48,154)**
Net increase in cash and cash equivalents	**1,874,651**

The Group has always pursued a prudent treasury management policy and is in a strong liquidity position with sufficient standby banking facilities to cope with daily operations and future development demands for capital. As at 30 June 2009, total available banking facilities of the Group amounted to RMB935.0 million, among which the amount of outstanding bank borrowings and bills payables were RMB267.0 million and RMB320.0 million respectively. The ratio of outstanding bank borrowings to equity holders' equity was 10.6% (2008: 47.1%).

During the current year, the Group has not entered into any interest swap arrangements to hedge against interest rate risks.

Foreign exchange risk

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

During the current year, the Group did not hedge any exposure in foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may cause financial impacts on the Group.

Pledge of assets

As at 30 June 2009, the Group secured its bank borrowings by buildings with a carrying amount of RMB42.3 million (2008: Nil) and land with a carrying amount of RMB38.5 million (2008: RMB5.9 million).

Business Review

Sales and distribution network

Effective management of sales network is an integral element of the success of the Group. The Group converted its business model to an exclusive distributorship business model at the beginning of 2008, which encouraged the distributors to concentrate their resources on the wholesale distribution of 361° products of the Group and helped to expand the retail network.

As at 30 June 2009, the Group distributed its products through the network comprised of 30 distributors, all of which were independent third parties. The Group's distributors oversaw 3,277 361° authorized retailers. These authorized retailers, all of which were independent third parties, owned and managed a total of 6,055 361° authorized retail outlets. Collectively, the 361° retail network covers 31 provinces and more than 450 district-level cities, as well as more than 1,200 county-level cities in the PRC. The Group's distributors have direct contractual relationships with authorized retailers, but the Group does not. However, through the Group's distributors, the Group is able to indirectly impose certain operating requirements on 361° authorized retail outlets of authorized retailers, including compliance with the Group's standard operating procedures, uniform retail pricing policy, standard store display and layout, as well as customer service standards. In addition, the Group currently has 18 regional sales managers who are responsible for monitoring and assisting distributors and 361° authorized retail outlets in their respective geographic regions to ensure that the Group's distributors and authorized retailers in compliance with these operating requirements.

The number of 361° authorized retail outlets operated by the Group's authorized retailers has grown to 6,055 as of 30 June 2009, increasing by 1,423 outlets from 4,632 authorized retail outlets as of 30 June 2008. The Group will continue to expand and optimize the 361° retail network by working closely with the Group's distributors and leveraging their local resources and business networks.

The following table sets forth the geographic distribution of 361° authorized retail outlets operated by the Group's authorized retailers in the PRC under the 361° brand as of 30 June 2008 and 30 June 2009:

As at 30 June

	2009		2008	
	number of 361° authorized retail outlets	**% of total number of 361° authorized retail outlets**	*number of 361° authorized retail outlets*	*% of total number of 361° authorized retail outlets*
East China[(1)]	**1,863**	**30.8**	1,428	30.8
South China[(2)]	**1,320**	**21.8**	1,072	23.1
Southwest China[(3)]	**748**	**12.4**	475	10.3
Northeast China[(4)]	**866**	**14.3**	695	15.0
North China[(5)]	**920**	**15.2**	716	15.5
Northwest China[(6)]	**338**	**5.5**	246	5.3
Total	**6,055**	**100**	4,632	100

Notes:

(1) East China includes Shanghai, Jiangsu, Zhejiang, Anhui, Shandong, Jiangxi and Fujian.
(2) South China includes Hubei, Hunan, Henan, Guangxi, Guangdong and Hainan.
(3) Southwest China includes Sichuan, Guizhou, Tibet, Yunnan and Chongqing.
(4) Northeast China includes Heilongjiang, Liaoning and Jilin.
(5) North China includes Tianjin, Hebei, Shanxi, Beijing and Inner Mongolia.
(6) Northwest China includes Shaanxi, Ningxia, Gansu, Qinghai and Xinjiang.

Brand promotion and marketing

The Group's marketing and promotion strategies are important components of the Group's success. As the Group's success ultimately depends on the acceptance of 361° brand by consumers, the Group's brand promotion and marketing strategy has been focusing on developing the 361° brand into a sportswear brand that can be easily identified and associate with high performance, innovative and stylish sportswear products. This goal has been promoted through all of the Group's advertising activities (including print, billboard, bus, internet and television, retail sales and promotions, promotional events and activities) and marketing campaigns.

The Group's marketing strategy includes all aspects of the Group's product integration and strives to communicate the spirit of its brand to targeted groups as well as showcase the functionality, technological innovation and unique design style of the 361° products. The Group's marketing strategy has included availability of excellent resources and theme-based marketing promotions, such as sponsorship of international and national sporting events and high-end media resources: the Group was appointed as a Guangzhou 2010 Asian Games Sportswear Prestige Partner, and became a strategic partner of CCTV's Sports Channel. The Group has also endeavored to promote the unique brand image, design and product functionality of the 361° products to appeal to a diverse group of consumers, through different marketing channels. The Group will continue to center on communicating 361°'s brand message to the Group's targeted consumer groups and promoting acceptance and reputation of 361° brand, in order to accelerate internationalization process.

Sponsorships of sports events and top athletes as spokespersons

The Group had also developed creative integrated marketing campaigns through its multi-year sponsorship of high quality sporting events and selection of top athletes as the Group's spokespersons, which can promote the Group's brand image. For each event, the Group created promotional campaigns with various spokespersons to generate market awareness and build momentum for the event and for the 361° brand. The Group developed customized products that are cross-marketed during the event's promotional campaigns, and also held promotional activities at the 361° authorized retail outlets to closely integrate the 361° brand, the sponsored sporting event and 361° product, to maximize cross-selling opportunities.

The Group believes that it effectively leverages its distribution network, brand marketing capabilities, product research & development resources to accelerate the recognization and acceptance of the 361° brand, as well as expand the market share of the Group's products.

The Group's cross-marketing sponsorship activities include the following:

- The Group sponsored the Xiamen International Marathon from 2006 to 2008. For this event the Group created a short advertisement film showcasing the marathon spirit and communicate 361° healthy running culture from different personal perspectives. The Group developed the Marathon I and Marathon II running shoes series for this event;

- The Group entered into an agreement with the Federation of University Sports of China to be the designated partner of the 361° China University Basketball Super League (361° 中國大學生籃球超級聯賽) from 2007 to 2010, and have designed basketball shoes and developed customized sportswear products for this event;

- The Group entered into an agreement with the Olympic Council of Asia (亞洲奧林匹克理事會) and the 16th Asian Games Organising Committee (第16屆亞運會組委會) to become the global official sponsor of Olympic Council of Asia and to be a Guangzhou 2010 Asian Games Sportswear Prestige Partner (廣州2010年亞運會體育服裝高級合作夥伴);

- The Group entered into an agreement with CCTV to be the title sponsor of China Table Tennis Super League from 2009 to 2013;

- The Group also entered into an agreement with CCTV, which required the reporters and journalists of CCTV Channel 5 (sports channel) to wear the Group's sportswear products from 2009 to 2013 on certain programs and games broadcasted on CCTV Channel 5;

- The Group entered into an agreement with Henan Century Central China Sports & Culture Co., Ltd. (河南世紀中原體育文化有限公司) to be a global top cooperative partner (全球頂級合作夥伴) and the sole designated sports footwear and apparel sponsor (唯一指定運動服、運動鞋贊助商) of the China Zhengkai Marathon (中國鄭開馬拉松) from 2009 to 2013; and

- The Group entered into an agreement with the Chinese Taipei Road Running Association (中華台北路跑協會) and Xiamen Television Broadcast Development Limited (廈門廣播電視產業發展有限公司) to be a global top cooperative partner (全球頂級合作夥伴) and the sole designated sports gear of the Jinmen Marathon (金門馬拉松) from 2009 to 2013.

Media advertising

The Group's media advertising activities include the following:

- The Group collaborated with CCTV5 to create Entertainment Basketball (361° 娛樂籃球), a national basketball talent show. This is the first large-reality sports TV competition show in the PRC, in which youngsters from different places in PRC participate in qualifying competitions to showcase their talents in various basketball skills, such as slam dunking and three-point shooting, and make it as the brightest new sign of the oriental street basketball culture;

- The Group won CCTV's live game broadcasting partner for 2007 and 2008 (中央電視台2007–2008體育賽事直播節目合作夥伴); and

- The Group cooperated with QQ.com (騰訊網), a large instant messaging service network in Asia, Sohu.com (搜狐) and Xiaonei.com (校內網) to promote internet sports programmes. In addition to the broad media coverage provided to the Group by its sponsorship activities, the Group also strategically select other forms of advertising that match 361° brand's image and market position. For instance, the Group has signed agreements to establish a cooperative relationship with a leading PRC-based basketball magazine, NBA Space (NBA 時空) as well as a leading sports newspaper in the PRC with the largest circulation, Sports Weekly (體壇週報). The Group's distributors also contribute to the marketing and promotion of 361° brand by conducting local promotions within their geographic areas. The Group encourages its distributors to spend a portion of their revenue on local advertising and sponsorship activities. To this end, the Group's distributor in Guangzhou sponsored the 2008 Beijing Olympics Diving Qualification Contest (2008年奧運會跳水選拔賽) and the distributor in Zhengzhou launched advertisements for the Group's 361° products on buses with routes within Zhengzhou City. The Group's advertising and marketing expenses for the 2007/08 year and 2008/09 year were RMB84.0 million and RMB291.5 million respectively, which represented approximately 6.4% and 8.5% of the Group's total revenue respectively for the corresponding years.

Product design and development

The Group has been integrated its research and development resources to develop high performance, innovative and stylish sportswear to suit consumers' tastes and satisfy professionals' demands.

The Group has established stand-alone dedicated research and development and design departments for the Group's footwear and apparel & accessories products which employ a total of 58 and 36 staff, respectively, as of 30 June 2009. The Group currently operates one laboratory for footwear and one laboratory for apparel, the primary role of which is quality control testing, though they also provide data to the Group's research and development department to assist it in developing new technologies and applications. The Group also co-operated with domestic and international research and development and product design companies with a view towards enabling the 361° products to have the desired function and application, and to be responsive to market developments.

The Group currently owns 6 patents related to the design and technologies of its footwear products. For example, the Group successfully developed sportswear technologies such as NFO Tech soles which increase shock absorbing characteristics of soles and are incorporated into the Group's Marathon I and Marathon II running shoes series, Hold Ground Tech which increases the gripping power of soles.

Employees and emoluments

As at 30 June 2009, the Group employed a total of 4,467 full time employees in the PRC which included management staff, technicians, salespersons and workers. For the year ended 30 June 2009, the Group's total expenses on the remuneration of employees was RMB105.8 million, representing 3.1% of the turnover of the Group. The Group's emolument policies are formulated based on the performance of individual employees, which will be reviewed periodically. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

Prospects

Due to effects of the recent turmoil in the international financial markets on the PRC economy, the PRC government has promulgated a series of measures to boost domestic demands. However, factors such as raw material prices and labor costs may rise during this critical time period and may affect the profitability of the Group.

It is anticipated that sports awareness enhanced by the success of the Beijing Olympic Games and the growing youth population would accelerate the growth of the sportswear market in the PRC. In the same time, the increase in the public's purchasing power in the PRC may lead to demand for better quality of life, including sports and entertainment. As such, the Group believes that there are significant development opportunities in the PRC sportswear market. However as all market players in the sportswear industry have been expanding aggressively through strengthening brand recognition and developing new products, it is believed that the competition within the industry would remain intense in future.

Facing these uncertainties, the Group will take appropriate steps to overcome challenges faced by the Group and strive to maintain and enhance the Group's profitability.

The Group has an experienced and professional management team. Coupled with the 361 brand's leading position in the PRC sportswear market, the Group endeavors to further penetrate its core markets in the PRC, to devote efforts in product development to create quality sportswear for the Group's customers, and as a result create value for the Company's shareholders and investors.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, and the Company has maintained the prescribed public float of not less than 25% of the Company's issued shares as required under the Listing Rules as of 30 June 2009.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

The Company or any of its subsidiaries did not make any purchase of the shares of the Company for the financial year ended 30 June 2009.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company was a private company for most of the financial year 2008/09 as it was only listed on the Main Board of the Stock Exchange on 30 June 2009. Upon the listing of the Company, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules except that, as the Company was only listed on the Stock Exchange on 30 June 2009, no audit committee meeting of the Company has been held during the financial year ended 30 June 2009, and deviated from the provisions of code provision C3.3(e)(i) of the CG Code. The first audit committee meeting of the Company was held on 22 September 2009, which was after the year under review. Going onward, the Company will convene audit committee meeting at least once a year in compliance with code provision C3.3(e)(i) of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standards set out in the Model Code since the Company's listing on 30 June 2009.

REVIEW OF ANNUAL 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 is composed of three independent non-executive directors of the Company, Mr. Mak Kin Kwong, Mr. Sun Xianhong and Mr. Liu Jianxing. Mr. Mak Kin Kwong serves as the chairman of the audit committee of the Company. The chairman of the audit committee has professional qualification and experience in financial matters in compliance with the requirement of the Listing Rules.

The audit committee of the Company has met and discussed with the external auditors of the Group, KPMG, and has reviewed the accounting principles and practices adopted by the Group and the results of the Group for the year ended 30 June 2009. The audit committee considered that the consolidated results of the Group for the year ended 30 June 2009 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made.

DIVIDEND

The Board recommended a final dividend of RMB6.5 cents (equivalent to HK7.4 cents) per share for the year ended 30 June 2009, subject to approval by the shareholders at the forthcoming annual general meeting ("AGM") to be held on 5 November 2009. The dividend amounted to RMB134.3 million and represented 21.2% of the profit for the year. If approved, it is expected that the final dividend will be paid to shareholders by 1 December 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 29 October 2009 to 5 November 2009, both days inclusive, for the purpose of determining shareholders' entitlements to the proposed final dividend and rights to attend and vote at AGM. In order to qualify for the final dividend (if any) and the right to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai Hong Kong, not later than 4:30 p.m. on 28 October 2009.

PUBLICATION OF 2009 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.361sport.com), and the 2009 annual report of the Company containing all the information required by the Listing Rules will be dispatched to shareholders and published on the respective websites of the Company and the Stock Exchange in due course.

APPRECIATION

I would like to take this opportunity to express my thanks and gratitude to the Group's management and staff who dedicated their endless efforts and devoted services, and to our shareholders, suppliers, customers and bankers for their continuous support.

On behalf of the Board of
361 Degrees International Limited
Ding Huihuang
Chairman

Hong Kong, 23 September 2009

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Ding Wuhao, Mr. Ding Huihuang, Mr. Ding Huirong and Mr. Wang Jiabi and three independent non-executive Directors, namely Mr. Mak Kin Kwong, Mr. Sun Xianhong and Mr. Liu Jianxing.