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 2010

HIGHLIGHTS

1. Turnover increased by 25.7% from RMB3,446.6 million for the year ended 30 June 2009 to RMB4,330.8 million for the year ended 30 June 2010.

2. Gross profit increased by 42.9% from RMB1,193.8 million for the year ended 30 June 2009 to RMB1,706.3 million for the year ended 30 June 2010, while gross profit margin increased from 34.6% to 39.4%.

3. Profit attributable to equity shareholders of the Company for the year increased by 45.0% from RMB632.1 million for the year ended 30 June 2009 to RMB916.8 million for the year ended 30 June 2010.

4. Basic earnings per share increased by 5.7% from RMB42.1 cents per share for the year ended 30 June 2009 to RMB44.5 cents per share for the year ended 30 June 2010.

5. The Board proposed to declare a final dividend of RMB9.0 cents (equivalent to HK10.3 cents) per share, together with interim dividend of RMB4.3 cents (equivalent to HK4.9 cents), representing a total dividend of RMB13.3 cents (equivalent to HK15.2 cents) per share for the year and a total payout of RMB274.7 million, subject to approval by shareholders of the Company at the forthcoming annual general meeting.

FINAL RESULTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

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 2010, with the comparative figures for the preceding financial year ended 30 June 2009, as follows:

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2010

	Note	**2010** *RMB'000*	2009 *RMB'000*
Turnover	*4*	**4,330,804**	3,446,588
Cost of sales		**(2,624,479)**	(2,252,785)
Gross profit		**1,706,325**	1,193,803
Other revenue	*5*	**32,478**	8,061
Other net gain/(loss)	*5*	**1,558**	(56)
Selling and distribution expenses		**(533,461)**	(372,364)
Administrative expenses		**(155,048)**	(89,244)
Profit from operations		**1,051,852**	740,200
Finance costs	*6(a)*	**(3,326)**	(15,800)
Profit before taxation	*6*	**1,048,526**	724,400
Income tax	*7*	**(133,677)**	(92,289)
Profit for the year		**914,849**	632,111
Attributable to:			
Equity shareholders of the Company		**916,814**	632,111
Non-controlling interests		**(1,965)**	—
Profit for the year		**914,849**	632,111
Earnings per share	*9*		
Basic (cents)		**44.5**	42.1
Diluted (cents)		**44.3**	42.1

Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 8.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2010

	2010 *RMB'000*	2009 *RMB'000*
Profit for the year	**914,849**	632,111
Other comprehensive income for the year		
Exchange differences on translation of financial statements	**(16,855)**	1,328
Total comprehensive income for the year	**897,994**	633,439
Attributable to:		
Equity shareholders of the Company	**899,959**	633,439
Non-controlling interests	**(1,965)**	—
Total comprehensive income for the year	**897,994**	633,439

CONSOLIDATED BALANCE SHEET
at 30 June 2010

	Note	**2010** *RMB'000*	2009 *RMB'000*
Non-current assets			
Fixed assets			
— Property, plant and equipment		**566,239**	246,627
— Interests in leasehold land held for own use under operating leases		**84,768**	86,545
		651,007	333,172
Deposits and prepayments	*10*	**54,910**	—
Deferred tax assets		**18,657**	—
		724,574	333,172
Current assets			
Inventories		**132,836**	83,637
Trade and other receivables	*10*	**1,114,736**	1,591,795
Pledged bank deposits		**101,200**	86,700
Deposits with banks		**936,085**	—
Cash and cash equivalents		**1,554,586**	1,983,546
		3,839,443	3,745,678
Current liabilities			
Trade and other payables	*11*	**1,019,830**	1,227,297
Bank loans		**—**	267,000
Current taxation		**109,545**	64,851
		1,129,375	1,559,148
Net current assets		**2,710,068**	2,186,530
Total assets less current liabilities		**3,434,642**	2,519,702
Non-current liability			
Deferred tax liabilities		**3,125**	9,504
NET ASSETS		**3,431,517**	2,510,198
CAPITAL AND RESERVES			
Share capital		**182,109**	176,340
Reserves		**3,214,314**	2,333,858
Total equity attributable to equity shareholders of the Company		**3,396,423**	2,510,198
Non-controlling interests		**35,094**	—
TOTAL EQUITY		**3,431,517**	2,510,198

1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the changes in accounting policies set out in note 2. The financial statements have been reviewed by the Company's audit committee. The financial information set out in this announcement does not constitute the Group's statutory financial statements for the year ended 30 June 2010, but is derived from those financial statements.

2 CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants has issued one new Hong Kong Financial Reporting Standard ("HKFRS"), two revised HKFRSs, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company as follows:

— HKAS 1 (revised 2007), *Presentation of financial statements*
— HKFRS 3 (revised 2008), *Business combinations*
— Amendments to HKFRS 5, *Non-current assets held for sale and discontinued operations — plan to sell the controlling interest in a subsidiary*
— Amendments to HKFRS 7, *Financial instruments: Disclosures — improving disclosures about financial instruments*
— HKFRS 8, *Operating segments*
— Improvements to HKFRSs (2008)
— Amendments to HKAS 27, *Consolidated and separate financial statements*
— HKAS 23 (revised 2007), *Borrowing costs*
— Amendments to HKFRS 2, *Share-based payment — vesting conditions and cancellations*
— Amendments to HKAS 39, *Financial instruments: Recognition and measurement — eligible hedged items*
— HK(IFRIC) 15, *Agreements for the construction of real estate*
— HK(IFRIC) 16, *Hedges of a net investment in a foreign operation*
— HK(IFRIC) 17, *Distribution of non-cash assets to owners*
— HK(IFRIC) 18, *Transfers of assets from customers*

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

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

The improvements to HKFRSs (2008), amendments to HKAS 23, HKAS 39, HKFRS 2, HKFRS 5, HKFRS 7 and HKFRS 8 and Interpretations HK(IFRIC) 15, HK(IFRIC) 16 and HK(IFRIC) 18 have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group or they are not relevant to the Group's and the Company's operations. The other developments resulted in changes in accounting policy and the impact of the remainder of these developments is as follows:

— As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

— The impact of the majority of the revisions to HKFRS 3, HKAS 27 and HK(IFRIC) 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

— The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

Further details of these changes in accounting policy are as follows:

— As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 July 2009 will be recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:

    — Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

    — If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

— Contingent consideration will be measured at fair value at the acquisition date. Any subsequent changes in the measurement of that contingent consideration will be recognised in profit or loss, unless they arise from obtaining additional information about facts and circumstances that existed at the acquisition date within 12 months from the date of acquisition (in which case they will be recognised as an adjustment to the cost of the business combination). Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably. All subsequent changes in the measurement of contingent consideration and from its settlement were previously recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

— If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

— In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure then non-controlling interest at fair value.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

— HK(IFRIC) 17 requires distributions of non-cash assets to owners to be measured at the fair value of the assets distributed. This will result in a gain or loss being recognised in profit or loss to the extent that the fair value of the assets is different from their carrying value. Previously the Group measured such distributions at the carrying value of the assets distributed. In accordance with the transitional provisions in HK(IFRIC) 17, this new accounting policy will be applied prospectively to distributions in current or future periods and therefore previous periods have not been restated.

— As a result of the amendments to HKAS 27, as from 1 July 2009 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

3 SEGMENT REPORTING

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

Management has determined operating segments with reference to the reports reviewed by the chief operating decision maker of the Group that are used to access the performance and allocate resources.

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of manufacturing and distribution of sporting goods including footwear, apparel and accessories. Therefore, the management considers that there is only one operating segment under the requirements of HKFRS 8, Operating Segments. In this regard, no segment information is presented.

No geographic information is shown as the turnover and profit from operation of the Group is derived from activities in the People's Republic of China ("PRC").

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 are analysed as follows:

	2010	2009
	RMB'000	*RMB'000*
Footwear	**1,944,663**	1,616,979
Apparel	**2,331,828**	1,754,936
Accessories and others	**54,313**	74,673
	4,330,804	3,446,588

The Group's customer base is diversified and includes only two customers (2009: three) with whom transactions have exceeded 10% of the Group's revenues. During the year ended 30 June 2010, revenues from sales of footwear, apparel and accessories and others to these customers, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately RMB1,472 million (2009: RMB1,604 million).

5 OTHER REVENUE AND NET GAIN/(LOSS)

	2010	2009
	RMB'000	*RMB'000*
Other revenue		
Bank interest income	**14,360**	1,691
Government grants	**17,223**	6,370
Others	**895**	—
	32,478	8,061
Other net gain/(loss)		
Net loss on disposal of fixed assets	**(239)**	(56)
Net foreign exchange gain	**1,797**	—
	1,558	(56)

Government grants of RMB17,223,000 (2009: RMB6,370,000) were received from several local government authorities for the Group's contribution to local economies, of which the entitlements were unconditional and under the discretion of the relevant authorities.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2010	2009
	RMB'000	*RMB'000*
(a) Finance costs:		
Interest on bank borrowings wholly repayable within five years	**3,326**	15,800
(b) Staff costs:		
Contributions to defined contribution retirement plans	**4,454**	3,142
Equity-settled share-based payment expenses	**8,453**	490
Salaries, wages and other benefits	**143,288**	102,125
	156,195	105,757
(c) Other items:		
Auditors' remuneration	**3,020**	725
Amortisation of land lease premium	**1,777**	1,420
Depreciation**	**22,796**	9,282
Impairment losses on trade and other receivables	**—**	25,241
Operating lease charges in respect of properties	**5,358**	3,250
Research and development costs*	**37,824**	14,818
Cost of inventories**	**2,624,479**	2,252,785

* Research and development costs include RMB10,896,000 (2009: RMB6,016,000) 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 include RMB111,088,000 (2009: RMB85,926,000) 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

Income tax in the consolidated income statement represents:

	2010	2009
	RMB'000	*RMB'000*
Current tax — PRC income tax		
Provision for the year	**162,781**	86,369
Over provision in respect of prior years	**(4,068)**	—
	158,713	86,369
Deferred tax		
Origination and reversal of temporary differences	**(25,036)**	5,920
	133,677	92,289

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

(ii) No provision has been made for Hong Kong Profits Tax as the Group did 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 corporate income tax is calculated based on a statutory rate of 25% of the assessable profits of the companies comprising the Group. During the year, a PRC subsidiary was subject to tax at 50% of the standard tax rates or was fully exempt from income tax under the relevant tax rules and regulations.

8 DIVIDENDS

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

	2010	2009
	RMB'000	*RMB'000*
Interim dividend declared and paid during the year	**88,813**	76,742
Final dividend proposed after the balance sheet date of RMB9.0 cents per ordinary share (2009: RMB6.5 cents per ordinary share)	**185,887**	134,252
	274,700	210,994

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

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

	2010	2009
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB6.5 cents per ordinary share (2009: Nil)	**134,252**	—

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 RMB916,814,000 (2009: RMB632,111,000) and the weighted average number of shares in issue during the year of 2,061 million (2009: 1,501 million). The weighted average number of shares in issue during the year ended 30 June 2009 was 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

	2010	2009
	'000	'000
Issued ordinary shares at the beginning of the year	**2,000,000**	1,500,000
Effect of shares issued upon placing and public offering	**61,469**	1,370
Weighted average number of ordinary shares at the end of the year	**2,061,469**	1,501,370

9 EARNINGS PER SHARE *(continued)*

(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 RMB916,814,000 (2009: RMB632,111,000) and the weighted average number of ordinary shares of 2,068 million (2009: 1,502 million) adjusted for the potential dilutive effect caused by the share options granted under Pre-IPO share option scheme.

Weighted average number of ordinary shares (diluted)

	2010	2009
	'000	'000
Weighted average number of ordinary shares at 30 June	**2,061,469**	1,501,370
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**6,840**	302
Weighted average number of ordinary shares (diluted) at 30 June	**2,068,309**	1,501,672

10 TRADE AND OTHER RECEIVABLES

	2010	2009
	RMB'000	*RMB'000*
Trade debtors	**935,218**	1,453,033
Less: allowance for doubtful debts *(Note 10(b))*	**(39,520)**	(39,520)
	895,698	1,413,513
Deposits, prepayments and other receivables	**273,948**	178,282
	1,169,646	1,591,795
Less: Non-current portion of deposits and prepayments	**(54,910)**	—
	1,114,736	1,591,795

Some of the Group's customers issued commercial acceptance bills to settle the Group's trade debtors. During the year ended 30 June 2010, certain of these customers entered into financing arrangements with banks, whereby the Group discounted the commercial acceptance bills to the banks without recourse on the Group. The financing arrangements were guaranteed by related parties of the customers and all the related finance charges were borne by the customers. As at 30 June 2010, such discounted commercial acceptance bills, which have not yet matured and without recourse on the Group, amounted to RMB1,629,100,000 (2009: RMB Nil).

All of the current trade and other receivables are expected to be recovered within one year, except that the Group's deposits, prepayments and other receivables totalling RMB10,498,000 (2009: RMB21,963,000) are expected to be recovered or recognised as expenses after more than one year.

10 TRADE AND OTHER RECEIVABLES *(continued)*

(a) Ageing analysis

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

	2010	2009
	RMB'000	*RMB'000*
Within 90 days	**801,290**	1,079,042
Over 91 days but within 180 days	**94,408**	312,456
181 to 360 days	**—**	22,015
	895,698	1,413,513

Credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customers operates. Trade receivables are due within 30 to 180 days from the date of billing. Debtors with balances that are more than 1 year from the date of billing are requested to settle all outstanding balances before any further credit is granted.

(b) Impairment of trade debtors

Impairment losses in respect of trade debtors 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 directly.

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

	2010	2009
	RMB'000	*RMB'000*
At the beginning of the year	**39,520**	14,279
Impairment loss recognised	**—**	25,241
At the end of the year	**39,520**	39,520

At 30 June 2010, the Group's trade debtors of RMB39,520,000 (2009: RMB39,520,000) were individually determined to be impaired. The individually impaired receivables related to a number of customers and the 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.

10 TRADE AND OTHER RECEIVABLES *(continued)*

(c) Trade debtors that are not impaired

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

	2010	2009
	RMB'000	*RMB'000*
Neither past due nor impaired	574,339	1,269,012
Less than 1 month past due	82,988	45,728
1 to 3 months past due	238,371	98,773
Amount past due	321,359	144,501
	895,698	1,413,513

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, the 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

	2010	2009
	RMB'000	*RMB'000*
Trade creditors	**226,381**	662,280
Bills payable	**382,000**	320,000
Receipts in advance	**28,597**	26,791
Other payables and accruals	**382,852**	218,226
	1,019,830	1,227,297

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 2010 and 2009 were secured by pledged bank deposits.

11 TRADE AND OTHER PAYABLES *(continued)*

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

	2010	2009
	RMB'000	*RMB'000*
Due within 1 month or on demand	**101,774**	122,009
Due after 1 month but within 3 months	**200,942**	173,357
Due after 3 months but within 6 months	**305,665**	686,914
	608,381	982,280

BUSINESS REVIEW

Sale and distribution network

The Group continued to implement the exclusive distributorship business model developed since early 2008, albeit at a more modest pace in the second half of the financial year than it had been in the first half. This came out of the Group's pledge to adhere to its expansion plan and to shift the priority to work on in-store efficiencies of existing and newly-opened outlets in order to cement its successes in landing footholds in prime retail locations during its relatively aggressive expansions spree in the first half.

As at 30 June 2010, the Group distributed *361°* products through a network comprising 32 independent exclusive distributors. These distributors oversaw 3,495 authorized dealers who in turn owned and managed a total of 6,927 outlets that covered 31 provinces, more than 450 district-level cities and more than 1,200 county-level cities. About 236 outlets and counters for the newly launched children's collection were opened during the year. The number of outlets as at 30 June 2010 represented a net increase of 234 outlets from 6,693 as at 31 December 2009 and a net increase of 872 outlets from 6,055 as at 30 June 2009.

The Group will continue to adhere to its preset pace of adding 600-800 new outlets per year to its outlets network, and to grow the size of the network to about 10,000 outlets in four years' time.

The following table sets forth the geographic distribution of *361°* authorised retail outlets operated by the Group's authorised retailers in the PRC under the *361°* brand as at 30 June 2010 and 30 June 2009:

	As at 30 June				
	2010		2009		
	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	Change (%)
Eastern region[1]	1,876	27.1	1,706	28.2	10.0%
Southern region[2]	1,107	16.0	947	15.6	16.9%
Western region[3]	1,240	17.9	1,019	16.8	21.7%
Northern region[4]	2,704	39.0	2,383	39.4	13.5%
Total	6,927	100.00	6,055	100.0	14.4%

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 Monogolia.

In order to provide a better classification of the location of outlets, 75 outlets and 66 outlets located on the border of the province Guizhou and Guangxi originally classified as Western region in the financial year of 2009 has been reclassified as Southern region in the financial year of 2010 and 2009, respectively.

As at 30 June 2010, there were two *361°* Town with the floor area of over 1,000 square meters and 72 flagship stores with an average floor area of over 500 square meters.

Location of selected *361°* Town and Flagship Stores:

City/Province	Road/District
Henan Province	74 Dehua Street
Shandong Province	Quancheng Road, Jinan City (on the east side of Walmart)
Niaoning Province	3 Xi Si Road, Xinfu District, Fushun City
Hebei Province	339-349 Yuhua Road, Baoding City, Hebei
Xichuan Province	North side of the building at 46 Chunxi Road North, Jinjiang District
Jilin Province	94 Henan Street, Chuanying District, Jilin City, Jilin
Heilongjiang Province	Fu 41-12, Dacheng Street
Guangdong Province	39-40 Huancheng No.1 West Road, Huicheng District, Huizhou City
Guangdong Province	37 Zhongshan West Road

ePOS milestone achieved with 1,500 outlets connected

The Group was on schedule for installation of a new electronic points-of-sale ("ePOS") enterprise resource planning system for its supply chain. This ePOS initially covered large distributors in Guangzhou, Fujian, Hubei and Sichuan, allowing the Group to get connected to around 1,500 outlets by the end of June 2010. It is expected that the number of connected outlets could reach 2,500 by December 2010, with the whole distribution network covered by the financial year 2013.

The Group will start working on backend integration of its headquarters with its suppliers in mid-2011 which is scheduled to complete by mid-2013. The Group considers that a comprehensive ePOS coverage of the entire retail network should help enhance information availability and transparency and ultimately resulting in even better control of its inventory levels.

***361°* Children's Collection**

The *361°* Children's Collection was one of the business highlights of the Group during the financial year under review. The Group deliberately operates this collection as a separate business independent from the other collections, with its dedicated outlets, trade fairs, distributors, product design teams and subcontractors. The inaugural trade fair for this collection held in late 2009 received encouraging initial responses from the distributors. In the second trade fair held in March 2010, the Group showcased over 1,000 products and attracted participation of over 400 distributors and retailers. Orders valued RMB130 million in aggregate were received and were scheduled for delivery between July and September.

As at 30 June 2010, there were 236 dedicated outlets for the *361°* Children's Collection, of which 98 were standalone stores operated by authorized retailers and 82 were counters set up in *361°* franchised adults' wear stores and 56 counters were located in department stores and hypermarkets.

Brand promotion and marketing

Customers' ready acceptance of *361°* products, their strong association of the products with high performance, innovation and cutting-edge style were the core drivers of the Group's success in the last few years. This brand strength hinges on the Group's resources and devotion put into promoting the *361°* brand on an ongoing basis.

361° unveiled its full range of professional gears for 2010 Guangzhou Asian Games (the "Games") when participating in the 26th China International Sporting Goods Show held on 20 May 2010 at the China International Exhibition Center in Beijing. As the global official sponsor of Olympic Council of Asia, as well as the Prestige Partner of the Games, *361°* showcased its four major series of sports gears designed specially for the Games, including the official uniforms, gears for the 42 professional contests, *361°* Asian Games tunic for the national teams, and *361°* Asian Games medal ceremony gears for Asian teams.

These gears exhibited full-blown breakthroughs in sports technology R&D and designs originated from a home-grown sports brand. They will play an instrumental role in assisting professional athletes to excel themselves in the contests.

The Group also developed gears for the National Cycling Team, the National Modern Pentathlon Team, the National Triathlon Team, the National Hockey Team, the National Softball Team and the National Handball Team of China, embodying the cutting-edge technologies in the world and meeting the most stringent requirements of world-class games. These gears will fuel the athletes' courage in achieving new records in the Games.

Outside China, the Group also provides the Games medal ceremony gears designed for other Asian countries such as the Olympic Councils of Malaysia and the Philippines. The Group collaborated with Asian Games Organizing Committee to provide high quality and high value-added series gears for torchbearers, volunteers, officials, referees, etc.

The Group leveraged in full its edges in sports technology, designs and innovation in its Asian Games gear design, emphasizing the gears' functionalities that help athletes to achieve outstanding performances. At the same time, the Group also imbued the concept of "Green Asia Games" into its product design and incorporated environment-friendly fabric development and tailoring into the design planning, illustrating the eternal love and passion of *361°* for the sports industry.

In May, the Group unveiled to tens of millions of visitors from all around the world to the Shanghai World Expo 2010 the *361°* apparel and footwear for volunteers working in the Expo venue, in its capacity as "The First Cooperative Partner for Volunteers in Shanghai Expo 2010".

In February, the China National Female Curling Team, in full gears specially-designed by *361°*, won its first bronze medal in the 2010 Winter Olympics in Vancouver. This is China's first Olympic medal won in a winter sport category.

We continue to be a strategic partner of CCTV's Sports Channel

The Group is on its course to launch a specially-orchestrated TV commercial campaign that features 361 true stories about the affairs of individuals associated with love and the Games. This series, together with the new gear collections specially designed for the Games, will reinforce *361°* as a brand of choice for professional athletes to excel their performances and exhibit the true spirit of love in the event.

The Group became a sponsor of the 26th Summer Universiade 2011 to be held in Shenzhen. The "Universiade", also known as the "Small Olympics", is only next to the Olympic Games in international sports games in terms of scale. The Group will provide professional sports equipment and related services, including apparels for torchbearers, equipment for volunteers, helpers, government officials, referees and working staff. The sponsorship for this event constitutes an integral part of the Group's continuing efforts in promoting sports developments amongst university students.

With the support from the Group's distributors, the first "*361°* Town" was successfully opened in January 2010 on DeHua Shopping Street in Zhengzhou, Henan Province and the second one was opened in April 2010 in Jinan, Shangdong Province. *361°* Town represents a new generation of flagship stores that the Group aspires to establish in major locations in the country in the next few years. The design concept of this batch of new generation flagship stores communicates more effectively the latest mission of *361°* in establishing a more significant presence in the sportswear and equipment market in China.

Sponsorships of professional sports and large scale events

Multi-year sponsorship arrangements with sports events are one of the mainstays of the Group's promotional activities to generate and maintain the awareness in the market about the *361°* brand.

Time	Event	Capacity
2007-2010	*361°* China University Basketball Super League	Designated Partner
2010	Guangzhou 2010 Asian Games	Sportswear Prestige Partner
2010	Shanghai World Expo 2010	The First Cooperation Partner for Volunteers
2011	Summer Universiade 2011 Shenzhen	Global Partner
2009-2013	China Table Tennis Super League	Title Sponsor
2009-2013	CCTV Channel 5	Sportswear sponsor for hosts and journalists
2009-2013	China Zhengkai Marathon	Designated sports footwear and apparel sponsor
2009-2013	Jinmen Marathon	Designated sports footwear and apparel sponsor
2010-2015	China National Volleyball Tournaments	Sole Title sponsor

Product design and development

Persistent deployment of resources to strengthen product design and development capabilities helps the Group stay on top of the latest technological advancements and styles. These efforts allow *361°* products to consistently meet the stringent requirements of professional athletes while accommodating changing consumer preferences for trends and styles.

The Group has independent research and development and design departments dedicated to footwear, apparel and accessory products. As of 30 June 2010, there were 95 full-time design professionals for the footwear R&D design department and 141 for the apparel and accessory R&D and design department.

There were also one footwear laboratory and one apparel laboratory to conduct tests and collect performance data. The Group currently owns 8 patents for footwear products. In collaboration with external design agencies, *361°* caters to consumer trends while echoing thematic elements from our integrated marketing campaigns to establish a unified image for our brand and products.

Production

As at the end of June 2010, there were 19 footwear production lines, up from 16 as at June 2009, in the Group's production base in the new Wuli Industrial Park and the existing Jinjiang production base with production capacity aggregating 16.2 million pairs a year. The 19 lines are scattered in both Wuli Industrial Park and the Group's old production base located in Jinjiang. The aggregate annual production capacity of the apparel production lines is 2.8 million pieces. As the majority of the apparel products the Group sells are manufactured by third-party sub-contractors, this in-house apparel production operation primarily facilitates the management to grasp a better understanding of the production cost structures and latest apparel R&D and design trends.

This expansion pace was slightly faster than what had been originally budgeted as the management foresaw strong growth in demand and rapidly escalating equipment costs in the near future. The scale of apparel production, meanwhile, remained insignificant in relation to the Group's total and mainly serves as a testing ground for apparel products.

In January 2010, the Group formed a joint venture company based in Jinjiang, Fujian, specializing in the production of soles for footwear products. This venture is expected to commence operation in August 2010. The joint venture partner, First Union International Industrial Ltd., is an affiliated company of a company based in Taiwan which has more than 30 years of experience in designing and manufacturing rubber soles for sports footwear. This joint venture will help further enhance and ensure the quality of the Group's footwear products by securing supply of high-quality soles. It will enable the Group to become a fully vertically-integrated sports footwear manufacturer with the ability to manufacture all parts of sports footwear under one roof.

FINANCIAL REVIEW

Revenue

The Group experienced a solid year-on-year increase in turnover during the current financial year to RMB4,330.8 million from RMB3,446.6 million, up 25.7%, in line with the overall growth trends of the sportswear segment and the overall retail sector in China.

The Group's continuing efforts in promoting the *361º* brand through advertising and event sponsorships paid off with healthy increases of average selling prices at 9.4% for apparel products and 1.1% for footwear products. The lasting and escalating euphoria for the upcoming Guangzhou 2010 Asian Games continued to drive sales of the conceptual series specifically designed for the Game, albeit comprised a relatively small proportion to the Group's total sales both in volume and revenue terms.

The newly-launched children's collection contributed about RMB37.6 million or 0.9% to the Group turnover during the year.

The following table sets forth the number of units sold and the average wholesale selling prices of the Group's *361º* products during the financial year:

	For the financial year ended 30 June			
	2010		2009	
	Total units sold	**Average wholesale selling price(1)**	Total units sold	Average wholesale selling price(1)
	'000	***RMB***	*'000*	*RMB*
***361º* Products**				
Footwear (pairs)	**24,322**	**80.0**	20,449	79.1
Apparel (pieces)	**35,016**	**66.6**	28,802	60.9
Accessories (pieces/pairs)	**4,695**	**11.0**	7,432	9.8

Note:

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

By products categories, footwear comprised 44.9% of the total sales while apparel and accessories made up the remaining 53.8% and 1.3% respectively. This represented a healthy shift from the 60/40 split recorded in the first half of the financial year as delivery of apparel products for warmer weather ordered in trade fairs held earlier proceeded smoothly and caught up the previous slackening brought about by the exceptional cold weather.

The following table sets forth a breakdown of the Group's turnover by products during the financial year:

	For the financial year ended 30 June				
	2010		2009		
	RMB'000	**% of Turnover**	*RMB'000*	% of Turnover	Change *(%)*
Turnover					
Footwear	**1,944,663**	**44.9**	1,616,979	46.9	20.3
Apparel	**2,331,828**	**53.8**	1,754,936	50.9	32.9
Accessories and others(1)	**54,313**	**1.3**	74,673	2.2	(27.3)
Total	**4,330,804**	**100**	3,446,588	100	25.7

Note:

(1) "Others" included turnover from sales of raw materials.

The following table set forth a breakdown of the Group's turnover by regions during the financial year:

	For the financial year ended 30 June				
	2010		2009		
		% of		% of	Change
	RMB'000	**Turnover**	*RMB'000*	Turnover	*(%)*
Eastern region[1]	**1,018,589**	**23.5**	891,774	25.9	14.2
Southern region[2]	**1,126,740**	**26.0**	954,160	27.7	18.1
Western region[3]	**666,280**	**15.4**	358,334	10.4	85.9
Northern region[4]	**1,519,195**	**35.1**	1,242,320	36.0	22.3
Total	**4,330,804**	**100**	3,446,588	100	25.7

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 Monogolia.

Cost of sales

Cost of sales for *361º* products increased by 16.5% from RMB2,250.4 million in the last financial year to RMB2,622.1 million during the current financial year, primarily as a result of an increase in sale of the *361º* products. The raw material consumption of self manufactured footwear and apparel decreased by 26.3% from RMB484.1 million in the last financial year to RMB356.7 million during the current financial year, primarily due to the prices of a few major raw materials purchased in the year decreased when compared to the last financial year. Labour costs for in-house footwear production increased by 4.2% from RMB75.0 million in the last financial year to RMB78.1 million during the current financial year, primarily because of the increase in the average salary of each direct labour in line with market trend and the increase in the number of labour for the demand of 3 new production lines which were installed and commenced operation in April 2010, representing about 3,900 direct labour as at 30 June 2009 to about 6,500 direct labour as at 30 June 2010. Internal production costs decreased by 20.4% from RMB678.3 million in the last financial year to RMB540.1 million during the current financial year, primarily because the raw material prices dropped relative to the last financial year and better control of manufacturing overhead. In the first half of the financial year, the Group spent a few months on improvement of higher quality control standard and production process for self manufactured products which resulted in the decline in the number of self produced products sold for the period. In the second half of the financial year, as 3 new production lines were installed and commenced operation in April to June 2010 respectively, production capacity of the Group increased thus the volume of the products produced compensated the lower number of products produced and sold in the first half of the financial year and as a result, the total volume of products produced in house and sold in the whole year was more or less the same as the last financial year. The Group expects the newly engaged labours will start to have significant contribution to the in-house production in the first half of the next financial year as they become more skillful. Outsourced production costs increased by 32.4% from RMB1,572.1 million in the last financial year to RMB2,082.0 million during the current financial year, primarily because the volume of footwear and apparel that the Group purchased from its contract manufacturers increased.

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

	For the financial year ended 30 June			
	2010		2009	
	RMB'000	**% of total costs of sales**	*RMB'000*	% of total costs of sales
***361º* Products**				
Footwear & Apparel (internal production)				
Raw materials	**356,719**	**13.6**	484,086	21.5
Labour	**78,145**	**3.0**	74,975	3.3
Manufacturing cots	**105,247**	**4.0**	119,235	5.3
Subtotal for internal production	**540,111**	**20.6**	678,296	30.1
Outsourced Products				
Footwear	**652,035**	**24.9**	406,541	18.1
Apparel	**1,397,249**	**53.3**	1,121,523	49.8
Accessories	**32,742**	**1.2**	44,013	2.0
Subtotal for outsourced products	**2,082,026**	**79.4**	1,572,077	69.9
Cost of sales for *361º* Products	**2,622,137**	**100**	2,250,373	100

Gross profit and gross profit margin

Gross profit for *361º* products increased by 42.8% from RMB1,194.5 million in the last financial year to RMB1,705.9 million during the current financial year primarily due to the percentage increase in sales was much larger than the cost incurred in the year. The gross profit margin of *361º* products in the current financial year was 39.4%, compared with 34.7% of the last financial year, representing a growth in gross profit margin of 4.7 percentage points. 1.9 percentage point of such growth were contributed by both the increase in average selling price and the decrease in the cost of footwear and the balance of 2.8 percentage points were from the increase in the average selling price of apparel and accessories. Thanks to the ongoing enhancement of the image of the *361º* brand, product design and wider product offerings, the Group had been able to introduce higher-priced items to its product range, which received generally positive feedback from customers.

The following tables set forth a breakdown of the gross profit and gross profit margin for *361º* products (excluding gross profit/(loss) and gross profit/(loss) margin related to sales of raw materials) during the financial year:

	For the financial year ended 30 June			
	2010		2009	
	Gross profit ***RMB'000***	**Gross profit margin %**	Gross profit *RMB'000*	Gross profit margin %
***361º* Products**				
Footwear	**759,448**	**39.1**	532,142	32.9
Apparel	**927,679**	**39.8**	633,413	36.1
Accessories	**18,772**	**36.4**	28,947	39.7
Total	**1,705,899**	**39.4**	1,194,502	34.7

Selling and distribution expenses

Selling and distribution expenses increased by 43.3% from RMB372.4 million in the last financial year to RMB533.5 million during the current financial year, primarily as a result of an increase in the advertising and marketing expenses in relation to television advertising and sponsorships.

During the current financial year, selling and distribution expenses represented 12.3% of the Group's turnover of which 8.9% was advertising and promotional expenses which was roughly the same as the last financial year as compared to the selling & distribution expenses of 10.8% in the last financial year, the advertising and promotional expenses also contributed to about 8.2% of the Group's turnover. The Group plans to continue to spend its advertising and promotion expenses of around 10-11% to maintain the appeal of the *361º* brand.

Administrative expenses

Administrative expenses increased by 73.7% from RMB89.2 million in the last financial year to RMB155.0 million during the current financial year, mainly resulting from increases in research and development expenses, salaries and welfare payments and depreciation.

For the year ended 30 June 2010, administrative expenses represented about 3.6% of the Group's turnover of which 0.9% was research and development expenses, as compared to 2.6% in the last financial year, of which the research and development expenses only contributed to 0.4% of the Group's turnover. The increase was mainly due to the increase in the number of the research & development staff; the amount spent on the sub-contractors for the products development and the consumables for the research and development laboratory. Salaries and welfare payments increased from 0.4% of the total turnover to 0.9% in the current financial year, which was mainly due to four new vice presidents, a general manager and more managerial staff were recruited to cope with the expansion of the Group's business during the year. The four vice presidents and the general manger are currently in charge of the areas of investor relations, footwear business, information technology, apparel business and children's wear, respectively. For the details of their biographies, please refer to the section of "Director and Senior Management" in the annual report. Depreciation, which contributed about 0.1% of the Group's turnover in the last financial year, increased to about 0.3% in this financial year. Such increase was caused by the establishment of a new headquarters in Xiamen in January 2010, and the property and office equipment started to depreciate in this financial year.

Income tax expenses

During the financial year under review, income tax expense of the Group amounted to RMB133.7 million (2009: RMB92.3 million) mainly because of the significant increase in net profit before tax, with an effective tax rate at 12.7% (2009: 12.7%).

Under the PRC Tax Law, one of our subsidiaries could still enjoy a full exemption of tax which helped to lower our overall effective tax rate in the first half of the financial year to about 10.8%. Commencing from the calendar year of 2010, this subsidiary was taxed at 12.5% and for the subsequent three years until 31 December 2012, representing a 50% reduction on the enterprise income tax rate of 25.0%. The overall effective tax rate for the second half financial year thus increased to about 14.0%.

Profit attributable to equity shareholders of the Company

As compared to the last financial year, profit attributable to equity shareholders of the Company for the current financial year increased from RMB632.1 million to RMB916.8 million, representing a growth of 45.0%. This was mainly attributed to the growth in gross profit and increase in sales volume. Earnings per share for the year were RMB44.5 cents, up 5.7% from the previous financial year.

Dividend for the year

The Board recommended a final dividend of RMB9.0 cents (equivalent to HK10.3 cents) per share, subject to approval by the shareholders at the forthcoming annual general meeting. Including the interim dividend of RMB4.3 cents (equivalent to HK4.9 cents) per share for the six months ended 31 December 2009 already paid, total payout for the year amounted to RMB13.3 cents (equivalent to HK15.2 cents) per share or RMB274.7 million in aggregate, representing 30.0% of the profit attributable to equity shareholders of the Company for the financial year. It is expected that the final dividend, if approved by shareholders at the forthcoming annual general meeting of the Company, will be paid to shareholders by 30 October 2010.

Liquidity and Financial Resources

During the current year, net cash inflow from operating activities of the Group amounted to RMB1,125.5 million (2009: RMB555.0 million). As at 30 June 2010, cash and cash equivalents, including bank deposits and cash in hand, and fixed deposits with original maturities not exceeding three months, amounted to RMB1,554.6 million, representing a net decrease of RMB429.0 million as compared to the position as at 30 June 2009. The decrease was attributed to the following items:

	For the year ended 30 June 2010 *RMB'000*	For the year ended 30 June 2009 *RMB'000*
Net cash inflow generated from operating activities	**1,125,490**	555,035
Net capital expenditure	**(358,262)**	(152,160)
Dividends paid	**(223,065)**	(76,742)
Proceeds from new bank loans	**224,000**	405,500
Repayment of bank loans	**(491,000)**	(288,000)
Proceeds from new shares issued, net of issuing expenses	**200,878**	1,479,172
Placement of fixed deposit (with maturity over three months)	**(936,085)**	—
Other net cash inflow/(outflow)	**29,084**	(48,154)
Net (decrease)/increase in cash and cash equivalents	**(428,960)**	1,874,651

The Group has always been pursuing 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 2010, total available banking facilities of the Group amounted to RMB1,780.0 million, among which the amount of outstanding bank borrowings and bills payables were RMB Nil and RMB382.0 million respectively. The ratio of outstanding bank borrowings to equity holders' equity was zero (2009: 10.6%).

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

Foreign exchange risk

During the current year, the Group did not hedge any exposure in foreign currency risk as 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.

Pledge of assets

As at 30 June 2010, the Group secured its bank facilities by buildings with a carrying amount of RMB Nil (2009: RMB42.3 million) and land with a carrying amount of RMB32.7 million (2009: RMB38.5 million).

Working Capital Management

The Group has endeavored to tighten its working capital management to allow better visibility of its working capital resources and financial health.

Average inventory turnover cycle for the financial year was 15 days, down from 21 days a year ago, mainly due to the more effective inventory control and management.

Average trade and bills receivables turnover cycle shortened to 97 days from 103 days in the previous year, primarily because the Group adhered strictly to its preset pace of adding about 600-800 outlets to its network per year which lowered the liquidity stress on the distributors and thus tightened the cycle. The number of outlets opened in the current financial year was 872 which was much fewer than the 1423 outlets opened in the last financial year.

Average trade and bills payables cycle for the year was 111 days compared to 118 days a year ago, representing an average trade payable cycle of 62 days compared to 80 days in the previous year, and with the average bills payable cycle remained at approximately 180 days in both years. As the Group has sufficient cash on hand and would like to maintain the trade payable cycle at around 60 days, some of the debts were repaid prior to expiry of the credit terms granted by suppliers.

USE OF PROCEEDS

Use of Net Proceeds from the Global Offering

The shares of the Company were listed on the main board of the Hong Kong Stock Exchange on 30 June 2009 with net proceeds from the global offering of approximately HKD1,905.4 million (after deducting underwriting commissions and related expenses).

Net proceeds from the global offering (HKD million)

Use of net proceeds	Available to utilise	Utilised (as at 30 June 2010)	Unutilised (as at 30 June 2010)
Developing and increasing brand awareness	741.2	439.0	302.2
Developing new production facilities	613.5	408.5	205.0
Developing children's footwear and apparel sub-brand	171.5	22.2	149.3
Establishment of a new product testing and R&D laboratory	114.3	23.8	90.5
Establishment of an ERP system	74.3	4.2	70.1
General working capital	190.6	190.6	—
	1,905.4	1,088.3	817.1

Employees and emoluments

As at 30 June 2010, the Group employed a total of 8,408 full time employees in the PRC which included management staff, technicians, salespersons and workers. For the year ended 30 June 2010, the Group's total expenses on the remuneration of employees was RMB156.2 million, representing 3.6% 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 (operation in accordance with 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

The Group believes that China's ongoing rapid economic growth and urbanization will continue to maintain a favorable environment for the sportswear sector as a whole. Disposable income of urban residents continues its steady rising trend. The association of disposable income with volume of consumption in apparels and footwear continued to be strong.

The country continues to welcome the hosting of major international sports events such as the Asian Games. This will help maintain and articulate consumers' attention to these events, contributing to the ongoing development of the sporting goods industry.

While new entrants will keep on emerging and the industry's size will continue to grow, the Group believes that new entrants are in a more disadvantageous position to compete head on with incumbent participants. This is primarily due to the fact that following the last decade of exceptional growth of the industry, entry barriers in terms of minimal capital expenditure requirements, minimal size of distribution network for a meaningful national footprint, the lowest advertizing and promotion budget to make a new brand known to the average consumer pool have all reached levels that new entrants cannot easily afford.

Based on the current momentum, the *361º* brand has already reached the critical mass it needed in terms of awareness. It implies further endeavors to promote the brand and its products will bring in better incremental benefits than those peers positioned lower in the league.

The Group is particularly optimistic about the *361º* Children's Collection. This is an area that major competitors in the industry had not previously explored but commanding very promising prospects. The Group plans to open about 300 outlets for this collection every year. While it will take time for this collection to make reasonably substantial contributions to the Group's total revenue, this collection will become a major growth driver for the Group going forward.

The Group has endeavored to reinforce its leading position and excel in distribution, product design and innovation. Given the favorable market landscape and momentum, the Group is confident about achieving progressively better returns for shareholders.

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 2010.

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 2010.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in the Appendix 14 of the Listing Rules during the year ended 30 June 2010.

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 during the year ended 30 June 2010.

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 consolidated results of the Group for the year ended 30 June 2010. The audit committee considered that the consolidated results of the Group for the year ended 30 June 2010 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 RMB9.0 cents (equivalent to HK10.3 cents) per share, subject to approval by the shareholders at the forthcoming annual general meeting to be held on 14 October 2010. Including the interim dividend of RMB4.3 cents (equivalent to HK4.9 cents) per share for the six months ended 31 December 2009 already paid, total payout for the year amounted to RMB13.3 cents (equivalent to HK15.2 cents) per share or RMB274.7 million in aggregate, representing 30.0% of the profit attributable to equity shareholders of the Company for the financial year. It is expected that the final dividend, if approved by shareholders of the Company at the forthcoming annual general meeting, will be paid to shareholders by 30 October 2010.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 7 October 2010 to 14 October 2010, 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 6 October 2010.

PUBLICATION OF 2010 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 2010 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, 24 August 2010

As at the date of this announcement, the board of directors of the Company 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.