361 Degrees International Limited

361度國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1361)

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

HIGHLIGHTS

Reported results

- Turnover of RMB3,906.3 million is up 9.0% from 2013
- Profit attributable to shareholders is RMB397.6 million, up 88.2% from 2013
- Basic earnings per share amounted to RMB19.2 cents
- Proposed final dividend of RMB3.0 cents (equivalent to HK3.7 cents) per share
- *Net cash position strengthened to RMB2,606.0 million

Key Messages

- Sportswear industry in China shows signs of revival and has strong Chinese Central Government's endorsement
- 2014 performance signaled a turning point and sets a new path of profitability
- *361°* Kids performed exceptionally well and launch of "Smart" shoes sets a new benchmark
- Control over trade debtors continues to improve
- Strong orders in hand for 2015, indicating double-digit growth in revenue
- Solid balance sheet with healthy working capital ratios

* *Net cash is equal to the summation of pledged bank deposits, deposits with banks and cash and cash equivalents minus bank loans and interest bearing borrowings.*

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

The board of directors (the "Board") 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 31 December 2014, with the comparative figures for the preceding financial year ended 31 December 2013, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2014

	Note	**2014** *RMB'000*	2013 *RMB'000*
Turnover	*3(a)*	**3,906,286**	3,583,477
Cost of sales		**(2,309,490)**	(2,166,378)
Gross profit		**1,596,796**	1,417,099
Other revenue	*4*	**112,870**	83,766
Other net (loss)/gain	*4*	**(12,987)**	5,101
Selling and distribution expenses		**(769,245)**	(729,300)
Administrative expenses		**(203,269)**	(424,456)
Profit from operations		**724,165**	352,210
Net change in fair value of derivatives embedded to convertible bonds	*12*	**51,661**	41,841
Loss on repurchase of convertible bonds		**(76,118)**	–
Finance costs	*5(a)*	**(92,235)**	(79,127)
Profit before taxation	*5*	**607,473**	314,924
Income tax	*6*	**(202,261)**	(100,193)
Profit for the year		**405,212**	214,731
Attributable to:			
Equity shareholders of the Company		**397,642**	211,261
Non-controlling interests		**7,570**	3,470
Profit for the year		**405,212**	214,731
Earnings per share	*8*		
Basic (cents)		**19.2**	10.2
Diluted (cents)		**19.2**	10.2

Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 7.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2014

	2014 *RMB'000*	2013 *RMB'000*
Profit for the year	**405,212**	214,731
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements	**(5,567)**	6,696
Total comprehensive income for the year	**399,645**	221,427
Attributable to:		
Equity shareholders of the Company	**392,075**	217,957
Non-controlling interests	**7,570**	3,470
Total comprehensive income for the year	**399,645**	221,427

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Fixed assets			
– Property, plant and equipment		**1,050,676**	974,627
– Interests in leasehold land held for own use under operating leases		**95,450**	97,602
		1,146,126	1,072,229
Other financial asset		**17,550**	17,550
Deposits and prepayments	*9*	**96,691**	121,148
Deferred tax assets		**49,971**	92,256
		1,310,338	1,303,183
Current assets			
Inventories	*10*	**570,058**	409,358
Trade debtors	*9*	**1,524,240**	1,831,184
Bills receivable	*9*	**132,013**	84,780
Deposits, prepayments and other receivables	*9*	**891,951**	636,873
Pledged bank deposits		**175,895**	37,900
Deposits with banks		**1,800,000**	321,747
Cash and cash equivalents		**2,130,237**	2,494,280
		7,224,394	5,816,122
Current liabilities			
Trade and other payables	*11*	**1,851,099**	1,469,179
Bank loans		**15,311**	15,898
Current taxation		**146,374**	120,576
		2,012,784	1,605,653
Net current assets		**5,211,610**	4,210,469

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*
at 31 December 2014

	Note	**2014** *RMB'000*	2013 *RMB'000*
Total assets less current liabilities		**6,521,948**	5,513,652
Non-current liabilities			
Deferred tax liabilities		**133**	5,432
Interest-bearing borrowings	*12*	**1,484,869**	767,539
		1,485,002	772,971
NET ASSETS		**5,036,946**	4,740,681
CAPITAL AND RESERVES			
Share capital		**182,298**	182,298
Reserves		**4,782,743**	4,494,048
Total equity attributable to equity shareholders of the Company		**4,965,041**	4,676,346
Non-controlling interests		**71,905**	64,335
TOTAL EQUITY		**5,036,946**	4,740,681

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2014

	Note	**2014** *RMB'000*	2013 *RMB'000*
Operating activities			
Profit before taxation		**607,473**	314,924
Adjustments for:			
Depreciation	*5(c)*	**65,040**	65,442
Amortisation of land lease premium	*5(c)*	**2,152**	2,152
Finance costs	*5(a)*	**92,235**	79,127
Interest income	*4*	**(77,581)**	(53,169)
Net change in fair value of derivatives embedded to convertible bonds		**(51,661)**	(41,841)
Loss on repurchase of convertible bonds		**76,118**	–
Net (gain)/loss on disposal of fixed assets	*4*	**(7)**	40
(Reversal of)/impairment loss on trade receivables	*5(c)*	**(111,366)**	152,001
Effect of foreign exchange rates changes		**23,072**	(7,804)
Changes in working capital:			
(Increase)/decrease in inventories		**(160,700)**	51,357
Decrease/(increase) in trade debtors		**418,310**	(55,145)
(Increase)/decrease in bills receivable		**(47,233)**	98,690
Increase in deposits, prepayments and other receivables		**(243,340)**	(85,578)
Increase/(decrease) in trade and other payables		**458,149**	(97,433)
Cash generated from operations		**1,050,661**	422,763
People's Republic of China ("PRC") income tax paid		**(139,477)**	(99,607)
Net cash generated from operating activities		**911,184**	323,156
Investing activities			
Payment for the purchase of fixed assets		**(135,046)**	(43,965)
Decrease in non-current prepayments		**20,475**	18,625
Proceeds from disposal of fixed assets		**142**	164
(Increase)/decrease in pledged bank deposits		**(137,995)**	57,830
(Increase)/decrease in deposits with banks		**(1,478,253)**	261,901
Interest received		**65,487**	52,996
Net cash (used in)/generated from investing activities		**(1,665,190)**	347,551

CONSOLIDATED CASH FLOW STATEMENT *(Continued)*
for the year ended 31 December 2014

	Note	**2014** **_RMB'000_**	2013 *RMB'000*
Financing activities			
Capital contribution received from non-controlling interests		**–**	16,225
Proceeds from senior unsecured notes		**1,463,889**	–
Repayment of bank loans		**(587)**	(26,417)
Repurchase of convertible bonds		**(944,413)**	–
Finance charges on convertible bonds paid		**(27,416)**	(41,786)
Interest paid		**(1,367)**	(2,204)
Dividends paid	*7*	**(103,380)**	(227,436)
Net cash generated from/(used in) financing activities		**386,726**	(281,618)
Net (decrease)/increase in cash and cash equivalents		**(367,280)**	389,089
Cash and cash equivalents at 1 January		**2,494,280**	2,107,018
Effect of foreign exchange rate changes		**3,237**	(1,827)
Cash and cash equivalents at 31 December		**2,130,237**	2,494,280

1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2013, 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 31 December 2014, but is derived from those financial statements.

2 CHANGE IN ACCOUNTING POLICIES

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

– Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*

– Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*

– HK(IFRIC) 21, *Levies*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are discussed below:

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. Initial adoption in 2014 does not have impact on the financial statements.

HK(IFRIC) 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

3 TURNOVER AND SEGMENT REPORTING

(a) 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. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2014	2013
	RMB'000	*RMB'000*
Footwear	**1,742,652**	1,674,956
Apparel	**2,067,293**	1,836,272
Accessories	**96,341**	72,249
	3,906,286	3,583,477

The Group's customer base is diversified and has only one (2013: two) customer with whom transactions have exceeded 10% of the Group's revenues. In 2014, revenues from sales of footwear, apparel and accessories to the (2013: two) customer, including sales to entities which are known to the Group to be under common control with this customer, amounted to approximately RMB536 million (2013: RMB538 million and RMB423 million respectively) and arose in both reportable segments *(see note 3(b))*.

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

(b) Segment reporting

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

– *361°* Products – Adults: this segment derives turnover from manufacturing and trading of adults sporting goods.

– *361°* Products – Kids: this segment derives turnover from trading of kids sporting goods.

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

3 TURNOVER AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

(i) Segment results

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2014 and 2013 is set out below.

	361º Products – Adults		*361º* Products – Kids		Total	
	2014	2013	**2014**	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment revenue	**3,398,783**	3,163,102	**507,503**	420,375	**3,906,286**	3,583,477
Cost of sales	**(2,008,617)**	(1,910,718)	**(300,873)**	(255,660)	**(2,309,490)**	(2,166,378)
Reportable segment profit (gross profit)	**1,390,166**	1,252,384	**206,630**	164,715	**1,596,796**	1,417,099

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

	2014	2013
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue and consolidated turnover *(note 3(a))*	**3,906,286**	3,583,477
Profit		
Reportable segment profit	**1,596,796**	1,417,099
Other revenue	**112,870**	83,766
Other net (loss)/gain	**(12,987)**	5,101
Selling and distribution expenses	**(769,245)**	(729,300)
Administrative expenses	**(203,269)**	(424,456)
Net change in fair value of derivatives embedded to convertible bonds	**51,661**	41,841
Loss on repurchase of convertible bonds	**(76,118)**	–
Finance costs	**(92,235)**	(79,127)
Consolidated profit before taxation	**607,473**	314,924

4 OTHER REVENUE AND NET (LOSS)/GAIN

	2014	2013
	RMB'000	*RMB'000*
Other revenue		
Bank interest income	**77,581**	53,169
Government grants	**23,408**	6,889
Others	**11,881**	23,708
	112,870	83,766
Other net (loss)/gain		
Net gain/(loss) on disposal of fixed assets	**7**	(40)
Net foreign exchange (loss)/gain	**(12,994)**	5,141
	(12,987)	5,101

Government grants of RMB23,408,000 (2013: RMB6,889,000) were received from several local government authorities for the Group's contribution to local economies, of which the entitlement was unconditional and under the discretion of the relevant authorities.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2014	2013
	RMB'000	*RMB'000*
(a) Finance costs		
Interest on bank and other borrowings wholly repayable within five years	**1,367**	2,204
Finance charges on convertible bonds *(note 12)*	**53,338**	76,923
Finance charges on senior unsecured note *(note 12)*	**37,530**	–
	92,235	79,127
(b) Staff costs		
Contributions to defined contribution retirement plans	**20,608**	18,450
Salaries, wages and other benefits	**308,308**	279,685
	328,916	298,135

5 PROFIT BEFORE TAXATION *(Continued)*

	2014	2013
	RMB'000	*RMB'000*
(c) Other items		
Auditors' remuneration		
– audit services	**3,326**	3,336
Amortisation of land lease premium	**2,152**	2,152
Depreciation	**65,040**	65,442
(Reversal of)/impairment loss on trade receivables *(note 9(b))*	**(111,366)**	152,001
Operating lease charges in respect of properties	**14,617**	13,342
Research and development costs *	**95,703**	85,764
Cost of inventories **	**2,309,490**	2,166,378

* Research and development costs include RMB28,601,000 (2013: RMB31,613,000) relating to staff costs of employees in the research and development department, which amount is also included in the total staff costs as disclosed in note 5(b).

** Cost of inventories include RMB220,547,000 (2013: RMB202,218,000) relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2014	2013
	RMB'000	*RMB'000*
Current tax – PRC income tax		
Provision for the year	**171,142**	131,090
Over-provision in respect of prior years	**(5,867)**	(3,286)
	165,275	127,804
Deferred tax		
Origination and reversal of temporary differences	**36,986**	(27,611)
	202,261	100,193

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

(ii) No provision has been made for Profits Tax in Hong Kong, Brazil and USA as the Group did not earn any income subject to Profits Tax in Hong Kong, Brazil and USA 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% (2013: 25%) of the assessable profits of the PRC subsidiaries.

7 DIVIDENDS

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

	2014	2013
	RMB'000	*RMB'000*
Interim dividend declared and paid of RMB5.0 cents per ordinary share (2013: RMB4.0 cents per ordinary share)	**103,380**	82,704
Final dividend proposed after the end of the reporting period of RMB3.0 cents per ordinary share (2013: RMB Nil per ordinary share)	**62,028**	–
	165,408	82,704

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

	2014	2013
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB Nil per ordinary share (2013: RMB7.0 cents per ordinary share)	**–**	144,732

8 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 RMB397,642,000 (2013: RMB211,261,000) and the weighted average of 2,068 million ordinary shares (2013: 2,068 million ordinary shares) in issue during the year.

(b) Diluted earnings per share

For the year ended 31 December 2013 and 2014, diluted earnings per share is the same as basic earnings per share as the Company did not have dilutive potential shares outstanding during the year.

9 TRADE AND OTHER RECEIVABLES

	2014	2013
	RMB'000	*RMB'000*
Trade debtors		
Trade debtors	**1,604,395**	2,022,705
Less: allowance for doubtful debts *(note 9(b))*	**(80,155)**	(191,521)
	1,524,240	1,831,184
Bills receivable	**132,013**	84,780
Deposits, prepayments and other receivables		
Current		
Deposits	**5,105**	3,885
Prepayments	**802,198**	557,209
Other receivables	**84,648**	75,424
Derivative financial instruments *(note 12)*	**–**	355
	891,951	636,873
Non-current		
Deposits and prepayments	**96,691**	121,148

Included in prepayments are amounts prepaid to suppliers of RMB584,123,000 (2013: RMB468,765,000).

All of the trade debtors, bills receivable and current portion of deposits, prepayments and other receivables are expected to be recovered within one year, except that the Group's current deposits of RMB5,105,000 (2013: RMB3,885,000) are expected to be recovered or recognised as expenses after more than one year.

9 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis

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

	2014	2013
	RMB'000	*RMB'000*
Within 90 days	**1,035,171**	947,799
Over 90 days but within 180 days	**621,082**	775,818
Over 180 days but within 365 days *(note)*	**–**	192,347
	1,656,253	1,915,964

Note: The trade debtors and bills receivable in 2013 aged over 180 days but within 365 days of RMB192,347,000 have been fully settled after the year end date.

Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade debtors and bills receivable 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. Normally, the Group does not obtain collateral from customers.

(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 is as follows:

	2014	2013
	RMB'000	RMB'000
At 1 January	**191,521**	39,520
(Reversal of)/impairment loss recognised	**(111,366)**	152,001
At 31 December	**80,155**	191,521

At 31 December 2014, the Group's trade debtors of RMB80,155,000 (2013: RMB191,521,000) were individually determined to be impaired. The individually impaired receivables related to customers which management assessed that a portion of the receivables were doubtful. Consequently, specific allowances for doubtful debts of RMB80,155,000 (2013: RMB191,521,000) were recognised. The Group does not hold any collateral over these balances.

9 TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

	2014	2013
	RMB'000	*RMB'000*
Neither past due nor impaired	**1,441,754**	1,400,718
Within 30 days past due	**73,553**	176,464
Over 30 days but within 90 days past due	**124,998**	318,257
Over 90 days but within 180 days past due	**15,948**	20,525
Amount past due	**214,499**	515,246
	1,656,253	1,915,964

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

10 INVENTORIES

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

	2014	2013
	RMB'000	*RMB'000*
Raw materials	**30,943**	18,530
Work in progress	**85,600**	75,710
Finished goods	**453,515**	315,118
	570,058	409,358

10 INVENTORIES *(Continued)*

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

	2014	2013
	RMB'000	*RMB'000*
Carrying amount of inventories sold	**2,309,490**	2,166,378

11 TRADE AND OTHER PAYABLES

	2014	2013
	RMB'000	*RMB'000*
Trade creditors	**522,924**	621,748
Bills payable	**783,760**	213,452
Receipts in advance	**19,352**	7,289
Other payables and accruals	**525,063**	515,371
Derivative financial instruments *(note 12)*	**–**	111,319
	1,851,099	1,469,179

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

Bills payable as at 31 December 2014 and 2013 were secured by pledged bank deposits.

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

	2014	2013
	RMB'000	*RMB'000*
Due within 1 month or on demand	**381,032**	409,598
Due after 1 month but within 3 months	**418,663**	227,810
Due after 3 months but within 6 months	**506,989**	197,792
	1,306,684	835,200

12 NON-CURRENT INTEREST-BEARING BORROWINGS

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

	2014	2013
	RMB'000	*RMB'000*
Senior unsecured notes *(note 12(b)(i))*	**1,484,869**	–
Convertible bonds *(note 12(b)(ii))*	**–**	767,539
	1,484,869	767,539

All of the non-current interest-bearing borrowings are carried at amortised cost. None of the non-current interest-bearing borrowings is expected to be settled within one year.

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

(i) Senior unsecured notes

On 12 September 2014, the Company issued senior unsecured notes with principal amount of RMB1,500,000,000 due 2017. The notes are interest bearing at 7.5% per annum, and payable on a semi-annual basis in arrears. The maturity date of senior unsecured notes is 12 September 2017. The effective interest rate of the liability component is 8.42% per annum.

The transaction cost for the issue of the senior unsecured notes amounted to RMB28,191,000. An amount of RMB27,920,000 was offset with the senior unsecured notes and amortised over the period until maturity. The remaining amount of transaction costs was charged to the consolidated statement of profit or loss during the current year.

(ii) Convertible bonds

On 3 April 2012, the Company issued unsecured convertible bonds with principal amount of US$150,000,000 due 2017 (the "convertible bonds"). The convertible bonds were interest-bearing at 4.5% per annum and payable semi-annually in arrears. The maturity date of the convertible bonds was 3 April 2017. The convertible bonds could be converted to shares of the Company at HK$3.81 per share, subject to anti-dilutive and dividend protection adjustments, from 14 May 2012 to 3 April 2017.

In addition to the above, the Company was allowed to early redeem all the convertible bonds from 3 April 2015 to 3 April 2017 at principal amount plus any accrued but unpaid interest thereon the redemption date, provided that the closing price of the shares of the Company for each of the thirty consecutive trading days, the last of which occurs within the five trading days prior to the date upon which the redemption notice is given by the Company, is at least 130% of the prevailing conversion price.

12 NON-CURRENT INTEREST-BEARING BORROWINGS *(Continued)*

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

(ii) Convertible bonds (Continued)

The holders of the convertible bonds could require the Company to early redeem all or partial of the convertible bonds on or about 3 April 2015 plus any accrued but unpaid interest thereon the redemption date.

The redemption call, redemption put and conversion options were separately accounted for at fair value at the end of each reporting period as derivative financial instruments.

As a result of the declaration of final dividend for the year ended 31 December 2012, interim dividend for the six months ended 30 June 2013 and interim dividend for the six months ended 30 June 2014, the conversion price of the convertible bonds was adjusted to HK$3.21 per share with effective from 10 September 2014.

The Group has fully repurchased principal amounts of US$150,000,000 of convertible bonds during the current year. All the repurchased convertible bonds have been cancelled on or before 4 December 2014. There were no outstanding convertible bonds as at 31 December 2014.

	Liability component of convertible bonds *(note 12(b)(ii)(a))* *RMB'000*	**Redemption call option** *(notes 9 and 12(b)(ii)(b))* *RMB'000*	**Redemption put option** *(notes 11 and 12(b)(ii)(c))* *RMB'000*	**Conversion option** *(notes 11 and 12(b)(ii)(d))* *RMB'000*	**Total** *RMB'000*
At 31 December 2012	753,062	(16,458)	51,992	120,984	909,580
Finance charges amortised during the year *(note 5(a))*	76,923	–	–	–	76,923
Interest paid and payable	(41,440)	–	–	–	(41,440)
Change in fair value	–	15,865	(12,595)	(45,111)	(41,841)
Exchange adjustments	(21,006)	238	(1,250)	(2,701)	(24,719)
At 31 December 2013	767,539	(355)	38,147	73,172	878,503
Finance charges amortised during the year *(note 5(a))*	**53,338**	**–**	**–**	**–**	**53,338**
Interest paid and payable	**(27,416)**	**–**	**–**	**–**	**(27,416)**
Change in fair value	**–**	**(1,798)**	**(30,856)**	**(19,007)**	**(51,661)**
Repurchase of convertible bonds	**(807,031)**	**2,160**	**(7,965)**	**(55,459)**	**(868,295)**
Exchange adjustments	**13,570**	**(7)**	**674**	**1,294**	**15,531**
At 31 December 2014	**–**	**–**	**–**	**–**	**–**

12 NON-CURRENT INTEREST-BEARING BORROWINGS *(Continued)*

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

(ii) Convertible bonds (Continued)

(a) Liability component of convertible bonds represents the contractually determined stream of future cash flows discounted at the rate of interest determined by the market instruments of comparable credit status taken into account the business risk and financial risk of the Company. The effective interest rate of the liability component is 10.2% per annum. There were no outstanding convertible bonds as at 31 December 2014.

(b) Redemption call option represents the fair value of the Company's option to early redeem all of the convertible bonds and is recorded as derivative financial instruments under "Trade and other receivables" *(note 9)*.

(c) Redemption put option represents the fair value of the options of the holders of the convertible bonds to early redeem all of the convertible bonds and is recorded as derivative financial instruments under "Trade and other payables" *(note 11)*.

(d) Conversion option represents the fair value of the options of the holders of the convertible bonds to convert the convertible bonds into shares and is recorded as derivative financial instruments under "Trade and other payables" *(note 11)*.

(e) The transaction costs for the issue of the convertible bonds amounted to RMB22,073,000. An amount of RMB17,626,000 was offset with the liability component of the convertible bonds amortised over the period until maturity. The remaining amount of transaction costs was charged to the consolidated statement of profit or loss during the year ended 31 December 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

2014 will be remembered as the year in which the sportswear industry in China took the first stumbling steps towards a recovery after several years in the doldrums. Since 2011, the industry has been struggling with over-production clogging up the distribution channels, resulted in heavy discounting to reduce the stock-piles. Listed companies reported weaker financial results and retailers struggled to stay profitable, with many outlets being forced to close in face of rising costs and staggering losses.

Meanwhile, on a broader front, encouraging signs were developing. Boosted by higher income levels, the growing middle-class began to be more health conscious and started to participate in more recreational and sporting activities and this gradually drove higher demand for sportswear and sporting goods. This improving sentiment was further helped by a guideline from the Chinese State Council in October 2014, entitled Opinions on Accelerating the Development of the Sports Industry and Promoting Sports Consumption, Guofa [2014] No. 46 of 2014. In a move to tap into the economic value of the sports industry, the Chinese Government vows to step back from an over-regulated sports market and to promote the fitness of its populace. With a view that China will emerge as the biggest fitness market in the world within the next twenty years, the Chinese Government set the following ambitious goals by 2025:

– the sports industry to top RMB5 trillion in size

– 500 million people to regularly participate in sports activities

– 100% of new neighbourhoods will have sports facilities

To achieve these targets, the Chinese Government will encourage professional sports events, improve sports clubs, develop stadium facilities and training agencies, as well as promote mass sports such as soccer, basketball and volleyball.

Although these measures and policies will take time to work their way through all sectors of the society, the outlook is never clearer for the sports industry although headwinds and challenges remain.

For the Group, the first sign of turnaround came in the 2014 Winter Trade Fair which was held in mid-April. Orders at this fair grew for the first time in two years, albeit from a lower base in the previous year. In a sense this was not surprising as same store statistics in the last quarter of 2013 suggested a cautious move into positive territory and retailers' confidence began to rebuild in the ensuing months. It echoed a broader trend in the industry when leading peers also reported a similar situation.

We have now seen several quarters of positive same store sales growth which, in turn, have translated into stronger orders for future deliveries in 2015. At the same time, less discount were given at retail level as in-store inventory levels ease towards a more manageable level. Whilst there is danger that the industry may relapse into an over-supply situation if companies step up the production, it is hoped that they have learnt the lessons from the past.

During the recent down-turn years which broadly speaking were the two years of 2012 and 2013, many retailers found the going tough. Faced with rising staff costs, higher rentals and heavy discounting, many stores became unprofitable and had to be closed. Further, the unquestionable size of the domestic market, especially in apparel, attracted many more players, leading to increased competition. Consumers' tastes for casual or sports-inspired clothing, a key segment for many sportswear brands, began to broaden. Coincidentally, this period also signaled the rise of mobile sales through the internet, as smartphones became dominant.

In the years ahead, the sportswear industry will continue to consolidate as bigger and stronger players, with better resources to branding and product development, will gain market share whilst the smaller brands retreat in the face of labour shortages and poor productivity. Internet sales, already the fastest growing segment of all sales channels, will continue to make strong progress although the traditional specialized stores will remain important.

BUSINESS REVIEW

Business Model

The Group continues to base its business on the franchised distributorship model, in which sales are solely to authorised companies which have been granted exclusivity for a specific territory. Under this model, the Group sells products exclusively to its distributors at a uniform discount to the suggested retail price. The distributors in turn sell these products to their franchised retailers at a structured marked-up which has been approved by the Company. The authorized retailers then sell the Group's products to consumers in their retail outlets. As of 31 December 2014, the Group had 31 distributors who had direct charge of about 3,141 retailers who in turn operate about 7,319 stores.

The distributorship contracts are generally for a fixed period of one year, renewable annually and contain the following principal terms:

(i) Geographical exclusivity – Each distributor is exclusively authorized to sell our *361°* products within a specific geographic area and is not permitted to sell outside of such an area;

(ii) Product exclusivity – Distributors are prohibited from distributing or selling any products that compete with our *361°* products;

(iii) Sales channel and network – Without permission from the Group, distributors are not allowed to sell the Company's product through the electronic commerce platform developed by itself or any third parties;

(iv) Undertakings – Our distributors are required to comply with our sales policies, adhere to our pricing policies, and adopt our standardized outlet design and layout in the authorized retail outlets within their exclusive geographic area;

(v) Pricing – We sell our products to our distributors at a uniform price across all distributors;

(vi) Protection of our intellectual property rights – Our distributors are only allowed to use our intellectual property in connection with the sale of our *361°* products and we require our distributors not to participate or assist in any activities that may infringe upon our intellectual property rights;

(vii) Renewal – Negotiations for renewal of the distributorship agreements usually take place 60 days prior to their expiry date;

(viii) Transportation insurance – Our distributors are responsible for making their own delivery arrangements with the risk of loss of or damage to products during transport being borne by the distributors;

(ix) Returned goods arrangements – Our distributors will only be able to return the goods we sold to them if there are quality issues. There were no returned goods for year ended 31 December 2014;

(x) Termination rights – We are entitled to terminate the agreement in certain circumstances (for example: breach of the agreement by the distributors, sale by the distributors of pirated products, material damages to our brand image caused by the distributors). Our distributors do not have termination rights under the agreements; and

There is also an indemnity clause which states that distributors who breach any of the above terms must return all the relevant profit to the Group, with an additional fine of RMB1 million.

There has no recent case of such a penalty nor has there been a significant change in the distributors other than periodic restructuring for tax or financial reasons.

The distribution agreements entered into with our distributors do not contain any obsolete stock arrangement, such as returns or buy-backs with the help of the distributors. Authorized retailers with excess inventory may attempt to sell such excess inventory through regular and special end-of-season sales.

Our sales return policy only allows the distributors to return products to the Group due to material quality defects. Distributors should inspect the products and, where defective products are found, may report the alleged defect to the Group. Such reports must be made within three days of delivery. The Group is not responsible for defects caused by improper storage by the distributors and improper use by consumers. For the year ended 31 December 2014, the Group did not receive any notifications with respect to quality defects or any sales return from customers.

Distributors are invoiced upon delivery of the Group's products and the Group recognizes the sales of goods when the products leave the Group's warehouse. At that time, such distributor has accepted the risks and rewards of ownership. The Group generally provides a credit period of 30 or 180 days to the distributors, the exact term of which is determined based on such factors as past sales performance, credit history and the expansion plans of the distributors. The distributorship agreements with our distributors do not specify minimum amount of purchases from us.

During the year under review, total sales to our distributors amounted to approximately RMB3,906.3 million and no goods were returned from our distributors.

Pursuant to the distributorship agreements, our distributors are entitled to authorize a person to become an authorized retailer to sell our *361°* products and to use the *361°* logo in a *361°* authorized retail outlet. The distributorship agreements with our distributors do not set expansion targets in respect of the number of retail outlets.

Distributors then enter into separate agreements with our authorized retailers for the sale and purchase of our *361°* products and other aspects of their commercial relationship. The distributors are responsible for ensuring that authorized retailers do not sell *361°* products outside of their respective territories. Authorized retailers breaching any of the terms stipulated in their separate agreements with the distributors will be subject to penalties, such as monetary fines and the termination of their authorization to sell our *361°* products.

Principal risks and uncertainties

In addition to the industry risks and uncertainties faced by the Group as disclosed in "Management Discussion and Analysis – Industry review" on pages 21 of this announcement, the Group also faces other principal risks and uncertainties in its business.

Under the distributorship mode, the Group has limited control over the authorized retailers to ensure their compliance with the policies, including operational requirements, exclusivity, customer service, store image and pricing. Non-compliance of the Group's policies may cause unfair competition among the authorized retailers, erosion of goodwill, a decrease in market value of the Group's products and unfavorable public perception about the quality of the Group's products. This may in turn result in a material adverse effect on the business, financial condition, results of operations and prospects of the Group. However, during the year under review, the Group was not aware of any material non-compliance of the Group's policies by the authorized retailers which resulted in a material adverse effect on the business, financial condition, results of operations and prospects of the Group.

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

During the year under review, the Group has not experienced any material adverse effect on the business, financial condition, results of operations and prospects of the Group due to the change in laws and regulations in the PRC.

Product Groups

The products of the *361°* Group are under the brands of *361°* Sport, *361°* Kids and Innofashion.

361° Sport focuses on performance apparel and footwear for popular sports such as running and basketball and as well cross-training and outdoor.

361° Kids is an independent business unit that produces apparel and footwear products for children between the ages of 5 and 12. Attractively designed and brightly coloured, the products feature sports themes and often offer products designed under third-party licenses.

Innofashion is a sub-brand catering for lines that are dedicated to those youth seeking a more urban and individual life-style.

Sales Network

In the course of 2014, authorized retailers opened a total of 1,384 stores and closed a further 1,364, bringing the total network to 7,319 at the end of December, divided into the following manner:

	As at 31 December 2014		As at 31 December 2013	
	Number of *361°* authorized retail outlets	**% of total *361°* authorized retail outlets**	Number of *361°* authorized retail outlets	% of total *361°* authorized retail outlets
Eastern region(1)	**1,777**	**24.3**	1,821	25.0
Southern region(2)	**1,181**	**16.1**	1,153	15.8
Western region(3)	**1,474**	**20.1**	1,491	20.4
Northern region(4)	**2,887**	**39.5**	2,834	38.8
Total	**7,319**	**100**	7,299	100

Notes:

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

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

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

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

The bulk of the stores, approximately 70%, are in Tier-3 or smaller cities.

Approximately 80% of the stores are at street level, many of which open into pedestrian areas, which are generally the most popular shopping districts in the smaller cities in China. During the course of the last two years, the Group has encouraged many of these better-performing stores to convert into composite "3-in-1" stores, where there is sufficient space, or into "2-in-1" for the smaller outlets. These composite stores, in addition to carrying the main *361°* Sport product lines, also offer *361°* Kids, and where possible, the Innofashion range.

In the last three years, the Group has adopted a comprehensive approach to ensure uniformity in all its stores and enhance the shopping experience. Retailers who have stores which qualify under a strict criteria will have its racking shelves specially tailored and fitted at a cost to the Group. Since its introduction, the Group has spent RMB757.0 million on this display rack subsidy program, including RMB214.1 million in the year under review. This program has been successful to ensure that the better retailers remain in the business during those difficult years and after several adjustments to the structural pricing scheme, they are now able to benefit again from a profitable business.

Brand Promotion and Marketing

As a general rule, the Group allocates about 10% of its revenue for brand promotion through sponsorship programs but actual disbursements often depend on the right opportunity. For accounting purposes, the costs of sponsorships are amortized over the relevant period covered by the agreement. The Group does not spend a significant portion of its budget on advertising through the television or other media forms.

The *361°* brand which was conceptualized in 2003 seeks to underline that the brand represents excellence, being one degree beyond the perfect round circle of 360 degrees. That extra degree represents the additional effort the brand needs to exert in going beyond, having arrived at the market belatedly by as much as 10 years as the leading domestic peers. That additional degree is embodied in passion, and hence the official slogan in Chinese is "多一度熱愛" which literally means "One Extra Degree of Passion."

As a young brand, the Group has to initially create brand awareness, hence after laying the ground work of store outlets, it took the opportunity of a spate of international sporting events held in China to sponsor such major sporting events like the Asian Games in Guangzhou in 2010, the Summer Universiade in Shenzhen in 2011 and the 2nd Youth Olympic Games in Nanjing in 2014. As the official sportswear sponsor, it is the task of *361°* to design and fit all the apparel requirements of the organizing committee, including all officials, referees and umpires, as well as the volunteers of such events. This invariably brings a high degree of visibility, both in the actual stadiums as well as over the TV and other media, enabling the brand to be positioned and recognized as a strong Chinese brand encompassing all types of sports.

The brand is now firmly entrenched as one of the top 5 domestic sportswear brands in China and has recently taken to sponsor several key athletes to bring its brand message closer to the personal level. In basketball, being one of the most popular sports in China, the Group has sponsored two notable names: Stephon Marbury, who plays for the Beijing Ducks in the CBA Championships and helped the team to be winners in both the 2012/3 and 2013/4 seasons; and Kevin Love, a three-time NBA All-Star, who now plays for Cleveland Cavaliers.

In addition, Sun Yang, the 2012 London Olympics double gold medallist, and arguably the most famous of the active Chinese athletes today, has been in the books of *361°* since 2011. Young, over powering and unflinching in his efforts, he embodies some of the key values of the *361°* brand.

361° has tailored individual apparel and footwear lines around these individual athletes and is in the process of implementing a strategy which will have their unique products available on sale only through the Company's official web-site.

For completeness, the table below shows the rest of the active sponsorships in 2014, the costs of which are, in accordance with the accounting policies of the Group, amortized over the relevant periods.

Sponsorship of professional sports teams

China National Cycling Team
China National Handball Team
China National Softball Team
China National Hockey Team
China National Swimming Team
Swedish National Curling Team

As a Chinese brand, it has been the honour to be associated with the various national teams in different sports. The feedback gained from equipping these athletes has helped to improve product quality and design.

Sponsorship of professional sports events

Time	**Event**	**Capacity**
2010-2015	*361°* Men/Women's National Volleyball Tournament series	Sole Title Sponsor
2013-2014	World Women's Curling Championship	Designated Apparel Sponsor
2013-2014	17th Asian Games Incheon 2014	Prestige Partner
2013-2016	World Wushu Championships	Prestige Partner
	World Junior Wushu Championships	Prestige Partner
2010-2014	Nanjing 2014 Youth Olympics	Official Sports Apparel Sponsor
2014-2018	Jinmen Marathon	Designated Sportswear Sponsor
2014-2016	Rio 2016 Olympic and Paralympic Games	Official Supporter

Of the above, one sponsorship requires a special mention. In 2014, the *361°* Group signed an agreement with the Rio Organizing Committee, to be a 2nd Tier Supplier to the Rio 2016 Olympic and Paralympic Games. In line with the Group's decision to enter into overseas markets, it is believed that this sponsorship as a form of promoting brand recognition will be the most effective since it appeals to wide audiences over a fairly concentrated period.

The Group also continued the very successful "One cares one" (“買一善一”) charity campaign in which for every pair of shoes purchased, the Group donated another pair to a designated student. The program started in 2013 and received very positive response from the market. As at 31 December 2014, 64,395 students from the poorer counties in Guizhou and Sichuan received the donated footwear under this program.

Production

The Group maintains a flexible policy as far as sourcing its products are concerned. It owns two factories in Jinjiang (Jiangtou and Wuli) where there is sufficient capacity to produce up to 70% of the Group's requirements for footwear and as much as 20% of that for apparel.

The Group also maintains a select circle of third party original equipment manufacturers "OEMs" for both footwear and apparel and orders are placed depending on price and delivery schedules.

The Jiangtou factory was acquired from its previous owners in 2009 and consists of 14 production lines housed in a five-storey block. These old facilities are dedicated entirely to the production of footwear and have a fairly stable and established labour force, who find the location, being within the city rather convenient.

The Wuli Industrial Park is located with the Jinjiang New Economic Zone about 20 kilometres from the city centre. These facilities were constructed in stages from 2007 and finally completed in 2010. The Wuli complex house a range of production facilities for both footwear and apparel and also include such composite facilities like exhibition halls where the trade fairs are normally held, a central warehouse and comprehensive recreational and sporting facilities for the approximately 4,300 production workers and staff who live in the adjacent dormitories.

The *361°* Group firmly believes in the welfare of its production workers, an increasingly important factor considering the fast dwindling availability of such a labour pool. By its very nature, manufacturing of both footwear and to a lesser degree, apparel are highly labour-intensive and a strong staff retention rate after each Chinese New Year period helps to stabilize skills.

Production workers are paid a basic wage, depending on their grades but also incentivized through a productivity scheme which measures their individual output.

361° Kids

In 2010, the Group decided to initiate a new business unit focusing solely on children's wear. Targeted at those between the ages of 5 and 12, this business unit is a separate bottom-line driven entity and takes its own charge for all phases from design to third party manufacture. It also conducts its own trade fairs twice a year.

The only leverage on the Group's existing structure is on the logo and the alliance with the authorized distributors.

Following years of explosive growth, *361°* Kids grew steadily in 2014. As of 31 December 2014, this business unit had a total of 2,142 units, as illustrated below:

	As at 31 December 2014		As at 31 December 2013	
	Number of *361°* Kids authorized retail outlets	**% of total *361°* Kids authorized retail outlets**	Number of *361°* Kids authorized retail outlets	% of total *361°* Kids authorized retail outlets
Eastern region(1)	**623**	**29.1**	513	27.6
Southern region(2)	**447**	**20.8**	325	17.5
Western region(3)	**400**	**18.7**	377	20.3
Northern region(4)	**672**	**31.4**	643	34.6
Total	**2,142**	**100**	1,858	100

Notes:

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

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

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

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

The future of this segment of the industry remains particularly bright. There are very few major players at the national level and following the relaxation of the One-Child policy in 2013, it is anticipated that demand will continue to remain strong.

In September 2014, the company entered into a strategic partnership agreement with Baidu Inc., China's leading search engine giant, to jointly develop smart shoes that incorporate tracking devices and allow a host of applications. The first four entry levels of these smart shoes will hit the market in March 2015. If this venture is successful, there is every possibility that the co-operation will extend to the use of other wearable products.

In order to increase brand awareness and strengthen the brand image of *361°* Kids, the Group has appointed three young ambassadors, namely Bai Er Nuo（拜爾娜）, Jasmyn Aisin Gioro（愛新覺羅.媚）and Zhou Zhang Chi（周張弛）. These young stars are extremely popular with children in China and have their own following.

The Group also continued to sponsor a highly successful children's singing contest programme "Let's Sing Kids" ("中國新聲代"), on Hunan Broadcasting System – Aniworld Satellite TV（湖南廣播電視台 – 金鷹卡通衛視）, a leading TV channel. The Group also licensed with Walt Disney Company (Shanghai) Ltd to design, produce and sell children's footwear, apparel and accessories that bore such characters from the Disney Cuties and Marvel Kawaii, all of which are highly popular at a time when Hollywood studios are making significant inroads into the Chinese cinema market.

Overseas Business

During the year, the Group decided to explore opportunities in overseas markets in order to generate new earning streams in the future. This initiative will obviously take time to bear fruit and will require substantial investment in the initial years. However, the Group believes its products are competitive enough in certain markets and believes this investment will pay off over the long run.

The Overseas Business unit is headed by a group of seasoned industry professionals, led by a Taiwanese general manager who has over 30 years of experience. As part of its soft launch in Brazil and the US, the Group has showcased its new collection specially developed for the international market and recently also extended to continental Europe through Germany.

The international collection for the Spring/Summer Season in 2015 has a tactical focus on its running shoes, which are highly specialized with models such as Chromoso or Sensation both of which have been thoroughly tested in the US.

361° participated for the first time at the ISPO Sports Fair in Munich in February 2015, where the Group introduced itself at the Runners' world symposium, providing exclusive insights into its initial collection, which comprise running, training, trail and lifestyle shoes as well as sports clothing of about 140 styles for both sexes.

E-Commerce

In 2014, e-commerce in China reached a market size of RMB12.3 trillion, which had increased by 21% from the previous year and for the first time, represented over 10% of all retail sales. Mobile computing was the fastest growing segment and is expected to grow at a compound rate of 48% in the years ahead.

As consumers change their buying habits, it is important that brand companies fall in line and meet their expectations. Unfortunately, in the last few years, the sportswear industry has been pre-occupied with the clearance of old stocks in the market place, making it difficult for brand companies to launch new online products that could aggravate the situation.

As the inventory issue subsides by 2015, there will emerge a clearer strategy for e-commerce. The Group has authorized an e-commerce company in Quanzhou to co-ordinate its web sales strategies. Currently, *361°* has a presence in popular sites such as JD.com, T.mall and okbuy.com and the on-line traffic has been encouraging.

The Group intends to develop its web-only products in future which will be paraded alongside some entry level models of existing product lines for the e-commerce market. This will be supplemented by flash sales and promotional campaigns from time to time. It has been estimated that web sales in China currently form about 10% of all transactions although continuing to grow rapidly whereas the specialized stores still account for over half of all sales. There is always the threat of fake goods on offer by unscrupulous vendors and a cautious policy as advocated by *361°* is believed to be the best approach.

Joint-Ventures

One Way

In October 2013, the Group entered into a joint-venture agreement with One Way Sport Oy ("One Way"), a Finnish brand specializing in Nordic and Winter sports, to form a joint-venture ("JV") company, One Way International Enterprise Limited in which the Group has a 70% equity interest. This JV company owns the rights of the One Way brand for Greater China, which includes the Special Administrative Regions of Hong Kong and Macao, as well as the Republic of Taiwan.

One Way is a Finnish Sports brand that offers high performance products for cycling, running and Nordic sports. Its products include carbon cross country skis, boots, carbon poles, ski roller, sports eyewear, high end textiles and footwear for running, winter and outdoor activities. Headquartered in Vantaa, Finland, it has a significant market presence in the Scandinavian countries, Russia and Central Europe. One Way is a major sponsor and official supplier of the 2015 FIS Nordic World Ski Championships in Falun, Sweden from 18 February 2015 to 1 March 2015. These Championships bring together children and young people, the arts, business and trade and all fans of skiing.

In 2014, One Way signed an exclusive cooperation agreement with the Chinese Ski Association, under which it will be the sole sponsor of the Chinese biathlon, cross-country skiing and ski jumping national teams. It will also supply leading professional equipment, including the specialized gear used in all competitions, group and daily trainings. It is estimated that there are about 5 million skiers in China today.

With Beijing being only one of two candidates bidding for the 2022 Winter Olympics, the Group believes that winter sports will quickly gain popularity in China and it has been voiced that a winning bid would inspire more than 300 million to take up such activities. Already, one of the 2008 Olympic venues has been renovated into an outdoor winter sports destination and it attracts good crowds during the week-ends and hosts several international skiing and skating competitions.

In the year under review, the joint-venture company has established a presence in four major cities: Wuhan, Chongqing, Chengdu and Jinan and will gradually extend its outreach to the other parts of China. Business prospects should continue to strengthen over the next few years.

Manufacturing JV

In 2010, the Group established a joint-venture with a Taiwanese specialist which had over 30 years of experience for the manufacturing of soles. This joint-venture, in which the Group has a 51% interest, is also based in Jinjiang City on a leased piece of land covering over 65,000 sq.metres. There are altogether eight production lines, operating at close to capacity, turning out products not just for in-house consumption by *361°* but also supplying to a leading Taiwanese multinational OEM as well as to ECCO, a Danish footwear manufacturer.

FINANCIAL REVIEW

Turnover

During the year under review, the Group recorded a growth of 9.0% on turnover of RMB3,906.3 million year-on-year. Although orders from spring/summer and autumn 2014 trade fairs recorded a 8% and 7% decrease, respectively, this could be fully compensated by the increase of i) the 2014's winter products, order book increased by 8% year-on-year; and ii) delayed deliveries of the 2013's winter products in the beginning of 2014 because of a late coming winter in 2013.

Sales momentum continued in retail stores which encouraged both distributors and retailers to increase the amount of orders. The growth trend explicitly reflected by the gradual positive order book responses from the three trade fairs held in 2014, +8%, +11% and +16% for the 2014's winter products, 2015's spring/summer and autumn products, respectively.

Turnover of the business of footwear grew 2.2% whereas apparel and accessories increased by 11.3% and 36.6%, respectively. Such changes were due to i) the adjustment of discount from 60% to 65% to distributors starting from the 2014's products ordered at trade fairs; ii) a bigger volume of 2013's winter apparel and accessories were delivered in the first half of the year which pushed the turnover and the average wholesale selling price ("the AWP") up year-on-year. As the seasonality factor in footwear was less significant than in apparel, the AWP of footwear recorded a downturn by 7.8% to RMB86.4, while that of apparel and accessories increased by 8.2% and 26.4% to RMB73.5 and RMB15.8, respectively.

Sales volume of footwear, apparel and accessories all recorded an increase of 10.9%, 2.8% and 8.4% to 18.0 million pairs, 23.9 million pieces and 5.7 million pieces, respectively. The percentage increase in apparel being less than footwear was mainly due to a higher competition in the apparel retail market and the fact that distributors were cautious to make order.

The revenue of *361°* Kids for the year ended 31 December 2014 maintained its momentum and grew by 20.7% to RMB507.5 million, and accounted for 13.0% of the Group's turnover. The increase in revenue reflected the established customer base for the kids wear business, a segment that has continued to demonstrate its potential for further growth.

The Group continued to diversify its business by tapping into the growth potential of other business. Starting from 2014, the Group ended the distributorship of overseas business with a distributor and started to run overseas sales by itself. It is headed by a Taiwanese general manger with his independent unit who directly report to the president of the Group. With the existing point of sales in the various countries of Middle East, South America and South East Asia, the unit newly started the business in Brazil and have further establishment in United States and Europe. During the year under review, the overseas business recorded a total turnover of RMB39.8 million which contributed about 1.0% of the total turnover of the Group.

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

	For the year ended 31 December 2014		For the year ended 31 December 2013		Changes
	RMB'000	***% of Turnover***	*RMB'000*	*% of Turnover*	*(%)*
By Products					
Turnover					
Adults					
Footwear	**1,554,280**	**39.8**	1,521,032	42.5	+2.2
Apparel	**1,753,929**	**44.9**	1,575,784	44.0	+11.3
Accessories	**90,574**	**2.3**	66,286	1.8	+36.6
Kids	**507,503**	**13.0**	420,375	11.7	+20.7
Total	**3,906,286**	**100**	3,583,477	100	+9.0

A table showing the number of units sold and the AWP of the Group's products during the year under review:

	For the year ended 31 December 2014		For the year ended 31 December 2013		Changes	
	Total units sold	**Average wholesale selling price(1)**	Total units sold	Average wholesale selling price(1)	Units sold	Average wholesale selling price
	'000	***RMB***	*'000*	*RMB*	*(%)*	*(%)*
By Volume and AWP						
Adults						
Footwear (pairs)	**17,996**	**86.4**	16,226	93.7	+10.9	-7.8
Apparel (pieces)	**23,876**	**73.5**	23,213	67.9	+2.9	+8.2
Accessories (pieces/pairs)	**5,749**	**15.8**	5,304	12.5	+8.4	+26.4
Kids	**7,931**	**64.0**	7,114	59.1	+11.5	+8.3

Note:

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

Cost of Sales

During the year under review, the cost of sales for the Group increased by 6.6% to RMB2,309.5 million, and accounted for 59.1% of the Group's turnover representing a slight decrease of 1.4 percentage point year-on-year.

Although the Group has streamlined the numbers of SKUs at each trade fair, the innovation on new models and design of footwear necessitated high quality and functionality materials, thus increasing both the material cost and overheads, some of which cannot be immediately transferred to consumers.

On the other hand, the Group was still able to obtain favourable pricing from the OEMs which lowered per unit cost of outsourced footwear and apparel as well as the self-produced apparel business of the Group became mature. As a result, the total percentage increase in cost was much less than the percentage increases in AWP. This helped to reduce the total cost of sales from 60.5% to 59.1%.

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

	For the year ended 31 December 2014		For the year ended 31 December 2013	
	RMB'000	***% of total costs of sales***	*RMB'000*	*% of total costs of sales*
Footwear & Apparel (Internal Production)				
Raw materials	**568,555**	**24.6**	408,465	18.9
Labour	**142,699**	**6.2**	112,001	5.2
Overheads	**307,847**	**13.3**	174,324	8.0
	1,019,101	**44.1**	694,790	32.1
Outsourced Products				
Footwear	**423,246**	**18.3**	504,168	23.3
Apparel	**808,284**	**35.0**	925,567	42.7
Accessories	**58,859**	**2.6**	41,853	1.9
	1,290,389	**55.9**	1,471,588	67.9
Cost of sales	**2,309,490**	**100**	2,166,378	100

Gross profit and gross profit margin

Gross profit was RMB1,596.8 million for 2014 and gross profit margin was 40.9%, up by 1.4 percentage points when compared to that for 2013.

Starting from the 2014 spring/summer trade fair held in August of 2013, the Group increased the discounts offered to its distributors from 60% to 65%. Although there was adjustment on discount, the Group was able to maintain a reasonable gross profit margin through the reduction of cost by i) successfully negotiating bargain prices with OEMs and ii) the benefit from the mature in-house apparel production.

The gross profit margins of the footwear and accessories dropped to 38.6% and 38.7%, respectively whereas apparel and kids' wear business grew to 43.0% and 40.7%, respectively.

All in all, a higher turnover on apparel in the year outweighed the decrease of gross profit margin from footwear, thus enabling the Group to maintain the gross profit margin for the year under review.

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

	For the year ended 31 December 2014		For the year ended 31 December 2013		
	Gross profit *RMB'000*	**Gross profit margin** *%*	Gross profit *RMB'000*	Gross profit margin *%*	Changes percentage point
Adults					
Footwear	**600,504**	**38.6**	623,654	41.0	-2.4
Apparel	**754,648**	**43.0**	600,763	38.1	+4.9
Accessories	**35,014**	**38.7**	27,967	42.2	-3.5
Kids	**206,630**	**40.7**	164,715	39.2	+1.5
Total	**1,596,796**	**40.9**	1,417,099	39.5	+1.4

Other revenue

Other revenue of RMB112.9 million (2013: RMB83.8 million) was mainly composed of i) accrued interest income of RMB77.6 million (2013: RMB53.2 million) earned from both the bank deposits in Hong Kong and the PRC; ii) the government subsidies of RMB23.4 million (2013: 6.9 million), the increase being due to the receipt of an one off subsidy, RMB14.7 million, in relation to the property and land use right tax paid in previous years; and iii) the other revenue of RMB11.9 million (2013: RMB23.7 million) earned from selling of soles to third parties by a manufacturing joint venture.

Other net loss

The other net loss was mainly attributable to the exchange difference incurred by the subsidiaries with functional currencies other than Renminbi in the year. The increase was mainly due to the depreciation of Renminbi as well as the set-up of overseas offices, payment of dividend and the fact that interest payments were denominated in other currencies.

Selling and distribution expenses

During the year under review, with the growth of turnover by 9.0%, selling and distribution expenses increased by 5.5% to RMB769.2 million, primarily as a result of an increase in rack subsidies and advertising and promotional expenses by 25.6% and 8.3%, respectively.

Rack subsidies increased from RMB170.4 million to RMB214.1 million year-on-year and accounted for 5.5% of the total turnover. These subsidies were paid in the form of fixtures and fittings to 2,125 retail stores. They were used for products display at retail outlets and all the orders were made directly from the Group to suppliers which in turn deliver them to retail outlets directly. The Group believes that the direct assistance to retailers can upgrade their retail stores and improve their competitive strength in market. Such program will still continue for the forthcoming year.

Follow to the growth on turnover, advertising and promotional expenses increased by 8.3% and accounted for approximately 11.2% (2013: 11.4%) of the total turnover. During the year under review, the Group entered into a license agreement with Walt Disney Company (Shanghai) Ltd and had become an official supporter for the 2016 Summer Olympic and Paralympic Games in Rio de Janeiro, Brazil, as well as signed a spokesman contract with a popular Taiwanese male singer Jam Hsiao. Together with the sponsorships for the two important events held in the year, namely the Nanjing 2014 Youth Olympic Games and the 17th Asian Games Incheon, the Group believes that these endeavours would gain an extensive exposure to the public and be able to maintain its brand image.

Administrative expenses

Administrative expenses decreased by 52.1% to RMB203.3 million for the year under review and represented about 5.2% of the Group's turnover. The decrease was mainly due to the fact that no impairment loss had been recognized during the year as compared to a RMB152.0 million impairment loss recognized year-on-year. On the contrary, the Group has confidently written back approximately RMB111.4 million provision of impairment losses which accounted for about 58.1% of the provision made in previous years. The Group has been staying in touch with all the distributors and believe that account receivables could further improve in the forthcoming year.

Research and development expenses were RMB95.7 million, or 2.4% (2013: 2.4%) of the turnover for the year under review. The Group believes that the expense is necessary for enhancing the Group's competitiveness.

Administrative salaries had increased by 54.0% to RMB45.5 million. The increase was mainly caused by the additions of staff salaries from the newly established overseas business.

Finance Costs

During the year under review, financing costs increased to RMB92.2 million, including mainly the RMB90.9 million for the relevant interest and cost in relation to the convertible bonds and senior unsecured notes amortized over the year. The balance of RMB0.9 million and RMB0.4 million were in relation to the banking facilities for a manufacturing joint venture for production of soles during the year and a mortgage bank loan of RMB15.3 million as at 31 December 2014 for financing the purchase of an office in Hong Kong.

In the year, the Group started to repurchase convertible bonds and eventually fully redeemed through a tender offer on 4 December 2014. The net change in fair value of derivatives embedded to convertible bonds for the year, the realization for the amount of repurchase, the cost and interest were fully recognized and accrued for the year. The finance cost for the convertible bonds was RMB53.3 million which comprised i) the interest of 4.5% per annum on the convertible bonds amounting to RMB27.4 million for the period ended 4 December 2014 and ii) the balance of RMB25.9 million, which was the adjustment for the amortization cost of accrued interest and cost incurred for the issuance of convertible bonds.

On 12 September 2014, the Group issued RMB1,500,000,000 7.5% senior unsecured notes due 2017. The finance cost accrued for the year was RMB37.5 million in which RMB33.9 million was in relation to the accrued interest for the year and RMB3.6 million was the relevant cost incurred for the issuance of the senior unsecured notes amortised over the tenor of three years.

Income tax expenses

During the year under review, income tax expenses of the Group amounted to RMB202.3 million (2013:RMB100.2 million) and the effective tax rate for the year was 36.4% (2013: 36.7%). The percentage had excluded the effect of the profit before taxation from the net change in fair value of derivatives embedded in convertible bonds.

The Group's four main PRC-based operating subsidiaries are all subject to standard corporate income rate of 25% whereas all the subsidiaries in Hong Kong are not subject to any taxation because no operating income has been generated in the city. As the interest of the convertible bonds and the senior unsecured notes newly issued were both paid by a Hong Kong subsidiary, the expenses were not allowed to be deducted from the taxable income of the PRC subsidiaries, thus affected the amount of tax paid and the effective tax rate at the Group level.

Profit attributable to equity shareholders

Profit attributable to equity shareholders for the year 2014 increased by 88.2% to RMB397.6 million (2013: RMB211.3 million). This was mainly attributable to the increase in turnover and gross profit margin. Earnings per share for 2014 increased by 88.2% to RMB19.2 cents.

LIQUIDITY AND FINANCIAL RESOURCES

During the year ended 31 December 2014, net cash inflow from operating activities of the Group amounted to RMB911.2 million. As at 31 December 2014, cash and cash equivalents, including bank deposits and cash in hand, and fixed deposits with original maturities not exceeding three months, amounted to RMB2,130.2 million, representing a net decrease of RMB367.3 million as compared to the position as at 31 December 2013. The net decrease was attributable to the following items:

	For the year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Net cash generated from operating activities	**911,184**	323,156
Net capital expenditure	**(135,046)**	(43,965)
Dividends paid	**(103,380)**	(227,436)
(Placement)/withdrawal of pledged deposit	**(137,995)**	57,830
Repayment of bank loans	**(587)**	(26,417)
Payment for repurchase of convertible bonds	**(944,413)**	–
Proceeds from issuance of senior unsecured notes	**1,463,889**	–
(Placement)/withdrawal of deposits (with maturity over three months)	**(1,478,253)**	261,901
Interest received	**65,487**	52,996
Other net cash outflow	**(8,166)**	(8,976)
Net (decrease)/increase in cash and cash equivalents	**(367,280)**	389,089

The positive net cash generated from operating activities amounted of RMB911.2 million for the year ended 2014 was mainly from the operating profit for the year under review and the net increase in the working capital from the decrease in amount of trade and bills receivable as well as increase in the trade and bills payable, other payables and accruals compared with a year ago.

During the year under review, certain capital expenditure amounted RMB135.0 million was incurred mostly for the new headquarter in Xiamen and the administrative building in Wuli Industrial Park, Jinjiang. The Group fully repurchased and redeemed the convertible bonds in the principal amount of US$150 million by the use of approximately RMB944.4 million which was partly funded by the net proceeds of RMB1,463.9 million from the issuance of RMB1.5 billion 7.5% senior unsecured notes due 2017 in September 2014. The additions of RMB138.0 million pledged deposit was mainly for the issuance of bills payable to suppliers and the increase of RMB1,478.3 million banks deposits with maturity of more than 3 months was mostly from the net proceeds of the senior unsecured notes which substantially reduced the amount of cash and cash equivalent as at 31 December 2014.

The Group's gearing ratio increased to 17.6% as at 31 December 2014 (2013:11.0%) which was mainly due to the issuance of RMB1.5 billion 7.5% senior unsecured notes in September 2014.

During the year under review, the Group had not entered into any interest rate 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 declared dividends in Hong Kong dollars. During the year ended 31 December 2014, the Group did not carry out any hedging activity against foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may have a financial impact on the Group.

PLEDGE OF ASSETS

As at 31 December 2014, a building with net book value of RMB43,471,000 (31 December 2013: RMB43,286,000) was pledged as security for a banking facility of the Group of RMB40,101,000 (31 December 2013: RMB21,047,000).

The aforesaid banking facility was used to finance the acquisition of an office unit and the trading activities of a subsidiary in Hong Kong. The office unit is for the Group's own use and not for any investment purpose.

Bills payable as at 31 December 2014 were secured by pledged bank deposits of RMB175.9 million.

WORKING CAPITAL MANAGEMENT

The average working capital cycle for the year ended 31 December 2014 was 75 days (2013: 120 days). The decrease was mainly due to the improvement from trade and bills receivable turnover days and extension of trade and bills payable turnover days. The inventory turnover days had remained stable with a slight increase by 4 days.

The average trade and bills receivable cycle was 167 days as at 31 December 2014 (2013: 205 days), which represented a decrease of 38 days. The Group has prudently written back RMB111.4 million out of RMB191.5 million impairment losses brought forward from the previous years. The amount of trade and bills receivable had reduced by 13.6% to RMB1,656.3 million year-on-year. Based on invoice dates, no debts were due over 180 days. The Group has been staying in touch with all distributors and believe there will be further improvement in the trade and bills receivables with the rebounding of sportswear industry.

The average inventory turnover cycle was 77 days for the year ended 31 December 2014 (2013: 73 days). With the increase in volume of transactions, the amount of inventories as at the 31 December 2014 had been increased by 39.3% to RMB570.1 million year-on-year. About 79.6% of the stock were finished goods and were mainly products of spring/summer of 2015. All the goods were self-produced or placed to OEMs on the orders received from distributors and retailers at the trade fairs and no extra stock were produced and kept by the Group. Also, the Group had not experienced any return or request of buy-backs of stocks from distributors ever since the establishment of this distributorship model.

For the year ended 31 December 2014, prepayments to suppliers were RMB584.1 million (2013: RMB468.8 million), representing a 24.6% increase year-on-year. The prepayments were deposits paid to suppliers for the acceptance of orders of products to be produced for the spring/summer and autumn of 2015 in connection with the two trade fairs which were held in August and December of 2014. With the increase of orders received from the two trade fairs, the amount of deposit has also been increased accordingly.

The average trade and bills payable cycle was 169 days for the year ended 31 December 2014 (2013: 158 days). The extension of 11 days was due to the fact that a higher amount of bills were used for the settlement of suppliers' payment which had allowed the Group to enjoy the 180 days credit from the bank. The bills payable as at 31 December 2014 was RMB783.8 million (2013: RMB213.5 million) which accounted for about 60.0% of the total trade and bills payable whereas it was only about 25.6% in last year. The changes were due to the introduction of some new OEMs for apparel and new credit terms obtained from existing suppliers.

CONVERTIBLE BONDS

In April 2012, the Company issued an aggregate principal amount of US$150 million 4.5% convertible bonds due 2017 ("the CBs") and listed on the Singapore Exchange Securities Trading Limited in Singapore. The CBs can be converted into the ordinary shares of the Company (the "Shares") from 14 May 2012 to 3 April 2017 and the initial conversion price was HK$3.81 and subsequently adjusted to HK$3.21 after a declaration of the interim dividend on 10 September 2014.

During the year, the Company repurchased and immediately cancelled an aggregate principal amount of US$52.4 million CBs by way of over-the-counter purchases. On 20 October 2014, the Company invited all holders of the CBs to tender their CBs for repurchase by the Company for cash. The purchase price for each US$100,000 principal amount of the tendered CBs was US$102,500 for the aggregate outstanding principal amount of US$97,600,000. The tender offer was funded by the proceeds of the issue of RMB1.5 billion 7.5% senior unsecured notes of the Company due 2017 of the Group in September 2014.

On 24 October 2014, US$86,200,000 principal amount of the CBs representing approximately 88.3% of the US$97,600,000, had been validly tendered and accepted for repurchase by the Company. Together with the accrued interest of US$350 in respect of each US$100,000 principal amount of CBs, the total consideration for each US$100,000 principal amount of CBs had been repurchased by the Company in the amount of US$102,850. The redeemed CBs had been settled and cancelled on 31 October 2014.

On 4 December 2014, pursuant to the terms and conditions of the CBs, all the remaining outstanding CBs in the principal amount of US$11,400,000 was redeemed and cancelled immediately with the total accrued and unpaid interest in the amount of US$86,925. On 5 December 2014, the CBs were delisted from the Singapore Exchange Securities Trading Limited.

The valuation of the CBs for the year was divided into two parts: i) the derivative component and ii) the liability component. As the value for both the conversion and redemption options of bondholder and issuers at the date of redemption was still higher than that at the time of issuance, it incurred a net gain in the fair value change to the Group amounting to RMB51.7 million. The net loss of RMB76.1 million from the repurchase of CBs was a realized loss derived from the consideration paid for the repurchased CBs over the carrying amount of liability and derivative components of the CBs at the time repurchased in the year.

SENIOR UNSECURED NOTES

On 1 September 2015, the directors of the Board decided to launch the RMB1.5 billion 7.5% senior unsecured notes due 2017 ("the Notes"). The net proceeds were mainly used for the finance of redemption of CBs. Despite the Group had RMB3.3 billion cash and cash equivalent on hand or deposited at banks as at 30 June 2014, these were mainly the operating cash in the PRC. In addition, remittance of fund out of the PRC is subject to exchange restrictions imposed by the PRC government. The Notes were successfully issued at 99.472% and listed on The Stock Exchange of Hong Kong Limited in Hong Kong on 12 September 2014, the proceeds were also used for the purposes of development of overseas business and general working capital.

EMPLOYEES AND EMOLUMENTS

As at 31 December 2014, the Group employed a total of 9,345 full time employees which included management staff, technicians, salespersons and workers. For the year ended 31 December 2014, the Group's total remuneration of employees was RMB328.9 million, representing 8.4% of the Group's turnover. The Group's emolument policies, based on the performance of individual employees, are formulated to attract talent and retain quality staff. Apart from the mandatory provident fund scheme, which is operating in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees, the state-managed retirement pension scheme for the PRC-based employees and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance. The Group believes its strength lies in the quality of its employees and has placed a great emphasis on fringe benefits.

PROSPECTS

The fundamentals of the sportswear industry have never been clearer since the Chinese State Council released its guideline, GuoFa No. 64. The Chinese Central Government is keen to steer future economic growth towards one of domestic consumption. A recent Euromonitor International report suggests that from a base of RMB140 billion in 2012, the cumulative annual growth rate of the industry will be 6% for the ensuing five years, during which period there will also be opportunity for the stronger players in the industry to gain market share as the industry continues to consolidate.

For the *361°* Group, with an estimated market share of only approximately 3%, the outlook is indeed positive and continued investment in branding and product will ensure that it will strengthen its position at the top end of the domestic brands. For the immediate FY2015, there is every optimism that it will be another strong year, given the Group's strong order book and an improving market.

Over the medium term, the Group will rise to the challenges of the industry by offering the right product portfolio at commensurate price points as well as meeting the demand of online sales.

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company or any of its subsidiaries did not make any purchase of shares of the Company for the year ended 31 December 2014.

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 31 December 2014.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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. Yan Man Sing Frankie, Mr. Tsui Yung Kwok and Dr. Liao Jianwen. Mr. Yan Man Sing Frankie 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 31 December 2014. The audit committee considered that the consolidated results of the Group for the year ended 31 December 2014 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made.

DIVIDEND

The Board recommended to declare a final dividend of RMB3.0 cents (equivalent to HK3.7 cents) per share, subject to approval by the shareholders at the forthcoming annual general meeting. Including the interim dividend of RMB5.0 cents (equivalent to HK6.2 cents) per share for the six months ended 30 June 2014 already paid, total payout for the year amounted to RMB8.0 cents (equivalent to HK9.9 cents) per share or RMB165.4 million in aggregate, representing 41.6% of the profit attributable to equity shareholders of the Group for the year ended 31 December 2014. 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 on or about 13 May 2015.

CLOSURE OF REGISTER OF MEMBERS

The forthcoming annual general meeting ("the AGM") of the Company will be held on Thursday, 23 April 2015. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 20 April 2015 to Thursday, 23 April 2015, both days inclusive, during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 17 April 2015.

The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders at the AGM. The record date for entitlement to the proposed final dividend is Monday, 4 May 2015. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 29 April 2015 to Monday, 4 May 2015, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 28 April 2015.

PUBLICATION OF 2014 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 2014 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, 10 March 2015

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 (Chairman), Mr. Ding Huirong and Mr. Wang Jiabi, and three independent non-executive directors, namely, Mr. Yan Man Sing Frankie, Mr. Tsui Yung Kwok and Dr. Liao Jianwen.