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361 Degrees International Limited

361 度國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1361)

2018 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the “Board”) of 361 Degrees International Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (together referred to as the “Group”) for the six months ended 30 June 2018. This announcement, containing the full text of the 2018 Interim Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of interim results.

361°

361 DEGREES
INTERNATIONAL LIMITED

STOCK CODE: 1361



INTERIM REPORT 2018





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FINANCIAL HIGHLIGHTS

Resolved to declare an interim dividend of **HK7.6 cents (RMB6.4 cents)** per ordinary share

Revenue increased from **RMB2,798.1 million to RMB3,016.9 million**

Profit attributable to the equity shareholders increased from **RMB318.3 million to RMB335.0 million**

	For the six months ended 30 June		
	2018	2017	Change
Profitability Data (RMB'000)			(%)
Revenue	3,016,853	2,798,142	+7.8
Gross profit	1,255,707	1,184,094	+6.0
Operating profit	630,620	629,082	+0.2
Profit attributable to equity shareholders	335,011	318,254	+5.3
Earnings per share			
– basic (RMB cents)	16.2	15.4	+5.2
Profitability Ratios (%)			(% point)
Gross profit margin	41.6	42.3	-0.7
Operating profit margin	20.9	22.5	-1.6
Margin of profit attributable to equity shareholders	11.1	11.4	-0.3
Effective income tax rate (Note 1)	35.2	38.7	-3.5
Return on shareholders equity (Note 2)	5.7	5.8	-0.1
Operating Ratios (as percentage of revenue) (%)			
Advertising and promotional expenses	8.7	7.7	+1.0
Staff costs	8.5	8.7	-0.2
Research and development	3.6	2.9	+0.7

Notes:

- (1) Effective income tax rate is equal to the income tax divided by the profit before taxation for the period.
- (2) Return on shareholders equity is equal to the profit attributable to equity shareholders divided by the average of opening and closing equity attributable to shareholders of the Company for the period.

FINANCIAL HIGHLIGHTS

	As at 30 June 2018	As at 31 December 2017	Change
Assets and Liabilities data (RMB'000)			(%)
Non-current assets	1,387,253	1,392,852	-4.0
Current assets	10,546,293	9,748,472	8.2
Current liabilities	3,184,427	2,744,359	16.0
Non-current liabilities	2,624,059	2,565,480	2.3
Equity attributable to equity shareholders	5,991,960	5,706,454	4.3
Non-controlling interests	133,100	125,031	6.5
Asset and Working Capital data			
Gearing ratio (%) (Note 3)	22.8	23.1	-0.3% point
Net asset value per share (RMB) (Note 4)	3.0	2.8	RMB+0.2
Inventory turnover days (days) (Note 5)	85	82	+3 days
Trade and bills receivables turnover days (days) (Note 6)	149	155	-6 days
Trade and bills payables turnover days (days) (Note 7)	169	177	-8 days
Working capital turnover days (days)	65	60	+5 days

Notes:

- (3) The calculation of gearing ratio is based on the interest-bearing debt divided by the total asset of the Group as at the end of the period/year.
- (4) The calculation of net asset value per share is based on the net assets divided by weighted average number of shares for the period/year.
- (5) Inventory turnover days is equal to the average opening and closing inventory divided by costs of sales and multiplied by 181 days (for the six months ended 30 June 2018) and 365 days (for the year ended 31 December 2017).
- (6) Trade and bills receivables turnover days is equal to the average opening and closing trade and bills receivables after allowance of doubtful debts divided by revenue and multiplied by 181 days (for the six months ended 30 June 2018) and 365 days (for the year ended 31 December 2017).
- (7) Trade and bills payables turnover days is equal to the average opening and closing trade and bills payables divided by cost of sales and multiplied by 181 days (for the six months ended 30 June 2018) and 365 days (for the year ended 31 December 2017).

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board (the “Board”) of directors (the “Directors”) of 361° International Limited (the “Company”), I’m pleased to present the interim results of the Company and its subsidiaries (collectively, “the Group” or the “361° Group”) for the six months ended 30 June 2018.

RESULTS

The Group achieved good results in the first half of 2018, with a revenue of RMB3.02 billion, representing a year-on-year increase of 7.8%; an operating profit of RMB630.6 million, representing a year-on-year increase of 0.2%; profit attributable to equity shareholders of the Group increased by 5.3% on year-on-year basis to RMB335.0 million. In view of the satisfactory performance, in order to thank the shareholders for their continued support of the Company, the Board declared an interim dividend of RMB6.4 cents per ordinary share (interim dividend for 2017: RMB6.1 cents) with a dividend payout ratio of 39.5%.

ECONOMIC AND INDUSTRY ENVIRONMENT

In the first half of 2018, both the economic and industry environment in China and abroad were favorable to the business performance and development of the Group. During the review period, the global economy continued to pick up. The major countries and regions such as the United States, Europe, and Japan enjoyed good economic growth momentum and consumer spending also gradually recovered. This year marked the beginning of the initiative put forward by the 19th National Congress of the Communist Party of China. In the first half of the year, China’s economy made steady progress under multiple macro goals. The total retail sales of consumer goods in China reached RMB18,001.8 billion, representing a year-on-year increase of 9.4%. China’s sportswear industry showed a gratifying situation of rapid development under the circumstances of the promotion of national policies and the improvement of national health awareness. With the consumption upgrade and emergence of digital marketing and other new concepts, the industry sees both development opportunities and challenges.

DEVELOPMENT STRATEGIES – INTERNATIONALIZATION, SPECIALIZATION AND REJUVENATION

In the future, 361° Group targets to extend the strong momentum from the first half of 2018 with the help of the favorable environments, develop the business of the Group according to the existing economic and industry environment and maintain its leading advantages in the complex business environment with the brand development strategies of internationalization, specialization and rejuvenation combined with flexible business strategy. The Group will strive to maintain its status as a respectable sportswear brand in the domestic market and to become a world-class respectable sportswear company. The Group’s new achievements in independent research and development (“R&D”) are changing the status quo of “Made in China” to “Created in China”. 361° Group will continue to reward shareholders with remarkable business performance and consumers with excellent product quality.

CHAIRMAN'S STATEMENT

TO PROMOTE BRANDS OF THE GROUP WITH AN ALL-ROUND APPROACH, LEVERAGING ON SPONSORSHIP OF 2018 JAKARTA ASIAN GAMES

The Group has been sponsoring large-scale sports events since 2010, including 2010 Guangzhou Asian Games and 2014 Incheon Asian Games. The Group was the official partner of 2016 Rio Olympic Games and Paralympic Games. This year, the Group becomes a premium partner of 2018 Jakarta Palembang Asian Games, putting 361° Group on the international stage for sporting events again. The Group has tapped into local marketing networks through cooperation in large-scale events, and achieved strategic layout of going global by leveraging on China's national policy to explore the Belt and Road Initiative. Since 361° Group formally entered the overseas market in 2014, the Group has set-up sales outlets in countries and regions such as the United States, Brazil, Europe, Taiwan, Middle East, South America and Southeast Asia. The Group expects to strengthen the sales network and channel distribution along the Belt and Road economic corridors, and across the world so as to further expand the overseas business by taking advantage of the international exposures from sponsoring 2018 Jakarta Palembang Asian Games and the development opportunities of the Belt and Road Initiative.

TO INTENSIFY EFFORTS TO STRENGTHEN 361° KIDS

361° Kids carries forward the philosophy of the 361° core brand. To realize the mission of "creating a new generation pursuing positive, free and real life", 361° Kids has been committed to providing quality sports footwear, apparel and accessories that targeted at the children's market in China. During the first half of 2018, 361° Kids delivered exceptional performance. In May this year, the Group entered into strategic partnership with Universal Studios, launching kids' apparel featuring DreamWorks cartoons and Jurassic World film series to enhance the brand awareness of 361° Kids. As the next step, the Group will devote more efforts to developing 361° Kids, including improving the comfortability, sports suitability and fashionability of the kids product, increasing efforts in the 361° Kids market promotion campaign, and planning for more products series of cross-industry partnership, so as to continuously promote the rapid growth of the kidswear business segment and expand the sales scale and market share in kidswear. Looking ahead to the second half of 2018 and going forward, the Group expects 361° Kids will make more contribution to its revenue and profit.

FORAY INTO E-SPORTS FIELD TO REJUVENATE THE BRAND

At the 2018 Indonesian Jakarta Palembang Asian Games sponsored by 361°, E-sports debuted as a "demonstration sport". In the future, E-sports will also enter the 2022 Hangzhou Asian Games as a formal competition event. As the youngest leading sports brand in China, 361° Group has been committed to establishing a youthful brand image. In March this year, the Group officially announced its plan to enter all E-sports arena and launched E-sports-related businesses in four dimensions: resource cooperation, product development, marketing, and sales operations. In the first half of 2018, 361° Group has launched sportswear and accessories products jointly with QG Club, a Mainland E-sports championship team. In the future, the Group will promote 361° brand among E-sports customers, cooperate with more E-sports teams, increase the E-sports product lineup, explore multiple sales modes such as physical store sales, adding E-sports zone on E-commerce platforms to approach younger generation with the E-sports and blaze a trail for attracting young generation consumers.

CHAIRMAN'S STATEMENT

TO ACTIVELY DEVELOP E-COMMERCE AND OPTIMIZE SALES NETWORK

361° Group has been closely following the changes in China's retail market model and actively developing E-commerce. During the review period, the Group's total web exclusive product sales from E-commerce business increased by 185.5% to RMB328.9 million, representing 10.9% of the Group's total turnover (2017 interim share: 4.1%). The Group cooperated with Tmall's "Smart Store" Program and achieved "membership upon payment". This integrated membership program will be promoted nation-wide. In addition, 361° Group targets to increase the income of existing stores and on the other hand optimize the channel structure to achieve complete coverage of the whole country by optimizing the existing sales outlets. In the second half of 2018, the Group will continue to optimize its sales network, promote the growth potential of sales network, and strengthen cooperation with E-commerce platforms such as Tmall, JD.com and Vipshop to promote the combination of on-line and off-line sales channels and strengthen the brand permeability of the Group among each consumer segments.

TO INTENSIFY THE R&D OF PROFESSIONAL SPORTSWEAR

At the present, overseas business mainly focuses on functional high-end running and comprehensive training products, which is an important embodiment of the Group's specialized strategy. In recent years, 361° products have won many industry awards. 361° Sensation, SPIRE, STRATA and other running shoes have repeatedly been recommended by the US "Runner's World" magazine and numerous sports magazines overseas. In the second half of the year, the Group will further improve the quality of its products and services by making full use of our own resources and plan to bring high-end professional products from overseas operations back to the domestic market so that domestic consumers can also enjoy high-end professional products from the overseas operation.

Looking ahead to the second half of the year and the time that follows, the Group will carry forward the good momentum and forge ahead and march to the status of renowned sportswear brand in domestic market and world-class sportswear company by means of such an array of development strategies of internationalization, specialization and rejuvenation and business plans with the help of favorable business environment. Lastly, on behalf of the Board, I wish to extend our gratitude to all shareholders, business partners and customers for their continuous support, understanding and trust in the Group. I wish to express our gratitude to all employees who have worked with us. We will make our best efforts to deliver excellent returns to our shareholders and play a crucial role in building a stronger China.

Ding Huihuang

Chairman

Hong Kong, 23 August, 2018

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

The first half of 2018 witnessed a slow but stable and sound momentum in China's economic growth. The benefits from the policy reform of the supply-side in the sportswear industry has been released continuously, and the new economy supported by the rise of middle class and the consumption upgrade has become a new driving force for growth. According to the data from the National Bureau of Statistics of the People's Republic of China (the "PRC"), in the first half of 2018, China's gross domestic products ("GDP") reached RMB41,896.1 billion, representing a year-on-year increase of 6.8%; China's per capita disposable income reached RMB14,063, with a nominal growth of 8.7%; China's consumer price index (CPI) rose by 1.9% year-on-year. The economic indicators are good and in line with the PRC Governments expectations. In addition, the manufacturing environment is favorable and the manufacturer's price index remains at a low level, which has created favorable factors for the gross margin of manufacturers.

At present, China's economic development has entered an important stage in which consumption has strengthened the economy. According to the data from the National Bureau of Statistics of the PRC, in the first half of 2018, the total retail sales of consumer goods in China reached RMB18,001.8 billion, representing a year-on-year increase of 9.4%, and the contribution rate of final consumption expenditure to economic growth reached 78.5%. The PRC Government also gradually promulgated measures and policies to expand consumption. In April this year, the Ministry of Commerce issued the Guiding Opinions on Speeding up the Construction of Urban and Rural Convenient Consumption Service Centers 《關於加快城鄉便民消費服務中心建設的指導意見》, which aims to promote the consumption upgrade and supply-side structural reform of service consumption. On the other hand, the rapid rise of Internet retail keeps network sales at a high-speed growth.

According to the data from the National Bureau of Statistics of the PRC, in the first half of 2017, China's online retail sales amounted to about RMB7,180 billion, up by 32.2% over the same period of last year; in the first quarter of 2018, China's online retail sales amounted to about RMB1,930 billion, up by 35.4% over the same period of last year. New retail, dominated by E-commerce, has had a huge impact on the sporting goods industry over the past few years. In order to cope with the impact of the change of consumer spending habits, the Group has also continuously developed modern E-commerce in recent years, and the sales volume of E-commerce on-line specialized products accounted for an increasing proportion of the Group's total turnover.

According to the Report on Chinese Consumer Confidence Index in the First Quarter of 2018 《2018年第一季度中國消費者信心指數報告》 published by Nielsen, China's consumer confidence index hit a 10-year high at 115, and the sustained consumer confidence indicates huge consumption potential. As the income of urban and rural residents continues to grow rapidly and the consumer spending pattern is moving more upscale, it is expected that the consumer market will continue to grow steadily and rapidly going forward.

For a long time, China has strongly supported the development of the sports industry, and promulgated The Opinions on Accelerating the Development of the Sports Industry and Promoting Sports Consumption 《關於加快發展體育產業促進體育消費的若干意見》, The Winter Sports Development Plan (2013-2015) 《冰雪運動發展規劃(2013年-2015年)》 and The Guiding Opinions on Accelerating the Development of Fitness and Leisure Industry 《關於加快發展健身休閒產業的指導意見》. In terms of promoting the sports culture penetration, with sporting events as a platform, sports culture is publicized and spread through the holding of the 2008 Beijing Olympic Games, the 2010 Guangzhou Asian Games, the 2014 Nanjing Youth Olympic Games and other large-scale events in the PRC. With the arrival of the 2022 Hangzhou Asian Games and the 2022 Beijing Winter Olympic Games in China, the development of China's sports industry is expected to usher in important strategic opportunities. According to the report of Euromonitor International, the sales of Chinese sporting goods rose by 12.0% to RMB212 billion in 2017, and Euromonitor International expects the industry to continue to grow at a compound annual growth rate of 8% at fixed prices, reaching RMB318 billion in 2022.



MANAGEMENT DISCUSSION AND ANALYSIS

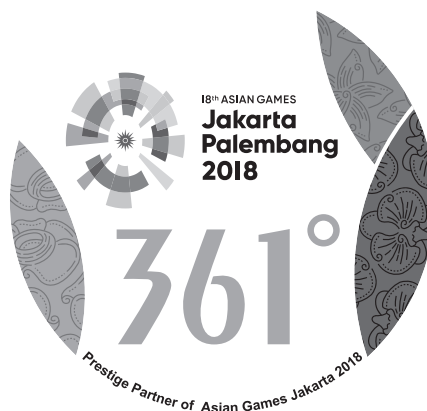
2018 is a “sports year” with plentiful of sporting events. The 2018 Pyeongchang Olympic Winter Games in South Korea, 2018 FIFA World Cup in Russia and the 2018 Jakarta Palembang Asian Games in Indonesia have been and will be staged in turns. As an excellent domestic sportswear brand sponsoring the Asian Games for three consecutive years, 361° Group, the premium partner of Jakarta Palembang Asian Games, will take advantage of the Asian Games to present the brand image of 361°’s professional quality and young attitude to the public. It is worth noting that, for the first time, E-Sports will be included in the 2018 Jakarta Palembang Asian Games in Indonesia as a “demonstration sport,” and will become a medal event in the 2022 Hangzhou Asian Games. According to the data of China E-Sports Industry Research Report 《中國電競行業研究報告》, it is estimated that the number of the E-Sports users will exceed 320 million athletes in 2018, and the overall market and scale of the E-Sports in 2018 will reach RMB86.3 billion, among which, the percentage of ecological market of the E-sports (the income generated from events related to corporation) is expected to continue to increase, and that it is expected the market scale will reach RMB13.8 billion in 2019. The Group expects that the high growth of the E-Sports market will drive the sales of E-Sports products, and by creating a closer the relationship between 361° brand and younger generation using E-Sports as the bridge, this opportunity may open up the sports products market for the younger generation.



According to the 13th Five-Year Plan of China, China began to enter in an aging society since 2015. In order to solve the problem of the gradual disappearance from the demographic dividend and the aging population, China has announced the implementation of the two-child policy since 2016. Under the influence of the comprehensive two-child policy during the 13th Five-Year Plan, the National Health Commission of the PRC estimated that the annual birth scale would be 17 million to 19 million children. According to the data from the National Bureau of Statistics of the PRC, China had about 230 million children aged 0-14 years in 2016, about 3 million more than that in 2015, which

was 227 million children. Massive number of age-eligible consumers has laid a foundation for the development of children’s clothing market, and children’s clothing consumption is expected to continue to grow. Since 2010, 361° has created a kids brand named 361° Kids, which is committed to providing sportswear, footwear and accessories to children aged from three to twelve years old. As the first domestic sportswear brand to enter the market, the 361° Kids brand has become a major competitive advantage of the Group in the sportswear industry.

In 2013, President Xi Jinping put forward the Belt and Road Initiative. During the promoting the launch of the Belt and Road Initiative, China issued a series of supportive policies such as the Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road 《推動共建絲綢之路經濟帶和21世紀海上絲綢之路的願景與行動》, Standard Link “One Belt and One Road” Action Plan (2015-2017) 《標準聯通“一帶一路”行動計畫(2015-2017)》 and Vision for Maritime Cooperation under the Belt and Road Initiative 《“一帶一路”建設海上合作設想》. Now, the Belt and Road Initiative has been put forward for nearly five years, the import and export trade between China and the Belt and Road countries is booming. According to the data of The Big Data Report of Trade Cooperation under the Belt and Road Initiative (2018) 《“一帶一路”貿易合作大資料報告2018》 issued by the Belt and Road Big Data Center of China’s State Information Center, China exported about USD770 billion to the Belt and Road countries in 2017, representing a year-on-year increase of 8.5% and accounted for 34.1% of China’s total exports. While vigorously developing its domestic business, 361° Group is also actively seeking to expand its overseas markets. The Group’s overseas business was established in 2014 and has established presence in the United States, Brazil, Europe, Taiwan, the Middle East, South America and Southeast Asia. It is expected that overseas business will become one of the important engines of the Company’s business growth in the future. With the opportunity of internationalizing the brand by sponsoring the 2018 Jakarta Palembang Asian Games, the Group is expected to explore opportunities under the Belt and Road.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

361° Brand and Positioning

The 361° Group, is a leading sporting goods brand enterprise in China. In 2018, 361° brand was selected as one of the “500 Most valuable brands in China” for the 14th consecutive years. The international reputation of its brand also increased. The Group designs, develops, manufactures and sells high performance, innovative and stylish sporting products to cater to the activity, athletic and casual goods needs of adults, young adults and children. The Group’s positioning has been consistent since the beginning of its establishment in 2003, which is to provide high-performance and value-for-money sporting products targeted at the mass market.

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

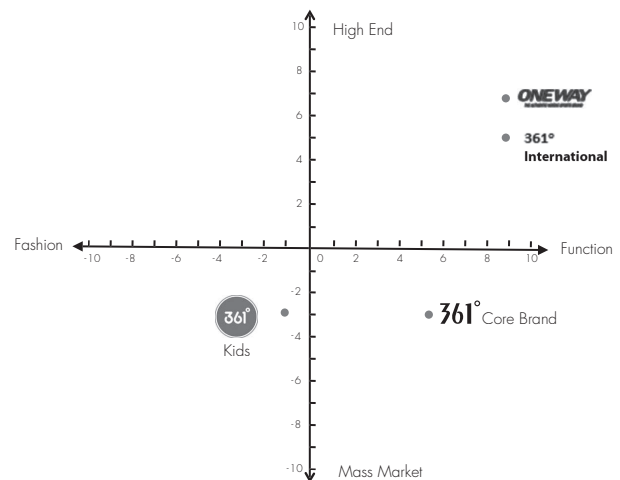


The 361° Kids brand, which is an independently run business unit, principally caters to sporting apparel, footwear, and accessory needs of children between the ages of three to twelve.

The Group also owns the trademark of ONE WAY in China and has sports products of skiing, cycling, and other outdoor activities.

We also offer product differentiation through our 361° international business segment which specialises in professional and high performance running and cross-training products, which target markets such as the United States, Brazil, Europe and Taiwan. Currently, the products are sold in more than 20 countries and regions across the world.

The following chart is a snapshot of our brand positioning.



MANAGEMENT DISCUSSION AND ANALYSIS

E-Sports Strategy Layout

In March 2018, the Group announced that it will fully commence the E-sports related businesses in four dimensions, namely, resource cooperation, product development, marketing and sales operations, in view of becoming the first Chinese sportswear brand that initiates E-sports operation with systematic strategy. The Group carried out in-depth cooperation with QG Club, a renowned Chinese E-sports championship team, and launched sportswear and accessories under the brand collaboration between 361° and QG. 361° Group conducted the limited edition pre-sale of the 361° x QGhappy official joint-licensed T-shirt at JD.com's Official Flagship Store, with the first batch of these T-shirts being sold out in just three hours after the launch. In addition, 361° Group announced that one of the team members of QG Club will act as a torch bearer of the 2018 Jakarta Palembang Asian Games to participate in the Asian Games Torch Relay in Indonesia.



Business Model

During the review period, the distributorship business model adopted by the Group remained unchanged. The 31 exclusive distributors distributed the products under the 361° core brand in their respective exclusive geographical territory. Distributors could choose to open stores directly, subject to approval by the Group's retail channel management department. Distributors could also choose to further distribute the products under the 361° core brand to authorised retailers. This business model allows maximum flexibility at the provincial level for local city promotions, redistribution of inventories between retailers and standardised pricing.

The contracts with distributors are generally renewed annually based on satisfactory review of both operational and financial performances. The contracts bind the distributor to observe certain covenants, including safeguarding the brand identity and following the Group's pricing policy guidelines. The Group also provides training programs for distributors and authorised retailers several times a year on inventory management and authorised product knowledge. Furthermore, the Group also insists on projecting a consistent store image across our nationwide distribution network and the standardisation of product display equipment and point-of-purchase (POP) materials highlighting quarterly marketing themes. During the review period, we continued to encourage distributors and authorised retailers to upgrade their store layouts in-line with our eighth-generation store image, which provides more eye-catching layouts and decorations.

The Group currently hosts four trade fairs every year for the 361° core brand to showcase new season products, in which all distributors and authorised retailers are invited to attend. The finalised orders will be consolidated by the respective distributors, who in turn will place such orders with the Group. The Group provides precise order guidelines to its distributors and authorised retailers in order to enhance accuracy in orders, prevent deep retail discounts, and stabilise retailers' profitability and support sustainable development. These trade fairs are generally hosted six months ahead of their respective display and launch seasons to allow the orders to be manufactured and delivered to the distributors.

MANAGEMENT DISCUSSION AND ANALYSIS

During the review period, the Group organised two trade fairs for 361° core brand products, namely the 2018 Winter Trade Fair and the 2019 Spring Trade Fair. In order to provide a more precise guidance on production according to market demand, the Group has adopted a supplementary order system in the trade fair since the fourth quarter of 2017, in which distributors and authorised retailers are encouraged to place orders in a conservative manner.

Retail Network

As at 30 June, 2018, the network of the 361° core brands stores comprises 5,604 stores, of which approximately 80% are stand-alone, street-level stores. Geographically, approximately 73.3% are located in third-tier and below cities in China, while 8.0% and 18.7% are located in first- and second-tier cities in China, respectively. The Group will continue to focus on enhancing store efficiency and retail sales in the future.

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

	As at 30 June 2018		As at 31 December 2017	
	Number of 361° authorised retail stores	% of total number of 361° authorised retail stores	Number of 361° authorised retail stores	% of total number of 361° authorised retail stores
Eastern region ⁽¹⁾	1,191	21.3	1,285	22.1
Southern region ⁽²⁾	859	15.3	915	15.8
Western region ⁽³⁾	1,171	20.9	1,196	20.6
Northern region ⁽⁴⁾	2,383	42.5	2,412	41.5
Total	5,604	100	5,808	100

Notes:

- (1) Eastern region includes Jiangsu, Zhejiang, Hubei, Anhui, Hunan, Shanghai and Jiangxi.
- (2) Southern region includes Guangdong, Fujian, Guangxi and Hainan.
- (3) Western region includes Sichuan, Yunnan, Guizhou, Shaanxi, Xinjiang, Gansu, Chongqing, Qinghai, Ningxia and Tibet.
- (4) Northern region includes Shandong, Beijing, Liaoning, Heilongjiang, Hebei, Henan, Shanxi, Jilin, Tianjin and Inner Mongolia.

Brand Promotion and Marketing

The Group generally budgeted 8% to 10% of annual revenue for brand promotion and marketing. The Group took the opportunity of sponsoring various international games which helped 361° core brand gained wide spread recognition as a credible sports brand on the international stage. 361° Group successfully sponsored the 16th Asian Games in Guangzhou in 2010, the 26th Summer Universiade in Shenzhen in 2011 and the 2nd Youth Olympic Games in Nanjing in 2014, the 17th Asian Games in South Korea in 2014 and the Rio Summer Olympics and Paralympic Games in 2016. During the review period, the Group has also obtained the sponsorship for the 18th Jakarta Palembang Asian Games in 2018. The Group's brand has gained considerable exposures in these world-class events, which increased the Group's branding influence world-wide.



MANAGEMENT DISCUSSION AND ANALYSIS

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

Period	Event	Capacity
2014–2018	Jinmen Marathon	Designated Sportswear Sponsor
2017–2018	The 2018 Jakarta Palembang Asian Games	Official Partner
2018–2019	Chengdu Panda Marathon	Supreme Partner
2018	2018 Men's/Women's Curling Championship	The official apparel supplier of Women and Men's Curling of Sweden The official supplier of World Curling Federation

The following table sets forth the Group's existing athletes as our spokesperson during the review period:

Athletes signed up as spokespersons	Key achievements
Mr. Jimmer FREDETTE	plays for the Shanghai Sharks of the Chinese Basketball Association (CBA) and a CBA All-Star, who won the 2016-17 season CBA International most valuable player (MVP). He also previously won the 2015-16 season NBA Development League All-Star Game MVP.
Mr. YANG Xu	striker of China National Football Team
Mr. SUN Yang	won gold medals in the 400 metre and 1500 metre freestyle at the 2012 London Olympic Games and won gold medal in the 200 metre freestyle and a silver medal in the 400 metre freestyle at the 2016 Rio Olympic Games
Ms. YE Shiwen	won gold medals in the 400 metre and 200 metre individual medley at the 2012 London Olympic games
Ms. LIU Xiang	won the bronze medal in 50 metre backstroke at the 2015 World Aquatics Championships
Ms. ZHANG Yufei	held a world junior record in the 200 metre butterfly swimming
Ms. LI Bingjie	won a bronze medal and a silver medal in the women 400 metre freestyle and 800 metre freestyle events respectively while breaking the 800 metre freestyle Asian record at 2017 FINA World Championships



MANAGEMENT DISCUSSION AND ANALYSIS

361° Kids

361° Kids has been in operation as an independent business unit since its launch in 2010. It is positioned in the low- to mid-price range and primarily targets children between the ages of three to twelve who are looking for active wear for participation in sports activities.

As at 30 June 2018, there were 1,783 points-of-sale offering 361° Kids products, of which 647 were within the 361° core brand authorised retail stores, selling both 361° core brand products and 361° Kids products. Of the 1,783 points-of-sales, 32.5% stores were stand-alone, street levels stores. Geographically, approximately 67.1% were located in third-tier and below cities in China, while 8.9% and 24.0% were located in first- and second-tier cities in China, respectively.

Authorised points-of-sale of 361° Kids (including those operate within the 361° core brand authorised retail stores) by regions are set out as following:

	As at 30 June 2018		As at 31 December 2017	
	Number of 361° Kids authorised points-of-sale	% of total number of 361° Kids authorised points-of-sale	Number of 361° Kids authorised points-of-sale	% of total number of 361° Kids authorised points-of-sale
Eastern region ⁽¹⁾	454	25.4	482	26.8
Southern region ⁽²⁾	356	20.0	371	20.7
Western region ⁽³⁾	296	16.6	300	16.7
Northern region ⁽⁴⁾	677	38.0	644	35.8
Total	1,783	100	1,797	100

Notes:

- (1) Eastern region includes Jiangsu, Zhejiang, Hubei, Anhui, Hunan, Shanghai and Jiangxi.
- (2) Southern region includes Guangdong, Fujian, Guangxi and Hainan.
- (3) Western region includes Sichuan, Yunnan, Guizhou, Shaanxi, Xinjiang, Gansu, Chongqing, Qinghai, Ningxia and Tibet.
- (4) Northern region includes Shandong, Beijing, Liaoning, Heilongjiang, Hebei, Henan, Shanxi, Jilin, Tianjin and Inner Mongolia.



MANAGEMENT DISCUSSION AND ANALYSIS

During the review period, there were two trade fairs hosted for 361° Kids, namely the 2018 Winter Trade Fair and the 2019 Spring Trade Fair. The trade fair orders have achieved satisfactory growth, which locked in the future revenue growth for the 361° Kids segment.

361° Kids penetrates the domestic children's wear market through physical stores and online shopping platforms. The Group will improve the image of end stores and enrich the marketing activities by optimising the channel structure, and to improve the market share and brand reputation of 361° Kids continuously. The Group has been implementing strategy to further enhance brand recognition of kids clothing. For example, in May 2018, 361° Kids announced that it cooperated with the Universal Studios to launch children's wear featuring the DreamWorks Animation and the Jurassic World movies.

During the review period, 361° Kids contributed to 12.1% of the Group's revenue, representing a growth rate of 18.8%. This segment is expected to maintain fast growth going forward due to the rapidly rising disposable income and the relaxation of the one-child policy by the Chinese Government.

361° International

The R&D team of international product lines located Taiwan as the Group's base, and the production is outsourced to Original Equipment Manufacturers (OEMs) in Vietnam for tariff reasons. The Group has established wholly-owned subsidiaries in the United States, Brazil and Europe, and sold 361° International products outright to multi-brand sportswear stores in those regions through local sales teams. In other regions such as Middle East, South America and South East Asia regions, the Group opened local 361° boutiques and sold 361° International products through local distributors.

361° International is still a relatively young brand in the international market but its product performance is showing promising results and being competitive against the major international brands. The following table set out some of the recent awards of the 361° International products:

Year Awarded	Product	Award	Awarding body
February 2018	KgM2 2 running shoes	Sole Mate Awards	Women's Running magazine (United States)
February 2018	SPIRE 3 running shoes	ISPO Award 2018 (Heath and Fitness Segment – Running Shoes Category)	ISPO Munich (Germany)
February 2018	Strata 2 running shoes	Editor's Choice Award	Canadian Running magazine (Canada)
May 2018	SPIRE 3 running shoes	2018 Newcomer Award (Årets Newcomer Løbesko) of the Running Products Award 2018 – The Nordic Edition	Løberne.dk magazine
June 2018	Meraki running shoes	First Award of the 2018 product of the year – shoes (Produit 2018 First Award – Chaussures)	Test 4 Outside magazine (France)
June 2018	Strata 2 running shoes	Best Choice – Stability	Runner's World (United States)

MANAGEMENT DISCUSSION AND ANALYSIS



As at 30 June 2018, there were 1,316, 986, 518 and 68 points-of-sales in multi-brand sportswear specially stores carrying 361° products in Brazil, the United States, Europe and Taiwan, respectively. Currently, the European network covers the United Kingdom, Germany, France, Austria and Switzerland. During the review period, the Group also tapped into new markets such as Australia. The Group will continue to explore and expand into more countries and regions overseas with growth potential in order to promote its international products in the future. To optimise the product differentiation and meet the demands from consumer spending increase in the domestic market, the Group will continue to introduce 361° International products to more 361° stores in China going forward.

During the review period, 361° International business contributed to 1.5% of the Group's revenue.



ONE WAY



The ski and outdoor sportswear industry in China is still in the infant stage of development. However, the demand has already picked up pursuant to the government's supportive policies and the publicity given to winter sports on Beijing's host of the 2022 Winter Olympic Games. The Group's ONE WAY products in China will stand to benefit due to its superior product features.

The Group owns the trademark of ONE WAY in China. As at 30 June 2018, there were 47 self-operated ONE WAY stores in China. The majority of these stores were located in well-known shopping malls in China.

MANAGEMENT DISCUSSION AND ANALYSIS

Contemporary E-Commerce

The Group conducts its modern E-commerce business mainly through official website and other renowned E-commerce platforms in China including Tmall, Taobao, and JD. Those online platforms are authorised to sell web-exclusive products as well as helping the distributors/authorised retailers to clear their slowing-moving or obsolete stocks at retail level.

Our E-commerce business achieved explosive growth which is a result of rapid development of the E-commerce industry. During the review period, the web-exclusive products sales of 361° E-Commerce contributes to 10.9% of the Group's revenue.

Production

During the review period, there has been no change to the Group's production policy to strike an equitable balance between self-production and OEMs, having regard to costs, production scheduling and intellectual property rights. For footwear, the Group manufactures up to about 70% of its footwear products by the two factories located in Jiangtou and Wuli in Jinjiang City, and outsources the remainder to a number of factories in the Quanzhou area. Jiangtou factory houses 14 production lines and has an annual production capacity of 12 million pieces of footwear. The Wuli Industrial Complex in the Wuli Economic Zone houses nine production lines with an annual production capacity of 9

million pieces of footwear. For apparel, the Group operates production facilities that have the capacity to produce 20% of the Group's needs whilst the remainder is contracted to OEMs in the Fujian and Guangdong provinces.

Research and Development



The Group has been consistently strengthening its product innovation, enhancing its R&D capabilities, optimising product design and attempting product differentiation through technology, so as to cater to demands of different markets and consumers. Regarding the R&D of 361° products, the Group strives to continuously enhance level of comfort, functionality and technology edge of its products through application of human body and ergonomics principles as the



MANAGEMENT DISCUSSION AND ANALYSIS

theoretical basis to develop products and testing through scientific experiments in kinesiology, with a view to improve workout performance of sports enthusiasts.

Through two major R&D systems, namely the R&D team based in Taiwan which focuses on the design of international product lines, and the R&D team based in Jinjiang which focuses on the design of domestic product lines, among which the research center based in Jinjiang was completed in May 2017 and awarded as the “State Level Industrial Design Center” (國家級工業設計中心).

The Group also builds on its self-developed technologies such as SAC-air, NFO, QUIKFOAM, Bumper MD, REV Air and Arch Lock to tailor each product group in footwear to specific functionalities so as to enhance performance. As at 30 June 2018, the Group has obtained 312 patents. There was a total of 582 technicians engaging in product research and development.

During the review period, the Group’s expenditure on R&D accounted for 3.6% of the Group’s revenue and is expected to increase due to the Group’s intensifying efforts to create a more distinctive product differentiation.

FINANCIAL REVIEW

Revenue

During the review period, the Group recorded a year-on-year revenue growth of 7.8% to RMB3,016.9 million (2017: RMB2,798.1 million) of which 12.1% and 1.3% of the total revenue was contributed by the Kids business and business grouped under others (namely, sales of shoe soles), respectively. The balance of 86.6% of the revenue was mainly contributed by the 361° core brand products, overseas and e-commerce businesses.

The Group’s three core products namely, footwear, apparel and accessories, all showed an upward trend, grew by 4.0%, 8.1% and 37.9%, respectively, year-on-year. All the undelivered 2017 winter products and 2018 spring products were delivered and invoiced during the review period. Due to the change in business strategy, the delivery time of the 2018’s products had been structurally adjusted and re-scheduled, and part of the 2018 summer and autumn products were delivered in July instead of June. The Company has recently launched a Logistics Planning and Optimization Program with a reputable e-platform company at the retail level. The collaboration shortened the delivery of order time from distributors to retailers, which could quickly response the demand from market thus better manage inventory level of the channels.

For the six months ended 30 June 2018, the proportion of footwear sales to the total revenue slightly adjusted to 45.2% from 46.8% in the same period of the previous year, whereas apparel sales maintained at 40.1%. The Group stayed focused on the development of footwear and believed that the growth driver from the sportswear market was still mainly from the demand of footwear. The volume of footwear sold increased by 14.1% whereas the average wholesale selling price (the “AWP”) of footwear reduced by 8.9% which was mainly due to the new footwear launched in the period with a lower AWP.

On the apparel front, the AWP recorded an increase of 8.6% whereas the volume of apparel sold slightly decreased by 0.5% year-on-year because of the higher AWP of 2017 winter apparels was accounted in the period and the re-scheduled delivery of 2018 summer products.

For accessories, the Group regarded this category of products as complimentary to the footwear and apparel products, and the product mix was wide. During the period under review, more high-priced accessories were launched and perceived by the market. As a result, the sales volume of accessories decreased by 12.0% year-on-year while the AWP of accessories increased by 56.5%, which led to the revenue on accessories increased by 37.9% year-on-year.

To the overseas business, revenue from some of the countries in Middle East was affected by unstable economic environment. The sales for the first half of 2018 recorded a downturn to RMB45.5 million (2017: RMB65.2 million), representing a decrease of 30.2% and contributed about 1.5% of the total revenue of the Group for the six months ended June 2018. The Group believes that with the strong base of the awarded products and vigorous exploration of new markets in various countries by the international team, the turnover will be turnaround in a short period.

The revenue of 361° Kids for the six months ended 30 June 2018 increased by 18.8% year-on-year to RMB364.5 million (2017: RMB306.9 million), and accounted for 12.1% of the Group’s revenue during the same period. The sales momentum of the kids’ products was still very strong. During the period under review, the growth was mainly attributable to the apparel products, both the overall units of 361° kids’ product sold and the AWP recorded a year-on-year increase of 6.4% and 11.8%, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

The revenue for the sales of web-exclusive products from the 80% owned E-commerce business increased significantly by 185.5% to RMB328.9 million (2017: RMB115.2 million) and accounted for approximately 10.9% of the total revenue for the period under review. The Group confidently believes that contribution from the E-commerce business is sustainable and will continuously maintain on an upward trend.

The revenue grouped under “Others” represented the revenue from sales of shoe soles to independent third parties by a 51% owned subsidiary. For the period under review, over 60% of this joint venture company products were sold to the Group and the remaining portion was sold to third parties. The revenue for the six months ended 2018 was RMB40.4 million (2017: RMB33.7 million) accounted for about 1.3% of total revenue of the Group.

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

	For the six months ended 30 June 2018		2017		Changes %
	RMB'000	% of Revenue	RMB'000	% of Revenue	
By Products					
Adults					
Footwear	1,362,233	45.2	1,309,714	46.8	+4.0
Apparel	1,209,112	40.1	1,118,449	40.0	+8.1
Accessories	40,551	1.3	29,400	1.0	+37.9
Kids	364,521	12.1	306,867	11.0	+18.8
Others ⁽¹⁾	40,436	1.3	33,712	1.2	+19.9
Total	3,016,853	100	2,798,142	100	+7.8

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

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

	For the six months ended 30 June 2018		2017		Changes	
	Total units sold '000	Average wholesale selling price ⁽¹⁾ RMB	Total units sold '000	Average wholesale selling price ⁽¹⁾ RMB	Units sold (%)	Average wholesale selling price (%)
By Volume and AWP						
Adults						
Footwear (pairs)	13,941	97.7	12,214	107.2	+14.1	-8.9
Apparel (pieces)	17,344	69.7	17,424	64.2	-0.5	+8.6
Accessories (pieces/pairs)	2,253	18.0	2,559	11.5	-12.0	+56.5
Kids	6,538	55.8	6,146	49.9	+6.4	+11.8

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

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Sales

Cost of sales of the Group for the first half of 2018 increased by 9.1% year-on-year to RMB1,761.1 million.

During the review period, the cost of internal production increased was primarily due to the increase in the volume of self-produced footwear despite per unit cost of self-produced footwear reduced year-on-year. On the other hand, the cost of outsourced footwear reduced by 5.7% because of the expansion of E-commerce business, more low priced products were produced and the decrease of overseas footwear sales reduced the orders placed to the OEM suppliers in Vietnam.

On the apparel front, the per unit cost of self-produced apparel increased year-on-year, which also contributed to the increase in internal production cost during the review period, was primarily due to the increase in raw material and overhead cost despite a slight decrease in the labour cost year-on-year. The cost of outsourced apparels also increased by 19.3%. As more winter apparel were produced and delivered in the period, the cost was much higher than the same period last year.

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

	For the six months ended 30 June			
	2018		2017	
	RMB'000	% of total costs of sales	RMB'000	% of total costs of sales
Footwear & Apparel				
Internal Production				
Raw materials	346,829	19.7	306,517	19.0
Labour	84,889	4.8	84,104	5.2
Overheads	190,401	10.8	169,791	10.5
	622,119	35.3	560,412	34.7
Outsourced Products				
Footwear	459,621	26.1	487,657	30.2
Apparel	649,198	36.9	544,315	33.7
Accessories	30,208	1.7	21,664	1.4
	1,139,027	64.7	1,053,636	65.3
Cost of sales	1,761,146	100	1,614,048	100

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

Gross profit was RMB1,255.7 million during the review period (2017: RMB1,184.1 million) representing a decrease in the gross profit margin by 0.7 percentage point year-on-year to 41.6%.

During the period under review, the gross profit margin of apparel maintained at the same level whereas the footwear, accessories and 361° Kids business slightly dropped by 1.3, 1.8 and 0.2 percentage points, respectively.

The gross profit margin of apparel business was stable at 42.1% (2017: 42.1%).

On the other side, the gross profit margin of the footwear products during in this period was 42.0% (2017: 43.3%), represented a slight drop by 1.3 percentage points year-on-year. The Group did not fully transfer the cost to customer in order to stimulate the sales volume thus reduced the gross profit earned in the period.

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

	For the six months ended 30 June				
	2018		2017		Changes percentage point
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	
Adults					
Footwear	571,482	42.0	567,538	43.3	-1.3
Apparel	508,568	42.1	470,710	42.1	–
Accessories	14,875	36.7	11,316	38.5	-1.8
Kids	153,409	42.1	129,907	42.3	-0.2
Others⁽¹⁾	7,373	18.2	4,623	13.7	+4.5
Total	1,255,707	41.6	1,184,094	42.3	-0.7

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

MANAGEMENT DISCUSSION AND ANALYSIS

Other revenue

Other revenue of RMB161.8 million (2017: RMB76.6 million) mainly comprised of (i) accrued interest income of RMB45.8 million (2017: RMB40.9 million) earned from bank deposits both in Hong Kong and the PRC; (ii) the discretionary government subsidies of RMB85.6 million (2017: RMB28.6 million) was mainly in relation to the Group's contribution to local economies; and (iii) the commission of RMB22.0 million (2017: RMB4.6 million) earned from the selling of distributors' inventories through the e-commerce business.

Other net loss

The other net loss of RMB23.7 million was mainly attributable to the net foreign exchange loss. The Group's principal business is in the PRC and adopting Renminbi as its functional currency. The recent depreciation of Renminbi incurred currencies loss to a few subsidiaries with the use of functional currencies other than Renminbi. It is common that subsidiaries have temporary current accounts' movements among each other, the timing difference of converting local currencies to Renminbi along the time of advancements and repayments may incur currency gain or loss.

Selling and distribution expenses

For the six months ended 30 June 2018, selling and distribution expenses increased by 24.0% to RMB485.5 million (2017: RMB391.6 million). The increase was primarily due to the increase in advertising and promotional expenses and the expenses in relation to the e-commerce business.

Advertising and promotional expenses were RMB263.3 million (2017: RMB215.9 million) accounted for approximately 8.7% (2017: 7.7%) of the Group's revenue. During the period under review, the Group endorsed some new overseas athletes, obtained license for the use of some cartoon characters on the products from the Universal Studio, sponsorships to the E-sports team and the 2018 Indonesian Jakarta Palembang Asian Games. Together with the sponsorships entered in the past years, the Group believes that these endeavours would gain an extensive exposure to the public.

The commission and other service fees paid to the e-platforms, e.g. Tmall and JD.com, was RMB43.4 million (2017: RMB27.5 million) and the other expenses in relation to running of this business amounted to RMB14.7 million (2017: RMB14.8 million).

Administrative expenses

Administrative expenses increased by 13.7% to RMB277.7 million for the period ended 30 June 2018 (2017: RMB244.3 million) and represented about 9.2% (2017: 8.7%) of the Group's revenue. The increase was mainly due to the additions of research and development expenses.

Research and development expenses were RMB108.5 million (2017: RMB82.2 million) accounted for 3.6% (2017: 2.9%) of the revenue for the period under review. The Group targeted the research and development expenses will be in the region of 3-4% of the total revenue, to enhance the products' development and competitiveness.

The staff salaries and welfare increased by 13.3% to RMB62.2 million (2017: RMB54.9 million) for the six months ended 30 June 2018 as a result of the new established subsidiary in Europe and the general increment of existing staff salaries.

Finance costs

For the six months ended 30 June 2018, financing costs was RMB100.9 million (2017: RMB108.3 million) of which RMB2.4 million in relation to short-term bank borrowings and the balance of RMB98.5 million was mainly the relevant interest and cost in relation to the senior unsecured notes with an aggregate principal amount of US\$400,000,000 7.25% due 2021 (the "US\$ Notes") issued on 3 June 2016 amortised over the period.

As at 30 June 2018, the short-term bank borrowings were RMB100 million for the finance of a subsidiary running in the PRC and RMB12.4 million, a mortgage bank loan for financing the acquisition of an office and the trust receipts of a subsidiary in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

The finance cost of the US\$ Notes accrued for the period was RMB98.5 million in which RMB91.8 million was in relation to the accrued interest for the period and RMB6.7 million was the relevant cost incurred for the issuance of the US\$ Notes amortised over the tenor of five years.

Income tax expenses

During the period under review, income tax expenses of the Group amounted to RMB186.6 million (2017: RMB201.6 million) and the effective tax rate for the period was 35.2% (2017: 38.7%). The Group's four mainland China-based operating subsidiaries are all subject to the standard corporate income tax rate of 25% whereas no provision has been made for profit tax of the subsidiaries in Hong Kong since no operating income was generated in the city. Since the US\$ Notes were issued and listed in Hong Kong, the relevant interest and cost have been all accrued and

paid by the holding company. Such finance costs were not allowed to be deducted from the taxable income of the China-based operating subsidiaries, thus the effective tax rate was higher than the PRC standard corporate income tax rate of 25%.

CAPITAL AND OTHER INFORMATION

Liquidity and financial resources

Net cash inflow from operating activities of the Group for the first half of 2018 amounted to RMB21.9 million. As at 30 June 2018, cash and cash equivalents, including bank deposits and cash in hands, and fixed deposits with original maturities not exceeding three months, amounted to RMB2,140.9 million, representing a net increase of RMB25.1 million as compared to the position as at 31 December 2017.

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

	For the six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Net cash generated from operating activities	21,885	488,123
Payment for the purchase of property, plant and equipment	(27,516)	(24,915)
Interest paid	(97,719)	(102,524)
Dividends paid	(62,028)	(20,676)
Proceeds from the new bank loan	100,000	–
Withdrawal of deposits (with maturity over three months)	105,691	326,595
Interest received	12,588	21,662
Other net cash (outflow)/inflow	(27,796)	12,919
Net increase in cash and cash equivalents	25,105	701,184

MANAGEMENT DISCUSSION AND ANALYSIS

The positive net cash generated from operating activities amounted of RMB21.9 million for the six months ended 30 June 2018 was mainly from the operating profit, the increase from the trade and bills payable and the other payables and accruals for the period under review. The increase in other payables and accruals mainly representing the increase in value added tax (“VAT”) payable of the Group’s subsidiaries in the PRC and the payable in relation of the advertising and promotion expenses.

During the six months ended 30 June 2018, capital expenditure amounted RMB27.5 million was mainly incurred for the maintenance of facilities in relation to production and staff accommodation in Wuli Industrial Park, Jinjiang. The interest paid of RMB97.7 million for the period was mainly the semi-annual interest of the US\$ Notes. The proceeds from the new short-term bank loan of RMB100 million was for the running of a PRC subsidiary. The receipt of interest amounted RMB12.6 million was mainly interest income generated by the fixed deposits placed in the PRC and Hong Kong.

The Group’s gearing ratio was 22.8% as at 30 June 2018 (31 December 2017: 23.1%). Other than the short-term bank borrowings, the mortgage and the US\$ Notes, the Group has not used other debt instruments to finance its operations for the six months ended 30 June 2018.

Treasury policy and foreign exchange risk

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

The Group manages its foreign exchange risk by matching the currency of its loans and borrowings with the Group’s functional currency of major cash receipts and underlying assets as far as possible. As at 30 June 2018, only the borrowings from US\$ Notes were at fixed rate and the others were at floating rate. As part of its policy, the Group continues to monitor its borrowing profiles (including fixed and floating interest rates) taking into consideration of the funding needs and market conditions to minimise the interest rate exposures. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may have a financial impact on the Group.

During the review period, the Group did not carry out any hedging activity against foreign currency risk.

Pledge of assets

As at 30 June 2018, a building with net book value of RMB42,288,000 (31 December 2017: RMB43,010,000) was pledged as security for a banking facility of the Group of RMB42,277,000 (31 December 2017: RMB41,812,000). The aforesaid banking facility was used to finance the acquisition of an office unit in Hong Kong. The office unit is for the Group’s own use and not for any investment purpose. Bills payable as at 30 June 2018 were secured by pledged bank deposits of RMB362.5 million.

Working capital management

The average working capital cycle for the six months ended 30 June 2018 was 65 days (year ended 31 December 2017: 60 days). The increase was mainly due to the increase in the inventory turnover days and reduction in the trade and bills payable turnover cycle despite an improvement of the trade and bills receivable turnover days.

The average trade and bills receivable cycle was 149 days for the six months ended 30 June 2018 (31 December 2017: 155 days), representing a reduction by 6 days. All the trade debts and bill receivable were within 180 days and 94.3% were neither considered as past due nor impaired. The Group has been staying in touch with all the distributors and believes that there will be further improvement in the collection of debts.

The average inventory turnover cycle was 85 days for the six months ended 30 June 2018 (year ended 31 December 2017: 82 days). About 85.1% of the stock was finished goods and mainly summer and autumn products of 2018. All the goods for the 361° core brand were either self-produced or supplied by OEMs in accordance to the orders received from distributors, no extra stock was produced or retained by the Group.

As at 30 June 2018, prepayments to suppliers were RMB693.2 million, representing a 9.8% increase compared to the RMB631.4 million as at 31 December 2017. The prepayments were deposits paid to suppliers for the acceptance of orders for production of products in relation to the 2018 autumn and winter trade fairs’ products. The balance of other prepayments, RMB58.0 million, was mainly the payment in relation to the advertising and promotion contracts and suppliers for rack subsidies.

MANAGEMENT DISCUSSION AND ANALYSIS

The average trade and bills payable cycle reduced by 8 days to 169 days (31 December 2017: 177 days) for the six months ended 30 June 2018. With the suppliers continuous support and accept bills as the settlement of payables, the Group is confident that the average trade and bills payable cycle can be maintained at or above 150 days in long run. The reduction of the payable cycle was due to a few suppliers requested for an earlier settlement at the time of cut-off.

Senior unsecured notes

On 3 June 2016, the Company issued the US\$ Notes with an aggregate principal amount of US\$400 million at an interest rate of 7.25% per annum due 3 June 2021 at an offering price of 99.055% of the aggregated principal amount of US\$400 million and listed on the Stock Exchange in Hong Kong (bond stock code: 5662). The net proceeds were mainly used for the finance of redemption of the RMB1.5 billion 7.5% senior unsecured notes due 2017 issued in September 2014 (bond stock code: 85992), development of overseas business and general working capital purposes.

Contingent liabilities

For the period ended 30 June 2018, the Group did not have any material contingent liabilities.

Material acquisitions and disposals

For the period ended 30 June 2018, the Group had no material acquisitions or disposal of subsidiaries or associates.

Significant investments

For the period ended 30 June 2018, the Group had no significant investments.

As at the date of this report, the Group does not have any future plans for material investment or capital assets for the year ending 31 December 2018.

Employees and emoluments

As at 30 June 2018, the Group employed a total of 9,112 full time employees in the PRC which included management staff, technicians, salespersons and workers. For the six months ended 30 June 2018, the Group's total remuneration paid to employees was RMB255.4 million, representing 8.5% of the Group's revenue. The Group's emolument policies are based on the performance of individual employees and formulated to attract talent and retain quality staff. Apart from the mandatory provident fund scheme, which is operating in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees and the state managed retirement pension scheme for the PRC-based employees and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance. The Group believes its strength lies in the quality of its employees and has placed a great emphasis on fringe benefits. The Group also continuously offers comprehensive training to employees aims to foster a learning culture that could strengthen employees' professional knowledge and skills.

PROSPECT

Along with a series of guidelines on sports industry and games issued and implemented one after another by the PRC Government since 2014, demands for national sports and body-building exercises in China have witnessed explosive growth. As a result, the domestic sporting goods industry is now encountering drastic changes. According to the Notice of the Total Size and Growth of China's Sports Industry (《二零一六年國家體育產業總規模與增加值數據公告》) in 2016 jointly published by the National Bureau of Statistics of the PRC and the General Administration of Sports, the manufacturing of sporting goods and related products made up the largest part of the gross output of PRC's sports industry. Recently, while the sporting goods industry has been expanding in scale, the sports games are also becoming more and more diversified. For example, E-sports has gradually been accepted by the public and brought great changes to the sports industry.

In response to market changes and to stand out from the fierce industry competitions, the Group will continue to embrace internationalization, specialization and rejuvenation as the strategic guideline of the Group, and keep on developing the three major business: 361° core brand, 361° Kids, and E-commerce.

MANAGEMENT DISCUSSION AND ANALYSIS

Internationalization

As a premium partner of the 2018 Jakarta Palembang Asian Games, the Group will enhance the international influence of 361° Group by virtue of the international competitions. At the same time, the Group will grasp the development opportunities arising from the Belt and Road Initiative, expand sales network and channel distribution along the Belt and Road regions and gradually expand the business map outwards.

Specialization

The Group will be continuously dedicated to the product R&D and the promotion of professional sporting goods, provide excellent sporting goods for professional athletes in different areas and establish the professional brand image of 361° Group. In the second half of 2018 and in a short term that follows, the Group will gradually bring the high-end professional products back to Mainland China for sales and will engage excellent athletes as product spokespersons to intensify promotion at home and abroad.

Rejuvenation

The Group will continue to serve young customer groups and highlight the youthfulness of professional athletes and draw them close to the general public by continuing to tell the brand story of “I Am Passion”. Meanwhile, the Group will formally march into E-sports field and will continue to carry out in-depth development of E-sports in the future and further expand the market of young generation by leveraging the nature of the E-sports to attach more cross-border integration possibilities to the industry.

Committed to reinforcing the advantage of the Group with an all-round approach

To Intensify Efforts to Expand 361° Kids

Given the growth of 361° Kids in the past, the Group will step up efforts to develop 361° Kids in the second half of 2018 and the following time, including expanding the sales network of 361° Kids, making cross-sales pilot attempts and developing more cross-industry partnership product series.

To Optimize Sales Channels and Upgrade Products to Embrace New Online Ecology Era

With the help of rapid development of Internet sales, the Group will continue to optimise the sales network, improve the exposure rate of the online brands and products, and launch web exclusive products such as the E-sports products as well as sponsor's themed products in combination with highlighted marketing promotion. In addition, the Group will, on the one hand, increase the income of existing offline stores and on the other hand adjust the geographic layout of the existing stores to achieve complete coverage of the whole country by optimising the existing sales outlets.

To continue to support sports games

The Group has been sponsoring large-scale sports events. The Group was official partner of 2016 Rio Olympic Games and Paralympic Games and official premium partner of the 2018 Jakarta Palembang Asian Games. The Group will continue to support sports games in an all-round way to increase the exposure of 361° Group on the international stage.

The Group cherishes the long-term vision of firmly establishing its status as a renowned sportswear brand in the domestic market and as a world-class sportswear company. The Group will continue to give full play to the winning strategy of high cost-effectiveness, and commit ourselves to providing value-for-money sporting goods to customer groups of all varying segments. Moreover, we will forge ahead with the development of 361° Kids, and promote the overseas business performance by seizing the development opportunity brought by the Belt and Road Initiative. The Group is convinced that, following the established business development strategy, 361° is poised to assume leadership of China's sportswear industry in the next “Golden Decade”.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2018 — unaudited (Expressed in Renminbi)

	Note	Six months ended 30 June	
		2018 RMB'000	2017 RMB'000
Revenue	3	3,016,853	2,798,142
Cost of sales		(1,761,146)	(1,614,048)
Gross profit		1,255,707	1,184,094
Other revenue	4	161,841	76,559
Other net (loss)/gain	4	(23,744)	4,409
Selling and distribution expenses		(485,485)	(391,652)
Administrative expenses		(277,699)	(244,328)
Profit from operations		630,620	629,082
Finance costs	5(a)	(100,918)	(108,299)
Profit before taxation	5	529,702	520,783
Income tax	6	(186,622)	(201,585)
Profit for the period		343,080	319,198
Attributable to:			
Equity shareholders of the Company		335,011	318,254
Non-controlling interests		8,069	944
Profit for the period		343,080	319,198
Earnings per share	7		
Basic (cents)		16.2	15.4
Diluted (cents)		16.2	15.4

The notes on pages 32 to 52 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 15(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2018 — unaudited (Expressed in Renminbi)

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Profit for the period	343,080	319,198
Other comprehensive income for the period		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements	(24,837)	49,533
Total comprehensive income for the period	318,243	368,731
Attributable to:		
Equity shareholders of the Company	310,174	367,787
Non-controlling interests	8,069	944
Total comprehensive income for the period	318,243	368,731

The notes on pages 32 to 52 form part of this interim financial report. There was no tax effect relating to the components of other comprehensive income.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2018 — unaudited (Expressed in Renminbi)

		At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
	Note		
Non-current assets			
Property, plant and equipment	8	1,081,781	1,122,775
Interests in leasehold land held for own use under operating leases		112,873	114,285
		1,194,654	1,237,060
Other financial asset		56,576	6,763
Deposits and prepayments	9	96,816	95,815
Deferred tax assets		39,207	53,214
		1,387,253	1,392,852
Current assets			
Inventories	10	841,228	813,751
Trade debtors	9	2,722,582	1,928,889
Bills receivable	9	89,408	220,900
Deposits, prepayments and other receivables	9	889,676	727,536
Pledged bank deposits	11	362,530	335,283
Deposits with banks	11	3,500,000	3,605,691
Cash and cash equivalents	11	2,140,869	2,116,422
		10,546,293	9,748,472
Current liabilities			
Trade and other payables	12	2,586,024	2,263,505
Bank loans	13	112,387	12,814
Current taxation		486,016	468,040
		3,184,427	2,744,359
Net current assets		7,361,866	7,004,113
Total assets less current liabilities		8,749,119	8,396,965
Non-current liabilities			
Deferred tax liabilities		12,979	—
Interest-bearing borrowings	14	2,611,080	2,565,480
		2,624,059	2,565,480
NET ASSETS		6,125,060	5,831,485

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2018 — unaudited (Expressed in Renminbi)

		At 30 June 2018	At 31 December 2017
	Note	RMB'000	RMB'000
CAPITAL AND RESERVES	15		
Share capital		182,298	182,298
Reserves		5,809,662	5,524,156
Total equity attributable to equity shareholders of the Company		5,991,960	5,706,454
Non-controlling interests		133,100	125,031
TOTAL EQUITY		6,125,060	5,831,485

The notes on pages 32 to 52 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2018 – unaudited (Expressed in Renminbi)

	Attributable to equity shareholders of the Company											
		Share capital	Share premium	Capital reserve	Other reserve	Statutory reserve	Exchange reserve	Fair value reserve (non-recycling)	Retained profits	Total	Non-controlling interests	Total equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 Jan 2017		182,298	–	–	90,489	557,026	(137,670)	–	4,611,117	5,303,260	114,462	5,417,722
Changes in equity for the six months ended 30 Jun 2017:												
Profit for the period		–	–	–	–	–	–	–	318,254	318,254	944	319,198
Other comprehensive income		–	–	–	–	–	49,533	–	–	49,533	–	49,533
Total comprehensive income		–	–	–	–	–	49,533	–	318,254	367,787	944	368,731
Appropriation to statutory reserve		–	–	–	–	680	–	–	(680)	–	–	–
Dividends declared and paid during the period	15(b)	–	–	–	–	–	–	–	(20,676)	(20,676)	–	(20,676)
Balance at 30 Jun 2017		182,298	–	–	90,489	557,706	(88,137)	–	4,908,015	5,650,371	115,406	5,765,777
Balance at 31 Dec 2017		182,298	–	–	90,489	558,698	(44,382)	–	4,919,351	5,706,454	125,031	5,831,485
Impact on initial application of HKFRS 9		–	–	–	–	–	–	37,360	–	37,360	–	37,360
Adjusted balance at 1 Jan 2018		182,298	–	–	90,489	558,698	(44,382)	37,360	4,919,351	5,743,814	125,031	5,868,845
Changes in equity for the six months ended 30 Jun 2018:												
Profit for the period		–	–	–	–	–	–	–	335,011	335,011	8,069	343,080
Other comprehensive income		–	–	–	–	–	(24,837)	–	–	(24,837)	–	(24,837)
Total comprehensive income		–	–	–	–	–	(24,837)	–	335,011	310,174	8,069	318,243
Appropriation to statutory reserve		–	–	–	–	602	–	–	(602)	–	–	–
Dividends declared and paid during the period	15(b)	–	–	–	–	–	–	–	(62,028)	(62,028)	–	(62,028)
Balance at 30 Jun 2018		182,298	–	–	90,489	559,300	(69,219)	37,360	5,191,732	5,991,960	133,100	6,125,060

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2018 – unaudited (Expressed in Renminbi)

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Operating activities		
Cash generated from operations	187,751	664,347
Income tax paid	(165,866)	(176,224)
Net cash generated from operating activities	21,885	488,123
Investing activities		
Payment for the purchase of property, plant and equipment	(27,516)	(24,915)
Decrease in deposit with bank	105,691	326,595
(Increase)/decrease in pledged deposits	(27,247)	9,485
Interest received	12,588	21,662
Other cash flows arising from investing activities	–	11
Net cash generated from investing activities	63,516	332,838
Financing activities		
Proceeds from new bank loan	100,000	–
Dividends paid	(62,028)	(20,676)
Interest paid	(97,719)	(102,524)
Other cash flows arising from financing activities	(549)	3,423
Net cash used in financing activities	(60,296)	(119,777)
Net increase in cash and cash equivalents	25,105	701,184
Cash and cash equivalents at 1 January	2,116,422	2,881,632
Effect of foreign exchange rate changes	(658)	(738)
Cash and cash equivalents at 30 June	2,140,869	3,582,078

The notes on pages 32 to 52 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This interim financial report was authorised for issue on 23 August 2018.

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

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

The financial information relating to the financial year ended 31 December 2017 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2017 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 13 March 2018.

2 CHANGES IN ACCOUNTING POLICIES

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*

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

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to timing of revenue recognition and presentation of contract assets and contract liabilities. Details of the changes in accounting policies are discussed in note 2(b) for HKFRS 9 and note 2(c) for HKFRS 15.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Overview (Continued)

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 and HKFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 9 and/or HKFRS 15:

	At 31 December 2017 RMB'000	Impact on initial application of HKFRS 9 (Note 2(b)) RMB'000	Impact on initial application of HKFRS 15 (Note 2(c)) RMB'000	At 1 January 2018 RMB'000
Other financial asset	6,763	49,813	–	56,576
Total non-current assets	1,392,852	49,813	–	1,442,665
Trade and other payables				
– Contract liabilities	–	–	(83,797)	(83,797)
– Receipts in advance	(83,797)	–	83,797	–
Total assets less current liabilities	8,396,965	49,813	–	8,446,778
Deferred tax liabilities	–	(12,453)	–	(12,453)
Total non-current liabilities	(2,565,480)	(12,453)	–	(2,577,933)
Net assets	5,831,485	37,360	–	5,868,845
Reserves	(5,524,156)	(37,360)	–	(5,561,516)
Total equity attributable to equity shareholders of the company	(5,706,454)	(37,360)	–	(5,743,814)
Total equity	(5,831,485)	(37,360)	–	(5,868,845)

Further details of these changes are set out in sub-sections (b) and (c) of this note.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9 *Financial Instruments*

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on reserves and the related tax impact at 1 January 2018.

	RMB'000
Fair value reserve (non-recycling)	
Increase in fair value reserve (non-recycling) relating to equity securities now measured at fair value through other comprehensive income (FVOCI) at 1 January 2018	49,813
Related tax	(12,453)
Net increase in fair value reserve (non-recycling) at 1 January 2018	37,360

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

(i) Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9 *Financial Instruments* (Continued)

(i) Classification of financial assets and financial liabilities (Continued)

- FVOCI—recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or
- FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9 *Financial Instruments* (Continued)

(i) Classification of financial assets and financial liabilities (Continued)

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	HKFRS 9 carrying amount at 1 January 2018 RMB'000
Financial assets carried at amortised cost				
Pledged deposits	335,283	–	–	335,283
Deposits with banks	3,605,691	–	–	3,605,691
Cash and cash equivalents	2,116,422	–	–	2,116,422
Trade debtors	1,928,889	–	–	1,928,889
Bills receivable	220,900	–	–	220,900
	8,207,185	–	–	8,207,185
Financial assets measured at FVOCI (non-recyclable)				
Unlisted equity securities (note (i))	–	6,763	49,813	56,576
Financial assets classified as available for sale under HKAS (note (i))	6,763	(6,763)	–	–

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9 *Financial Instruments* (Continued)

(i) Classification of financial assets and financial liabilities (Continued)

Note:

- (i) Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated its investment in Jinjiang Merchant Investment Co., Ltd at FVOCI (non-recycling), as the investment is held for strategic purposes.

Fair value of the unlisted equity securities is determined based on the limited information available so far, representing the best estimate of its fair value. It may be subject to further adjustments once more information of the investee is available.

The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(ii) Credit losses

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the expected credit loss (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits, fixed deposits held at banks with maturity over three months, and trade and other receivables). Financial assets measured at fair value, including equity investments designated at FVOCI, are not subject to the ECL assessment.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) HKFRS 9 *Financial Instruments* (Continued)

(ii) Credit losses (Continued)

For trade and other receivables, the Group has measured the loss allowance at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For cash and cash equivalents, pledged bank deposits, fixed deposits held at banks with maturity over three months, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

The Group has concluded that there is no material impact for the initial application of the new impairment requirements.

(iii) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.
- The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group).

(c) HKFRS 15 *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(c) HKFRS 15 *Revenue from contracts with customers* (Continued)

The Group's business model is straight forward and its contracts with customers for the sale of branded sporting goods include only single performance obligation. The Group has concluded that revenue from sale should be recognised at the point of time when a customer obtains control of goods. The Group has concluded that the initial application of HKFRS 15 does not have a significant impact on the Group's revenue recognition.

Under HKFRS 15, a contract liability, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. To reflect this change in presentation, contract liabilities, including receipts in advance from customers, with amount of RMB83,797,000 are now separately presented under trade and other payables and the adjustments have been made to the opening balance at 1 January 2018, as a result of the adoption of HKFRS 15. Comparative information is not restated.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Footwear	1,517,217	1,448,300
Apparel	1,411,771	1,281,420
Accessories	47,429	34,710
Others	40,436	33,712
	3,016,853	2,798,142

The Group's customer base is diversified and includes two (2017: two) with whom transactions have exceeded 10% of the Group's revenues. During the period ended 30 June 2018, revenues from sales of footwear, apparel and accessories to these customers, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately RMB653 million (2017: RMB638 million). These sales arose in both reportable segments (see note 3(b)).

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting

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

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

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

(i) Segment results

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2018 and 2017 is set out below.

	Adults Six months ended 30 June		Kids Six months ended 30 June		Total Six months ended 30 June	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Reportable segment revenue	2,652,332	2,491,275	364,521	306,867	3,016,853	2,798,142
Cost of sales	(1,550,034)	(1,437,088)	(211,112)	(176,960)	(1,761,146)	(1,614,048)
Reportable segment profit (gross profit)	1,102,298	1,054,187	153,409	129,907	1,255,707	1,184,094

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Revenue		
Reportable segment revenue and consolidated revenue (note 3(a))	3,016,853	2,798,142
Profit		
Reportable segment profit	1,255,707	1,184,094
Other revenue	161,841	76,559
Other net (loss)/gain	(23,744)	4,409
Selling and distribution expenses	(485,485)	(391,652)
Administrative expenses	(277,699)	(244,328)
Finance costs	(100,918)	(108,299)
Consolidated profit before taxation	529,702	520,783

4 OTHER REVENUE AND NET (LOSS)/GAIN

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Other revenue		
Bank interest income	45,760	40,931
Government grants	85,560	28,566
Others	30,521	7,062
	161,841	76,559
Other net (loss)/gain		
Net loss on disposal of fixed assets	–	(28)
Net foreign exchange (loss)/gain	(23,744)	4,437
	(23,744)	4,409

Government grants of RMB85,560,000 (2017: RMB28,566,000) 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
(a) Finance costs:		
Interest on bank borrowings wholly repayable within five years	2,359	3,075
Finance charges on senior unsecured notes (<i>note 14</i>)	98,559	105,224
Total finance costs	100,918	108,299
(b) Other items:		
Amortisation of land lease premium	1,412	1,257
Depreciation	64,907	58,519
Staff costs	255,418	244,133
Operating lease charges in respect of properties	5,066	3,239
Research and development costs*	108,475	82,202
Cost of inventories**	1,761,146	1,614,048

* Research and development costs include RMB27,629,000 (2017: RMB25,692,000) relating to staff costs of employees in the research and development department, which amount is also included in "staff costs" disclosed separately above.

** Cost of inventories includes RMB118,350,000 (2017: RMB123,874,000) relating to staff costs and depreciation, which amounts are also included in the respective amount disclosed separately above.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

6 INCOME TAX

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Current tax – PRC income tax		
Provision for the period	179,055	204,806
(Over)/under provision in respect of prior periods	(6,440)	11,026
	172,615	215,832
Deferred tax		
Origination and reversal of temporary differences	14,007	(14,247)
	186,622	201,585

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.
- (ii) No provision has been made for Hong Kong Profits Tax as the Group does not earn any income subject to Hong Kong Profits Tax during the period.
- (iii) Pursuant to the income tax rules and regulations of the PRC, provision for PRC corporate income tax is calculated based on a statutory rate of 25% of the assessable profits of the PRC subsidiaries.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB335,011,000 (six months ended 30 June 2017: RMB318,254,000) and the weighted average of 2,068 million (2017: 2,068 million) ordinary shares in issue during the interim period.

(b) Diluted earnings per share

For the period ended 30 June 2017 and 2018, diluted earnings per share is the same as basic earnings per share as the Company did not have dilutive potential shares outstanding during the period.

8 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired items of property, plant and equipment of approximately RMB23,913,000 (six months ended 30 June 2017: approximately RMB24,915,000).

9 TRADE AND OTHER RECEIVABLES

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
<i>Trade debtors</i>		
Trade debtors	2,779,237	1,985,544
Less: Allowance for doubtful debts (<i>note 9(b)</i>)	(56,655)	(56,655)
	2,722,582	1,928,889
<i>Bills receivable</i>	89,408	220,900
<i>Deposits, prepayments and other receivables</i>		
<i>Current</i>		
Deposits	153	1,209
Prepayments	751,156	658,781
Other receivables	138,367	67,546
	889,676	727,536
<i>Non-current</i>		
Deposits and prepayments	96,816	95,815

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

9 TRADE AND OTHER RECEIVABLES (Continued)

Included in prepayments are amounts prepaid to suppliers of RMB693,165,000 (31 December 2017: RMB631,381,000).

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

(a) Ageing analysis

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 90 days	2,215,655	1,634,103
Over 90 days but within 180 days	596,335	515,686
	2,811,990	2,149,789

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

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly. There are no movement in the allowance for doubtful debts during the six months ended 30 June 2018 and 2017.

10 INVENTORIES

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Raw materials	93,005	52,310
Work in progress	32,436	22,719
Finished goods	715,787	738,722
	841,228	813,751

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

11 CASH AND BANK DEPOSITS

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Pledged bank deposits	362,530	335,283
Deposits with banks		
– More than three months to maturity when placed	3,500,000	3,605,691
– Within three months to maturity when placed	–	38,583
Cash at bank and in hand	2,140,869	2,077,839
Cash and bank deposits	6,003,399	6,057,396
Represented by:		
Pledged bank deposits	362,530	335,283
Deposits with bank	3,500,000	3,605,691
Cash and cash equivalents	2,140,869	2,116,422
	6,003,399	6,057,396

At 30 June 2018, the balances that were placed with banks or on hand in the PRC in the pledged bank deposits, deposit with banks and cash and cash equivalents amounted to RMB5,920,116,000 (31 December 2017: RMB5,838,942,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

12 TRADE AND OTHER PAYABLES

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Trade creditors	623,383	588,956
Bills payable	1,089,690	983,658
Contract liabilities (i)	100,593	–
Receipts in advance	–	83,797
Other payables and accruals	772,358	607,094
	2,586,024	2,263,505

(i) As a result of initial application of HKFRS 15, contract liabilities, including receipts in advance from customers, as at 30 June 2018 are separately presented (see note 2(c)).

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

Bills payable as at 30 June 2018 and 31 December 2017 were secured by pledged bank deposits as disclosed in note 11.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

12 TRADE AND OTHER PAYABLES (Continued)

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Due within 1 month or on demand	320,968	256,181
Due after 1 month but within 3 months	312,508	388,178
Due after 3 months but within 6 months	840,797	659,453
Due after 6 months but within 12 months	238,800	268,802
	1,713,073	1,572,614

13 BANK LOANS

As at 30 June 2018, the bank loans were repayable within one year or on demand and secured as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Bank loans		
– secured	12,387	12,814
– unsecured	100,000	–
	112,387	12,814

As 30 June 2018 and 31 December 2017, secured bank loans of the Group were secured by a property.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

14 NON-CURRENT INTEREST-BEARING BORROWINGS

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Senior unsecured notes due 2021 (<i>note 14(b)</i>)	2,611,080	2,565,480

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

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

15 CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	At 30 June 2018		At 31 December 2017	
	No. of shares '000	Amount HK\$'000	No. of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	10,000,000	1,000,000	10,000,000	1,000,000

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

	No. of shares '000	Amount HK\$'000	Amount RMB'000
Ordinary shares, issued and fully paid:			
At 1 July 2017/31 December 2017/ 1 January 2018/30 June 2018	2,067,602	206,760	182,298

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

15 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends

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

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Interim dividend declared after the interim period of HK7.6 cents per ordinary share (2017: HK7.0 cents per ordinary share)	132,327	126,124

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

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

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period of HK3.6 cents per ordinary share (2017: HK1.1 cents per ordinary share)	62,028	20,676

16 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

	Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Short-term employee benefits	14,155	16,005
Post-employment benefits	324	659
	14,479	16,664

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

17 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

Level 3 valuations: Fair value measured using significant unobservable inputs

Fair value at 30 June 2018 RMB'000	Fair value measurements as at 30 June 2018 categorised into		
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000

Recurring fair value measurement

Financial asset:

Unlisted equity security	56,576	–	–	56,576
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During the six months ended 30 June 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Information about Level 3 fair value measurements

The fair value of unlisted equity instruments is determined by adjusted net assets value approach. Under adjusted net assets value approach, total value of the equity was based on the sum of the net asset value, determined by marking every asset and liability on (and of) the company's balance sheet to fair value.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

18 COMMITMENTS

- (a) Contractual commitments outstanding at 30 June 2018 not provided for in the interim financial report were as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Advertising and marketing expenses	138,416	166,133

- (b) Capital commitments outstanding at 30 June 2018 not provided for in the interim financial report were as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Authorised and contracted for	3,425	5,168

- (c) At 30 June 2018, the total future minimum lease payments under non-cancellable operating leases payable as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 year	3,251	4,773
After 1 year but within 5 years	3,144	3,869
	6,395	8,642

The Group is the lessee in respect of a number of warehouses and offices under operating leases. The leases typically run for an initial period of one to eight years with options to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

19 PLEDGE OF ASSETS

At 30 June 2018 and 31 December 2017, certain bank facilities and bills payable of the Group were secured by a property and pledged bank deposits.

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

20 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2018

A number of amendments and new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted.

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standard which may have impact on the consolidated financial statements.

HKFRS 16, *Leases*

As discussed in the 2017 annual financial statements, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. Upon the adoption of HKFRS 16, where the Group is the lessee under the lease the Group will be required to account for all leases in a similar way to current finance lease accounting, i.e. recognise and measure a lease liability at the present value of the minimum future lease payments and recognise a corresponding “right-of-use” asset at the commencement date of the lease, subject to practical expedients. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term. HKFRS 16 will primarily affect the Group’s accounting as a lessee of leases for items of property, plant and equipment which are currently classified as operating leases.

The Group is in the process of making a detailed assessment of the potential impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases. In addition, the nature of expenses related to those leases will now change as HKFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

The Group currently plans to adopt HKFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting HKFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The new standards and other amendments to standards issued but not effective are not likely to have a significant impact on the consolidated financial statements.

CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

In the opinion of the directors of the Company, the Company had complied with the code provisions as set out in the Corporate Governance Code (the “CG Code”) contained in the Appendix 14 to the Listing Rules during the six months ended 30 June 2018.

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

As at 30 June 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (“SFO”)), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the directors of Company (the “Model Code”) contained in the Rules of Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) were as follows:

LONG AND SHORT POSITION IN THE COMPANY

Name of Director	Long/short position	Nature of interest	Note	Number of shares (ordinary shares)	Percentage
Mr. Ding Wuhao	Long	Interest in controlled corporation	(1)	340,066,332	16.46%
Mr. Ding Huihuang	Long	Interest in controlled corporation	(2)	324,066,454	15.67%
Mr. Ding Huirong	Long	Interest in controlled corporation	(3)	324,066,454	15.67%
Mr. Wang Jiabi	Long	Interest in controlled corporation	(4)	168,784,611	8.16%

Notes:

- (1) Mr. Ding Wuhao is deemed to be interested in 340,066,332 shares of the Company held by Dings International Company Limited by virtue of it being controlled by Mr. Ding Wuhao. He is the brother-in-law of both Mr. Ding Huihuang and Mr. Ding Huirong.
- (2) Mr. Ding Huihuang is deemed to be interested in 324,066,454 shares of the Company held by Ming Rong International Company Limited by virtue of it being controlled by Mr. Ding Huihuang. He is the elder brother of Mr. Ding Huirong and the brother-in-law of Mr. Ding Wuhao.
- (3) Mr. Ding Huirong is deemed to be interested in 324,066,454 shares of the Company held by Hui Rong International Company Limited by virtue of it being controlled by Mr. Ding Huirong. He is the younger brother of Mr. Ding Huihuang and the brother-in-law of Mr. Ding Wuhao.
- (4) Mr. Wang Jiabi is deemed to be interested in 168,784,611 shares of the Company held by Jia Wei International Co, Ltd. by virtue of it being controlled by Mr. Wang Jiabi.

CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION

Apart from the foregoing, as at 30 June 2018, none of the Directors or chief executive of the Company or any of their spouses or children under eighteen years of age had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company, or any of its holding companies, subsidiaries or other associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

At no time was the Company, or any of its holding companies or subsidiaries a party to any arrangements to enable any Director and chief executive of the Company (including their spouses and children under 18 years of age) to hold any interest or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

SHARE OPTION SCHEME

Share Option Scheme

The Company adopted a share option scheme on 10 June 2009 (“the Share Option Scheme”) for the purpose of motivating eligible persons to optimise their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the total number of shares in issue at 30 June 2009, i.e. 200,000,000 shares. No options may be granted to any participant of the Share Option Scheme such that the total number of shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company’s issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme any time during a period as determined by the board of Directors and not exceeding 10 years from the date of the grant under the Share Option Scheme. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK\$1.0 upon acceptance of the grant on or before 28 days after the offer date. The exercise price of the options is determined by the board of Directors in its absolute discretion and shall not be less than whichever is the highest of:

- (a) the nominal value of a share;
- (b) the closing price of a share as stated in the Hong Kong Stock Exchange’s daily quotations sheets on the offer date; and
- (c) the average closing price of a share as stated in the Hong Kong Stock Exchange’s daily quotation sheets for the five business days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from 30 June 2009, after which no further options will be granted or offered.

No options have been granted under the Share Option Scheme up to 30 June 2018.

As at the date of this interim report, the total number of shares available for issue under the Share Option Scheme was 200,000,000 shares, which represented approximately 9.67% of the Company’s issued share capital, and the remaining life of the Share Option Scheme was about 11 months.

CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION

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

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

As at 30 June 2018, so far as is known to any director or chief executive of the company, the persons (other than the directors and the chief executive of the company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group were as follows:

Name of shareholders	Note	Nature of interest	Long/Short position in ordinary shares held ⁽¹⁾		Percentage of total issued shares
Dings International Company Limited	(2)	Beneficial owner	L	340,066,332	16.46%
Ming Rong International Company Limited	(3)	Beneficial owner	L	324,066,454	15.67%
Hui Rong International Company Limited	(4)	Beneficial owner	L	324,066,454	15.67%
Jia Wei International Co., Ltd.	(5)	Beneficial owner	L	168,784,611	8.16%
Jia Chen International Co., Ltd.	(6)	Beneficial owner	L	168,784,611	8.16%
Wang Jiachen	(6)	Interest in controlled corporation	L	168,784,611	8.16%

Notes:

- The letter "L" indicates long position whereas the letter "S" indicates short position.
- The entire issued share capital of Dings International Company Limited is owned by Mr. Ding Wuhao, an executive director and the president of the Company. Mr. Ding Wuhao is the brother-in-law of Mr. Ding Huihuang and Mr. Ding Huirong.
- The entire issued share capital of Ming Rong International Company Limited is owned by Mr. Ding Huihuang, an executive director and the chairman of the Company. Mr. Ding Huihuang is the brother-in-law of Mr. Ding Wuhao and the brother of Mr. Ding Huirong.
- The entire issued share capital of Hui Rong International Company Limited is owned by Mr. Ding Huirong, an executive director. Mr. Ding Huirong is the brother-in-law of Mr. Ding Wuhao and the brother of Mr. Ding Huihuang.
- The entire issued share capital of Jia Wei International Co., Ltd. is owned by Mr. Wang Jiabi, an executive director. Mr. Wang Jiabi is the brother of Mr. Wang Jiachen.
- The entire issued share capital of Jia Chen International Co., Ltd. is owned by Mr. Wang Jiachen, who is the brother of Mr. Wang Jiabi. Jia Chen International Co., Ltd. is interested in 168,784,611 shares of the Company.

CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

In the opinion of the directors of the Company, the Company has complied with the code provisions of the corporate governance code as set out in Appendix 14 to the Listing Rules (the "Corporate Governance Code") during the six months ended 30 June 2018.

UPDATES OF BIOGRAPHIES OF DIRECTORS

Mr. Tsui Yung Kwok (徐容國), an independent non-executive director of the Company, was appointed as the independent non-executive director, chairman of audit committee and member of nomination committee of Intron Technology Holdings Limited (stock code:1760) on 22 June 2018. Intron was listed on the main board of the Stock Exchange on 12 July 2018.

Other than this update, the directors of the Company have confirmed that their respective biography has no other update as required under Rule 13.51(B) of the Listing Rules since the 2017 Annual Report up to the date of this report.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the Company has confirmed with all directors of the Company that they had complied with the required standard set out in the Model Code throughout the six months ended 30 June 2018.

REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The Company has established an audit committee which is accountable to the Board and the primary duties of which include the review and supervision of the Group's financial reporting process and internal control measures. For the six months ended 30 June 2018, the audit committee comprised of three independent non-executive directors of the Company, namely, Mr. Tsui Yung Kwok, Dr. Liao Jianwen and Mr. Li Yuen Fai Roger. Mr. Tsui Yung Kwok serves as the chairman of the audit committee of the Company, who has the professional qualification and experience in financial matters in compliance with the requirements of the Listing Rules.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements of the Group for the six months ended 30 June 2018. They considered that the unaudited interim financial statements of the Group for the six months ended 30 June 2018 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been made.

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Announcement of interim results	23 August 2018
Ex-entitlement date for interim dividend	5 September 2018
Closure of register of members and record date	7 September 2018 to 11 September 2018
Dispatch of interim dividend warrants	20 September 2018

DIVIDENDS

The Board resolved to declare an interim dividend of HK7.6 cents (equivalent to RMB6.4 cents for illustration purpose only) per ordinary share for the six months ended 30 June 2018. The dividends amounted to HK\$157.1 million is expected to be paid to shareholders on or about 20 September 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 7, September 2018 to 11, September 2018, both days inclusive, for the purpose of determining shareholders' entitlements to the interim dividend. In order to qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 6 September 2018.

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
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24 Shedden Road, George Town
P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR

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

INVESTOR RELATIONS CONTACT

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

COMPANY INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ding Wuhao (丁伍號)
Ding Huihuang (丁輝煌) (*Chairman*)
Ding Huirong (丁輝榮)
Wang Jiabi (王加碧)

Independent Non-executive Directors

Tsui Yung Kwok (徐容國)
Liao Jianwen (廖建文)
Li Yuen Fai Roger (李苑輝)

BOARD COMMITTEES

Audit Committee

Tsui Yung Kwok (徐容國) (*Chairman*)
Liao Jianwen (廖建文)
Li Yuen Fai Roger (李苑輝)

Remuneration Committee

Liao Jianwen (廖建文) (*Chairman*)
Wang Jiabi (王加碧)
Tsui Yung Kwok (徐容國)

Nomination Committee

Li Yuen Fai Roger (李苑輝) (*Chairman*)
Ding Wuhao (丁伍號)
Tsui Yung Kwok (徐容國)

COMPANY SECRETARY

Choi Mun Duen (蔡敏端) *FCCA, HKICPA*

AUTHORISED REPRESENTATIVES

Ding Wuhao (丁伍號)
Choi Mun Duen (蔡敏端)

HEAD OFFICE IN THE PRC

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

FACTORIES IN THE PRC

No. 165 Qianjin Road
Jiangtou Village
Chendai Town
Jinjiang City, Fujian Province
the PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1609
Office Tower Convention Plaza
1 Harbour Road
Wanchai Hong Kong

REGISTERED OFFICE

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

AUDITOR

KPMG

LEGAL ADVISERS

As to Hong Kong law:

Luk & Partners in Association with
Morgan, Lewis & Bockius

As to Cayman Islands law:

Conyers Dill & Pearman

PRINCIPAL BANKERS

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

COMPANY WEBSITE

www.361sport.com

STOCK CODE

01361

DIVIDENDS

The Board resolved to declare an interim dividend of HK7.6 cents (equivalent to RMB6.4 cents) per ordinary share for the six months ended 30 June 2018. The dividends amounted to HK\$157.1 million and is expected to be paid to shareholders on or about 20 September 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 7 September 2018 to Tuesday, 11 September 2018, both days inclusive, for the purpose of determining shareholders' entitlements to the interim dividend. In order to qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 6 September 2018.

PUBLICATION OF 2018 INTERIM 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 2018 interim report of the Company containing all the information required by the Listing Rules will be dispatched to shareholders and published on the respective websites of the Company and the Stock Exchange in due course.

APPRECIATION

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

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

Hong Kong, 23 August 2018

As at the date of this announcement, the board of directors of the Company comprises four executive directors, namely Mr. Ding Wuhao, Mr. Ding Huihuang, Mr. Ding Huirong and Mr. Wang Jiabi, and three independent non-executive directors, namely, Mr. Tsui Yung Kwok, Dr. Liao Jianwen and Mr. Li Yuen Fai Roger.