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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)**

## **2019 ANNUAL RESULTS ANNOUNCEMENT**

The board (the “**Board**”) of directors (the “**Directors**”) of 361 Degrees International Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (together, the “**Group**”) for the year ended 31 December 2019. This announcement, containing the full text of the 2019 Annual 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 annual results.

# 361°

361 DEGREES  
INTERNATIONAL LIMITED

STOCK CODE: 1361



ANNUAL  
REPORT  
2019

Aaron Gordon  
阿隆戈登





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# FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2019	2018	2017	2016	2015
<b>Profitability data (RMB'000)</b>					
Revenue	5,631,866	5,187,446	5,158,200	5,022,678	4,458,701
Gross profit	2,269,616	2,105,871	2,156,385	2,109,908	1,822,963
Operating profit	887,250	782,327	987,552	949,325	914,669
Profit attributable to equity shareholders	432,403	303,665	456,706	402,652	517,639
Earnings per share					
– basic (RMB cents)	20.9	14.7	22.1	19.5	25.0
– diluted (RMB cents)	20.9	14.7	22.1	19.5	25.0
<b>Profitability ratios (%)</b>					
Gross profit margin	40.3	40.6	41.8	42.0	40.9
Operating profit margin	15.8	15.1	19.1	18.9	20.5
Margin of profit attributable to equity shareholders	7.7	5.9	8.9	8.0	11.6
Effective income tax rate (Note 1)	35.0	46.5	39.6	40.5	32.9
Return on shareholders' equity (Note 2)	7.2	5.3	8.3	7.6	10.1
<b>Operating ratios (as a percentage of revenue) (%)</b>					
Advertising and promotion expenses	9.0	10.7	9.8	11.4	12.8
Staff costs	9.1	8.8	9.0	8.7	8.3
Research and development	3.8	4.1	3.4	3.7	3.1

## Notes:

- 1) effective income tax rate is equal to the income tax divided by the profit before taxation.
- 2) return on shareholders' equity is equal to the profit attributable to equity shareholders divided by the average opening and closing equity attributable to equity shareholders of the company.

## FIVE-YEAR FINANCIAL SUMMARY

	As at 31 December				
	2019	2018	2017	2016	2015
<b>Assets and liabilities data (RMB'000)</b>					
Non-current assets	<b>1,227,300</b>	1,314,958	1,392,852	1,455,861	1,431,873
Current assets	<b>10,659,854</b>	10,650,036	9,748,472	9,033,964	7,354,779
Current liabilities	<b>2,809,010</b>	3,354,251	2,744,359	2,343,103	1,930,449
Non-current liabilities	<b>2,419,130</b>	2,716,354	2,565,480	2,729,000	1,489,746
Equity attributable to equity shareholders	<b>6,322,505</b>	5,767,650	5,706,454	5,303,260	5,282,572
Non-controlling interests	<b>336,509</b>	126,739	125,031	114,462	83,885
<b>Asset and working capital data</b>					
Current asset ratios	<b>3.8</b>	3.2	3.6	3.9	3.8
Gearing ratios (%) (Note 3)	<b>21.3</b>	23.6	23.1	26.7	17.1
Net asset value per share (RMB) (Note 4)	<b>3.2</b>	2.9	2.8	2.6	2.6
Inventory turnover days (days) (Note 5)	<b>120</b>	110	82	69	78
Trade and bills receivable turnover days (days) (Note 6)	<b>149</b>	160	155	163	160
Trade and bills payable turnover days (days) (Note 7)	<b>179</b>	195	177	156	169
Working capital turnover days (days)	<b>90</b>	75	60	76	69

*Notes:*

- 3) the calculation of gearing ratio is based on the interest-bearing debt divided by the total asset of the group at the end of the year.
- 4) the calculation of net asset value per share is based on the net assets divided by weighted average number of ordinary shares for the year.
- 5) inventory turnover days is equal to the average opening and closing inventory divided by costs of sales and multiplied by 365 days (or 366 days for 2016).
- 6) trade and bills receivable turnover days is equal to the average opening and closing trade and bills receivables after allowance of doubtful debts divided by revenue multiplied by 365 days (or 366 days for 2016).
- 7) trade and bills payable turnover days is equal to the average opening and closing trade and bills payables divided by cost of sales and multiplied by 365 (or 366 days for 2016).



# CHAIRMAN'S STATEMENT

By accelerating strategic brand upgrade and building core brand competitiveness, the Group captures new opportunities arising from the prosperous industry development.





# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of 361 Degrees International Limited (the "Company"), I am pleased to present the results of the Company and its subsidiaries (collectively, the "Group" or "361° Group") for the year ended 31 December 2019.

In 2019, the People's Republic of China (the "PRC") economy has withstood the test from the external environment challenges such as the Sino-US trade friction. Its overall performance has been stable and its economic structure has been continuously optimised. In particular, the high-quality development characteristics of the sports industry have become more pronounced. In the past year, China has successively introduced measures to promote the development of the sports industry. On 2 September 2019, the General Office of the State Council in China issued the "Outline for the Construction of a Powerful Country in Sports (《體育強國建設綱要》)", proposing that by 2035, China's sports industry will become a trillion-level pillar industry of the national economy, and the consumption market of China's sports industry is expected to reach RMB1.5 trillion by 2020. The State General Administration of Sports and the National Development and Reform Commission in China also stated in their joint meeting that, the content such as promoting the high-quality development of the sports industry should be included in the "14th Five-Year Plan". Under the active promotion of national policies and with the continuous increase in Chinese residents' per capita sports consumption expenditure, the sports consumption market will usher in greater development opportunities.

During the year under review, our Group achieved a revenue of RMB5,632 million, representing a year-on-year increase of 8.6%; profit attributable to equity shareholders of our Group was RMB432.4 million, representing a year-on-year increase of 42.4%. Our Group always upholds the principle of sharing the fruits of our Company's growth and development with the Company's shareholders. Thanks to the shareholders for their continued support to our Group, the Board has recommended to declare a final dividend for the year ended 31 December 2019 of HK1.5 cents (equivalent to RMB1.3 cents for illustration purpose only) per ordinary share (the "2019 Final Dividend"), subject to the approval of the shareholders of the Company at its annual general meeting to be held on 28 April 2020 (the "2019 AGM"). Together with the interim dividend of HK8.2 cents (equivalent to RMB7.2 cents for illustration purpose only) and the special dividend of HK1.1 cents (equivalent to RMB1.0 cents for illustration purpose only) declared by the Group in August 2019, assuming the shareholders of the Company will approve the declaration of 2019 Final Dividend at the 2019 AGM, the total dividend for the year ended 31 December 2019 would amount to HK10.8 cents (equivalent to RMB9.5 cents for illustration purpose only) per ordinary share, representing 45.6% of the profit attributable to equity shareholders of the Group for the year ended 31 December 2019.

## ENHANCING OPERATIONAL EFFICIENCY AND MAINTAINING STABLE PROFITABILITY

In 2019, 361° persisted in pursuing the improvement of its own product quality against the backdrop of robust development momentum in the sports industry. Our Group has strengthened its stable and profitable business model while enhancing its overall operational efficiency to further improve the return on investment.

Since 2018, our Group has gradually promoted the meticulous management of supply chain and distribution chain, and achieved remarkable results so far after more than a year of adjustment. For its supply chain, our Group selected and concentrated on core suppliers, shifting production from high-cost regions to the low-cost regions. On one hand, it could ensure the product quality and delivery time, and on the other hand, it could stabilize their cost and profitability, which is conducive to forming a more stable strategic alliance. As for distribution chain, our Company continued to fully upgrade the offline channels and e-commerce platforms based on the existing established distribution model to promote the collaboration between physical stores and online stores to unleash their ability in brand demonstration.

Regarding the international market, 361° had a total of approximately 3,000 points-of-sales in overseas markets by the end of 2019. Our Group focused on expanding its presence in Belt and Road regions and some European regions with growth potential, enhancing the profitability of 361° overseas market and improving the international reputation of its brand.



### FOCUSING ON CORE BRANDS TO CONTINUALLY ENHANCE BRAND STRENGTH

In 2019, our Group continually enhanced the competitiveness of its core brand by investing more resources in 361° core brands and concentrated its advantageous resources on forging ahead with building a light asset brand company. In 2020, we will continue this operating strategy to further solidify core strength.

In terms of 361° core brand building, our Group quickly accumulated international brand influence through official sponsorship of large-scale international and domestic sports events and the national teams, achieving pleasing results as expected. As consumption habit of major domestic consumers, represented by the young generation, has undergone a dramatic change since 2019, with features of differentiation and individuation of sport products gradually becoming the key focus of consumers when purchasing sports products. 361° has secured a firm footing in the new market environment, by focusing on identifying and satisfying consumers' preference. By actively launching joint offerings with various classic and high-quality intellectual properties (IPs), 361° has successfully created a series of best selling products, evoking wild enthusiasm in the market, such as the eye-catching Gundam crossover series and other series, including Cross Fire, Pepsi and Minions. All such products recorded outstanding performance and those efforts were well recognized by consumers, including the young generation, which significantly improved our brand images and temperament.

In 2020, by leveraging cross-industry collaboration with well-known trademarks to achieve popularity, our Group will engage more outstanding sports stars as its spokespersons to further highlight the functional attributes of its brand. We recently contracted with Aaron GORDON, an international basketball super star, and Kyranbek MAKAN. We believe that the joining of such famous sports players as our spokespersons will greatly facilitate the improvement of brand influence of 361°, thereby promoting business growth of our brand.

### GAINING THE MARKET RECOGNITION WITH QUALITY AND ACTIVE ENHANCEMENT OF PRODUCTS

Over the years, 361° has continued to invest in technological research and innovation to accumulate technological strength. In 2019, after years of efforts, 361° has successfully launched the Q<sup>3</sup> technology platform on the shoe soles by virtue of its self-developed technology, QUIKFOAM. This technology platform will support the performance improvement of full range of products for running, comprehensive training, basketball and urban life, and empower products with suitable technical functions and world-class quality.

Additionally, with the consistent positioning of "Professional Sports for Mass" and long-term efforts on running products, 361° has sponsored various marathons for years, such as Chengdu Panda Marathon, Shijiazhuang Marathon and Xi'an City Wall Autumn International Half Marathon. Besides, 361° has signed contracts with plenty of elite runners. Through adopting their professional advice, our Group will constantly enhance our quality of products to better meet the consumers' requirement for professional sports.

## OUTLOOK

On behalf of the Board, I would like to express our sincerest appreciation to all our shareholders for their persistent support for 361°, and I would also like to thank all our staff and business partners in this past year.

Looking ahead to the current year, due to the outbreak of the novel coronavirus (COVID-19) epidemic in China in January 2020, our Group's operational and financial performance, as well as the sports industry in general are expected to be affected by the epidemic in the first half of 2020. Nevertheless, we firmly believe that with concrete efforts all over the world, the epidemic will be under control soonest and the current adversity will be overcome with the joint efforts of all our employees. We also fully believe that the health awareness of Chinese people will be further raised after the novel coronavirus outbreak, ushering in new development opportunity for the sports industry in China.

As a leading sportswear brand enterprise in China, 361° will commit to the brand spirit of "One Extra Degree of Passion", act in an efficient and practicable manner, constantly improve product innovation capability and be bold to explore the market, striving for larger market share and thus enhance our profitability. We will endeavor to achieve an above-average growth in the industry and thrive on the continuous development of our Company's business, its supply chain and business partners so as to create more benefits for the shareholders, staff and the society.

**Ding Huihuang**

*Chairman*

Hong Kong SAR of the PRC, 17 March 2020



# MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY REVIEW

Due to the increased external uncertainties, the global economy in 2019 encountered new challenges. The PRC government continued to focus on the supply-side structural reform, with an aim to further improve the quality and efficiency of the national economy while maintaining a stable, long-term and positive development trend. According to the PRC's State Statistics Bureau, the PRC's gross domestic product ("GDP") in 2019 reached RMB99.1 trillion, representing a year-on-year increase of 6.1%, which was in line with the expectation.

China's economic transformation and upgrades have steadily advanced. Consumption, as the largest engine of economic growth, has become an important support for stable growth. The total consumer market has grown steadily, and the scale of online retail has continued to expand. According to the PRC's National Bureau of Statistics, the total retail sales of social consumer goods nationwide reached RMB41.2 trillion in 2019, representing a year-on-year increase of 8.0%; of which, the national online retail sales were RMB10.6 trillion, representing a year-on-year increase of 16.5%. Per capita disposable income of Chinese residents reached RMB30,733 in 2019, breaking through RMB30,000 for the first time, with a nominal growth of 8.9%; the per capita consumption expenditure of the national residents was RMB21,559, representing a nominal growth of 8.6% year-on-year; the contribution rate of final consumption expenditure to China's GDP growth was 57.8%, which has become the largest driver of economic growth for six consecutive years. At the same time, the pace of Chinese residents' consumption upgrade has accelerated, and their consumption structure has been continuously optimised.

The steady growth of national economy and household consumption has provided favorable opportunities for the development of the sports industry in the PRC. Therefore, the potential of the sports industry, especially the sports goods industry, has been constantly exploited. According to the PRC's State Statistics Bureau, the incremental value of the national sports industry in 2018 exceeded RMB1.0 trillion, representing a nominal increase of 29.0% as compared with last year and accounting for more than 1.0% of GDP. In particular, the incremental value of the manufacturing of the sports and relevant goods was RMB339.9 billion, accounting for 33.7% of the incremental value of the whole sports industry.

In 2019, China frequently promulgated relevant policies to vigorously support the development of the sports industry. The PRC's State Council issued a number of policies, including the Action Plan for Further Promoting Sports Consumption (2019-2020) (《進一步促進體育消費的行動計劃(2019-2020年)》), Opinions on Implementing Healthy China Action (《關於實施健康中國行動的意見》), The Healthy China Action (2019-2030) (《健康中國行動(2019-2030年)》), Outline for Building a Leading Sports Nation (《體育強國建設綱要》) and Opinions on Promoting National Fitness and Sports Consumption to Promote High-Quality Development of the Sports Industry (《關於促進全民健身和體育消費·推動體育產業高質量發展的意見》), which not only listed the implementation of the national fitness campaign as one of the 15 specific programmes, but also proposed to strive to build the sports industry into a landmark case of the national rejuvenation. By the year of 2035, the sports industry is expected to become a pillar industry of the national economy. In November, 2019, in the Guidance Catalogue for Industrial Structure Adjustment (2019 edition) (《產業結構調整指導目錄(2019年本)》) revised and issued by the PRC's National Development and Reform Commission, the sports industry was listed as an "encouraged category" among the separate list of 48 industries for the first time, and the sports related items increased from three in 2011 to 11. So far, the status of sports industry has been further recognised and it is expected to usher in the golden development period.



With the implementation of a number of policies, China's sports reform has been deepened and the level of public services for sports has been improved, the enthusiasm for national fitness therefore has increased. According to the statistics of Chinese Athletic Association, the number of marathons in China increased 40-fold in the five years from 2014 to 2018. There were 1,900 games held with more than 800 participants nationwide in 2019, with 7.2 million participants in total based on the preliminary statistics. On the other hand, in recent years, China's sports competition performance market has become increasingly active. With the Basketball World Cup 2019 came to an end in China and the 2022 Winter Olympics Games to be held in China, Chinese people have and will have more and more opportunities to enjoy high-level sports domestically, which will help promote the development of sports consumption habits.

With the continuous improvement of residents' consumption level, the demand for sports is getting more and more diversified and personalized. According to the 2019 PricewaterhouseCoopers Research Report on Sports Industry (《2019年普華永道體育行業調查報告》) released by the consulting team of PricewaterhouseCoopers (PwC) on business in the sports industry, the global sports market is expected to grow by 6.4% over the next three to five years, and China continues to be a growth leader in the global sports market. At the same time, basketball, e-sports, football/soccer are among the top ten sports with the highest income growth potential, and urban light sports has risen to the top ten immediately after being included in the list. In addition, with the continuous improvement of residents' consumption level, some niche sports are gaining in popularity, and emerging sports such as skiing, cycling, boxing, fencing, aero sports, and racing are also showing strong growth rate and great growth potential. National fitness campaign has become a

driving force for promoting the development of the sports industry, stimulating domestic demand and forming a new economic growth driver.

The year 2019 saw an upsurge in the cross-sector cooperation of the sports industry, which further expanded room for growth of the industry. The Group has been actively developing cross-sector cooperation with prestigious brand owners and the co-branded products launched have received wide attention and good response from the market and attracted more young consumers, which helped to upgrade its brand image.

Currently, the Group has established a leading position in the third-tier and lower-tier cities in China. Under the background of the overall prospering development of the sports industry, the Group will adhere to the positioning of "Professional Sports for Mass", strive to improve its products and brand influence and actively integrate all sorts of resources in pursuit of innovation and expansion, so as to continuously provide consumers with high-value professional sports products.

## BUSINESS REVIEW

### 361° Brands and Positioning

The 361° Group is one of the leading sportswear brand enterprises in China. In 2019, 361° brand was selected as one of the "500 most valuable brands in China" for the 15th consecutive years. The Group principally engages in brand management, research and development (R&D), design, manufacturing and distribution. Its comprehensive product portfolio can meet footwear, apparel and accessories needs of adults and children in their sports and casual life. 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 sports 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 operating business unit, principally caters to sports apparel, footwear, and accessory needs of children between the ages of three to twelve.





## MANAGEMENT DISCUSSION AND ANALYSIS

The Group also owns the trademark of ONE WAY (Finnish brand) in China, which is positioned as a brand that focuses on higher functional and more specialised outdoor products.

### Business Model

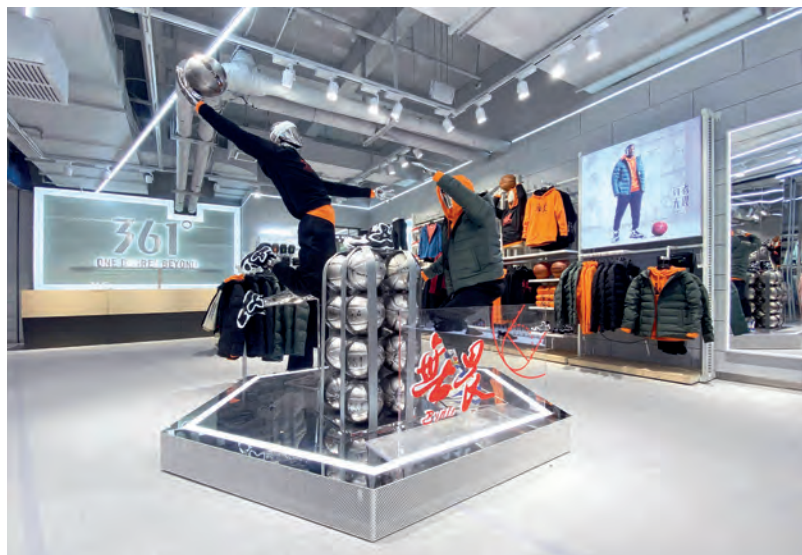
During the year under review, the distributorship business model adopted by the Group remained unchanged. The first-tier exclusive distributors distributed the products under the 361° brand in their respective exclusive geographical territory. Distributors could choose to open stores directly, subject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

The Group conducts an annual review on both operational and financial performances of its distributors including but not limited to, new store opening target, trade fair order target, accounts receivable collecting period, and the store image maintenance. The Group will only renew the contracts with the distributors when a satisfactory result is obtained. The Group also provides training programs for distributors and authorised retailers several times a year on inventory management and product knowledge, enabling them to accurately convey the Group's latest technology and product-related knowledge to consumers, so that consumers can choose the most suitable products to purchase. Furthermore, the Group also insists on projecting a consistent store image across its nationwide distribution network and the standardisation of product display equipment and point-of-purchase (POP) materials highlighting quarterly marketing themes. During the year under review, the Group continued to encourage distributors and authorised retailers to upgrade their store layouts, which provides more eye catching layouts and decorations.

The Group has been upholding the concept of "One Extra Degree of Passion" (多一度熱愛), sticking to a consumer centric approach, continuing to meet the consumers' upgrading consumption demand and striving to provide consumers with richer, more diverse and enjoyable sports life experience. During the year under review, the Group has carried out refined management of the supply chain and distribution chain. In terms of supply chain, the Group

focused on streamlining and centralizing its suppliers by establishing strategic alliances and shifting from regions with high production costs to those with lower costs, with a view to ensuring product quality and delivery time, stabilising the costs and improving respective profitability. In terms of distribution chain, on the basis of stabilizing the sustained profitability of the existing distribution system, the Group has carried out channel upgrade and construction, thereby enhancing interaction with consumers, directly playing the demonstrating role of 361° brand at the retail end and passing the 361° brand concept to consumers.

The Group currently hosts four trade fairs per year for the 361° core brand to showcase new season's products, in which all distributors and authorised retailers are invited to attend. The finalised orders will be consolidated by the respective first-tier distributors, who in turn will place such orders with the Group. The Group provides order suggestions to its distributors in order to enhance the accuracy of orders, avoid excessive inventory and discounts at the retail end, stabilise retailers' profitability and support sustainable development. These trade fairs are generally hosted six months ahead of their respective display and launch seasons to allow the orders to be manufactured and delivered to the distributors. During the year under review, the Group organised four trade fairs for 361° core brand products, namely the 2019 Winter Trade Fair, the 2020 Spring Trade Fair, the 2020 Summer Trade Fair and the 2020 Fall Trade Fair.



### 361° Core Brand Retail Network in the PRC

As at 31 December 2019, the network of the 361° core brand stores comprised of 5,519 stores, of which approximately 72.5% were stand alone street-level stores. The Group encourages its distributors and their authorised retailers to open larger stores in shopping malls and department stores going forward while streamlining retail outlets by closing smaller outlets. Geographically, approximately 75.3% of the stores were located in the third- and lower-tier cities in China, while 6.6% and 18.1% were located in first- and second-tier cities in China, respectively, as at 31 December 2019. 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 follows:

	As at 31 December 2019		As at 31 December 2018	
	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 <sup>(1)</sup>	1,057	19.1	1,160	20.9
Southern region <sup>(2)</sup>	717	13.0	759	13.7
Western region <sup>(3)</sup>	1,190	21.6	1,172	21.2
Northern region <sup>(4)</sup>	2,555	46.3	2,448	44.2
Total	5,519	100	5,539	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 budgets 8% to 10% of its annual revenue for brand promotion and marketing. The brand-building strategies of the Group in the early years were mainly aimed at the international and domestic large-scale sports events and the official sponsorship of the Chinese national teams, to strive to quickly elevate the international influence of the brand. It received a favorable response and achieved the expected results. For example, the Group successfully sponsored the 16th Asian Games in Guangzhou in 2010, the 26th Summer Universiade in Shenzhen in 2011, the 2nd Youth Olympic Games in Nanjing in 2014, the 17th Asian Games in Incheon in 2014, the Rio Summer Olympics and Paralympic Games in 2016 and the 18th Jakarta Asian Games in 2018. The Group's brand has gained considerable exposures in these world class events, which significantly increased the Group's branding influence worldwide.

At present, the Group is more closely following the consumption trends, further combining brand communication with consumer preferences, and actively expanding the cooperation with well-known and classic IPs. The Group cooperated with brands such as Gundam, PepsiCo, Minions, CrossFire mobile game and Seagull to launch co-branded products in line with consumer preferences. These innovative products won new consumer groups, which enhanced the Group's brand image and popularity. Leveraging on the solid foundation, the Group will continue to take full advantage of the crossover trend through high quality brand crossover collaboration in 2020. Moreover, the Group intends to increase the number of high-quality sports star spokespersons to further highlight the professional attributes of the brand, such as newly signed well-known basketball player Aaron GORDON and Kyranbek MAKAN, so as to continuously improve the brand strength.

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

Sponsorship period	Sporting event	Capacity
2018-2019	Chengdu Panda Marathon of China	Supreme Partner
2019	Shijiazhuang Marathon of China	Strategic Partner
2019	Xi'an City Wall Autumn International Half Marathon of China	Top Partner
2018-2019	361° She run of China	Title sponsor
2019	Hangzhou She run 10K of China	Official Partner
2019-2020	"Cross Fire" CFPL and CFML E-sports Event	Joint marketing cooperation
2019	Taiwan Tianshuiji Super Marathon of China	Official sports brand partner
2019	Taiwan Ershui Marathon of China	Official sports brand partner
2019	World Heritage Himeji Castle Marathon	Official sports brand partner
2019	Haspa Marathon Hamburg, Germany	Official sports brand partner
2019	Grachtenloop Haarlem, the Netherlands	Official sports brand partner
2019	Halve van Haarlem, the Netherlands	Official sports brand partner





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

Name of sporting team	
China National Swimming Team	The Beijing 2022 Winter Olympic Games Preparatory Training by General Administration of Sport of China
China National Synchronized Swimming Team	China National Biathlon Team
China National Cycling Team	China National Nordic Biathlon Team
Swedish National Curling Team	China National Ski-jumping Team
China National Handball Team	China National Freestyle Ski Halfpipe Team
China National Women's Softball Team	China National Freestyle Ski Slopestyle Team
China National Hockey Team	China National Freestyle Ski Cross Team
Hong Kong Women's Volleyball Team	China National Snowboard Cross Team
Macau Sports Delegation	LI Zicheng Club, A Professional Marathon Training Institution
TEAM M23, China Professional Boxer Training and Agent Team	



## MANAGEMENT DISCUSSION AND ANALYSIS

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

### Athletes

Name of spokespersons	Sports	Key achievements in recent years
Sarah CROUCH	Running	Placed top American woman runner in the 2018 Bank of America Houston Marathon Placed top American woman runner in the 2018 Bank of America Chicago Marathon
FU Wenguo 付文國	Running	2nd in Men of China in the 2018 Changsha Marathon
GUAN Siyang 關思楊	Running	2nd in the 2019 Chengdu Panda Half Marathon
HE Jinping 何盡平	Running	1st in the 2019 Taiwan Jinmen Marathon 2nd in the 2019 Markham Marathon 1st in the 2019 Taiwan Open Track and Field Championships for 10,000m
LI Zicheng 李子成	Running	1st in Men of China in the 2019 Xiamen International Marathon 1st in Group Category of the 2019 Zhejiang Marathon Relay 1st in Men of China in the 2019 Wuxi International Marathon Awarded as the Top Athlete in Men's Competition Group at the award ceremony of the 2019 China Marathon Majors 1st in Men of China in the 2019 Dongying International Full Marathon 1st in Men of China in the 2019 Xinjiang Mulei International Half Marathon



Name of spokespersons	Sports	Key achievements in recent years
LUO Shijie 羅世傑	Running	4th in the 2019 Taiwan Taichung International Marathon 3rd in the 2019 Taichung Marathon IT Cup 2nd in the 2019 Cinsbu Ultramarathon 1st in the 2019 Taiwan Ershui Marathon
MA Liangwu 馬亮武	Running	1st in Age Group of the 2019 Xiamen Marathon 1st in Age Group of the 2019 Chengdu Panda Marathon 1st in Age Group of the 2019 Wuhan International Marathon
MU Luen 穆魯恩	Running	3rd in Men of China in the 2019 Chengdu Panda Full Marathon
Marcia ZHOU	Running	9th in World Ranking of Women in the 2018 Shanghai Marathon
TIE Liang 鐵亮	Running	1st in Men of China in the 2019 Qinhuangdao Marathon 1st in Men of China in the 2019 Shenzhen Marathon
XU Wang 許王	Running	1st in Men of China in the 2019 Chongqing International Marathon
YANG Chengxiang 楊成祥	Running	1st in Men of China in the 2019 Nanjing Marathon
ZHENG Xiuru 鄭秀茹	Running	1st woman runner in the 2019 Cinsbu Ultramarathon 3rd in the 2019 Shengang Marathon 1st in the 2019 Marathon Tongji & Changhua Cup 1st in the 2019 Taiwan Ershui Marathon
ZHOU Junhong 周俊宏	Running	9th in the 2019 Taipei Ultramarathon 2nd in the 2019 Japan Sakura Michi Ultramarathon
WANG Yuling 汪禹伶	Race walk	1st in the 2019 Taiwan Miaoli sports meeting 10,000-meter race walk 3rd in the 2019 Taichung international high school championship 10,000-meter race walk
Ashton EATON	Decathlon	1st in the 2016 Rio Olympics Record-holder in the Men's Decathlon
Brianne Tyson EATON	Track and field	Canadian track and field athlete (retired) Bronze medalist of Rio 2016 Summer Olympics in Heptathlon Champion in the 2016 World Indoor Champion in Pentathlon and Canadian Record-holder of Heptathlon



## MANAGEMENT DISCUSSION AND ANALYSIS

Name of spokespersons	Sports	Key achievements in recent years
Courtney FORTSON	Basketball	Won the Foreign MVP of CBA 2017-2018 Season Won the Best Assist Player of CBA 2017-2018 Season Won the Best Assist Player for Regular Season of CBA 2018-2019 Season
Jimmer FREDETTE	Basketball	Selected as the CBA All-Star Broke the CBA All-Star three-pointer record Broke the single section score record for the fourth section of CBA
Aaron GORDON	Basketball	NBA all-around dunker Played for the Orlando Magic
Kyranbek MAKAN	Basketball	Capitan of Xinjiang Guanghui team of CBA Champion of CBA 2016-2017 Season for Xinjiang men's basketball team
Niclas BOCK	Triathlon	1st in the Oberammergau Triathlon 1st in the German Triathlon (2nd National Triathlon) 1st in the Carlsfeld Triathlon
Jorik Van EGDOM	Triathlon	3rd in the 2019 Weert ETU Triathlon European Championships 9th in the 2019 Daman World Triathlon Mixed Relay Series 8th in the 2019 Hamburg ITU Triathlon Mixed Relay World Championships



Name of spokespersons	Sports	Key achievements in recent years
Donald HILLEBRECHT	Triathlon	3rd in the 2019 Rabat ATU Triathlon African Cup 1st in the NED Sprint Triathlon 3rd in the Rabat ATU Triathlon World Cup
Rachel KLAMER	Triathlon	3rd in the 2019 Hamburg Wasser World Triathlon 4th in the Discovery Triathlon World Cup Cape Town 4th in the Hamburg ITU Triathlon Mixed Relay World Championships
Morgan PEARSON	Triathlon	2nd in the 2019 Huatulco ITU Triathlon World Cup 3rd in the 2019 ITU World Mixed Series Edmonton Town
Katie ZAFERES	Triathlon	1st in the 2019 ITU World Triathlon Series
LI Bingjie 李冰潔	Swimming	Won 3 silver medals in the 2019 National Swimming Championships Won 2 silver medals in the 2019 FINA Swimming Championships Won 1 gold medal and 1 bronze medal in the 2019 American Swimming Series Competition
LIU Xiang 劉湘	Swimming	Won 1 gold medal in the 2019 Swimming World Cup Won 1 gold medal in the 2019 National Swimming Championships Won 1 silver medal in the 2019 FINA Swimming Championships
SUN Yang 孫楊	Swimming	Won 2 gold medals in the 2019 World Swimming Championships Won 4 gold medals in the 2019 National Swimming Championships Won 2 gold medals in the 2019 FINA Swimming Championships
WANG Jianjiahe 王簡嘉禾	Swimming	Won 1 bronze medal in the 2019 World Swimming Championships Won 3 gold medals in the 2019 National Swimming Championships, broke the Asian record Won 1 silver medal and 1 bronze medal in the 2019 FINA Swimming Championships Won 1 gold medal and 1 silver medal in the 2019 American Swimming Series Competition, broke the Asian record
ZHANG Yufei 張雨霏	Swimming	Won 2 gold medals and 1 bronze medal in the 2019 Swimming World Cup Won 1 gold medal and 1 silver medal in the 2019 National Swimming Championships Won 1 gold medal in the 2019 FINA Swimming Championships Won 1 silver medal in the 2019 American Swimming Championships

## MANAGEMENT DISCUSSION AND ANALYSIS

Name of spokespersons	Sports	Key achievements in recent years
XU Can 徐燦	Boxing	Won the Best Male Boxer of the “Grand Annual Fight of China’s Belt and Road” WBA Featherweight World Boxing Champion
YANG Xu 楊旭	Football	Got 6 goals in the 2019 National Team Match Got 8 goals in the 2019 Super League
<b>Celebrities</b>		
REN Jialun 任嘉倫	N/A	A famous Chinese pop singer and actor
TAN Weiwei 譚維維	N/A	A famous Chinese pop singer





### 361° Kids

361° Kids has been in operation as an independent business unit since its launch in 2010. It primarily targets children between the ages of three to twelve who are looking for active apparel for sports activities. In 2019, 361° Kids has further expanded the product coverage to a wider age group, extending its market reach to launch shoes and clothing products that are suitable for children under three years old.

As at 31 December 2019, there were 1,922 points-of-sale offering 361° Kids products, of which 529 were within the 361° brand authorised retail stores, selling both 361° core brand products and 361° Kids products. Of the 1,922 points-of-sales, 68.8% of which were stand alone, street-level stores. Geographically, approximately 69.4% were located in third-tier and lower-tier cities in China, while 7.3% and 23.3% were located in first- and second-tier cities in China, respectively.



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

	As at 31 December 2019		As at 31 December 2018	
	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 <sup>(1)</sup>	408	21.3	449	24.4
Southern region <sup>(2)</sup>	321	16.7	339	18.5
Western region <sup>(3)</sup>	360	18.7	338	18.4
Northern region <sup>(4)</sup>	833	43.3	711	38.7
Total	1,922	100	1,837	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 year under review, there were four trade fairs hosted for 361° Kids, namely the 2019 Winter Trade Fair, the 2020 Spring Trade Fair, the 2020 Summer Trade Fair and the 2020 Fall Trade Fair.

361° proactively focuses on brand building of its kids wear brand. In addition to cooperating with the Universal Pictures to launch co-branded products with How to Train Your Dragon, Kung Fu Panda and other renowned IPs, we also focused on expanding the strategic presence in the field of youth football training. As a partner of Shanghai Greenland Shenhua Football Club Youth Team, Beijing Guoan Junior Training and Shandong Luneng Taishan F.C. Youth Team, the strategic partner of Evergrande Football School and the sponsor of sports equipment for the elite team of Evergrande Football School, the Group continued its strategic planning of top youth football resources in China and strengthened the linkage among youth football training systems. With the rapid development of children's sports industry in China, increasing importance is being attached to the football industry. The Group's forward-looking strategic plan could further enhance the brand value and market share of 361° Kids.

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

During the year under review, 361° Kids contributed 17.7% to the Group's revenue with a growth rate of 22.4%. It is expected that the sector will maintain a rapid growth in the future, supported by the government's relaxation of the one-child policy.

### 361° International

The Group actively expanded its footholds in international markets with growth potential, so as to expand the international business market scope of 361° and improve the international brand reputation of 361°. 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.



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

Name	Award
361-Meraki 2	Awarded by the US “Runner’s World” magazine as one of the 22 best running shoes in the spring of 2019
361-Yushan	Selected by the US Women’s Health magazine as one of the 23 pairs of best cross-country running shoes
361-Strata 3	Recommended by the US “Runner’s World” magazine as the most popular all-season running shoes in American markets in April, 2019 and awarded as the best running shoes for men for stability in 2019
361-Sensation 4	Awarded by Joyrun, a platform of running and social networking in China, as the best running shoes for stability in its annual running shoes selection in 2019
361-Nemesis	Selected by the UK “Women’s Running” magazine for Editors’ Choice award in 2019

As of 31 December 2019, the Group has 1,549, 225, 827 and 75 points-of-sales, carrying 361° International products in Brazil, the United States, Europe and China Taiwan, respectively. During the year under review, the Group also tapped into new markets such as Morocco, Kirghizia, the Philippines, Australia and so on. The Group will continue to explore and expand into more countries and regions overseas with growth potential in the future.

During the year under review, the 361° International business contributed to approximately 2.3% of the Group’s revenue with a growth rate of 41.4%.

## ONE WAY

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

The Group owns the trademark of ONE WAY (Finnish brand) in China, which is positioned as a brand that focuses on higher functional and more specialised outdoor products.

## E-Commerce

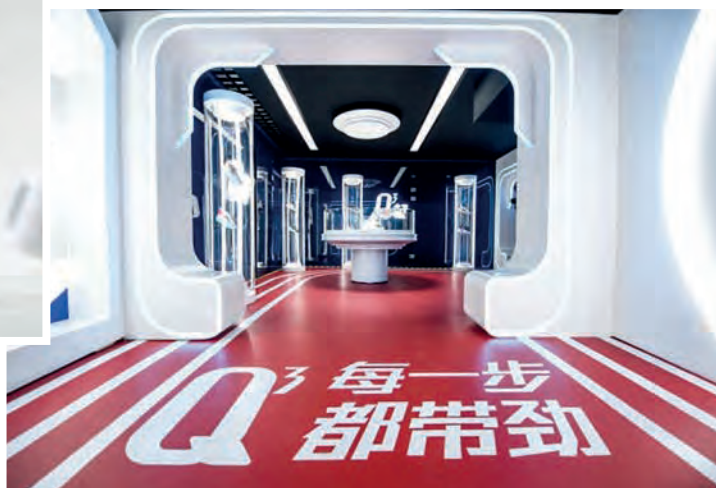
The Group conducts its modern e-commerce business mainly through renowned e-commerce platforms in China including Tmall, Taobao, JD and its wechat stores mini-programme and official website. These online platforms are authorised to sell online-exclusive products, which forms differentiated sales and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

In 2019, with the active cooperation with various well-known and classic IPs, co-branded products launched by 361° became hot topics in the mainstream market and hot items on the e-commerce platforms. The co-operations with Gundam, CrossFire, PepsiCo and Minions attracted and drove the young consumers to appreciate the core brand of 361°, and at the same time increased visibility for e-commerce platforms.





## MANAGEMENT DISCUSSION AND ANALYSIS



The Group recorded a revenue growth of 23.9% in e-commerce sales in 2019, and online-exclusive products accounted to 16.3% of the Group's total revenue.

### Production

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

### Research and Development

The Group has been consistently strengthening its product innovation, enhancing its R&D capabilities, optimising product design and attempting product differentiation through technology, so as to cater to demands of different markets and consumers. Regarding the R&D of 361°

products, the Group strives to continuously enhance level of comfort, functionality and technology edge of its products through application of human body and ergonomics principles as the theoretical basis to develop products and testing through scientific experiments in kinesiology, with a view to improving workout performance for sports enthusiasts. The Group's research center based in Wuli Industrial Park, Jinjiang, Fujian Province has advanced experimental capabilities and possesses various titles, such as provincial technology center, national sports industry demonstration unit, national industrial design center and provincial academician workstation. It can support the innovation experiments of intelligent sports equipment, structural sports equipment, functional sports equipment, functional material research and development.



The Group continued to focus on product research and development and innovation. The “bright sunshine and gentle breeze” cotton filled sportswear declared jointly by the Group and the suppliers was awarded “2019 Top 10 categories of innovative textile products”(“2019 年度十大類紡織創新產品”) issued by China National Textile and Apparel Council, which fully expanded the technological edge and reflected the advantage of product research and development. In addition, after QUIKFOAM series products won many international professional awards, the Group continued to explore proprietary technology products and successfully released the Q<sup>3</sup> technology platform for shoe soles. The Group also horizontally integrated science and technology, launched the QUIKFOAM family series products, such as Q Elastic Super (Q彈超), Q Elastic Pure (Q彈淨界), Q Elastic Mecha (Q彈猛甲) and Q Elastic Titanium Speed (Q彈鈦速), and facilitated the enhancement of product competitiveness and breakthrough through empowering products with technology.

Leveraging on technology, the combination of technology and fashion can be realized with the help of fashion crossover to create innovative products. 361° has successfully entered the STAGE 2020 spring/summer Shanghai fashion week, with providing shoe products of the fashion show for fashion brand STAGE as an exclusive partner, which fully reflects the Group’s unique innovative design capabilities and bringing a new growth momentum for the Group.

As of 31 December 2019, the Group has obtained 356 patents and a total of 755 technicians engaging in product research and development, among which including 473 footwear research staff, 240 apparel research staff and 42 kids wear and accessories research staff.

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

## FINANCIAL REVIEW

### Revenue

During the year under review, the Group recorded a year-on-year revenue growth of 8.6% to RMB5,631.9 million (2018: RMB5,187.4 million) of which 17.7% and 1.5% of the total revenue was contributed by the Kids business and business grouped under others (namely, sales of shoe soles), respectively. The balance of 80.8% of the revenue was mainly contributed by the 361° core brand products, 361° International and e-commerce businesses.

The sales of the 361° core products namely, footwear, apparel and accessories, recorded an upward trend, grew by 7.9% year-on-year, 3.0% year-on-year and 31.8% year-on-year, respectively. During the year under review, all of the 2019’s spring, summer and autumn products were delivered and revenue recognised. Some of the winter products were delivered at the beginning of 2020 due to the relatively warm winter at the end of 2019. Last year, the Group launched a Logistics Planning and Optimization Program which received very positive response from both distributors and their authorised retailers. The program is in collaboration with a reputable e-platform company which helped to shorten the delivery of order time from distributors to their authorised retailers, thus shortening the response time to market demand and allowing us to better manage inventory level of the sales channels.

For the year under review, the proportion of footwear sales to the total revenue slightly adjusted to 42.4% from 42.7%, whereas apparel sales slightly decreased to 36.6% from 38.5% year-on-year. Footwear products were still the strongest among all 361° core brand products and key growth driver for the Group.

With the introduction of some signature products as well as collaboration with some big brands to produce crossover products during the year, the average wholesale selling price (the “AWP”) of both footwear and apparel increased significantly by 17.4% and 33.2%, respectively. However, the volume of footwear and apparel sold reduced by 8.1% and 22.7%, respectively, which was mainly due to the Group strategically produced less at the initial stage for launching those new series of products in the market.

For accessories, with the success in the new products introduced in the market, the peripheral accessories also recorded an increase by 31.8% year-on-year. Both the sales volume and AWP increased by 9.5% and 20.7% year-on-year, respectively.

Concerning the 361° International business, revenue increased by 41.4% to RMB131.9 million (2018: RMB93.3 million), which contributed 2.3% of the total revenue of the Group for the year ended 31 December 2019.

The revenue of 361° Kids significantly increased by 22.4% year-on-year to RMB998.9 million (2018: RMB816.0 million), and accounted for 17.7% of the Group’s revenue during the year under review. The growth was mainly attributable to the increase in volume by 22.0% with the AWP increased slightly by 0.3% year-on-year. Unlike 361° core brand, the growth driver of 361° kids’ business is more on apparel products rather than footwear products.

## MANAGEMENT DISCUSSION AND ANALYSIS

The revenue for the sales of web-exclusive products from the Group's 80% owned e-commerce business increased by 23.9% to RMB915.8 million (2018: RMB739.2 million) and accounted for approximately 16.3% of the total revenue for the year under review. The Group confidently believes that the contribution from the e-commerce business is sustainable and will continuously maintain 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 year under review, approximately 49.4% of this subsidiary products were sold to the Group and the remaining portion was sold to third parties. The revenue for the year ended 31 December 2019 was RMB86.7 million (2018: RMB84.1 million) accounted for about 1.5% of total revenue of the Group.

The following table sets out a breakdown of the Group's revenue by products for the periods:

	For the year ended 31 December 2019		For the year ended 31 December 2018		Changes (%)
	RMB'000	% of Revenue	RMB'000	% of Revenue	
<b>By Products</b>					
<b>Revenue</b>					
<b>Adults</b>					
Footwear	2,386,967	42.4	2,212,185	42.7	+7.9
Apparel	2,059,087	36.6	1,999,181	38.5	+3.0
Accessories	100,201	1.8	76,005	1.5	+31.8
<b>Kids</b>	998,888	17.7	815,965	15.7	+22.4
<b>Others<sup>(1)</sup></b>	86,723	1.5	84,110	1.6	+3.1
<b>Total</b>	<b>5,631,866</b>	<b>100</b>	<b>5,187,446</b>	<b>100</b>	<b>+8.6</b>

Note:

(1) Others comprised of sales of shoe soles.

The following tables sets out the number of units sold and the AWP of the Group's main products for the periods indicated:

	For the year ended 31 December 2019		For the year ended 31 December 2018		Changes	
	Total units sold '000	Average wholesale selling price <sup>(1)</sup> RMB	Total units sold '000	Average wholesale selling price <sup>(1)</sup> RMB	Units sold (%)	Average wholesale selling price (%)
<b>By Volume and AWP</b>						
<b>Adults</b>						
Footwear (pairs)	20,768	114.9	22,607	97.9	-8.1	+17.4
Apparel (pieces)	21,670	95.0	28,033	71.3	-22.7	+33.2
Accessories (pieces/pairs)	5,935	16.9	5,418	14.0	+9.5	+20.7
<b>Kids</b>	<b>14,675</b>	<b>68.1</b>	<b>12,026</b>	<b>67.9</b>	<b>+22.0</b>	<b>+0.3</b>

Note:

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



### Cost of Sales

Cost of sales of the Group for the year increased by 9.1% year-on-year to RMB3,362.3 million (2018: RMB3,081.6 million).

During the year under review, the cost of internal production increased by 7.6% which was primarily due to the increase in the raw material cost that increased approximately 13.6% year-on-year.

Both the cost of self-produced and outsourced footwear products increased, which was mainly due to the material used for the new products introduced in the year was more expensive and higher quality as compared to products in 2018.

On the apparel front, the internal production cost increased with a higher proportion of self-produced apparel sold year-on-year. The cost of outsourced apparels also increased by 2.4%. As the Group received favourable terms from some of the long-term relationship suppliers, the percentage increased in the cost of outsourced apparel was much less than the percentage of AWP increased in the year.

The following table sets out a breakdown of cost of sales for the periods indicated:

	For the year ended 31 December 2019		For the year ended 31 December 2018	
	RMB'000	% of total costs of sales	RMB'000	% of total costs of sales
<b>Footwear &amp; Apparel (Internal Production)</b>				
Raw materials	803,952	23.9	707,722	23.0
Labour	168,970	5.0	160,781	5.2
Overheads	324,702	9.7	337,165	10.9
	<b>1,297,624</b>	<b>38.6</b>	<b>1,205,668</b>	<b>39.1</b>
<b>Outsourced Products</b>				
Footwear	864,610	25.7	727,282	23.6
Apparel	1,116,789	33.2	1,090,125	35.4
Accessories	83,227	2.5	58,500	1.9
	<b>2,064,626</b>	<b>61.4</b>	<b>1,875,907</b>	<b>60.9</b>
<b>Cost of sales</b>	<b>3,362,250</b>	<b>100.0</b>	<b>3,081,575</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Gross Profit and Gross Profit Margin

Gross profit was RMB2,269.6 million (2018: RMB2,105.9 million) for the year of 2019 representing a slight decrease in the gross profit margin by 0.3 percentage points year-on-year to 40.3%.

During the year under review, the gross profit margin of apparel slightly increased by 1.3 percentage points whereas the footwear, accessories and 361° Kids products dropped by 1.0, 5.5 and 0.7 percentage points, respectively.

The gross profit margin of apparel increased to 41.3% (2018: 40.0%) which was benefited by the signature and crossover products introduced in the market and products with a higher margin were sold in the second half of the year.

Besides, the gross profit margin of the footwear products in this year was 40.4% (2018: 41.4%), represented a drop by 1.0 percentage point year-on-year. The Group did not fully transfer the cost to customers for some of the new series products launched in the year, which are limited by the Group's pricing ability and in turn reduced the gross profit margin.

For accessories, the gross profit margin reduced to 29.3% (2018: 34.8%) since a higher percentage of lower gross profit margin products were delivered as compared to the previous year. As the product mix is wide, gross profit margin varied.

The gross profit margin of the 361° Kids business slightly dropped by 0.7 percentage points to 42.1% (2018: 42.8%). It was principally due to the Group did not fully transfer the cost of products sold to customers.

The gross profit margin of shoe soles, categorised under "others", was 6.5% (2018: 17.6%), decreased by 11.1 percentage points. The decrease in the profit margin was due to the orders received in the year was much complicated as compared to the previous year which increased the production cost.

The following table sets forth a breakdown of the gross profit and gross profit margin during the financial years under review:

	For the year ended 31 December 2019		For the year ended 31 December 2018		Changes Percentage point
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	
<b>Adults</b>					
Footwear	963,657	40.4	915,783	41.4	-1.0
Apparel	851,032	41.3	799,333	40.0	+1.3
Accessories	29,321	29.3	26,417	34.8	-5.5
<b>Kids</b>	419,985	42.1	349,543	42.8	-0.7
<b>Others<sup>(1)</sup></b>	5,621	6.5	14,795	17.6	-11.1
<b>Total</b>	<b>2,269,616</b>	<b>40.3</b>	<b>2,105,871</b>	<b>40.6</b>	<b>-0.3</b>

Note:

(1) Others comprised of sales of shoe soles.

### Other Revenue

Other revenue of RMB236.8 million (2018: RMB281.9 million) mainly comprised of (i) accrued interest income of RMB104.7 million (2018: RMB97.6 million) earned from bank deposits both in Hong Kong and the PRC; (ii) the discretionary government subsidies of RMB108.0 million (2018: RMB109.5 million) was mainly in relation to the Group's contribution to local economies; (iii) the commission of RMB12.0 million (2018: RMB31.9 million) earned from the selling of distributors' inventories through the e-commerce business.

### Other Net Loss

The other net loss of RMB29.7 million was mainly attributable to the net foreign exchange loss. The Group's principal business is in the PRC and adopts Renminbi as its functional currency. The 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 incur currency gain or loss.

### Selling and Distribution Expenses

During the year under review, selling and distribution expenses increased by 4.9% to RMB1,026.8 million (2018: RMB979.0 million). The selling expenses mainly comprised advertising and promotional expenses.

Advertising and promotional expenses were RMB507.8 million (2018: RMB557.3 million) accounted for approximately 9.0% (2018: 10.7%) of the Group's revenue. During the year under review, the Group cautiously controlled and ended some of the old advertising contracts and replaced with endorsements of some new overseas athletes and sponsorships of some new marathon events. 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, such as Tmall and JD.com, was RMB123.9 million (2018: RMB116.3 million) and other expenses including salaries, postage and transportation in running of the e-commerce business amounted to RMB72.9 million (2018: RMB57.8 million).

### Administrative Expenses

Administrative expenses increased by 4.8% to RMB569.8 million for the year under review (2018: RMB543.5 million) and represented about 10.1% (2018: 10.5%) of the Group's revenue. The percentage increase was less than the growth of turnover recorded in the year.

Research and development expenses were maintained at RMB214.3 million (2018: RMB214.6 million), which accounted for 3.8% (2018: 4.1%) of the revenue for the year under review. The Group targeted the research and development expenses to be in the range of 3-4% of the total revenue per year, to enhance the product development and competitiveness.

The administrative salaries increased to RMB84.2 million (2018: RMB64.6 million) represented an increase by 30.3% which was mainly due to the increase in some senior management staff during the year under review.

### Reversal of Impairment Loss

During the year under review, there was no impairment loss has been recognized as compared to a RMB1.2 million impairment loss recognized in the previous year. On the contrary, the Group has confidently written back approximately RMB7.0 million provision of impairment losses which accounted for about 12.1% of the provision made in the previous years.

### Finance Costs

During the year under review, finance cost was RMB217.5 million (2018: RMB211.6 million), of which, RMB6.6 million was interest relating to the short-term bank borrowings and RMB210.5 million was 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 31 December 2019, the short-term bank borrowings were RMB100 million for the finance of a subsidiary running in the PRC and RMB11.2 million, a mortgage bank loan for financing the acquisition of an office and the trust receipts of a subsidiary in Hong Kong.

The finance cost of the US\$ Notes accrued for the year was RMB210.5 million, of which, RMB194.5 million was related to the accrued interest for the year and RMB16.0 million was the relevant cost incurred for the issuance of the US\$ Notes amortised over the tenor of five years.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Income Tax Expense

During the year under review, income tax expense of the Group amounted to RMB252.7 million (2018: RMB265.3 million) and the effective tax rate was 35.0% (2018: 46.5%). The reduction of effective tax rate was due to one of the mainland China-based operating subsidiaries successfully obtained a tax rate reduction to 15% by the local tax authority in the year whereas the other three major mainland China-based operating subsidiaries are still subject to the standard corporate income tax rate of 25% and no provision has been made for profit tax of the subsidiaries in Hong Kong since no operating income was generated in the city. As the US\$ Notes were issued and listed in Hong Kong, the relevant interest and cost have all been 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 corporate income tax rate of 25%.

### CAPITAL AND OTHER INFORMATION

#### Liquidity and Financial Resources

During the year under review, net cash inflow from operating activities of the Group amounted to RMB630.2 million. As at 31 December 2019, cash and cash equivalents, including bank deposits and cash in hand, and fixed deposits with original maturities not exceeding three months, amounted to RMB3,422.3 million, representing a net increase of RMB1,766.3 million as compared to the position as at 31 December 2018.

The net increase was mainly attributable to the following items:

	For the year ended 31 December	
	2019 RMB'000	2018 RMB'000
Net cash generated from operating activities	630,165	295,021
Net capital expenditure	(13,039)	(32,783)
Dividends paid	(169,543)	(194,355)
Net withdrawal of pledged deposit	96,730	7,878
Proceeds from bank loans	100,000	100,000
Proceeds from an investor for capital injection of a subsidiary	150,000	350,000
Repayment of bank loans	(101,221)	(1,242)
Net uplift/(placement) of deposits (with maturity over three months)	1,500,000	(894,309)
Interest received	87,381	97,604
Interest paid	(200,094)	(198,929)
Payment for repurchase of US\$ Notes	(314,957)	–
Other net cash inflow	924	390
Net increase/(decrease) in cash and cash equivalents	1,766,346	(470,725)

The positive net cash generated from operating activities amounted to RMB630.2 million for the year ended 31 December 2019 was mainly from the operating profit, the decrease in the amount of trade debtors and decrease in deposits and prepayments.

During the year under review, capital expenditure amounted RMB13.0 million was mainly incurred for the maintenance of facilities in relation to production and staff accommodation in Wuli Industrial Park, Jinjiang. The net withdrawal of pledged bank deposit amounting RMB96.7 million in the year was principally used for the settlement of bills payable to suppliers. The proceeds from the new short-term bank loan of RMB100 million was for the running of a PRC subsidiary. The Group received the rest of balance of RMB150 million from an investor for the investment cost of approximately 14.9% equity interest of a newly formed kids' subsidiary. (Further information can be obtained under the heading of "361° Kids business" on page 30) The Group also repaid a short-term bank loan amounting RMB101.2 million. The interest paid of RMB200.1 million for the year was mainly the interest of the US\$ Notes. The receipt of interest amounted RMB87.4 million representing interest income generated by the fixed deposits placed in the PRC and Hong Kong. The Group used RMB315.0 million to partial repurchase the US\$ Notes in the market.

The Group's gearing ratio was 21.3% as at 31 December 2019 (2018: 23.6%) (The details of method for the calculation can be found on Note 3 of page 3). 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 year ended 31 December 2019.

### 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 much as possible. As at 31 December 2019, only the borrowings from US\$ Notes were at a fixed rate at 7.25% per annum and the others were at a floating rate between 2.47 to 4.62%. 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 year under review, the Group did not carry out any hedging activity against foreign currency risk.

### Pledge of Assets

As at 31 December 2019, a building with net book value of RMB43,571,000 (2018: RMB43,953,000) was pledged as security for a banking facility of the Group of RMB39,325,000 (2018: RMB43,938,000). 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 31 December 2019 were secured by pledged bank deposits of RMB230.7 million.

### Working Capital Management

The average working capital cycle for the year ended 31 December 2019 was 90 days (2018: 75 days). The increase was mainly due to the increase in the inventory turnover days and a reduction in the trade and bills payable turnover cycle despite an improvement in the trade and bills receivable turnover cycle.

The average trade and bills receivable cycle was 149 days as at 31 December 2019 (2018: 160 days), representing a decrease of 11 days. The Group has prudently written back RMB7.0 million out of RMB57.9 million impairment losses brought forward from the previous years. The amount of trade and bills receivable had reduced by 8.3% to RMB2,199.4 million from RMB2,399.3 million year-on-year despite the turnover has increased by 8.6%. Approximately 68.2% of the debts were within 90 days and 30.3% debt were all over 90 days but within 180 days. The Group has been staying in touch with all the distributors and believes there will be further improvement in the trade and bills receivables.

## MANAGEMENT DISCUSSION AND ANALYSIS

The average inventory turnover cycle was 120 days for the year ended 31 December 2019 (2018: 110 days), representing an increase of 10 days. About 96.1% of the inventory was finished goods and mainly 2019 winter and 2020 spring products. Despite the inventory turnover cycle increased, no slow-moving inventory was recognized in the year (2018: RMB12.1 million). The Group believes that the management of stock will be further improved in the forthcoming year.

As at 31 December 2019, prepayments to suppliers were RMB451.8 million, representing a 22.5% decrease as compared to the RMB582.9 million as at 31 December 2018. The prepayments were deposits paid to suppliers for the acceptance of orders for production of products in relation to the 2020 spring and summer trade fairs' products. The balance of other prepayments of RMB79.9 million was mainly the payment in relation to the advertising and promotion contracts.

The average trade and bills payable cycle decreased by 16 days to 179 days (2018: 195 days) for the year ended 31 December 2019. 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 about 180 days in the long run.

### 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.

As at 31 December 2019, the Group has repurchased and cancelled an aggregate principal amount of US\$53,750,000 US\$ Notes in the open market and the relevant gain of RMB52.6 million was recorded in the year. The outstanding principal amount of the US\$ Notes was US\$346,250,000 as at 31 December 2019.

The Group always aims to optimise its financing cost, thus may further repurchase the outstanding US\$ Notes in the open market if and when appropriate, taking into account factors such as market conditions and price of the US\$ Notes.

### Contingent Liabilities

For the year ended 31 December 2019, the Group did not have any material contingent liabilities.

### Material Acquisitions and Disposals

For the year ended 31 December 2019, the Group had no material acquisition or disposal of subsidiaries or associates.

### 361° Kids Business

On 9 November 2018, the Group formed a new subsidiary with Zhuji Yingshi Chuangjia Equity Investment Limited Partnership (諸暨盈實創加股權投資合夥企業(有限合夥)) (hereinafter "Zhuji Yingshi"), a limited liability partnership established in the PRC, for the further development of 361° Kids' business. Pursuant to the investment agreement, Zhuji Yingshi agreed to acquire approximately 14.93% equity interest of the new subsidiary at a consideration of RMB500,000,000 and pay by instalment basis. As at 31 December 2019, the consideration has been fully paid up and the equity interest of the new subsidiary between the Group and Zhuji Yingshi is 85.07% and 14.93%, respectively. Follow to the establishment plan, the Group has also started to transfer 361° Kid's business to this new subsidiary during the year.

The Group believed that the arrangement would provide a good opportunity with access to additional source of capital to facilitate the further development of the 361° Kids' business.

### Significant Investments

For the year ended 31 December 2019, the Group had no significant investment.

As at the date of this report, the Group does not have any future plan for material investment or capital assets.



### Employees and Emoluments

As at 31 December 2019, the Group employed a total of 7,353 full time employees, which included management staff, technicians, salespersons and workers. For the year ended 31 December 2019, the Group's total remuneration paid to employees was RMB515.2 million, representing 9.1% 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 trainings to employees that aims to foster a learning culture that could strengthen employees' professional knowledge and skills.

### PROSPECTS

Currently, China's national economy is growing steadily and the economic transformation and upgrading is speeding up. Consumption upgrading has affected every aspect of consumer sector in Chinese consumer market, which drives the sports consumption upgrading and continuously promotes the development of Chinese sports industry. In accordance with the objective proposed in the Action Plan for Further Promoting Sports Consumption (2019-2020) (《進一步促進體育消費的行動計劃(2019-2020年)》) jointly issued by the General Administration of Sports of China and National Development and Reform Commission in 2019, China would strive to reach RMB1.5 trillion in its total national sports consumption and achieve more reasonable sports consumption structure by 2020. In November 2019, at a video and teleconference jointly held by the General Administration of Sports of China, National Development and Reform Commission and other departments, they clearly stated that promoting the high-quality development of sports industry with a focus on projects of national fitness and outdoor sports will be included in the "14th Five-Year Plan". It's China's long-term development goal to develop the sports industry into a pillar industry of the national economy, which provides a good development opportunity for the sports industry to enhance its quality and increase its quantities.

At the same time, China has joined the league of upper middle-income countries, and has the largest middle-income group in the world, laying a solid foundation for the continuous expansion of China's sports consumption market. According to Series Report No.1 on National Rejuvenation over the Past 70 Years—Achievements in Economic and Social Development at the 70th Anniversary of the Founding of the People's Republic of China (《滄桑巨變七十載民族復興鑄輝煌—新中國成立70週年經濟社會發展成就系列報告之一》) issued by the National Bureau of Statistics, China's per capita gross national income reached US\$9,732 in 2018, which was higher than the average level of middle-income countries. The middle class has higher income and higher willingness to consume. Nowadays, the demand for sports consumption is more personalised and differentiated. The rapid rise of the middle class accelerates the pace of sports consumption upgrading, and injects new momentum into the sustainable development of sports industry.

Looking ahead to 2020, despite the impact of the outbreak of novel coronavirus will put pressure on China's sports consumption demand in the short term, in the long run, people's demand for participation in physical exercise is expected to increase after the epidemic subsides. The long-term positive trend of sports industry has not changed. The Group will adhere to its mass sports brand positioning, focusing on the development of 361° core brands, continuously enhancing the key competitiveness of 361° core brand and 361° Kids brand.

In terms of core brand building, the Group will add high-quality spokespersons of sports stars on the basis of sponsoring large-scaled domestic and foreign sports events in the past, highlighting the brand's functional attributes. At the same time, the Group will also strengthen cooperation with well-known global IPs, launch more cross-border co-branded products, and increase the brand awareness and topic sense of 361°. In terms of kids wear, the Group will seize the opportunities of the rapid development of the current football industry, broaden the age span of consumer groups for kids brand, continue to advance the strategic plan of football youth training, and make efforts to increase market share.

## MANAGEMENT DISCUSSION AND ANALYSIS

In addition, the Group will continue the investment in product research and development, focus on resource advantages to enhance product competitiveness, create high-quality products such as running, comprehensive training, and basketball and urban life, and empower products with greater value. Besides, the Group will strengthen the upgrading and construction of sales channels. Based on a mature distribution model, it will increase shopping comfort and enjoyment of consumers. And it will introduce international products in more stores to cater to the demand for consumption upgrades in the domestic market. At the same time, it will continue to strengthen its strategic plan for “Belt and Road Initiative”, and continue to explore the European market with greater potential to help further expand the international product market.

361° will always adhere to the “consumer-centric” philosophy, implement brand upgrade, enhance brand core competitiveness, and create sports products that are more appealing to mainstream young consumers. The Group will seize the development opportunities of the sports industry, explore a broader space for development, pass the brand spirit of “One Extra Degree of Passion” to more consumers, and strive to become a globally respectable sports brand.



# REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report together with the audited financial statements for the year ended 31 December 2019.

## BUSINESS REVIEW

### General

For the review of the business of the Group for the year ended 31 December 2019, please refer to the section headed “Management Discussion and Analysis – Business review” on pages 9 to 23 of this report.

### Principal risks and uncertainties facing the Group

The following section lists out the key risks and uncertainties faced by the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below. Besides, this annual report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company, and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

#### Risks pertaining to the sportswear market in the PRC

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

#### Risks pertaining to the distributorship model

The Group relies primarily on a number of third-party distributors for sales of the Group’s products. Each distributors has exclusive distribution rights over a certain geographical area, the failure by such distributor to perform its obligations under its distributorship agreement with the Group may result in a material adverse effect on the business of the authorized retailers in such area. Besides, the Group does not have direct control over the authorized retailers to ensure their compliance with the Group’s policies, including operational requirements, exclusivity, customer service, store image and pricing. Non-compliance with the Group’s policies may cause material adverse effect on the business, financial condition, results of operations and prospects of the Group.

#### Risk pertaining to the Group’s operations

The Group’s operations are subject to a number of risk factors distinctive to the sportswear market and the market in general. Default on the part of the Group’s distributors, suppliers and joint ventures partners, and inadequacies or failures of internal processes, people and systems or other external factors may have various levels of negative impact on the results of operations. Additionally, accidents may happen despite systems and policies set up for their prevention, which may lead to financial loss, litigation, or damage in reputation. Furthermore, the Group’s products are non-essential commodities, and thus the Group’s sales may be affected by the spending power and disposable income of the retail customers and general consumer sentiments. For instance, with the US-China trade war waging and the uncertainty of whether any deal will be reached between the two countries in the near future, the Directors believe it has caused certain negative impact on the consumers’ sentiment towards non-essential commodities such as the Group’s products during the year under review.



### **Risks pertaining to force majeure events, natural disasters or outbreaks of contagious diseases**

The Group's business could be adversely affected by natural disasters or outbreaks of epidemics, which may affect the procurement of raw materials and manufacture, sale and exportation of the Group's products. Epidemics, pandemics or outbreaks or escalation of diseases, including, among others, Severe Acute Respiratory Syndromes (SARS), avian influenza, swine flu (H1N1), novel coronavirus in 2019 (COVID-19) and other diseases may affect the livelihood of people in the PRC. These natural disasters, outbreaks of contagious diseases, and other adverse public health developments in the PRC could severely disrupt the Group's business operations by restricting travel and sales activities and delaying delivery of the Group's products and services, impact the productivity of the workforce, or reduce the demand for the Group's products, which may materially and adversely affect business, financial condition and results of operations of the Group.

### **Past performance and forward looking statements risks**

The performance and the results of operation of the Group as set out in this annual report are historical in nature and past performance is not a guarantee of future performance. This annual report may contain forward-looking statements and opinions that involve risks and uncertainties. Actual results may also differ materially from expectations discussed in such forward-looking statements and opinions. Neither the Group nor the Directors, employees or agents of the Group assume any obligations or liabilities in the event that any of the forward-looking statements or opinions does not materialize or turns out to be incorrect.

### **Prospects**

For the likely development of the Group's business, please refer to "Management Discussion and Analysis – Prospects" on page 31 of this report.

### **Post year-end events**

Except as disclosed in this annual report, since 31 December 2019, being the end of the financial year under review, no important event has occurred affecting the Group.

### **Analysis of key financial performance indicators**

For details of the key financial performance indicators to the performance the Group's business, please refer to "Financial Summary" on pages 2 and 3 of this annual report.

### **Environmental policies and performance**

The Group emphasizes in environmental protection during its production process and doing its part in curbing the global climate change.

The Group continues to update the requirements of the relevant environmental laws and regulations applicable to it to ensure compliance. The Group does not produce material waste nor emit material quantities of pollutants during its production process. During the year under review, the Group has complied with the relevant environmental laws and regulations applicable to it in all material respects, including waste water emission permit, solid waste disposal requirements and others.

The Group has also adopted measures in order to achieve efficient use of resources, energy saving and waste reduction. The measures include wastewater and solid waste managements, noise control, greenhouse gas emission and resources management.

The Company will separately publish the Environmental, Social and Governance Report for the year ended 31 December 2019 in compliance with Appendix 27 of the Listing Rules in due course.

### Compliance with laws and regulations

The Group continues to update the requirement of the relevant laws and regulations in various countries, particularly in the PRC and Hong Kong, applicable to it to ensure compliance. Substantially a majority of the Group's assets are located in the PRC and the Group's revenue is mainly derived from operations in the PRC. The Group was listed on the Stock Exchange of Hong Kong on 30 June 2009. During the year under review, the Group complied with the relevant laws and regulations in various countries applicable to it in all material respects.

### Account of the Group's key relationships

#### (i) Employees

The Group offers a comprehensive range of staff facilities and fringe benefits to attract, retain and motivate employees. Key personnel have been part of the management team since the inception of business. During the year under review, the Group considered the relationship with employees was well and the turnover rate was acceptable.

#### (ii) Suppliers

The Group's suppliers include raw material suppliers and contract manufacturers. A majority of footwear is produced by the Group itself while the Group outsources a portion of manufacturing of its footwear products, majority of apparel products, and all of its accessories products to third-party contract manufacturers. All key suppliers have a close and long term relationship with the Group. During the year under review, the Group considered the relationship with its suppliers was well and stable.

#### (iii) Distributors

The Group adopted the distributorship model for its products in the PRC ever since the beginning of 2008. Under this model, the Group primarily sells products to distributors in the PRC under distributorship agreements, which generally have a term of one year. Each of the distributors has exclusive distribution right over a certain geographical area in the PRC. The Group maintains very good relationship with all the distributors.

#### (iv) Authorized retailers

The Group sells products primarily to distributors in the PRC, who in turn sell the same to authorized retailers. Authorized retailers then sell products to consumers. The Group's distributors enter into separate agreements with authorized retailers and require them to comply with the Group's standard operating procedures or policies, which include guidelines on the design and layout of authorized retail outlets, product pricing and customer service. The Group keeps a good relationship with all the authorized retailers through distributors, who act as the bridge of communication.

### REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The Company is incorporated in the Cayman Islands and has its registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, Cayman Islands. Its principal place of business in Hong Kong is at Room 1609, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiaries are set out in note 13 to the financial statements on pages 105 to 107 of this annual report.

### MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the sales and purchases attributable to the major customers and suppliers of the Group respectively during the financial year is as follows:

	Percentage of the Group's total	
	sales	purchases
The largest customer	12%	
Five largest customers in aggregate	37%	
The largest supplier		6%
Five largest suppliers in aggregate		25%

At no time during the year have the directors, their close associates or any shareholder of the Company (which to the best knowledge of the Directors, owns more than 5% of the Company's issued share capital) had any interest in these major customers and suppliers.

### FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2019 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 64 to 133 of this annual report.

### TRANSFER TO RESERVES AND DIVIDENDS

Profits attributable to equity shareholders, before dividends, of RMB432,403,000 (2018: RMB303,665,000) have been transferred to reserves. Other movements in reserves are set out in the consolidated statement of changes in equity.

An interim dividend of HK8.2 cents and a special dividend of HK1.1 cents per share (2018: HK7.6 cents per share) was paid on 17 September 2019. The Directors recommend, subject to the Company shareholders' approval at the forthcoming AGM, the payment of a final dividend of HK1.5 cents per share (2018: Nil) for the year ended 31 December 2019.

### CHARITABLE DONATIONS

Charitable donations made by the Group during the financial year amounted to RMB216,000 (2018: RMB350,000).

### FIXED ASSETS

Details of the movements in fixed assets during the year are set out in note 11 to the financial statements.

### SENIOR UNSECURED NOTES

Details of the US\$ Notes issued by the Company are set out in note 21 to the financial statements.

### SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 24(c) to the financial statements.

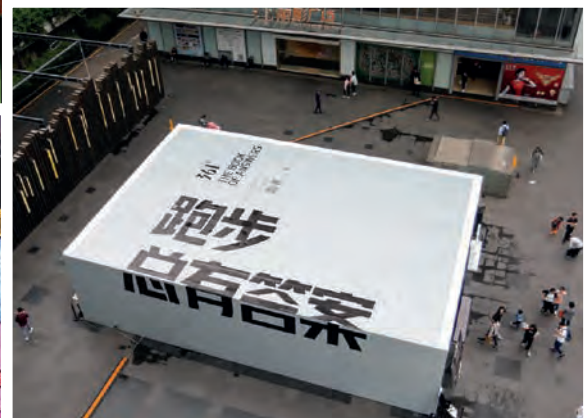


## PURCHASES, SALES OR BUY-BACKS OF THE COMPANY'S SECURITIES

On 3 June 2016, the Company issued the US\$ Notes on the Stock Exchange, which became effective on 6 June 2016. The net proceeds received was approximately US\$390.1 million. Please refer to the announcements of the Company dated 18 and 24 May 2016, and 3 June 2016 for more details.

For the year ended 31 December 2019, the Company purchased and cancelled approximately US\$53.8 million principal amount of the US\$ Notes listed on the Stock Exchange through the open market on the Stock Exchange for a total price of approximately US\$45.5 million. As at 31 December 2019, the outstanding principal amount of the US\$ Notes after such repurchases and cancellations amounted to approximately US\$346.2 million.

Except as disclosed in this section, neither Company nor any of its subsidiaries made any purchase, sale or buy-back of listed securities of the Company for the year ended 31 December 2019.



## REPORT OF THE DIRECTORS

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association (the "Articles"), or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### DIRECTORS

The Directors during the financial year were:

#### Executive Directors

Mr. Ding Huihuang, Chairman  
Mr. Ding Wuhao, President  
Mr. Ding Huirong, Vice President  
Mr. Wang Jiabi, Vice President

#### Independent non-executive Directors

Mr. Tsui Yung Kwok (retired and effective from 20 May 2019)  
Dr. Liao Jianwen (resigned and effective from 27 August 2019)  
Mr. Li Yuen Fai Roger  
Mr. Hon Ping Cho Terence (appointed and effective from 20 May 2019)  
Mr. Chen Chuang (appointed and effective from 27 August 2019)

Pursuant to Article 84 of the Articles at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation.

By virtue to Article 84 (1) of the Articles, Mr. Ding Huihuang, Mr. Ding Huirong and Mr. Wang Jiabi will retire from office by rotation at the forthcoming AGM. In addition, pursuant to Article 83 (3) of the Articles, Mr. Chen Chuang, who was appointed by the Board as Director to fill a causal vacancy on the Board on 27 August 2019, will hold office until the AGM, being the first general meeting after his appointment, and will retire and subject to re-election from office at the AGM. Being eligible, each of them will offer themselves for re-election.

### DIRECTOR'S SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

### PERMITTED INDEMNITY PROVISION

Under the Articles, generally, the Directors shall be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses for acts done, concurred in or omitted in when discharging their duties in the affairs of the Company, other than any matter in respect of any fraud or dishonesty.

In addition, the Company has taken out and maintained insurance for the Directors against liabilities to third parties that may be incurred in the course of performing their duties as at the date of this report.

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

As at 31 December 2019, 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	Beneficial owner	(1)	5,186,000	0.25%
		Interest in controlled corporation		340,066,332	16.46%
Mr. Ding Huihuang	Long	Interest in controlled corporation	(2)	325,594,454	15.75%
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 325,594,454 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 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.

Apart from the foregoing, as at 31 December 2019, 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

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 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 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. As such, the Share Option Scheme has lapsed and terminated as at 31 December 2019.

No options have been granted under the Share Option Scheme up to 31 December 2019.

Apart from the foregoing, at no time during the year 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 31 December 2019, 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 <sup>(1)</sup>	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 325,594,454	15.75%
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:

1. The letter "L" indicates long position whereas the letter "S" indicates short position.
2. 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.
3. 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.
4. 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.
5. 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.
6. 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.

## REPORT OF THE DIRECTORS

### SUFFICIENCY OF PUBLIC FLOAT

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

### MANAGEMENT CONTRACTS

Other than Directors' service contracts and employment contracts with the Group's senior management in full-time employment, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2019.

### DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, or any of its holding companies or subsidiaries was a party, and in which director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2019, none of the Directors or their respective close associates had any business or interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group. Please also refer to the paragraph headed "Compliance with the Deed of Non-competition" below.

### COMPLIANCE WITH THE DEED OF NON-COMPETITION

Each of Mr. Ding Wuhao, Dings International Company Limited, Mr. Ding Huihuang, Ming Rong International Company Limited, Mr. Ding Huirong and Hui Rong International Company Limited (collectively the "Covenantors" and each a "Covenantor") confirmed that, as at 31 December 2019, he/it had complied with the terms of the deed of non-competition ("Deed of Non-competition") dated 10 June 2009 signed by each of them in favour of the Group.

To monitor the compliance of the terms of the Deed of Non-competition by the Covenantors, the independent non-executive Directors have reviewed, among others, the business activities undertaken by the Covenantors (if any) outside of the Group. Based on the result of such review, the independent non-executive Directors are satisfied that the Covenantors have complied with the terms of the Deed of Non-competition for the year ended 31 December 2019.

### BANK LOANS

Particulars of bank loans of the Group as at 31 December 2019 are set out in note 20 to the financial statements.

### RELATED PARTY TRANSACTIONS

The related party transactions conducted during the year under review as disclosed in note 28 to the financial statements did not constitute connected transactions as defined under Chapter 14A of the Listing Rules.

### FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on pages 2 and 3 of this annual report.

### RETIREMENT SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the plan vest immediately.



The employees of the subsidiaries of the Company in the PRC are members of the retirement schemes operated by the local authorities. The subsidiaries are required to contribute a certain percentage of the eligible employees' salaries to these schemes to fund the benefits. The only obligation of the Group with respect to these schemes is the required contributions under the schemes.

The Group's total contributions to retirement schemes charged to the consolidated income statement during the year ended 31 December 2019 amounted to RMB22,592,000 (2018: RMB20,928,000).

### **CONFIRMATION OF INDEPENDENCE**

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

### **CORPORATE GOVERNANCE CODE PRACTICES**

In the opinion of the Directors, the Company applied the principles and complied with all the code provisions as set out in the Corporate Governance Code contained in the Appendix 14 of the Listing Rules during the year under review.

### **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Upon the Company's enquires, all the Directors have confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2019.

### **AUDIT COMMITTEE**

The Audit Committee has reviewed with management and the external auditors the accounting principles and policies adopted by the Group and the audited annual consolidated financial statements for the year ended 31 December 2019.

### **AUDITORS**

KPMG has resigned as the auditor of the Company with effect from 13 November 2019 as KPMG and the Company could not reach a consensus on the audit service fee regarding the annual audit for the financial year ended 31 December 2019.

The Board, with the recommendation from the Audit Committee, has resolved to appoint Moore Stephens CPA Limited ("Moore") as the new auditor of the Company with effect from 13 November 2019 to fill the casual vacancy following the resignation of KPMG. Moore will hold office until the conclusion of the forthcoming Annual General Meeting.

Moore will retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of Moore as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Save as disclosed above, there is no other change of the Company's auditors in any of the preceding three years.

By order and on behalf of the board of Directors

**DING HUIHUANG**

Chairman

Hong Kong, 17 March 2020

# CORPORATE GOVERNANCE REPORT

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

## CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company applied the principles and complied with all 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 year ended 31 December 2019.

## COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

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

## BOARD OF DIRECTORS

### Responsibilities, accountabilities and contributions of the Board and the Management

The overall management of the business of the Group is vested in the Board. Key responsibilities of the Board include formulation of the Group’s overall strategies and policies, setting of performance targets, evaluation of business performance, oversight of management, include designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement. The Board is also responsible for ensuring sound and effective internal control systems are maintained. Please refer to “Risk Management and Internal Control” in this Corporate Governance Report for further details. The management was delegated the authority and responsibilities by the Board for the day-to-day management and operations of the Group.

The Directors acknowledge their responsibility for preparing the financial statements for each financial year which give a true and fair view of the state of affairs of the Group. However, the above statement should be read in conjunction with, but distinguished from, the independent auditor’s report in the section headed “Independent Auditor’s Report” which acknowledges the reporting responsibilities of the Group’s auditor.

To further accountability, the announcements containing the interim and full year financial results are signed by the chairman of the Board, Mr. Ding Huihuang, for an on behalf of the Board to confirm that it is to the best of the Board’s knowledge, nothing has come to the attention of the Board which may render such results to be false or misleading in any material respects. The Board approves the financial results after review and authorize the release of the results on the websites of the Company ([www.361sport.com](http://www.361sport.com)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) to the public.

### Corporate governance

The Board is entrusted with the overall responsibility of: (i) developing and reviewing the Company’s policies and practices on corporate governance and make recommendations to the Board; (ii) reviewing and monitoring the training and continuous professional development of the Company’s Directors and senior management; (iii) reviewing and monitoring the Company’s policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring codes of conduct and compliance manuals (if any) applicable to the Company’s employees and Directors; and (v) reviewing the Company’s compliance with the CG Code and disclosure in the Corporate Governance Report.

During the year under review, the Board reviewed and monitored the training and continuous professional development of the Directors and company secretary of the Company in compliance with the CG Code and the Listing Rules. Further, the Board reviewed and monitored the Group's policies and practices, and noted that the Group had complied with the relevant legal and regulatory requirements in all material respects during the year under review. The Board also reviewed the employees' manual applicable to the employees of the Company. Lastly, the Board has reviewed the Company's compliance with the CG Code and the disclosure of this Corporate Governance Report.

Attendance of each Director at the Board and committee meetings held during the year under review is summarized as follows:

	Training courses	Board Meeting <i>iv</i>	Annual General Meeting <i>iv</i>	Audit Committee <i>iv</i>	Remuneration Committee <i>iv</i>	Nomination Committee <i>iv</i>
<b>Executive Directors</b>						
Mr. Ding Huihuang (Chairman)	i	6/6	1/1	N/A	N/A	N/A
Mr. Ding Wuhao (President)	i	6/6	1/1	N/A	N/A	3/3
Mr. Ding Huirong (Vice President)	i	6/6	1/1	N/A	N/A	N/A
Mr. Wang Jiabi (Vice President)	i	6/6	1/1	N/A	3/3	N/A
<b>Independent Non-executive Directors</b>						
Mr. Tsui Yung Kwok (v)	ii	1/1	0/1	2/2	1/2	1/2
Dr. Liao Jianwen (vi)	ii	4/4	1/1	4/4	2/3	N/A
Mr. Li Yuen Fai Roger (vii)	i, ii, iii	6/6	1/1	8/8	N/A	3/3
Mr. Hon Ping Cho Terence (viii)	i, ii, iii	5/5	1/1	6/6	1/1	1/1
Mr. Chen Chuang (ix)	i	2/2	N/A	3/4	N/A	N/A

**Notes:**

- i. Directors who attended Corporate Governance training course organised by the Company's legal adviser during the year under review.
- ii. Directors who attended courses organised by professional bodies during the year.
- iii. Directors who attended courses organised by the Hong Kong Institute of Certified Public Accountants.
- iv. Number of meetings attended/number of meetings held. For directors who retired, resigned or appointed during the year, the relevant denominator represented the number of meeting(s) held during his tenure in the office.
- v. For the year under review, Mr. Tsui Yung Kwok was an independent non-executive Director, the chairman of the audit committee of the Board, and a member of the remuneration committee and nomination committee of the Board from 1 January 2019 to 20 May 2019.
- vi. For the year under review, Dr. Liao Jianwen was an independent non-executive Director, a member of each of the audit committee and remuneration committee, and the chairman of the remuneration committee of the Board from 1 January 2019 to 27 August 2019.
- vii. For the year under review, Mr. Li Yuen Fai Roger ceased to be the chairman but continue as a member of the nomination committee of the Board, and became the chairman of the audit committee and a member of the remuneration committee of the Board from 20 May 2019.
- viii. For the year under review, Mr. Hon Ping Cho Terence became an independent non-executive Director, a member of each of the audit committee and nomination committee, and the chairman of the nomination committee of the Board since 20 May 2019.
- ix. For the year under review, Mr. Chen Chuang became an independent non-executive Director, a member of each of the audit committee and remuneration committee, and the chairman of the remuneration committee of the Board since 27 August 2019.



The Chairman held one meeting with all the independent non-executive Directors without the presence of other Directors to discuss of the Company's business during the year under review.

### Board composition

For the year ended 31 December 2019 and as at 31 December 2019, the Board comprised of four executive Directors and three independent non-executive Directors. Biographical details of the current Directors and the relationships between the Directors (if any) are set out in the section headed "Directors and Senior Management" of this annual report.

Among the members of the Board, Mr. Ding Huihuang and Mr. Ding Huirong are brothers and Mr. Ding Wuhao is the brother-in-law of both Mr. Ding Huihuang and Mr. Ding Huirong.

The composition of the Board is well balanced with the Directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The executive Directors and independent non-executive Directors bring a variety of experience and expertise to the Company. In determining the independence of the independent non-executive Directors, the Board follows the requirements as set out in Rule 3.13 of the Listing Rules. The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

### THE ROLES OF THE CHAIRMAN AND PRESIDENT

The divisions of responsibilities between the Chairman of the Board, Mr. Ding Huihuang, and the President, Mr. Ding Wuhao, who effectively performs the functions of the chief executive officer of the Group, are clearly defined and have been approved by the Board.

**The Chairman** leads the Board in the determination of its strategy and in the achievement of its objectives. He is primarily responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda.

**The President** is directly in charge of the daily operations of the Group and are accountable to the Board for the financial and operational performance of the Group.

### APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 30 June 2009 which is renewable upon expiry, subject to compliance with the Listing Rules and termination in accordance with the provisions of the service contract or by either party giving the other not less than three months' prior written notice.

Each of the independent non-executive Directors has entered into a service contract with the Company for an initial term of three years from their respective dates of appointment which is renewable upon expiry, subject to compliance with the Listing Rules and termination in accordance with the provisions of the service contract or by either party giving the other not less than three months' prior written notice.

In accordance with the Company's articles of association, each year, one third of the Directors (including executive Directors and independent non-executive Directors) for the time being will retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years at the general meeting.

## TERMS OF APPOINTMENT OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 30 June 2009, renewable upon expiry, and each of such service contracts was renewed on 30 June 2012, 30 June 2015 and 30 June 2018, respectively. Mr. Li Yuen Fai Roger, Mr. Hon Ping Cho Terence and Mr. Chen Chuang independent non-executive Directors, have entered into a service contract with the Company for a term of three years commencing from 1 July 2016, 20 May 2019 and 27 August 2019, respectively, which are also renewable upon expiry. The service contract of Mr. Li Yuen Fai Roger has been renewed to the effect that the term of his existing service contract is three years commencing from 20 May 2019.

No Director has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

## COMPANY SECRETARY

Ms. Choi Mun Duen, the company secretary of the Company, reports to Mr. Ding Wuhao, the President. The details of her biographical is set out in the section headed “Director and Senior Management” of this annual report. Ms. Choi has also confirmed that she has taken no less than 15 hours relevant professional training during the financial year.

## BOARD COMMITTEES

As an integral part of good corporate governance practices, the Board has established the following Board committees to oversee particular aspects of the Group’s affairs. These committees are governed by their respective written terms of reference approved by the Board.

## AUDIT COMMITTEE

The audit committee of the Board (the “Audit Committee”) was established on 10 June 2009 with written terms of reference in compliance with the CG Code. During the reporting period, the Audit Committee comprised three members who all are independent non-executive Directors, namely, Mr. Tsui Yung Kwok (from 1 January 2019 to 20 May 2019), Dr. Liao Jianwen (from 1 January 2019 to 27 August 2019) and Mr. Li Yuen Fai Roger. Mr. Tsui Yung Kwok retired as an independent non-executive Director on 20 May 2019 and ceased to be a member of the Audit Committee. His position as the chairman and member of the Audit Committee was replaced by Mr. Li Yuen Fai Roger and Mr. Hon Ping Cho Terence, respectively. Mr. Tsui Yung Kwok has been the chairman of the Audit Committee from 1 January 2019 to 20 May 2019, and since 20 May 2019, Mr. Li Yuen Fai Roger has been the chairman of the Audit Committee. Dr. Liao Jianwen resigned as an independent non-executive Director on 27 August 2019 and ceased to be a member of the Audit Committee. His position as a member of the Audit Committee was replaced by Mr. Chen Chuang.

The Audit Committee has reviewed the Group’s consolidated financial statements for the year ended 31 December 2019, including the accounting principles and practice adopted by the Group.

The primary duties of the Audit Committee are mainly to: (i) make recommendations to the Board on the appointment, reappointment and removal of the external auditors; (ii) approve the remuneration and terms of engagement of the external auditors, and any questions of its resignation or dismissal; (iii) review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; (iv) discuss with the external auditors regarding the nature and scope of the audit and reporting obligations before the audit commences; (v) develop and implement policy on engaging an external auditors to supply non-audit services, identifying and making recommendations on any matters where action or improvement is needed; (vi) monitor integrity of the Company's financial statements, annual report, accounts and half-year report; (vii) review significant financial reporting judgements contained in them; and (viii) assist the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems. In reviewing these reports before their submission to the Board, the Audit Committee has focused particularly on:

- (i) any changes in accounting policies and practices;
- (ii) major judgmental areas;
- (iii) significant adjustments resulting from audit;
- (iv) the going concern assumptions and any qualifications;
- (v) compliance with accounting standards; and
- (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting.

The duties of the Audit Committee also include reviewing the arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control, risk management systems or other matters. The Audit Committee has ensured that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up actions, and acts as the key representative body for overseeing the Company's relations with the external auditors.

The Audit Committee held eight meetings during the year ended 31 December 2019 with six meetings having been attended by external auditors. The meetings primarily discussed the auditing, internal audit function, internal controls and financial reporting matters of the Company. The Audit Committee has including but not limited to: (i) considered significant or unusual items that are, or may need to be, reflected in the reports and accounts and matters that have been put forward by the Company's staff responsible for the accounting and financial reporting function as well as external auditors; (ii) oversighted the Company's financial reporting system and internal control procedures to review the Company's financial controls, internal control and risk management systems; (iii) reviewed the effectiveness of internal audit function by the review of internal audit reports and meeting with the head of internal audit department; and (iv) discussed with the management about the internal control system of the Company to ensure that management has performed its duty to have an effective internal control system. The discussion also included (a) the adequacy of resources; (b) staff qualifications and experience; (c) training programmes and budget of the Company's accounting and financial reporting function; (d) major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings; (e) ensured co-ordination between the internal and external auditors; (f) ensured the internal audit function is adequately resourced and has appropriate standing within the Company; (g) reviewed and monitored the effective of the internal audit function of the Group; (h) review of the Group's financial and accounting policies and practices and the external auditors' management letter; (i) material queries raised by the external auditors to management about accounting records, and financial accounts and systems of control as well as management's responses. During the year under review, the Audit Committee has also reviewed the consolidated financial statements of the Group for the six months ended 30 June 2019 and the year ended 31 December 2019. For the details of members' attendance of the Audit Committee's meeting, please refer to the table on page 45.

## REMUNERATION COMMITTEE

The remuneration committee of the Board (the “Remuneration Committee”) was established on 10 June 2009 with written terms of reference in compliance with the CG Code. During the reporting year, the Remuneration Committee comprised three members, namely, Mr. Wang Jiabi, Dr. Liao Jianwen (from 1 January 2019 to 27 August 2019) and Mr. Tsui Yung Kwok (from 1 January 2019 to 20 May 2019), Hon Ping Cho Terence (from 20 May 2019 to 31 December 2019) and Chen Chuang (from 27 August 2019 to 31 December 2019). Dr. Liao Jianwen, resigned as an independent non-executive Director effective from 27 August 2019, ceased to be the member and chairman of the Remuneration Committee. His role was replaced by Mr. Chen Chuang from 27 August 2019. Mr. Tsui Yung Kwok retired as an independent non-executive Director effective from 20 May 2019 and ceased to be the member of the Remuneration Committee. His role was replaced by Mr. Hon Ping Cho Terence from 20 May 2019. Mr. Chen Chuang, an independent non-executive Director, is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee include to: (i) make recommendations to the Board on the Company’s policy and structure for all Directors’ and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) review and approve the management’s remuneration proposals with reference to the Board’s corporate goals and objectives; (iii) make recommendation to the Board on the remuneration packages of individual executive Directors and senior management including benefits in kind, pension rights and compensation payments; (iv) make recommendations to the Board on the remuneration of non-executive Directors; (v) consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group; (vi) review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; and (vii) ensure that no director or any of his associates is involved in deciding his own remuneration.

The emolument policy of the employees of the Group is determined on the basis of their merit, qualifications and competence.

The emolument of the Directors are recommended by the Remuneration Committee, having regard to the Company’s operating results, individual performance, experience, responsibility, workload and time devoted to the Company and comparable market statistics. Each of the executive Directors is entitled to a basic salary which is reviewed annually. In addition, each of the executive Directors may receive a discretionary bonus as the Board may recommend, the aggregate amount for all executive Directors shall not exceed 5% of the audited consolidated net profits after tax of the Group for the relevant financial year. Such amount has to be approved by the Remuneration Committee.

The Remuneration Committee held three meetings, including to assess performance of the executive Directors, review and approve the remuneration packages of Directors and senior management of the Group during the year ended 31 December 2019, and to recommended the remuneration package for newly appointed independent non-executive directors of the Company during the year.

For the details of members’ attendance of the Remuneration Committee Meeting, please refer to the table on page 45.



### NOMINATION COMMITTEE

The nomination committee of the Board (the “Nomination Committee”) was established on 10 June 2009 with written terms of reference in compliance with the CG Code. During the reporting year, the Nomination Committee comprised of three members, namely Mr. Ding Wuhao, Mr. Tsui Yung Kwok (from 1 January 2019 to 20 May 2019), Mr. Li Yuen Fai Roger and Mr. Hon Ping Cho Terence (from 20 May 2019 to 31 December 2019). Mr. Tsui Yung Kwok retired an independent non-executive Director effective from 20 May 2019 and ceased to be the member of the Nomination Committee. His role was replaced by Mr. Hon Ping Cho Terence from 20 May 2019. Mr. Li Yuan Fai Roger, an independent non-executive director, is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee include to: (i) review the structure, size and composition (including the skills, knowledge and experience) of the Board annually and make recommendations on any proposed changes to the Board to complement the corporate’s strategy; (ii) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; (iii) assess the independence of independent non-executive Directors; and (iv) make recommendations to the Board on the appointment or reappointment of Directors and succession planning for directors, in particular the Chairman and the President of the Company.

The Company has adopted the board diversity policy on 29 August 2013, which was revised on 1 January 2019 (the “Board Diversity Policy”). The purpose of the Board Diversity Policy is to set out the basic principles to be followed to ensure that the Board has appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. Under the Board Diversity Policy, the selection of Board candidates shall be based on a range of diversity perspectives with reference to the Company’s business model and specific needs, including but not limited to, gender, age, cultural background, educational background, and professional experience, which are the measurable objectives for implementing the Board Diversity Policy. The Nomination Committee is also responsible for reviewing the Board Diversity Policy, developing and reviewing measurable objectives for implementing the policy and monitoring the progress on achieving these measurable objectives. The review of the Board Diversity Policy and the measurable objectives shall be carried out at least annually to ensure the continued effectiveness of the Board.

The Nomination Committee has primary responsibility for identifying suitably qualified candidates to become members of the Board and shall give adequate consideration to the Board Diversity Policy in selection of Board candidates. Board nomination and appointments will continue to be made on merit basis based on the Group’s business needs from time to time with adequate consideration of diversity of Board members.

During the year under review, the Nomination Committee held three meetings in the year ended 31 December 2019. The work carried out by the Nomination Committee during the year included to nominate the members of Board for retirement and re-election at the annual general meeting, to review the structure, size and composition of the Board and considered and recommended the candidates to the Board for consideration to be appointed as the independent non-executive directors of the Company. For the details of members’ attendance of the Nomination Committee meeting, please refer to page 45 of this annual report. The Nomination Committee also considered the Board Diversity Policy and whether the Board had the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. After due consideration, the Nomination Committee has concluded that based on the Company’s existing business model and specific needs, the current composition of the Board satisfies the Board Diversity Policy for the year under review.

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration of the members of the senior management by band for the year ended 31 December 2019 is set out below:

Remuneration bands (HK\$)	Number of persons
HK\$1,500,001 to HK\$2,000,000	1
HK\$2,000,001 to HK\$2,500,000	2
HK\$2,500,001 to HK\$3,000,000	1
HK\$3,500,001 to HK\$4,000,000	1

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 7 and 8 to the financial statements, respectively.

## AUDITORS' REMUNERATION

During the year ended 31 December 2019, the remuneration paid or payable to the external auditors, in respect of their audit services are as follows:

	2019
Statutory audit services	HK\$2,850,000

During the year ended 31 December 2019, the external auditors did not provide any non-audit services.

## RISK MANAGEMENT AND INTERNAL CONTROL

### Overview

The Board acknowledges its responsibility for ensuring that sound and effective internal control systems are maintained so as to safeguard the Group's assets and the interest of shareholders. The Group has developed and established an internal audit and risk management department (the "IARM Department"), which report to the Board and the Audit Committee, to look after the Group's systems of internal control, risk management and the internal audit function. The systems of internal control and risk management are designed to manage rather than to eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

The primary responsibilities of each parties of the Group's risk governance structure are summarized as follows:

### Board

It determines the business strategic objectives of the Group, and evaluates the nature and extent of the risks that the Group is willing to take to achieve the strategic objectives of the Group. It also ensures that the Group appropriately and effectively establishes and maintains risk management and internal control systems and oversees the overall design, implementation and supervision of risk management and internal control systems.

### Audit Committee

It is responsible for supervising and guiding the IARM department and the management to establish and operate the internal control systems, regularly supervising the Group's risk management and internal control systems, and making recommendations to the Board. The risk management and internal control systems are reviewed, at least annually, for its effectiveness and the review includes all major aspects of control, including financial, operational and compliance controls.

During the annual review, it ensures the effective risk management and internal control systems have the adequacy of resources, budget, adequate staff qualifications and experience and staff training programs of the Group's accounting, internal audit and financial reporting functions.

### **IARM Department**

It assesses the effectiveness and adequacy of the Group's risk management and internal control systems and reports the findings to the Audit Committee for improvement of the identified control weaknesses or material systems deficiencies.

### **Management**

It is delegated and authorized to (i) design, implement and maintain risk management and internal control systems appropriately and effectively; (ii) identify, evaluate, manage and control the risks that may have potential and material impacts on the processes of the operations; (iii) monitor risks and take appropriate methods to mitigate risks; (iv) respond promptly to and follow up the findings of the risk management and internal control issues raised by the IARM department; and (v) provide confirmation to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems.

### **Risk management process**

The Group has established risk management manual to formulate the risk management process and the management is committed to fostering a risk aware and control conscious environment. The staff in all levels within the Group are also required to take the relevant responsibility on the risk management process. The procedures for risk management are as follows:

#### **Risk identification**

Both internal and external factors including economic, political, social, technology and environmental factors, laws and regulations, business objectives and stakeholders' expectation would be considered.

#### **Risk assessment**

The risk identified would be assessed and rated based on the likelihood and impact to the achievement of the Group's objectives.

#### **Control activities**

The internal control procedures have been designed and implemented to address the risks.

#### **Risk monitoring**

Risk register has been maintained and updated regularly to monitor risks on an ongoing basis.

#### **Risk management review**

The Board and the Audit Committee would perform a review of any change of significant risks reported by the IARM department.

## Annual Review

During the year under review, the IARM department conducted reviews of the risk management and internal control systems of the Company and reported to the Board and Audit Committee from time to time. Both the Board and Audit Committee considered that such the risk management system and internal control systems of the Company had been implemented effectively. The reviews covered all material controls, including financial, operational and compliance controls, internal audit function and risk management functions. The IARM department reported no major findings but areas for improvement have been identified. All of the recommendations reported by the IRAM department will be properly followed up to ensure that significant control activities are implemented properly in place within a reasonable period of time. The Board and the Audit Committee are of the view that the risk management system, the internal control system and including the adequacy of resources, qualifications and experience of staff in its accounting and financial reporting functions, their training programmes and budget and the internal audit function are effective and adequate.

## Whistleblowing Policy

The Company is committed to achieving and maintaining the highest possible standards of openness, probity and accountability. A whistleblowing policy is in place to create a system for the employees and business partners to raise concerns, in confidence, to the Audit Committee and the Board about possible improprieties relating to the Group. The identity of the whistleblower will be treated with the strictest confidence.

## Policy and Procedures of Handling and Dissemination of Inside Information

The Company has adopted an internal policy on the handling and the dissemination of inside information, which is drawn-up in accordance with the Listing Rules and the SFO, and with reference to the *Guideline on Disclosure of Inside Information* published by the Hong Kong Security and Future Commission in June 2012.

Each business unit is responsible to monitor any potential inside information within its operations. If there is any potential inside information, such information will be escalated to the senior management and the company secretary of the Company so that an assessment will be made whether an announcement will need to be made. If an announcement will be made including considering whether any safe harbor is available under the SFO, such announcement will be made by the Company on timely basis to enable the public, namely, shareholders, potential investors and other stakeholders of the Company to assess such information. All inside information is kept strictly confidential and is restricted to relevant parties on a need-to-know basis to ensure confidentiality until disclosure has been made to the public by way of an announcement.

## COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

### Relationship with Investors

The Board recognises that effective and timely communication with the Company's investors plays a crucial role in maintaining existing investors' confidence and attracting new investors, so the Group continuously places great importance on proactive communication with its existing and potential investors.

The Group's Investor Relations Department has maintained close communication with shareholders and investors through email, conference call, one-on-one meetings, attending broker conferences, and non-deal roadshows, to ensure that investors and shareholders have received the Company's updates in a fair and timely manner and to facilitate their investment decision-making. During the year under review the Group has organised several events for investors and analysts, including visit to the Group's Kunming E-sports Themed Flagship Store and regular visit to the Group's trade fairs held in different seasons, in order to deepen investors' understanding of the Group's business and operations and further enhance the Group's corporate transparency. The investors may also check the Group's Investor Relations website, which was revamped in 2019 to better serve the needs of investors and effectively convey information, at [www.ir.361sport.com](http://www.ir.361sport.com) where the Group's announcements, financial information, stock quotes, analyst coverage, press releases and other information are posted. The Group welcomes all investors to continue to give their opinions and suggestions to the Group. Please feel free to contact our Investor Relations Department at [nina@361sportshk.com](mailto:nina@361sportshk.com).



During the year under review, the Company honored to win the “Best IR Company” in the small-cap category at the Hong Kong Investor Relations Association 5th Investor Relations Awards. The Company also won the title of the “Best IR by CFO” and “Best Investor Relations Officer” at the event. Meanwhile, the Company received the “Best IR Hong Kong Stock Company” at the 2nd New Fortune Best IR Hong Kong Stocks Award, which demonstrated investors’ recognition of our continuous pursuit of excellence and commitment to best practices in investor relations. The Group also won two investor relations awards in early 2020, namely “Best IR Award” (最佳 IR 獎) in the “Fourth Golden Hong Kong Stocks Awards” (第四屆金港股) organized by Zhitongcaijing (智通財經) and “Best Director Award” (最佳總監獎) in the “Third China Excellent IR Award” (第三屆中國卓越 IR) organized by “Roadshow China” (路演中). In the future, the Group will continue to maintain the high standard of investor relations and promote the best practices.

### Voting by Poll

Resolutions put to vote at the general meetings of the Company (other than on procedural and administrative matters) are taken by poll. Procedures regarding the conduct of voting by poll are explained to the shareholders at the commencement of each general meeting, and questions from shareholders regarding the voting procedures are answered. Results of votings would be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively.

### Dividend Policy

The Company has adopted a dividend policy and the declaration and recommendation of dividends are subject to the decision of the Board after considering the Company’s ability to pay dividends. The Board has complete discretion on whether to recommend and/or pay a dividend, subject to Shareholders’ approval, where applicable.

The Directors will take into consideration, among other things, the financial results, operations, liquidity and capital requirements of the Group, general business conditions and strategies, future business plans of the Group and legal restrictions when determining whether or not to recommend and declare dividends. The Board will also review and reassess the dividend policy and its effectiveness on a regular basis or as required.

### Convening of extraordinary general meeting on requisition by Shareholders

Pursuant to Articles 57 of the articles of association of the Company, each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

The Board may whenever it thinks fit call extraordinary general meetings. Any one or more members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

### Procedures for putting forward proposals at general meetings

Any shareholder of the Company who wishes to put forward proposals at general meetings of the Company shall submit such proposals to the Board in writing for the Board’s consideration not less than 7 days prior to the date of a general meeting through the Company Secretary whose contact details are set out in the paragraph “Procedures for directing shareholders’ enquiries to the Board” below.

### Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary whose contact details are as follows:

#### **The Company Secretary**

361 Degrees International Limited  
Room 1609, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong  
Email: 361@361sportshk.com  
Tel No.: +852 2907 7088  
Fax No.: +852 2907 7198

The Company Secretary shall forward shareholders' enquiries and concerns to the Board and/or relevant Board committees of the Company, where appropriate, in order for the Board to respond to such enquires.

### Constitutional Documents

There was no change in the memorandum and articles of association of the Company during the year ended 31 December 2019.

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

### Executive Directors

**Mr. Ding Wuhao** (丁伍號), aged 54, joined the Group in June 2003 and has been the President of the Company since August 2008. He is primarily responsible for the Group's overall strategies, planning and business development. He has over 20 years of experience in the PRC sportswear industry. Since December 2006, he has been a member of the Chinese People's Political Consultative Conference ("CPPCC") Fujian Province Jinjiang City Committee (中國人民政治協商會議福建省晉江市委員會). In October 2008, he received the award of the "2008 Most Socially Responsible Entrepreneur in China" (2008年度中國最具社會責任企業家) by the Annual Selection Organising Committee of China Human Resources Management (中國人力資源管理年度評選組委會). In May 2009, he received the "Contribution Award for China TV Sports Programmes" (中國體育電視貢獻獎) by CCTV Sports Channel (中央電視台體育頻道). In 2010, he was awarded "Top Ten Chinese Entrepreneur of Integrity of the Year (創業中國年度十大誠信人物獎)" by "Example for China (《榜樣中國》)", "Outstanding Contribution Award for Asian Games (亞運突出貢獻獎)" by 16th Asian Games Organizing Committee (第十六屆亞運會組委會), and "Outstanding Contribution Award of Asian Games (亞洲體育傑出貢獻獎)" by Olympic Council of Asia (亞洲奧林匹克理事會). In 2011, he was awarded "The Most Caring Chinese Entrepreneur on Staff's Development (中國最關注員工發展企業家)" at the eighth session of China Human Resource Management Innovation Summit (第八屆中國人力資源管理創新高峰會) and "Top Ten Youth Business Leader in Asia (亞洲十大青年商業領袖)" by Forbes. He completed a CEO in China's Enterprise/Finance program at the Cheung Kong Graduate School of Business in August 2012. Mr. Ding is the brother-in-law of Mr. Ding Huihuang and Mr. Ding Huirong, both of whom are executive Directors. Mr. Ding is the sole director and sole shareholder of Dings International Company Limited, a substantial shareholder of the Company.

**Mr. Ding Huihuang** (丁輝煌), aged 54, joined the Group in June 2003. He was appointed as an executive Director in August 2008 and is the chairman of the Company. He is primarily responsible for overall strategies, operation planning and footwear production. He has over 20 years of experience in the PRC sportswear industry. He was awarded the "Top Ten Outstanding Youths in China Industrial Economy" (中國工業經濟十大傑出青年) by the Organising Committee of China Industry Forum (中國工業論壇組委會) in January 2008 and the "Top Ten Outstanding Youth Entrepreneurs of Quanzhou City" (泉州市十大傑出青年企業家) jointly issued by 18 governmental and commercial institutions in Quanzhou City, Fujian Province, the PRC in February 2007. He has been a standing member of the third committee of Quanzhou City Shoe Commercial Association (泉州市鞋業商會) and a vice chairman of Fujian Province Shoe Industry Association (福建省鞋業行業協會) since January 2006 and January 2007 respectively. Mr. Ding is the elder brother of Mr. Ding Huirong and the brother-in-law of Mr. Ding Wuhao, both of whom are executive Directors. Mr. Ding is the sole director and sole shareholder of Ming Rong International Company Limited, a substantial shareholder of the Company.

**Mr. Ding Huirong** (丁輝榮), aged 48, joined the Group in June 2003 and was appointed as an executive Director in August 2008 and is a vice president of the Company. He is primarily responsible for financial management and infrastructure construction management of the Company, more specifically the construction of the new production facility and warehouse of the Group at the Wuli Industrial Park. He has over 20 years of experience in financial management. Mr. Ding is the younger brother of Mr. Ding Huihuang and the brother-in-law of Mr. Ding Wuhao, both executive Directors. Mr. Ding is the sole director and sole shareholder of Hui Rong International Company Limited, a substantial shareholder of the Company.

**Mr. Wang Jiabi** (王加碧), aged 62, joined the Group in June 2003 and was appointed as an executive Director in August 2008 and is a vice president of the Company. He is primarily responsible for the human resources and external public relationship. Mr. Wang has over 20 years of experience in the PRC sportswear industry. He has completed an EMBA programme offered by Peking University (北京大學) in January 2010. Mr. Wang is the sole director and sole shareholder of Jia Wei International Co., Ltd., a substantial shareholder of the Company.

### Independent non-executive Directors

**Mr. Li Yuen Fai Roger (李苑輝)**, aged 59, joined the Group in July 2016 and is an independent non-executive Director. Mr. Li has over 30 years of experience in corporate finance, accounting, auditing, corporate administration and business development. He is currently the sole practitioner for Roger Li & Co, a certified public accountant firm in Hong Kong from 2003. He is also an independent non-executive director of Kangli International Holdings Limited (Stock Code: 06890). Mr. Li is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Taxation Institution of Hong Kong and was a member of the 7th, 8th and 9th Member of People's Political and Consultative Congress of Heilongjiang Province in the People's Republic of China and was appointed as the Economic Advisor of the Government of Chengde City of Hebei Province in the People's Republic of China in 1995.

**Mr. Hon Ping Cho Terence (韓炳祖)**, aged 60, joined the Group in May 2019 and is an independent non-executive Director. Mr. Hon has over 30 years of experience in corporate finance, accounting, auditing, corporate administration and business development. He was awarded a master's degree in Business Administration (Financial Services) from The Hong Kong Polytechnic University in November 2004. He is currently an independent non-executive Director of Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (Stock Code: 00520), Jimu Group Limited (Stock Code: 08187), Daphne International Holdings Limited (Stock code: 00210) and SinoMab BioScience Limited (Stock code: 03681). Mr. Hon is a fellow member of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales.

**Mr. Chen Chuang (陳闌)**, aged 42, joined the Group in August 2019 and is an independent non-executive Director. Mr. Chen has over 15 years of experience in corporate strategy, large enterprises innovation, and internal innovation. He was awarded a bachelor degree and a master degree in Management from the Dalian University of Technology (大連理工大學). He also received his doctorate degree in Business Administration from Tsinghua University (清華大學). He is currently a professor of business management at the Master of Business Administration Education Center of the School of Management of Xiamen University (廈門大學管理學院工商管理教育中心). Mr. Chen is a committee member of Case Research Division of Chinese Society for Management Modernization (中國管理現代化研究會案例研究專業委員會).



## DIRECTORS AND SENIOR MANAGEMENT

### SENIOR MANAGEMENT

**Mr. Chen Yongling** (陳永靈), aged 46, is the vice president in the office of the board of directors of the Group and is primarily responsible for the strategy planning and capital operation of the Group. He joined the Group in August 2005 and re-joined the Group in September 2019 after his departure in October 2017 due to personal reasons. Mr. Chen has over 20 years of experience in finance, operation and business management. Mr. Chen received his bachelor degree in business management from Zhejiang University (浙江大學) in January 2007 and an EMBA from Cheung Kong Graduate School of Business (長江商學院) in 2017. Mr. Chen holds a qualification certificate for accountant (會計師資格證書) and national secretary qualification (second class) (國家二級秘書資格) conferred by the Ministry of Finance of the PRC, a qualification certificate for economics (經濟師) of the PRC, a qualification certificate for finance management (財務管理師) and received the Certificate of Qualification for International Certified Senior Accountant (國際註冊高級會計師) awarded by the International Profession Certification Association (國際認證協會). Mr. Chen received recognition from professional and social fields. He received the awards including the “2011 China’s Chief Financial Officer of the Year” (2011中國總會計師年度人物獎) and the “2013 Chinese Economist” (2013中國經濟人物) by the China Association of Chief Financial Officer (中國總會計師協會) and the Committee of China Economic Development Forum (中國經濟發展論壇組委會), respectively. He has been appointed as a member of the 12th Quanzhou Committee of Chinese People’s Political Consultative Conference since 2017 and a director of Entrepreneur Union of Revolutionary Committee of the Chinese Kuomintang in Quanzhou (民革泉州市企業家聯誼會).

**Mr. Lu Ning** (盧寧), aged 52, is the brand president of the Group in charge of the footwear business, apparel business, product centre and operation department of the Group. He has over 20 years experiences in managing international renowned sportswear brands. He joined the Group in March 2013. Mr. Lu received his bachelor’s degree in Economic Investment from the Nanjing University (南京大學) in 1996 and enrolled the Executive Master of Business Administration (EMBA) at the China Europe International Business School (中歐國際工商學院) in March 2011.

**Ms. Choi Mun Duen** (蔡敏端), aged 51, is the chief financial officer, an authorized representative and the company secretary of the Group and is responsible for the overall financial management and company secretarial functions of the Group. She joined the Group in October 2008. Ms. Choi has over 20 years of experience in auditing, finance and accounting. She received her bachelor’s degree in accounting and finance from University of Glamorgan in the U.K. She is a certified public accountant of the HKICPA and a fellow member of the ACCA.

**Ms. Zhan Xiao Xiao** (詹瀟瀟), aged 38, is the vice-president of investor relations and is primarily responsible for the Group’s investor relations programme. She joined the Group in October 2015. Ms. Zhan has over 10 years of experience in corporate finance, investor relations, corporate governance and management from her previous positions in investment banking, communication advisory and Hong Kong Listed Company. She received her bachelor’s degree from Peking University, majoring in International Relations and double majoring in Economics. She received her master’s degree from the University of Pennsylvania in 2005, majoring in International Political Economy.

**Mr. Chen Jian Ci** (陳建次), aged 49, is the vice president of supply chain management center and primarily responsible for overall planning in warehouse, logistics and network, integrating data stream and managing enterprise information system deployment of the Group. He has over 15 years of experience in information system related works and has worked in world renowned enterprises. He joined the Group in December 2011. Mr. Chen received his bachelor’s degree in information management from Tamkang University (淡江大學) in Taiwan in 1995.

**Mr. James Edward Monahan**, aged 53, is the vice president of one of the wholly-owned subsidiaries of the Group in the United States, and primarily responsible for directing the introduction and growth of the Group’s brands in the United States, Canada, Mexico and Central America. He has over 25 years of experience in the sporting goods industry with a leading international sports brand, including global roles in both product creation and marketing. He joined the Group in May 2014. Mr. Monahan received his bachelor’s degree in education from Montclair State University in the United States.

**Mr. Jurian Elstgeest**, aged 47, is the managing director of one of the wholly-owned subsidiaries of the Group in Europe, and primarily responsible for managing and establishment of the Group’s brand and business in the Europe, the Middle East and Africa. He has over 20 years of experience in sporting goods retail and with sports brands, managing retail buying, sales, product, brand and business expansion. Mr. Elstgeest joined the Group in June 2016. He received his Bachelor in Fashion Management at the Hogeschool in Amsterdam.

# INDEPENDENT AUDITOR'S REPORT



## MOORE

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大華馬施雲  
會計師事務所有限公司

## OPINION

We have audited the consolidated financial statements of 361 Degrees International Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 64 to 133, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA’s *Code of Ethics for Professional Accountants* (the “Code”) together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Revenue recognition: Distributor arrangements

Refer to note 3 to the consolidated financial statements on page 92 and the accounting policy note 1(r) on pages 86 and 87.

#### The Key Audit Matter

Revenue of the Group mainly comprises sales of footwear, apparel and accessories through its network of distributors.

The Group sources, manufactures and sells its products based on purchase orders placed by the distributors during trade fairs held by the Group.

The Group enters into framework distribution agreements with its distributors every year. According to the terms of the distribution agreements, revenue is recognised when the goods are collected by the carrier companies from the Group's premises, which is the point when the control of the goods is considered to have transferred to its distributors.

We have identified the recognition of revenue from sale of goods under the distributor arrangements as a key audit matter because revenue is one of the key performance indicators of the Group and because there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.

#### How the matter was addressed in our audit

Our audit procedures to address the recognition of revenue from distribution arrangements included the following:

- inspecting all distribution agreements signed in the current year and considering whether the distribution agreements contained terms allowing the distributors to make any sales returns;
- for sales transactions during the reporting period, comparing, on a sample basis, details in the sales invoices to the relevant goods delivery notes, which were signed by the distributors, to assess if the related revenue had been recognised on the basis of the terms of sales as set out in the distribution agreements;
- inspecting all sales returns, if any, during the reporting period and after the financial year end to assess whether sales returns had been accounted for in the appropriate financial period;
- obtaining external confirmations of the outstanding trade receivable balances as at that date directly from distributors, on a sample basis. Where the distributors did not return the requested confirmations, inspecting the sales invoices and related goods delivery notes signed by the distributors indicating the distributors' acknowledgement of delivery of the goods sold for the year ended 31 December 2019;
- performing interview with distributors, on a sample basis, to verify the distribution arrangements between the Group and distributors; and
- inspecting significant manual adjustments, if any, to revenue during the reporting period, enquiring of management the reasons for such adjustments and comparing the details of the adjustments to relevant underlying documentation.

## **OTHER MATTER**

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 15 March 2019.

## **INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON**

The directors of the Company are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

## **RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee of the Company in discharging their responsibilities for overseeing the Group's financial reporting process.

## **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



## INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Moore Stephens CPA Limited**

*Certified Public Accountants*

**Hung, Wan Fong Joanne**

Practising Certificate Number: P05419

Hong Kong, 17 March 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 (Note) RMB'000 (Restated)
<b>Revenue</b>	3	<b>5,631,866</b>	5,187,446
Cost of sales		<b>(3,362,250)</b>	(3,081,575)
<b>Gross profit</b>		<b>2,269,616</b>	2,105,871
Other revenue	4	<b>236,848</b>	281,920
Other net loss	4	<b>(29,663)</b>	(81,780)
Selling and distribution expenses		<b>(1,026,781)</b>	(978,973)
Administrative expenses		<b>(569,778)</b>	(543,511)
Reversal of impairment losses/(impairment losses) on financial assets	26(a)	<b>7,008</b>	(1,200)
<b>Profit from operations</b>		<b>887,250</b>	782,327
Gain on repurchase of senior unsecured notes	21	<b>52,644</b>	–
Finance costs	5(a)	<b>(217,469)</b>	(211,649)
<b>Profit before income tax</b>	5	<b>722,425</b>	570,678
Income tax expense	6	<b>(252,650)</b>	(265,305)
<b>Profit for the year</b>		<b>469,775</b>	305,373
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>432,403</b>	303,665
Non-controlling interests		<b>37,372</b>	1,708
<b>Profit for the year</b>		<b>469,775</b>	305,373
<b>Earnings per share</b>	10		
Basic (cents)		<b>20.9</b>	14.7
Diluted (cents)		<b>20.9</b>	14.7

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

Impairment losses on financial assets, which were previously included in administrative expenses, were presented as single line item in the consolidated statement of profit or loss, in order to confirm with the current year's presentation and disclosures.

# CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019 RMB'000	2018 (Note) RMB'000
<b>Profit for the year</b>		<b>469,775</b>	305,373
<b>Other comprehensive loss for the year, net of income tax</b>	9		
Item that will not be reclassified to profit or loss:			
Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)		(867)	(16,772)
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements		(35,140)	(64,476)
<b>Total comprehensive income for the year, net of income tax</b>		<b>433,768</b>	224,125
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>396,396</b>	222,417
Non-controlling interests		<b>37,372</b>	1,708
<b>Total comprehensive income for the year</b>		<b>433,768</b>	224,125

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

		2019	2018
	Notes	RMB'000	(Note) RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	11	955,364	1,035,057
Interests in leasehold land held for own use under operating leases	11	–	111,462
Right-of-use assets	12	113,739	–
		1,069,103	1,146,519
Other financial asset	14	24,992	28,579
Deposits and prepayments	16	91,895	94,060
Deferred tax assets	23(b)	41,310	45,800
		1,227,300	1,314,958
<b>Current assets</b>			
Inventories	15	1,168,036	1,051,099
Trade debtors	16	2,074,796	2,304,199
Bills receivable	16	124,578	95,072
Deposits, prepayments and other receivables	16	639,474	720,980
Pledged bank deposits	17	230,675	327,405
Deposits with banks	17	3,000,000	4,500,000
Cash and cash equivalents	17	3,422,295	1,651,281
		10,659,854	10,650,036
<b>Current liabilities</b>			
Trade and other payables	18	2,306,167	2,766,170
Lease liabilities	19	2,763	–
Bank loans	20	111,186	112,176
Current taxation	23(a)	388,894	475,905
		2,809,010	3,354,251
<b>Net current assets</b>		<b>7,850,844</b>	<b>7,295,785</b>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 RMB'000	2018 (Note) RMB'000
<b>Total assets less current liabilities</b>		<b>9,078,144</b>	8,610,743
<b>Non-current liabilities</b>			
Lease liabilities	19	526	–
Interest-bearing borrowings	21	2,418,604	2,714,393
Deferred tax liabilities	23(b)	–	1,961
		<b>2,419,130</b>	2,716,354
<b>Net assets</b>		<b>6,659,014</b>	5,894,389
<b>Capital and reserves</b>			
Share capital	24(c)	182,298	182,298
Reserves	24(d)	6,140,207	5,585,352
<b>Total equity attributable to equity shareholders of the Company</b>		<b>6,322,505</b>	5,767,650
<b>Non-controlling interests</b>		<b>336,509</b>	126,739
<b>Total equity</b>		<b>6,659,014</b>	5,894,389

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

The consolidated financial statements on pages 64 to 133 were approved and authorised for issue by the board of directors on 17 March 2020 and are signed on its behalf by:

**Ding Huihuang**  
Director

**Ding Huirong**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

Attributable to equity shareholders of the Company									
	Share capital (Note 24(c)) RMB'000	Other reserves (Note 24(d)(i)) RMB'000	Statutory reserve (Note 24(d)(ii)) RMB'000	Exchange reserve (Note 24(d)(iii)) RMB'000	Fair value reserve (non-recycling) (Note 24(d)(iv)) RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Notes									
<b>Balance at 1 January 2018</b>	182,298	90,489	558,698	(44,382)	33,134	4,919,351	5,739,588	125,031	5,864,619
<b>Changes in equity for 2018:</b>									
Profit for the year	-	-	-	-	-	303,665	303,665	1,708	305,373
Other comprehensive loss	-	-	-	(64,476)	(16,772)	-	(81,248)	-	(81,248)
Total comprehensive income for the year	-	-	-	(64,476)	(16,772)	303,665	222,417	1,708	224,125
Appropriation to statutory reserve	-	-	1,734	-	-	(1,734)	-	-	-
Dividends declared and paid during the year 24(b)	-	-	-	-	-	(194,355)	(194,355)	-	(194,355)
<b>Balance at 31 December 2018 and 1 January 2019</b>	182,298	90,489	560,432	(108,858)	16,362	5,026,927	5,767,650	126,739	5,894,389
<b>Changes in equity for 2019:</b>									
Profit for the year	-	-	-	-	-	432,403	432,403	37,372	469,775
Other comprehensive income	-	-	-	(35,140)	(867)	-	(36,007)	-	(36,007)
Total comprehensive income for the year	-	-	-	(35,140)	(867)	432,403	396,396	37,372	433,768
Deemed partial disposal of interest in a subsidiary 13(v)	-	328,002	-	-	-	-	328,002	171,998	500,000
Capital injection to a subsidiary by a holder of non-controlling interest	-	-	-	-	-	-	-	400	400
Appropriation to statutory reserve	-	-	244,863	-	-	(244,863)	-	-	-
Dividends declared and paid during the year 24(b)	-	-	-	-	-	(169,543)	(169,543)	-	(169,543)
<b>Balance at 31 December 2019</b>	182,298	418,491	805,295	(143,998)	15,495	5,044,924	6,322,505	336,509	6,659,014

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 (Note) RMB'000
<b>Operating activities</b>			
Profit before income tax		<b>722,425</b>	570,678
Adjustments for:			
Amortisation of land lease premium	5(c)	–	2,823
Depreciation of property, plant and equipment	5(c)	<b>88,519</b>	121,562
Depreciation of right-of-use assets	5(c)	<b>7,953</b>	–
Dividend income	4	–	(35,286)
Effect of foreign exchange rates changes		<b>14,269</b>	64,496
Finance costs	5(a)	<b>217,469</b>	211,649
Gain on repurchase of senior unsecured notes	21	<b>(52,644)</b>	–
(Reversal of impairment losses)/impairment losses of trade receivables	5(c)	<b>(7,008)</b>	1,200
Interest income	4	<b>(104,743)</b>	(97,578)
Net (gain)/loss on disposal of property, plant and equipment	4	<b>(414)</b>	17
Write-down of inventories	15(b)	–	12,076
Changes in working capital:			
Increase in inventories		<b>(116,937)</b>	(249,424)
Decrease/(increase) in trade debtors		<b>236,411</b>	(376,510)
(Increase)/decrease in bills receivable		<b>(29,506)</b>	125,828
Decrease in deposits, prepayments and other receivables		<b>101,290</b>	6,530
(Decrease)/increase in trade and other payables		<b>(112,507)</b>	190,479
<b>Cash generated from operations</b>		<b>964,577</b>	548,540
People's Republic of China income tax paid	23(a)	<b>(334,412)</b>	(253,519)
<b>Net cash generated from operating activities</b>		<b>630,165</b>	295,021
<b>Investing activities</b>			
Payment for the purchase of property, plant and equipment		<b>(13,039)</b>	(32,783)
Proceeds from disposal of property, plant and equipment		<b>7,759</b>	390
Decrease in pledged bank deposits		<b>96,730</b>	7,878
Placements of fixed deposits held at banks			
with maturity over three months		<b>(3,000,000)</b>	(4,500,000)
Uplift of fixed deposits held at banks with maturity over three months		<b>4,500,000</b>	3,605,691
Interest received		<b>87,381</b>	97,604
<b>Net cash generated from/(used in) investing activities</b>		<b>1,678,831</b>	(821,220)

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

		2019	2018
	Notes	RMB'000	(Note) RMB'000
<b>Financing activities</b>			
Payment for repurchase of senior unsecured notes	21	(314,957)	–
Capital injection to a subsidiary by a holder of non-controlling interest		400	–
Capital element of lease rentals paid	17(b)	(6,939)	–
Interest element of lease rentals paid	17(b)	(296)	–
Proceeds from bank loans	17(b)	100,000	100,000
Proceeds from an investor for capital injection in a subsidiary	13(v)	150,000	350,000
Repayment of bank loans	17(b)	(101,221)	(1,242)
Interest paid	17(b)	(200,094)	(198,929)
Dividends paid	24(b)	(169,543)	(194,355)
<b>Net cash (used in)/generated from financing activities</b>		<b>(542,650)</b>	55,474
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,766,346</b>	(470,725)
Cash and cash equivalents at 1 January		<b>1,651,281</b>	2,116,422
Effect of foreign exchange rate changes		<b>4,668</b>	5,584
<b>Cash and cash equivalents at 31 December</b>	17(a)	<b>3,422,295</b>	1,651,281

*Note:* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 1(c).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 1. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

### (b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise 361 Degrees International Limited (the “Company”) and its subsidiaries (together referred to as the “Group”).

The Company and other investment holding subsidiaries incorporated in the Cayman Islands, the British Virgin Islands (the “BVI”) and Hong Kong have their functional currency in Hong Kong dollars (“HK\$”) and subsidiaries established in the People’s Republic of China (the “PRC”) have their functional currency in Renminbi (“RMB”). As the Group mainly operates in the PRC, RMB is used as the presentation currency of the Group’s consolidated financial statements. All financial information presented is rounded to the nearest thousand except otherwise stated. The measurement basis used in the preparation of the consolidated financial statements is the historical costs basis except for equity investments designated as at fair value through other comprehensive income (“FVOCI”) as explained in note 1(e).

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 2.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Change in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16 *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16 *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

#### HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 *Leases*, and the related interpretations, HK(IFRIC) Interpretation 4 *Determining whether an Arrangement contains a Lease*, HK(SIC) Interpretation 15 *Operating Leases – Incentives*, and HK(SIC) Interpretation 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged. HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17. Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

#### (i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be outside the scope of HKFRS 16.

#### (ii) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets.

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(c) Change in accounting policies (Continued)****HKFRS 16 Leases (Continued)***(ii) Lessee accounting and transitional impact (Continued)*

At the date of initial application of HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the lease liability was 5.0%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (A) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;
- (B) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and
- (C) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment of whether leases are onerous by apply HKAS 37 as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 27(c) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	RMB'000
Operating lease commitments at 31 December 2018	11,984
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(3,263)
	8,721
Less: total future interest expenses	(387)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	8,334
Total lease liabilities recognised at 1 January 2019	8,334

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Change in accounting policies (Continued)

#### HKFRS 16 Leases (Continued)

##### (ii) Lessee accounting and transitional impact (Continued)

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the lease liabilities recognised as at 1 January 2019, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 December 2018.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amount at 1 January 2019 RMB'000
<b>Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:</b>			
Interests in leasehold land held for own use under operating leases	111,462	(111,462)	–
Right-of-use assets	–	119,796	119,796
<b>Total non-current assets</b>	<b>1,314,958</b>	<b>8,334</b>	<b>1,323,292</b>
Lease liabilities (current)	–	5,152	5,152
<b>Current liabilities</b>	<b>3,354,251</b>	<b>5,152</b>	<b>3,359,403</b>
<b>Net current assets</b>	<b>7,295,785</b>	<b>(5,152)</b>	<b>7,290,633</b>
<b>Total assets less current liabilities</b>	<b>8,610,743</b>	<b>3,182</b>	<b>8,613,925</b>
Lease liabilities (non-current)	–	3,182	3,182
<b>Total non-current liabilities</b>	<b>2,716,354</b>	<b>3,182</b>	<b>2,719,536</b>

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Change in accounting policies (Continued)

#### HKFRS 16 Leases (Continued)

##### (iii) *Impact on the financial result and cash flows of the Group*

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 17(b)). These elements are classified as financing cash outflows, rather than as investing and operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows (see note 19).

### (d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(m) or (n) depending on the nature of the liability.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Subsidiaries and non-controlling interests (Continued)

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(h)(ii)), unless the investment is classified as held for sale.

### (e) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries, are set out below.

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 26(g)(i).

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, are recognised in profit or loss as other income in accordance with the policy set out in note 1(r)(iv).

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(h)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion
- Plant and machinery 5 – 10 years
- Office equipment and other fixed assets 2 – 10 years
- Motor vehicles 5 years

No depreciation is provided for construction in progress. Construction in progress is reclassified to the appropriate category of property, plant and equipment when the construction is completed and the asset is ready for use.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

### (g) Leases when the Group is a lessee

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (g) Leases when the Group is a lessee (Continued)

#### (i) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the commencement date of a lease, the Group, as a lessee recognises a right-of-use asset and a lease liability, except for short-term leases and leases of low-value assets which are primarily laptops and office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term that are not paid at the commencement date of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

At the commencement date of a lease, the lease payments included in the measurement of the lease liability comprise the following payments during the lease term:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 1(h)(ii)) and adjusted for any remeasurement of the lease liability.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group presents right-of-use assets and lease liabilities separately in the consolidated statement of financial position.

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (g) Leases when the Group is a lessee (Continued)

#### (ii) Policy applicable prior to 1 January 2019

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

### (h) Credit losses and impairment of assets

#### (i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses ("ECLs") on financial assets measured at amortised cost (including cash and cash equivalents, pledged bank deposits, fixed deposits held at banks with original maturity over three months, and trade and other receivables);

Financial assets measured at fair value, including equity securities designated at FVOCI (non-recycling), are not subject to the ECL assessment.

#### *Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the effective interest rate determined at initial recognition or an approximation thereof for fixed-rate financial assets, trade and other receivables where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Credit losses and impairment of assets (Continued)

#### (i) Credit losses from financial instruments (Continued)

##### *Measurement of ECLs (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 original 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.

##### *Significant increases in credit risk*

In assessing whether the credit risk of a financial asset has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial asset assessed at the end of reporting period with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.



## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Credit losses and impairment of assets (Continued)

#### (i) Credit losses from financial instruments (Continued)

##### *Significant increases in credit risk (Continued)*

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

##### *Basis of calculation of interest income*

Interest income recognised in accordance with note 1(r)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

##### *Write-off policy*

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Credit losses and impairment of assets (Continued)

#### (ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- right-of-use assets;
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

- Reversals of impairment losses

In respect of assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (j) Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 1(r)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(k)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 1(r)).

### (k) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional only if the passage of time is required before payment of that consideration is due. Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(h)(i)).

Bills receivable are derecognised if substantially all the risks and rewards of ownership of the bills receivable are transferred. If substantially all the risks and rewards of ownership of bills receivable are retained, the bills receivable are continued to be recognised in the consolidated statement of financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 1(h)(i).

### (m) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (n) Bank loans and interest-bearing borrowings

Bank loans and interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, bank loans and interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 1(t)).

### (o) Employee benefits

#### Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contribution to relevant local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

### (p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(p) Income tax (Continued)**

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (p) Income tax (Continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (q) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (r) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

**1. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(r) Revenue and other income (Continued)**

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

**(i) Sale of goods**

Revenue is recognised when the control of the sporting goods is considered to have been transferred to the customer.

**(ii) Interest income**

Interest income is recognised as it accrues using the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 1(h)(i)).

**(iii) Government grants**

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

**(iv) Dividends**

Dividend income from unlisted investments is recognised in profit or loss when the shareholder's right to receive payment is established.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of subsidiaries with functional currency other than RMB are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a subsidiary with functional currency other than RMB, the cumulative amount of the exchange differences relating to that subsidiary is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

### (t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

### (u) Research and development and advertising

Expenditure on research and development and advertising activities is recognised as an expense in the period in which it is incurred. Prepayment for advertising are recognised as an expense in equal instalments over the periods covered by the agreement term.

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (v) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (w) Segment reporting

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

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

No geographic information is shown as the revenue and profit from operations of the Group are mainly derived from activities in the PRC.

## 2. ACCOUNTING JUDGEMENT AND ESTIMATES

### (a) Sources of estimation uncertainty

Note 26 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

#### (i) Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation/amortisation charges for the property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation/amortisation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

#### (ii) Impairment losses on trade debtors

The Group estimates the loss allowances for trade debtors by assessing the ECLs. This requires the use of estimates and judgements. ECLs are 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 end of reporting period. Where the estimation is different from the previous estimate, such difference will affect the carrying amounts of trade debtors and thus the impairment loss in the period in which such estimate is changed. The Group keeps assessing the expected credit loss of trade debtors during their expected lives.



## 2. ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

### (a) Sources of estimation uncertainty (Continued)

#### (iii) Other impairment losses

If circumstances indicate that carrying value of investments in subsidiaries (note 13), property, plant and equipment, right-of-use assets, non-current deposits and prepayments and other financial assets may not be recoverable, these assets may be considered impaired, and an impairment loss may be recognised in accordance with HKAS 36 *Impairment of assets*. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amount may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling prices and the value in use. It is difficult to estimate precisely selling prices because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

#### (iv) Net realisable value of inventories

The Group recognises write-down on inventories based on an assessment of the net realisable value of the inventories. Write-down is applied to the inventories where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of the inventories and write-down on inventories charged to profit or loss in the period in which such estimate has been changed.

#### (v) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 3. REVENUE AND SEGMENT REPORTING

#### (a) Revenue

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

#### Disaggregation of revenue

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

	2019 RMB'000	2018 RMB'000
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
Disaggregated by major products		
– Footwear	2,778,899	2,558,958
– Apparel	2,644,564	2,455,078
– Accessories	121,680	89,300
– Others	86,723	84,110
	<b>5,631,866</b>	<b>5,187,446</b>

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

The Group's customer base is diversified and has two (2018: two) customers with whom transactions have exceeded 10% of the Group's revenues. In 2019, revenues from sales of footwear, apparel, accessories and others in both reportable segments (see note 3(b)) to the two (2018: two) customers, including sales to entities under common control with these two (2018: two) customers, as known to the Group, were approximately RMB701,374,000 (2018: approximately RMB680,513,000) and RMB659,163,000 (2018: approximately RMB644,844,000) respectively. Details of concentrations of credit risk arising from these customers are set out in note 26(a)(i).

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

#### (b) Segment reporting

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. REVENUE AND SEGMENT REPORTING (Continued)

### (b) Segment reporting (Continued)

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

#### (i) Segment results

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

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

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2019 and 2018 is set out below.

	Adults		Kids		Total	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
<b>Disaggregated by timing of revenue recognition</b>						
Point in time	4,632,978	4,371,481	998,888	815,965	5,631,866	5,187,446
Revenue from external customers	4,632,978	4,371,481	998,888	815,965	5,631,866	5,187,446
Inter-segment revenue	10,519	25,928	–	–	10,519	25,928
Reportable segment revenue	4,643,497	4,397,409	998,888	815,965	5,642,385	5,213,374
Cost of sales	(2,793,473)	(2,637,660)	(578,903)	(469,793)	(3,372,376)	(3,107,453)
Reportable segment profit (gross profit)	1,850,024	1,759,749	419,985	346,172	2,270,009	2,105,921

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 3. REVENUE AND SEGMENT REPORTING (Continued)

### (b) Segment reporting (Continued)

#### (ii) Reconciliations of reportable segment revenues and profit before income tax

	2019 RMB'000	2018 RMB'000 (Restated)
<b>Revenue</b>		
Reportable segment revenue	5,642,385	5,213,374
Elimination of inter-segment revenue	(10,519)	(25,928)
Consolidated revenue (note 3(a))	5,631,866	5,187,446
<b>Profit before income tax</b>		
Reportable segment profit	2,270,009	2,105,921
Elimination of inter-segment profits	(393)	(50)
Reportable segment profit derived from the Group's external customers	2,269,616	2,105,871
Other revenue	236,848	281,920
Other net loss	(29,663)	(81,780)
Selling and distribution expenses	(1,026,781)	(978,973)
Administrative expenses	(569,778)	(543,511)
Reversal of impairment losses/(impairment losses) on financial assets	7,008	(1,200)
Gain on repurchase of senior unsecured notes	52,644	–
Finance costs	(217,469)	(211,649)
Consolidated profit before income tax	722,425	570,678

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 4. OTHER REVENUE AND NET LOSS

	2019 RMB'000	2018 RMB'000
<b>Other revenue</b>		
Interest income on financial assets measured at amortised cost	104,743	97,578
Government grants <sup>#</sup>	107,962	109,473
Dividend income from investment in unlisted equity securities (note 14)	–	35,286
Others	24,143	39,583
	<b>236,848</b>	<b>281,920</b>
<b>Other net loss</b>		
Net gain/(loss) on disposal of property, plant and equipment	414	(17)
Net foreign exchange loss	(30,077)	(81,763)
	<b>(29,663)</b>	<b>(81,780)</b>

Note:

<sup>#</sup> Government grants of RMB107,962,000 (2018: RMB109,473,000) 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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 5. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	2019 RMB'000	2018 RMB'000
<b>(a) Finance costs</b>		
Interest on lease liabilities	296	–
Interest on bank and other borrowings	6,643	6,710
Finance charges on senior unsecured note	210,530	204,939
Total interest expense on financial liabilities not carried at fair value through profit or loss	217,469	211,649

	2019 RMB'000	2018 RMB'000
<b>(b) Staff costs</b>		
Contributions to defined contribution retirement plans #	22,592	20,928
Salaries, wages and other benefits	492,594	433,418
	515,186	454,346

Note:

# No forfeited contributions available for offset against existing contributions during the year (2018: nil).

	2019 RMB'000	2018 RMB'000
<b>(c) Other items</b>		
Auditor's remuneration		
– audit services	2,512	3,960
Amortisation of land lease premium #	–	2,823
Depreciation of property, plant and equipment	88,519	121,562
Depreciation of right-of-use assets ##	7,953	–
(Reversal of impairment losses)/impairment losses		
– trade receivables (note 26(a))	(7,008)	1,200
Operating lease charges in respect of properties	–	11,466
Research and development costs *	214,327	214,574
Cost of inventories **	3,362,250	3,081,575

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 5. PROFIT BEFORE INCOME TAX (Continued)

Notes:

- # Included in selling and distribution expenses in the consolidated statement of profit or loss.
- ## The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated (See note 1(c)).
- \* Research and development costs include RMB74,580,000 (2018: RMB62,895,000) relating to staff costs of employees in the research and development department and depreciation, which amounts are also included in the total staff costs as disclosed in note 5(b) or the respective total amounts disclosed separately above. Research and development costs included in administrative expenses in the consolidated statement of profit or loss.
- \*\* Cost of inventories include RMB249,677,000 (2018: RMB231,944,000) relating to staff costs and depreciation, which amounts are also included in the total staff costs as disclosed in note 5(b) or the respective total amounts disclosed separately above for each of these types of expenses.

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

(a) Income tax expense in the consolidated statement of profit or loss represents:

	2019 RMB'000	2018 RMB'000
<b>Current tax – PRC income tax</b>		
Provision for the year ( <i>note 23(a)</i> )	247,401	266,642
Over-provision in respect of prior years ( <i>note 23(a)</i> )	–	(5,258)
	247,401	261,384
<b>Deferred tax</b>		
Origination and reversal of temporary differences ( <i>note 23(b)</i> )	9,616	3,921
Effect on deferred tax balances at 1 January resulting from a change in tax rate ( <i>note 23(b)</i> )	(4,367)	–
	5,249	3,921
	252,650	265,305

- (i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI (2018: nil).
- (ii) No provision has been made for Profits Tax in Hong Kong, Brazil, USA and the Netherlands as the Group did not earn any income subject to Profits Tax in Hong Kong, Brazil, USA and Europe during the year (2018: nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 6. INCOME TAX EXPENSE IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

#### (a) Income tax expense in the consolidated statement of profit or loss represents: (Continued)

- (iii) All PRC subsidiaries are subject to income tax at 25% (2018: 25%) for the year under the Enterprise Income Tax law ("EIT law"), except for one of the subsidiaries of the Company operating in the PRC which were approved to be high and new technology enterprises ("HNTE"). Enterprise approved to be HNTE are entitled to enjoy a reduced enterprise income tax rate of 15% and additional 75% tax reduction based on the eligible research and development expenses with a validity period of three years. The subsidiary was approved to be HNTE and enjoyed the preferential tax rate for HNTE for the year ended 31 December 2019.

#### (b) Reconciliation between income tax expense and profit before income tax at applicable tax rates:

	2019 RMB'000	2018 RMB'000
Profit before income tax	722,425	570,678
Notional tax on profit before income tax, calculated at the rates applicable to profits in the jurisdictions concerned	202,060	210,984
Tax effect of non-deductible expenses	20,501	26,181
Tax effect of non-taxable income	(7,288)	(9,349)
Tax effect of unused tax losses not recognised	18,744	32,747
Over-provision in prior years	–	(5,258)
Effect on deferred tax balances resulting from a change in tax rate	(4,367)	–
Withholding tax on dividends	23,000	10,000
Income tax expense	252,650	265,305

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 7. DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
<b>For the year ended 31 December 2019</b>				
<b>Executive directors</b>				
Ding Wuhao	–	1,342	16	1,358
Ding Huihuang	–	1,029	16	1,045
Ding Huirong	–	1,024	16	1,040
Wang Jiabi	–	586	16	602
<b>Independent non-executive directors</b>				
Hon Ping Cho Terence ( <i>note (i)</i> )	228	–	–	228
Chen Chuang ( <i>note (i)</i> )	123	–	–	123
Tsui Yung Kwok ( <i>note (ii)</i> )	190	–	–	190
Liao Jianwen ( <i>note (iii)</i> )	242	–	–	242
Li Yuen Fai	446	–	–	446
	1,229	3,981	64	5,274

For the year ended 31 December 2018

<b>Executive directors</b>				
Ding Wuhao	–	1,205	15	1,220
Ding Huihuang	–	1,004	15	1,019
Ding Huirong	–	1,004	15	1,019
Wang Jiabi	–	635	15	650
<b>Independent non-executive directors</b>				
Tsui Yung Kwok ( <i>note (ii)</i> )	474	–	–	474
Liao Jianwen ( <i>note (iii)</i> )	361	–	–	361
Li Yuen Fai	355	–	–	355
	1,190	3,848	60	5,098

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 7. DIRECTORS' EMOLUMENTS (Continued)

Notes:

- (i) Mr. Hon Ping Cho Terence and Mr. Chen Chuang were appointed as independent non-executive directors of the Company with effect from 20 May 2019 and 27 August 2019 respectively.
- (ii) Mr. Tsui Yung Kwok retired as an independent non-executive director of the Company with effect from 20 May 2019.
- (iii) Mr. Liao Jianwen resigned as an independent non-executive director of the Company with effect from 27 August 2019.

Fees, salaries, allowances and benefits in kind paid to or for the executive directors of the Company are generally emoluments paid or receivable in respect of those persons' other services in connection with the management of the affairs of the Company and its subsidiaries.

No emolument was paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2018:nil). No arrangement under which directors of the Company waived or agreed to waive any emoluments during the year (2018:nil).

### 8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

No directors of the Company are the five individuals with the highest emoluments. The aggregate of the emoluments in respect of the five (2018: five) individuals with the highest emoluments are as follows:

	2019 RMB'000	2018 RMB'000
Salaries and other emoluments	11,113	10,818
Retirement scheme contributions	153	207
	11,266	11,025

The emoluments of the five (2018: five) individuals with the highest emoluments are within the following bands:

	2019 Number of individuals	2018 Number of individuals
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	2	2
HK\$2,500,001 to HK\$3,000,000	1	2
HK\$3,000,001 to HK\$3,500,000	–	1
HK\$3,500,001 to HK\$4,000,000	1	–

No emolument was paid or payable by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2018:nil).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 9. OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income:

	2019				2018		
	Effect on deferred tax balances resulting from						
	Before-tax amount	a change in tax rate	Tax benefit	Net-of-tax amount	Before-tax amount	Tax benefit	Net-of-tax amount
	RMB'000	(note 23(b)) RMB'000	(note 23(b)) RMB'000	RMB'000	RMB'000	(note 23(b)) RMB'000	RMB'000
Equity investments at FVOCI – net movement in fair value reserve (non-recycling)	(3,587)	2,182	538	(867)	(22,363)	5,591	(16,772)
Exchange differences on translation of financial statements	(35,140)	–	–	(35,140)	(64,476)	–	(64,476)
Other comprehensive income	(38,727)	2,182	538	(36,007)	(86,839)	5,591	(81,248)

## 10. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB432,403,000 (2018: RMB303,665,000) and the weighted average of 2,067,602,000 ordinary shares (2018: 2,067,602,000 ordinary shares) in issue during the year.

### (b) Diluted earnings per share

Diluted earnings per share is the same as basic earnings per share as the Company did not have dilutive potential shares outstanding during the year (2018: nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 11. PROPERTY, PLANT AND EQUIPMENT AND INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

	Buildings situated on leasehold land classified as right-of-use assets (note 12) RMB'000	Plant and machinery RMB'000	Office equipment and other fixed assets RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
<b>Cost:</b>								
At 1 January 2018	1,210,388	246,051	236,124	33,355	19,276	1,745,194	133,118	1,878,312
Exchange realignment	2,461	159	111	-	-	2,731	-	2,731
Additions	385	15,227	3,214	459	12,724	32,009	-	32,009
Transfer	2,200	-	-	-	(2,200)	-	-	-
Disposals	-	(747)	-	-	-	(747)	-	(747)
At 31 December 2018	1,215,434	260,690	239,449	33,814	29,800	1,779,187	133,118	1,912,305
<b>Accumulated depreciation and amortisation:</b>								
At 1 January 2018	299,440	143,363	151,754	27,862	-	622,419	18,833	641,252
Exchange realignment	287	81	122	-	-	490	-	490
Charge for the year	67,870	22,965	30,047	680	-	121,562	2,823	124,385
Written back on disposals	-	(341)	-	-	-	(341)	-	(341)
At 31 December 2018	367,597	166,068	181,923	28,542	-	744,130	21,656	765,786
<b>Net book value:</b>								
At 31 December 2018	847,837	94,622	57,526	5,272	29,800	1,035,057	111,462	1,146,519

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 11. PROPERTY, PLANT AND EQUIPMENT AND INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES (Continued)

	Buildings situated on leasehold land classified as right-of-use assets (note 12) RMB'000	Plant and machinery RMB'000	Office equipment and other fixed assets RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
<b>Cost:</b>								
At 31 December 2018	1,215,434	260,690	239,449	33,814	29,800	1,779,187	133,118	1,912,305
Impact on initial application of HKFRS 16 (note 1(c))	-	-	-	-	-	-	(133,118)	(133,118)
At 1 January 2019	1,215,434	260,690	239,449	33,814	29,800	1,779,187	-	1,779,187
Exchange realignment	1,056	24	89	-	-	1,169	-	1,169
Additions	139	9,890	4,348	909	-	15,286	-	15,286
Disposals	-	(11,164)	(4,470)	-	-	(15,634)	-	(15,634)
<b>At 31 December 2019</b>	<b>1,216,629</b>	<b>259,440</b>	<b>239,416</b>	<b>34,723</b>	<b>29,800</b>	<b>1,780,008</b>	<b>-</b>	<b>1,780,008</b>
<b>Accumulated depreciation and amortisation:</b>								
At 31 December 2018	367,597	166,068	181,923	28,542	-	744,130	21,656	765,786
Impact on initial application of HKFRS 16 (note 1(c))	-	-	-	-	-	-	(21,656)	(21,656)
At 1 January 2019	367,597	166,068	181,923	28,542	-	744,130	-	744,130
Exchange realignment	154	12	118	-	-	284	-	284
Charge for the year	58,607	22,409	6,923	580	-	88,519	-	88,519
Written back on disposals	-	(7,125)	(1,164)	-	-	(8,289)	-	(8,289)
<b>At 31 December 2019</b>	<b>426,358</b>	<b>181,364</b>	<b>187,800</b>	<b>29,122</b>	<b>-</b>	<b>824,644</b>	<b>-</b>	<b>824,644</b>
<b>Net book value:</b>								
<b>At 31 December 2019</b>	<b>790,271</b>	<b>78,076</b>	<b>51,616</b>	<b>5,601</b>	<b>29,800</b>	<b>955,364</b>	<b>-</b>	<b>955,364</b>

As at 31 December 2019, a property with net book value of RMB43,571,000 (2018: RMB43,953,000) was pledged as security for a banking facility of the Group of RMB39,325,000 (2018: RMB43,938,000) (note 20).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 12. RIGHT-OF-USE ASSETS

	Buildings RMB'000	Interests in leasehold land held for own use RMB'000	Total RMB'000
<b>Cost:</b>			
At 31 December 2018	–	–	–
Impact on initial application of HKFRS 16 ( <i>note 1(c)</i> )	8,334	111,462	119,796
At 1 January 2019	8,334	111,462	119,796
Exchange realignment	55	–	55
Additions	–	1,865	1,865
<b>At 31 December 2019</b>	<b>8,389</b>	<b>113,327</b>	<b>121,716</b>
<b>Accumulated depreciation:</b>			
At 1 January 2019	–	–	–
Exchange realignment	24	–	24
Charge for the year	4,994	2,959	7,953
<b>At 31 December 2019</b>	<b>5,018</b>	<b>2,959</b>	<b>7,977</b>
<b>Net book value:</b>			
<b>At 31 December 2019</b>	<b>3,371</b>	<b>110,368</b>	<b>113,739</b>

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 RMB'000	2018 ( <i>note</i> ) RMB'000
Interest on lease liabilities	296	–
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	6,827	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	–	11,466

*Note:* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated (See note 1(c)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 12. RIGHT-OF-USE ASSETS (Continued)

Details of total cash outflow for leases, the maturity analysis of lease liabilities and the future cash outflows arising from leases that are not yet commenced are set out in notes 19 and 26(b), respectively.

#### Ownership interests in leasehold land held for own use

The Group holds several leasehold land for its business, where its manufacturing facilities are primarily located. Lump sum payments were made upfront to acquire these land interests, and there are no ongoing payments to be made under the terms of the land lease.

#### Other properties leased for own use

The Group has obtained the right to use other properties as its office and retail stores through tenancy agreements. The leases typically run for an initial period of one to eight years. Lease payments are usually increased every year to reflect market rentals.

### 13. INVESTMENTS IN SUBSIDIARIES

Particulars of the Group's subsidiaries are set out as below. The class of shares held is ordinary unless otherwise stated.

Name of subsidiaries	Place of establishment/ incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Sanliuyidu Holdings Company Limited	BVI	100 shares of United States dollar ("US\$") 1 each	100% (2018: 100%)	100% (2018: 100%)	–	Investment holding
361 Enterprise Company Limited	Hong Kong	1 share	100% (2018: 100%)	–	100% (2018: 100%)	Investment holding
361 Investment Company Limited	Hong Kong	1 share	100% (2018: 100%)	–	100% (2018: 100%)	Investment holding
361 Degrees (Hong Kong) Investment Limited	Hong Kong	1 share	87% (2018: 87%)	–	100% (2018: 100%)	Investment holding
Sanliuyidu (Fujian) Sports Goods Co., Ltd. 三六一度(福建)體育用品有限公司 (Notes (i) and (iv))	PRC	HK\$280,000,000	100% (2018: 100%)	–	100% (2018: 100%)	Manufacture and trading of sporting goods
Sanliuyidu (China) Co., Ltd. 三六一度(中國)有限公司 (Notes (i) and (iv))	PRC	HK\$560,000,000	100% (2018: 100%)	–	100% (2018: 100%)	Manufacture and trading of sporting goods
Sanliuyidu Xiamen Industry & Trade Co., Limited 三六一度(廈門)工貿有限公司 (Notes (i) and (iv))	PRC	RMB100,000,000	100% (2018: 100%)	–	100% (2018: 100%)	Trading of sporting goods
Sanliuyidu (Fujian) Shoes and Plastics Technology Co., Ltd. 三六一度(福建) 鞋塑科技有限公司 (Notes (iii) and (iv))	PRC	HK\$120,000,000	51% (2018: 51%)	–	51% (2018: 51%)	Manufacture and trading of shoes soles
361 Degrees Children's Clothing Co., Ltd. 三六一度童裝有限公司 (Notes (i) and (iv))	PRC	HK\$80,000,000	87% (2018: 87%)	–	100% (2018: 100%)	Trading of children sporting goods



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 13. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiaries	Place of establishment/ incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Yue Lei International Limited 宇彌國際有限公司	Hong Kong	100,000 shares	100% (2018: 100%)	–	100% (2018: 100%)	Trading of sporting goods
361 Degrees Kids Wear Holdings Limited	BVI	1 share of US\$1	100% (2018: 100%)	–	100% (2018: 100%)	Investment holding
361 Degrees Kids Wear Limited	Cayman Islands	1,000,000 shares of HK\$0.01 each	87% (2018: 87%)	–	87% (2018: 87%)	Investment holding
361 Degrees Kids Wear Investment Limited	BVI	1 share of US\$1	87% (2018: 87%)	–	100% (2018: 100%)	Investment holding
One Way International Enterprise Limited 萬唯國際實業有限公司	Hong Kong	10,000 shares	70% (2018: 70%)	–	70% (2018: 70%)	Investment holding
Zhonglan Sports Goods Co., Ltd. 中蘭體育用品有限公司 (Notes (i) and (iv))	PRC	RMB49,910,463	70% (2018: 70%)	–	100% (2018: 100%)	Investment holding
Wangwei (Xiamen) Industry & Trade Co., Limited 望唯(廈門)工貿有限公司 (Notes (ii) and (iv))	PRC	RMB5,000,000	70% (2018: 70%)	–	100% (2018: 100%)	Trading of sporting goods
361 USA, Inc	United States	US\$19	100% (2018: 100%)	–	100% (2018: 100%)	Trading of sporting goods
Yue Lei do Brasil Comércio, Importação e Exportação de Artigos Esportivos Ltda	Brazil	62,310,627 shares of Brazilian Real 1 each	100% (2018: 100%)	–	100% (2018: 100%)	Trading of sporting goods
Quanzhou Jinjiang Jiangtuo Minhai Gas Station Ltd. 泉州晉江江頭閩海加油站有限公司 (Notes (ii) and (iv))	PRC	RMB25,100,000	51% (2018: 51%)	–	51% (2018: 51%)	Operating of gas station
Duoyidu (Quanzhou) E-commerce Co., Ltd. 多一度(泉州)電子商務有限公司 (Notes (ii) and (iv))	PRC	RMB3,000,000 (2018: RMB1,000,000)	80% (2018: 80%)	–	80% (2018: 80%)	Distribution and sales of the Group's 361° products via the e-commerce platform
361° Europe Holding B.V.	Netherlands	Euro 100	100% (2018: 100%)	–	100% (2018: 100%)	Investment holding
361° Europe B.V.	Netherlands	Euro 100	100% (2018: 100%)	–	100% (2018: 100%)	Trading of sporting goods
Sanliuyidu (Xiamen) Investment Management Consulting Co., Ltd. 三六一度(廈門)投資管理諮詢有限公司 (Notes (ii) and (iv))	PRC	RMB1,000,000	100% (2018: 100%)	–	100% (2018: 100%)	Investment holding
Quanzhou Shenghong Trading Co., Ltd. 泉州市晟鴻商貿有限公司 (Notes (ii) and (iv))	PRC	RMB1,000,000	100% (2018: 100%)	–	100% (2018: 100%)	Trading of sporting goods

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 13. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiaries	Place of establishment/ incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Quanzhou 361 Degrees Investment Company Limited 泉州三六一度投資有限公司 (Notes (ii) and (iv))	PRC	RMB50,000,000	100% (2018: 100%)	–	100% (2018: 100%)	Investment holding
Zhuji 361 Degrees Children's Wear Co. Limited ("Zhuji 361 Degrees") 諸暨市三六一度童裝有限公司 (Notes (ii), (iv) and (v))	PRC	HK\$134,737,000 (2018: HK\$120,000,000)	74% (2018: 87%)	–	85% (2018: 100%)	Trading of children sporting goods
Quanzhou Xuandong Trading Co., Ltd. 泉州炫動商貿有限公司 (Notes (ii) and (iv))	PRC	RMB1,000,000	100% (2018: 100%)	–	100% (2018: 100%)	Trading of sporting goods

### Notes:

- (i) These entities are wholly foreign owned enterprises established in the PRC.
- (ii) These entities are limited liability companies established in the PRC.
- (iii) The entity is a sino-foreign equity joint venture enterprise registered in the PRC.
- (iv) The English translation of the company names is for reference only. The official names of these companies are in Chinese.
- (v) On 9 November 2018, the Group entered into the investment agreement with Zhuji Yingshi Chuangjia Equity Investment Limited Partnership (the "Investor"), an independent third party, that the Investor agreed to acquire approximately 14.93% of the equity interest in Zhuji 361 Degrees, an indirectly wholly-owned subsidiary of the Company, by way of subscribing for additional registered capital at a consideration of RMB500,000,000. The subscription shall be subject to the condition precedent that the substantive operations of the Group's all kids wears business are shifted into Zhuji 361 Degrees and the consideration is fully injected into Zhuji 361 Degrees. If the Group and the Investor failed to satisfy the condition precedent, the investment advancement would have to be refunded to the Investor.

As at 31 December 2018, the Group had received the investment advancement in amount of RMB350,000,000 ("Initial Investment"), which is recorded in advances from Investor (see note 18), as the injection of Initial Investment to the Group's kids wears business to Zhuji 361 Degrees had not commenced yet. In April 2019, kids wears business were started to shift into Zhuji 361 Degrees. On 30 September 2019, the Group further received the investment advancement in amount of RMB150,000,000 ("Subsequent Investment").

Upon completion of the injection of Subsequent Investment on 30 September 2019, in the opinion of the directors of the Company, the investment by the Investor was completed. The equity interests in Zhuji 361 Degrees held by an indirectly owned subsidiary of the Company was decreased from 100% to approximately 85.07%. The decrease in equity interests in Zhuji 361 Degrees is considered as a deemed disposal of a subsidiary and accounted for as an equity transaction. The difference between the net assets shared by the non-controlling interests of RMB171,998,000 and consideration received of RMB500,000,000 was treated as an equity movement and recorded in "Other reserves".

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 14. OTHER NON-CURRENT FINANCIAL ASSET

	2019 RMB'000	2018 RMB'000
<b>Equity securities designated at FVOCI (non-recycling)</b>		
– Unlisted equity securities	<b>24,992</b>	28,579

The unlisted equity securities represent equity interest of 6.7% (2018: 6.7%) in Jinjiang Merchant Investment Co., Ltd, a company incorporated in the PRC and engaged in property development. The Group designated its investment in Jinjiang Merchant Investment Co., Ltd at FVOCI (non-recycling), as the investment is held for strategic purposes. No dividends income (2018: RMB35,286,000) were recognised on this investment during the year.

### 15. INVENTORIES

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

	2019 RMB'000	2018 RMB'000
Raw materials	<b>23,892</b>	64,868
Work in progress	<b>21,958</b>	21,546
Finished goods	<b>1,122,186</b>	964,685
	<b>1,168,036</b>	1,051,099

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

	2019 RMB'000	2018 RMB'000
Carrying amount of inventories sold	<b>3,362,250</b>	3,069,499
Write down of inventories	<b>–</b>	12,076
	<b>3,362,250</b>	3,081,575

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 16. TRADE AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade debtors	2,125,643	2,362,054
Less: allowance for doubtful debts	(50,847)	(57,855)
<b>Trade debtors, net of loss allowance</b>	<b>2,074,796</b>	2,304,199
<b>Bills receivable</b>	<b>124,578</b>	95,072
	<b>2,199,374</b>	2,399,271
<b>Deposits, prepayments and other receivables</b>		
<i>Current</i>		
Deposits	8	31
Prepayments	531,642	616,040
Other receivables	107,824	104,909
	<b>639,474</b>	720,980
<i>Non-current</i>		
Deposits and prepayments	<b>91,895</b>	94,060

As at 31 December 2019, the Group endorsed certain bank acceptance bills totalling RMB217,513,000 (2018: RMB4,470,000) to suppliers for settling trade payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and the payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of the reporting period. In the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

Included in prepayments are amounts prepaid to suppliers of RMB451,784,000 (2018: RMB582,878,000).

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 16. TRADE AND OTHER RECEIVABLES (Continued)

#### Ageing analysis

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

	2019 RMB'000	2018 RMB'000
Within 90 days	1,500,107	1,481,001
Over 90 days but within 180 days	667,207	873,813
Over 180 days but within 360 days	32,060	44,457
	<b>2,199,374</b>	<b>2,399,271</b>

Trade debtors and bills receivable are due within 30 to 180 days (2018: 30 to 180 days) from the date of billing. Further details on the Group's credit policy are set out in note 26(a).

### 17. CASH AND BANK DEPOSITS AND OTHER CASH FLOW INFORMATION

#### (a) Cash and bank deposits comprise:

	2019 RMB'000	2018 RMB'000
Pledged bank deposits	230,675	327,405
Deposits with banks		
– More than three months to maturity when placed	3,000,000	4,500,000
– Within three months to maturity when placed	392,029	13,757
Cash at bank and on hand	3,030,266	1,637,524
	<b>6,652,970</b>	<b>6,478,686</b>
Cash and bank deposits		
	<b>6,652,970</b>	<b>6,478,686</b>
<i>Represented by:</i>		
Pledged bank deposits	230,675	327,405
Deposits with banks	3,000,000	4,500,000
Cash and cash equivalents	3,422,295	1,651,281
	<b>6,652,970</b>	<b>6,478,686</b>

Bank deposits are pledged to banks as security for certain banking facilities (see note 20).

At 31 December 2019, balances that were placed with banks or on hand in the PRC and included in the pledged bank deposits, deposits with banks and cash and cash equivalents amounted to RMB6,394,187,000 (2018: RMB6,387,612,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 17. CASH AND BANK DEPOSITS AND OTHER CASH FLOW INFORMATION (Continued)

### (b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Lease liabilities RMB'000 (note 19)	Bank loans RMB'000 (note 20)	Interest- bearing borrowings RMB'000 (note 21)	Total RMB'000
<b>At 1 January 2018</b>	–	12,814	2,565,480	2,578,294
<b>Changes from financing cash flows:</b>				
Proceeds from bank loans	–	100,000	–	100,000
Repayment of bank loans	–	(1,242)	–	(1,242)
Interest paid	–	(6,710)	(192,219)	(198,929)
Total changes from financing cash flows	–	92,048	(192,219)	(100,171)
<b>Exchange realignment</b>	–	604	136,193	136,797
<b>Other change:</b>				
Interest expense (note 5(a))	–	6,710	204,939	211,649
<b>At 31 December 2018</b>	–	112,176	2,714,393	2,826,569
Impact on initial application of HKFRS 16 (note 1(c))	8,334	–	–	8,334
<b>At 1 January 2019</b>	8,334	112,176	2,714,393	2,834,903
<b>Changes from financing cash flows:</b>				
Payment for repurchase of senior unsecured notes	–	–	(314,957)	(314,957)
Capital element of lease rentals paid	(6,939)	–	–	(6,939)
Interest element of lease rentals paid	(296)	–	–	(296)
Proceeds from bank loans	–	100,000	–	100,000
Repayment of bank loans	–	(101,221)	–	(101,221)
Interest paid	–	(6,643)	(193,451)	(200,094)
Total changes from financing cash flows	(7,235)	(7,864)	(508,408)	(523,507)



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 17. CASH AND BANK DEPOSITS AND OTHER CASH FLOW INFORMATION (Continued)

#### (b) Reconciliation of liabilities arising from financing activities (Continued)

	Lease liabilities RMB'000 (note 19)	Bank loans RMB'000 (note 20)	Interest- bearing borrowings RMB'000 (note 21)	Total RMB'000
Exchange realignment	29	231	54,733	54,993
<b>Other changes:</b>				
Interest expense (note 5(a))	296	6,643	210,530	217,469
Addition of lease liabilities	1,865	–	–	1,865
Gain on repurchase of senior unsecured notes	–	–	(52,644)	(52,644)
Total other changes	2,161	6,643	157,886	166,690
<b>At 31 December 2019</b>	<b>3,289</b>	<b>111,186</b>	<b>2,418,604</b>	<b>2,533,079</b>

### 18. TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade creditors	720,726	704,253
Bills payable	850,420	1,013,986
Contract liabilities	164,496	141,128
Advances from Investor (note 13(v))	–	350,000
Other payables and accruals	570,525	556,803
	<b>2,306,167</b>	<b>2,766,170</b>

Apart from advances from investor, all of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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:

	2019 RMB'000	2018 RMB'000
Due within 1 month or on demand	745,242	384,030
Due after 1 month but within 3 months	374,472	540,334
Due after 3 months but within 6 months	451,432	717,875
Due after 6 months but within 12 months	–	76,000
	<b>1,571,146</b>	<b>1,718,239</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 18. TRADE AND OTHER PAYABLES (Continued)

Bills payable were secured by pledged bank deposits as disclosed in note 17(a) and guaranteed by certain subsidiaries of the Company.

Contract liabilities, representing receipt in advance from customers, are separately presented. Movement of contract liabilities is as follows:

	2019 RMB'000	2018 RMB'000
Balance at 1 January	141,128	83,797
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(141,128)	(83,797)
Increase in contract liabilities as a result of receiving forward sales deposits and instalments during the year	164,496	141,128
Balance at 31 December	164,496	141,128

## 19. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31 December 2019 Present		1 January 2019 (note) Present		31 December 2018 (note) Present	
	value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	2,763	2,845	5,152	5,376	-	-
After 1 year but within 2 years	526	537	2,670	2,823	-	-
After 2 years but within 5 years	-	-	512	522	-	-
	526	537	3,182	3,345	-	-
	3,289	3,382	8,334	8,721	-	-
Less: total future interest expenses		(93)		(387)		-
Present value of lease liabilities		3,289		8,334		-

*Note:* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in note 1(c).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 19. LEASE LIABILITIES (Continued)

Amounts included in the consolidated statement of cash flows for leases comprise the following:

	2019 RMB'000	2018 (note) RMB'000
Within operating cash flows	–	11,466
Within financing cash flows	7,235	–
	7,235	11,466

*Note:* As explained in the note 1(c), the adoption of HKFRS 16 introduces a change in classification of cash flows of rentals paid on leases. The comparative amounts have not been restated.

### 20. BANK LOANS

At 31 December 2019, the bank loans were repayable within one year or on demand and secured as follows:

	2019 RMB'000	2018 RMB'000
Secured bank loans	11,186	12,176
Unsecured bank loans	100,000	100,000
	111,186	112,176

The amounts of banking facilities and the utilisation at the end of each reporting period are set out as follows:

	2019 RMB'000	2018 RMB'000
Facilities amount	2,997,865	4,383,938
Utilisation at the end of the reporting period		
– Bills payable	850,420	1,013,986
– Bank loans	111,186	112,176
	961,606	1,126,162

As at 31 December 2019 and 2018, bank loans and bills payable of the Group were secured by a property with carrying amount of RMB43,571,000 (2018: RMB43,953,000) (note 11) and pledged bank deposits of RMB230,675,000 (2018: RMB327,405,000) (note 17(a)). As at 31 December 2019 and 2018, bank loans and bills payable of the Group were also guaranteed by certain subsidiaries of the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 21. NON-CURRENT INTEREST-BEARING BORROWINGS

	2019 RMB'000	2018 RMB'000
At amortised cost:		
Senior unsecured notes due 2021	2,418,604	2,714,393

On 3 June 2016, the Company issued senior unsecured notes with principal amount of US\$400,000,000 due 2021 (“the “US\$ Notes”). The US\$ Notes are interest bearing at 7.25% per annum, and payable on a semi-annual basis in arrears. The maturity date of the US\$ Notes is 3 June 2021. The effective interest rate of the US\$ Notes is 7.86% per annum.

During the year, the Company repurchased an aggregate principal amount of US\$53,750,000 (equivalent to approximately RMB370,200,000) (2018: nil) (“Repurchased Notes”) in the open market, representing approximately 13.4% of the initial aggregate principal amount of the US\$ Notes. All the Repurchased Notes were cancelled during the year ended 31 December 2019. As at 31 December 2019, the remaining aggregate principal amount of the US\$ Notes outstanding was US\$346,250,000. The difference between the carrying amount at amortised cost of approximately RMB367,601,000 and the payment of the Repurchased Notes of approximately RMB314,957,000 is recognised in profit or loss as gain on repurchase of senior unsecured notes of approximately RMB52,644,000 for the year.

### 22. EMPLOYEE RETIREMENT BENEFITS

#### Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in a defined contribution retirement benefit scheme (the “Scheme”) organised by the PRC municipal government authority in the Fujian Province whereby the Group is required to make contributions to the Scheme at rates which ranged from 16% to 19% of the eligible employees’ relevant salaries. The local government authority is responsible for the entire pension obligations payable to retired employees.

The Group also operates a Mandatory Provident Fund Scheme (the “MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of pension benefits associated with the Scheme and the MPF scheme beyond the annual contributions described above.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 23. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2019 RMB'000	2018 RMB'000
Balance at 1 January	475,905	468,040
Provision for PRC income tax for the year (note 6(a))	247,401	266,642
Over-provision in respect of prior years (note 6(a))	–	(5,258)
Payment during the year	(334,412)	(253,519)
Balance at 31 December	388,894	475,905

(b) Deferred tax assets and liabilities recognised:

(i) Movement of each component of deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movement during the year are as follows:

	Credit loss allowance RMB'000	Expenses deductible on paid basis RMB'000	Income taxable on receipt basis RMB'000	Revaluation of other financial asset RMB'000	Total RMB'000
<b>Deferred tax arising from:</b>					
Balance at 1 January 2018	14,163	43,085	(4,034)	(11,045)	42,169
Credit/(charged) to profit or loss (note 6(a))	300	(4,088)	(133)	–	(3,921)
Credited to reserves (note 9)	–	–	–	5,591	5,591
Balance at 31 December 2018 and 1 January 2019	14,463	38,997	(4,167)	(5,454)	43,839
Effect on deferred tax balances resulting from a change in tax rate credited to profit or loss (note 6(a))	–	4,367	–	–	4,367
Charged to profit or loss (note 6(a))	(1,761)	(3,514)	(4,341)	–	(9,616)
Effect on deferred tax balances resulting from a change in tax rate credited to reserves (note 9)	–	–	–	2,182	2,182
Credited to reserves (note 9)	–	–	–	538	538
<b>Balance at 31 December 2019</b>	<b>12,702</b>	<b>39,850</b>	<b>(8,508)</b>	<b>(2,734)</b>	<b>41,310</b>

## 23. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

### (b) Deferred tax assets and liabilities recognised: (Continued)

#### (ii) Reconciliation to the consolidated statement of financial position

	2019 RMB'000	2018 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	41,310	45,800
Net deferred tax liabilities recognised in the consolidated statement of financial position	–	(1,961)
	41,310	43,839

### (c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(p), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB51,491,000 (2018: RMB32,747,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses will expire within 5 years when such losses were incurred under current tax legislation.

### (d) Deferred tax liabilities not recognised

Pursuant to the EIT law, 10% withholding tax is levied on the foreign investor, (foreign investors which are registered in Hong Kong and meet certain requirements specified in the relevant tax regulations in the PRC may be entitled to a preferential 5% rate), in respect of dividend distributions arising from profit earned by a foreign investment enterprise in the PRC after 1 January 2008.

At 31 December 2018, the Group has not recognised deferred tax liabilities of RMB295,395,000 (2018: RMB287,214,000) in respect of temporary differences relating to the undistributed profits of subsidiaries amounting to RMB5,907,907,000 (2018: RMB5,744,283,000) that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 24. CAPITAL, RESERVES AND DIVIDENDS

#### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Notes	Share capital RMB'000	Exchange reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
<b>Balance at 1 January 2018</b>		182,298	(80,458)	186,942	288,782
<b>Changes in equity for 2018:</b>					
Loss for the year		–	–	(24,072)	(24,072)
Other comprehensive income		–	4,719	–	4,719
Total comprehensive income/(loss) for the year		–	4,719	(24,072)	(19,353)
Dividends declared and paid during the year	24(b)	–	–	(194,355)	(194,355)
<b>Balance at 31 December 2018 and 1 January 2019</b>		182,298	(75,739)	(31,485)	75,074
<b>Changes in equity for 2019:</b>					
Profit for the year		–	–	239,921	239,921
Other comprehensive loss		–	(2,556)	–	(2,556)
Total comprehensive (loss)/income for the year		–	(2,556)	239,921	237,365
Dividends declared and paid during the year	24(b)	–	–	(169,543)	(169,543)
<b>Balance at 31 December 2019</b>		182,298	(78,295)	38,893	142,896

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 24. CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (b) Dividends

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

	2019 RMB'000	2018 RMB'000
Interim dividend declared and paid of HK8.2 cents (2018: HK7.6 cents) per ordinary share	148,867	132,327
Special dividend declared and paid of HK1.1 cents (2018: nil) per ordinary share	20,676	–
Final dividend proposed after the end of the reporting period of HK1.5 cents (2018: nil) per ordinary share #	27,804	–
	197,347	132,327

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

	2019 RMB'000	2018 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK Nil (2018: HK3.6 cents) per ordinary share	–	62,028

Note:

# These final dividends have not been provided in the consolidated financial statements during the year.

### (c) Share capital

	2019 Number of shares '000	Amount HK\$'000	2018 Number of shares '000	Amount HK\$'000
<b>Authorised:</b>				
Ordinary shares of HK\$0.1 each	10,000,000	1,000,000	10,000,000	1,000,000

	Number of shares '000	Amount HK\$'000	Amount RMB'000
<b>Ordinary shares, issued and fully paid:</b>			
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	2,067,602	206,760	182,298

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 24. CAPITAL, RESERVES AND DIVIDENDS (Continued)

#### (d) Nature and purpose of reserves

##### (i) Other reserves

On 25 July 2008, the shareholders transferred the entire equity interest in Sanliuyidu (Fujian) Sports Goods Co., Ltd. and the business of Sanliuyidu (Hong Kong) Sports Goods Co., Ltd. to 361 Enterprise Company Limited for cash consideration of HK\$1. The difference between the historical carrying value of equity acquired and acquisition consideration is treated as an equity movement and recorded in “Other reserves”.

On 23 December 2013, 361 Degrees Kids Wear Limited allotted shares to holders of non-controlling interests, which represented 13% of its enlarged share capital, and received a total consideration of RMB16,225,000. The difference between the net assets shared by the non-controlling interests and consideration received was treated as an equity movement and recorded in “Other reserves”.

On 30 September 2019, the Investor injected Subsequent Investment to Zhuji 361 Degrees of RMB150,000,000. Upon completion of the injection of Subsequent Investment, in the opinion of the directors of the Company, the investment by the Investor with total consideration of RMB500,000,000 was completed. The difference between the net assets shared by the non-controlling interests of RMB171,998,000 and the total consideration received was treated as an equity movement and recorded in “Other reserves”.

##### (ii) Statutory reserve

Pursuant to applicable PRC regulations, certain PRC subsidiaries are required to appropriate 10% of their profit after income tax (after offsetting prior year losses) to the reserve until such reserve reaches 50% of the registered capital. The transfer to the reserve must be made before distribution of dividends to shareholders. The statutory reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the subsidiary, provided that the balance after such issue is not less than 25% of its registered capital.

##### (iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from translation of the financial statements of entities with functional currency other than RMB, the presentation currency. The reserve is dealt with in accordance with the accounting policy set out in note 1(s).

##### (iv) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (see note 1(e)).

#### (e) Distributability of reserves

At 31 December 2019, aggregate amount of reserves available for distribution to equity shareholders of the Company amounted to RMB38,893,000 (2018: nil). After the end of the reporting period, the directors of the Company recommended the payment of a final dividend of RMB27,804,000 (2018: nil) for the current year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 24. CAPITAL, RESERVES AND DIVIDENDS (Continued)

#### (f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital with reference to its debt position. The Group's strategy was to maintain the equity and debt in a balanced position and ensure there were adequate working capital to service its debt obligation. The Group's gearing ratio, being the Group's interest bearing debt over its total assets, as at 31 December 2019 was 21% (2018: 24%).

Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

### 25. FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	2019 RMB'000	2018 RMB'000
<b>Financial assets</b>		
Financial assets at amortised cost		
Trade debtors	2,074,796	2,304,199
Bills receivable	124,578	95,072
Other receivables	107,824	104,909
Pledged bank deposits	230,675	327,405
Deposits with banks	3,000,000	4,500,000
Cash and cash equivalents	3,422,295	1,651,281
FVOCI		
Other financial asset	24,992	28,579
	<b>8,985,160</b>	<b>9,011,445</b>
<b>Financial liabilities</b>		
Financial liabilities at amortised cost		
Trade and other payables	2,141,671	2,275,042
Lease liabilities	3,289	–
Bank loans	111,186	112,176
Interest-bearing borrowings	2,418,604	2,714,393
	<b>4,674,750</b>	<b>5,101,611</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate, currency and commodity price risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from the movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

#### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents, pledged bank deposits, deposits with banks and bills receivable is limited because the counterparties are banks, for which the Group considers to have low credit risk. Other receivables are due to various group of debtors and the directors of the Company consider the credit risk of these parties is low. At the end of the reporting period, there is some concentration and credit risk on the total bank deposits (including cash and cash equivalents, pledged bank deposits, deposits with banks), as most of the total bank deposits were placed in certain banks.

##### Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 11% (2018: 6%) and 47% (2018: 39%) of the gross trade receivables was due from the Group's largest customer and the five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 180 days from the date of billing. Debtors with balances that are more than 6 months past due are requested to settle all outstanding balances. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customers bases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

## 26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

### (a) Credit risk (Continued)

#### Trade receivables (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	Weighted average expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
<b>At 31 December 2019</b>				
Current (not past due)	0.6	1,498,254	(8,308)	1,489,946
1 – 90 days past due	3.9	516,081	(19,916)	496,165
More than 90 days past due	20.3	111,308	(22,623)	88,685
		<b>2,125,643</b>	<b>(50,847)</b>	<b>2,074,796</b>
<b>At 31 December 2018</b>				
Current (not past due)	0.7	2,131,273	(14,919)	2,116,354
1 – 90 days past due	10.0	182,879	(18,288)	164,591
More than 90 days past due	51.5	47,902	(24,648)	23,254
		<b>2,362,054</b>	<b>(57,855)</b>	<b>2,304,199</b>

Expected loss rates are based on historical actual loss experience. These rates are adjusted for factors that are specific to the debtors, and to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2019 RMB'000	2018 RMB'000
Balance at 1 January	57,855	56,655
(Reversal of impairment losses)/impairment losses recognised during the year (note 5(c))	(7,008)	1,200
Balance at 31 December	50,847	57,855



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

#### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowing exceeds certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	Contractual undiscounted cash outflow			Total RMB'000	Carrying amount RMB'000
	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years but less than 5 years RMB'000		
<b>At 31 December 2019</b>					
Trade and other payables	2,141,671	–	–	2,141,671	2,141,671
Lease liabilities	2,845	537	–	3,382	3,289
Bank loans	113,024	–	–	113,024	111,186
Interest-bearing borrowings	176,668	2,511,333	–	2,688,001	2,418,604
<b>Total</b>	<b>2,434,208</b>	<b>2,511,870</b>	<b>–</b>	<b>4,946,078</b>	<b>4,674,750</b>
<b>At 31 December 2018</b>					
Trade and other payables	2,275,042	–	–	2,275,042	2,275,042
Bank loans	115,458	–	–	115,458	112,176
Interest-bearing borrowings	189,452	189,452	2,802,581	3,181,485	2,714,393
<b>Total</b>	<b>2,579,952</b>	<b>189,452</b>	<b>2,802,581</b>	<b>5,571,985</b>	<b>5,101,611</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

#### (b) Liquidity risk (Continued)

The table below summarises the maturity analysis of bank loans with a repayment on cross default clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the “on demand” time band in the maturity analysis contained in the above table.

The directors of the Company do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Contractual undiscounted cash outflow				Total RMB'000	Carrying amount RMB'000
	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000		
<b>At 31 December 2019</b>						
Bank loans	1,542	1,542	4,627	4,627	12,338	11,186
<b>At 31 December 2018</b>						
Bank loans	1,518	1,511	4,533	6,044	13,606	12,176

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

#### (c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from lease liabilities, bank loans, interest-bearing borrowings, pledged bank deposits, deposits with banks and cash and cash equivalents. Borrowings, deposits and cash and cash equivalents at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

#### (i) Interest rate profile

The following table details the interest rate profile of the Group's net borrowings (being interest-generating financial liabilities less pledged bank deposits, deposits with banks and cash and cash equivalents) at the end of the reporting period.

	2019 Effective interest rate per annum %	Amount RMB'000	2018 Effective interest rate per annum %	Amount RMB'000
<b>Fixed rate deposits/(borrowings)</b>				
Pledged bank deposits	0.30 – 1.55	230,675	0.30 – 1.55	327,405
Deposits with banks	1.95 – 2.10	3,000,000	1.95 – 2.15	4,500,000
Cash and cash equivalents	1.00 – 2.10	392,029	2.70	13,757
Lease liabilities	5.01	(3,289)	N/A	–
Interest-bearing borrowings	7.86	(2,418,604)	7.86	(2,714,393)
		1,200,811		2,126,769
<b>Variable rate deposits/(borrowings)</b>				
Cash and cash equivalents	0.002 – 0.35	3,022,253	0.001 – 0.42	1,613,424
Bank loans	2.47 – 4.62	(111,186)	2.6 – 5.01	(112,176)
		2,911,067		1,501,248
<b>Total net deposits</b>		<b>4,111,878</b>		<b>3,628,017</b>

## 26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

### (c) Interest rate risk (Continued)

#### (ii) Sensitivity analysis

At 31 December 2019, it is estimated that a general increase/decrease of 100 basis points in both saving and lending interest rates, with all other variables held constant, would have increased/decreased the Group's profit after income tax and retained profits by approximately RMB22,288,000 (2018: RMB12,739,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after income tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after income tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2018.

### (d) Currency risk

The Group is exposed to currency risk primarily through bank deposits and interest-bearing borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily HK\$ and US\$.

#### (i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date.

	Exposure of foreign currencies (expressed in RMB)					
	2019			2018		
	Hong Kong	United		Hong Kong	United	
	dollars	States	Renminbi	dollars	States	Renminbi
	RMB'000	dollars	Renminbi	dollars	dollars	Renminbi
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank deposits	979	230,790	3	44,991	26,776	22,582
Amounts due from group companies	-	-	1,564,792	-	-	1,311,834
Amounts due to group companies	-	-	(701,088)	-	-	(31,938)
Interest-bearing borrowings	-	(2,418,604)	-	-	(2,714,393)	-
Net exposure arising from recognised assets and liabilities	979	(2,187,814)	863,707	44,991	(2,687,617)	1,302,478

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

#### (d) Currency risk (Continued)

##### (ii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after income tax and retained profits that would arise if the foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variable remained constant. In this respect, it is assumed that the pegged rate between the HK\$ and the US\$ would be materially unaffected by any changes in movement in value of the US\$ against other currencies.

	2019		2018	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after income tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after income tax and retained profits RMB'000
Hong Kong dollars	5% (5%)	37 (37)	5% (5%)	1,921 (1,921)
Renminbi	5% (5%)	43,185 (43,185)	5% (5%)	65,124 (65,124)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after income tax and retained profits measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2018.

#### (e) Commodity price risk

The major raw materials used in the production of the Group's products include leathers, polymers and plastics. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

#### (f) Business risk

The Group's primary business is the design, manufacturing and distribution of branded sports footwear, apparel and related accessories. The Group's financial results are influenced by the rapidity with which designs are copied by competitors and reproduced at much lower prices, as well as by the Group's ability to continue to create new designs that find favour in the market place, maintain a larger network of distributors, manufacture sufficient quantities to meet fashionable sales, and dispose of excess inventories without excessive losses. Based on these factors, the Group may experience significant fluctuations in its future financial results.

## 26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

### (g) Fair value measurement

#### (i) Financial assets measured at fair value

##### *Fair value hierarchy*

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value measurements categorised into			
	Fair value RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
<b>Recurring fair value measurement:</b>				
<b>At 31 December 2019</b>				
Financial asset:				
Unlisted equity security	24,992	–	–	24,992
<b>At 31 December 2018</b>				
Financial asset:				
Unlisted equity security	28,579	–	–	28,579

During the year, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2018: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

##### *Information about Level 3 fair value measurements*

The fair value of unlisted equity instruments is determined by adjusted net assets value approach. Under adjusted net assets value approach, total value of the equity was based on the sum of the net asset value, determined by marking every asset and liability on (and of) the investee's balance sheet to fair value. The fair value measurement is negatively correlated to the discount for lack of marketability. As at 31 December 2019, it is estimated that with all other variables held constant, a decrease/increase in discount for lack of marketability by 5% (2018: 10%) would have increased/decreased the Group's other comprehensive income by RMB2,586,000 (2018: RMB3,175,000).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 26. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

#### (g) Fair value measurement (Continued)

##### (i) Financial assets measured at fair value (Continued)

Information about Level 3 fair value measurements (Continued)

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

	2019 RMB'000	2018 RMB'000
<b>Unlisted equity securities:</b>		
Balance at 1 January	28,579	50,942
Net unrealised losses recognised in other comprehensive income during the year (note 9)	(3,587)	(22,363)
Balance at 31 December	24,992	28,579

##### (ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at amortised cost were not materially different from their fair values as at 31 December 2019 and 2018 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

	Carrying amount RMB'000	Fair value RMB'000	Fair value measurements categorised into		
			Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
<b>At 31 December 2019</b>					
Interest-bearing borrowings	2,418,604	1,968,710	1,968,710	-	-
<b>At 31 December 2018</b>					
Interest-bearing borrowings	2,714,393	2,645,903	2,645,903	-	-

The fair values of the interest-bearing borrowings, listed senior unsecured notes in Hong Kong, are quoted in the active market.

### 27. COMMITMENTS

#### (a) Contractual commitments outstanding at 31 December 2019 not provided for in the financial statements were as follows:

	2019 RMB'000	2018 RMB'000
Advertising and marketing expenses	137,483	117,304

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 27. COMMITMENTS (Continued)

- (b) Capital commitments outstanding at 31 December 2019 not provided for in the financial statements were as follows:

	2019 RMB'000	2018 RMB'000
Contracted for	2,249	2,249

- (c) At 31 December 2019, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	1,769	8,390
After 1 year but within 5 years	–	3,594
	1,769	11,984

The Group is the lessee in respect of a number of warehouses and offices held under operating leases. The leases 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 include contingent rentals.

The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 1(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 1(g), and the details regarding the Group's future lease payments are disclosed in note 19.

Operating lease commitments as at 31 December 2019 shown above only represent lease commitments of the Group for short-term leases.

### 28. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed in elsewhere in the consolidated financial statements, the Group enter into the following related party transactions:

#### Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	34,766	28,590
Post-employment benefits	430	617
	35,196	29,207

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

### 29. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Notes	2019 RMB'000	2018 RMB'000
<b>Non-current asset</b>			
Investments in subsidiaries	13	1	1
<b>Current assets</b>			
Amounts due from subsidiaries		2,604,579	2,831,326
Cash and cash equivalents		993	979
		<b>2,605,572</b>	2,832,305
<b>Current liabilities</b>			
Other payables		14,013	12,416
Amounts due to subsidiaries		30,060	30,423
		<b>44,073</b>	42,839
<b>Net current assets</b>		<b>2,561,499</b>	2,789,466
<b>Total assets less current liabilities</b>		<b>2,561,500</b>	2,789,467
<b>Non-current liability</b>			
Interest-bearing borrowings	21	2,418,604	2,714,393
<b>Net assets</b>		<b>142,896</b>	75,074
<b>Capital and reserves</b>	24(a)		
Share capital		182,298	182,298
Deficit		(39,402)	(107,224)
<b>Total equity</b>		<b>142,896</b>	75,074

### 30. EVENTS AFTER THE REPORTING PERIOD

#### (1) Repurchase of senior unsecured notes due 2021

Subsequent to the year, the Company further repurchased US\$ Note with an aggregate principal amount of US\$32,140,000 in the open market, representing approximately 8.0% of the initial aggregate principal amount of the US\$ Notes. Up to the date of issue of these consolidated financial statements, the remaining aggregate principal amount of the US\$ Notes outstanding was US\$314,110,000.

#### (2) The assessment of the impact of the novel coronavirus

Due to the outbreak of the novel coronavirus (COVID-19) epidemic in China in January 2020, the Group's operational and financial performance, as well as the sports industry in general are expected to be affected by the epidemic in the first half of 2020. The Group will keep continuous attention on the situation of the COVID-19, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of issue of these consolidated financial statements, the assessment is still in progress.

### 31. COMPARATIVE FIGURES

The Group has initially applied HKFRS 16 at 1 January 2019. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 1(c).

Impairment losses on financial assets, which were previously included in administrative expenses, were presented as single line item in the consolidated statement of profit or loss, in order to confirm with the current year's presentation and disclosures.

### 32. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments and new standard, HKFRS 17 *Insurance Contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3 Definition of a Business	1 January 2020
Amendments to HKAS 1 and HKAS 8 Definition of Material	1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far the directors of the Company have concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

# SHAREHOLDER INFORMATION

## FINANCIAL CALENDAR

Announcement of final results	17 March 2020
Ex-entitlement date for final dividend	4 May 2020
Closure of register of members and record date (Final dividend)	6 May 2020 to 8 May 2020
Closure of register of members and record date (AGM)	23 April 2020 to 28 April 2020
Dispatch of final dividend warrants	3 June 2020

## DIVIDENDS

The Board recommended to declare a final dividend of HK1.5 cents (equivalent to RMB1.3 cents for illustration purpose only) per ordinary share for the year ended 31 December 2019, subject to approval by the Company's shareholders at the forthcoming annual general meeting ("the AGM"). Including an interim dividend of HK8.2 cents (equivalent to RMB7.2 cents for illustration purpose only) and a special dividend of HK1.1 cents (equivalent to RMB1.0 cents for illustration purpose only) per ordinary share for the six months ended 30 June 2019 which have already been paid, if final dividend will be approved, total payout for the year will amount to HK10.8 cents (equivalent to RMB9.5 cents for illustration purpose only) per ordinary share or RMB197.3 million in aggregate, representing 45.6% of the profit attributable to equity shareholders of the Group for the year ended 31 December 2019. It is expected that the final dividend, if approved by Company's shareholders at the forthcoming AGM of the Company, will be paid to shareholders on or about 3 June 2020.

## CLOSURE OF REGISTER OF MEMBERS

The AGM of the Company will be held on Tuesday, 28 April 2020. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 23 April 2020 to Tuesday, 28 April 2020, both days inclusive, during which period no transfer of shares will be effected.

In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 22 April 2020.

The proposed final dividend is subject to the passing of an ordinary resolution by the Company's shareholders at the AGM. The record date for entitlement to the proposed final dividend is Friday, 8 May 2020. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 6 May 2020 to Friday, 8 May 2020, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 5 May 2020.

## CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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

### **HONG KONG SHARE REGISTRAR**

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

### **INVESTOR RELATIONS CONTACT**

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



# 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)  
(retirement effective from  
20 May 2019)  
Liao Jianwen (廖建文)  
(resignation effective from  
27 August 2019)  
Li Yuen Fai Roger (李苑輝)  
Hon Ping Cho Terence (韓炳祖)  
(appointed on 20 May 2019)  
Chen Chuang (陳闖)  
(appointed on 27 August 2019)

## BOARD COMMITTEES

### Audit Committee

Li Yuen Fai Roger (李苑輝)  
(Chairman) (appointed as chairman  
on 20 May 2019 and was  
a member prior to being  
a chairman)  
Tsui Yung Kwok (徐容國) (Chairman)  
(retirement as the chairman  
and member effective from  
20 May 2019)  
Liao Jianwen (廖建文)  
(resignation effective from  
27 August 2019)  
Hon Ping Cho Terence (韓炳祖)  
(appointed on 20 May 2019)  
Chen Chuang (陳闖)  
(appointed on 27 August 2019)

### Remuneration Committee

Chen Chuang (陳闖) (Chairman)  
(appointed on 27 August 2019)  
Liao Jianwen (廖建文) (Chairman)  
(resignation as the chairman  
and member effective from  
27 August 2019)  
Wang Jiabi (王加碧)  
Hon Ping Cho Terence (韓炳祖)  
(appointed on 20 May 2019)  
Tsui Yung Kwok (徐容國)  
(retirement effective from  
20 May 2019)

## Nomination Committee

Hon Ping Cho Terence (韓炳祖)  
(Chairman)  
(appointed on 20 May 2019)  
Ding Wuhao (丁伍號)  
Li Yuen Fai Roger (李苑輝)  
(ceased to be the chairman  
on 20 May 2019 and  
remained as a member)  
Tsui Yung Kwok (徐容國)  
(retirement effective from  
20 May 2019)

## 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 SAR of the PRC

## REGISTERED OFFICE

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

## AUDITOR

KPMG  
(resigned on 13 November 2019)  
Moore Stephens CPA Limited  
(appointed on 13 November 2019)

## 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



# 361°

**361 DEGREES  
INTERNATIONAL LIMITED**

INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY



MIX  
Paper from  
responsible sources  
FSC® C004888

## **REVIEW OF ANNUAL RESULTS BY THE AUDIT COMMITTEE**

The Company has established an audit committee which is accountable to the Board and the primary duties of which include the review and supervision of the Group's financial reporting process and internal control measures. The audit committee comprises three independent non-executive directors of the Company, Mr. Li Yuen Fai Roger, Mr. Hon Ping Cho Terence and Mr. Chen Chuang. Mr. Li Yuen Fai Roger serves as the chairman of the audit committee of the Company. The chairman of the audit committee has professional qualification and experience in financial matters in compliance with the requirement of the Listing Rules.

The audit committee of the Company has agreed with the external auditors of the Group, Moore Stephens CPA Limited, and has reviewed the accounting principles and practices adopted by the Group and the consolidated results of the Group for the year ended 31 December 2019. The audit committee considered that the consolidated results of the Group for the year ended 31 December 2019 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been duly made.

## **DIVIDENDS**

The Board recommended to declare a final dividend of HK1.5 cents (equivalent to RMB1.3 cents for illustration purpose only) per ordinary share for the year ended 31 December 2019, subject to approval by the Company's shareholders at the forthcoming annual general meeting ("the AGM"). Including an interim dividend of HK8.2 cents (equivalent to RMB7.2 cents for illustration purpose only) and a special dividend of HK1.1 cents (equivalent to RMB1.0 cents for illustration purpose only) per ordinary share for the six months ended 30 June 2019 which have already been paid, if final dividend will be approved, total payout for the year will amount to HK10.8 cents (equivalent to RMB9.5 cents for illustration purpose only) per ordinary share or RMB197.3 million in aggregate, representing 45.6% of the profit attributable to equity shareholders of the Group for the year ended 31 December 2019. It is expected that the final dividend, if approved by Company's shareholders at the forthcoming AGM of the Company, will be paid to shareholders on or about 3 June 2020.

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The proposed final dividend is subject to the passing of an ordinary resolution by the Company's shareholders at the AGM. The record date for entitlement to the proposed final dividend is Friday, 8 May 2020. For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Wednesday, 6 May 2020 to Friday, 8 May 2020, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 5 May 2020.

## **PUBLICATION OF 2019 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY**

This announcement is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.361sport.com](http://www.361sport.com)), and the 2019 annual report of the Company containing all the information required by the Listing Rules will be dispatched to shareholders and published on the respective websites of the Company and the Stock Exchange in due course.

## **APPRECIATION**

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

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

Hong Kong, 17 March 2020

*As at the date of this announcement, the board of directors of the Company comprises four executive directors, namely Mr. Ding Wuhao, Mr. Ding Huihuang (Chairman), Mr. Ding Huirong and Mr. Wang Jiabi, and three independent non-executive directors, namely, Mr. Li Yuen Fai Roger, Mr. Hon Ping Cho Terence and Mr. Chen Chuang.*