

361°

**361 DEGREES
INTERNATIONAL
LIMITED**

Stock Code: 1361



INTERIM REPORT 2022

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FINANCIAL HIGHLIGHTS

Revenue increased from RMB3,107.1 million to RMB3,653.8 million

Profit attributable to the equity shareholders increased from RMB401.4 million to RMB550.9 million

	For the six months ended 30 June		
	2022 (Unaudited)	2021 (Unaudited)	Change
Profitability Data (RMB'000)			(%)
Revenue	3,653,756	3,107,109	17.6
Gross profit	1,515,644	1,299,696	16.6
Operating profit	771,944	710,246	8.7
Profit attributable to equity shareholders	550,914	401,435	37.2
Earnings per share – basic (RMB cents)	26.7	19.4	37.2
Profitability Ratios (%)			(% point)
Gross profit margin	41.5	41.8	-0.3
Operating profit margin	21.1	22.9	-1.8
Margin of profit attributable to equity shareholders	15.1	12.9	2.2
Effective income tax rate (Note 1)	21.3	30.7	-9.4
Return on shareholders equity (Note 2)	7.4	6.0	1.4
Operating Ratios (as percentage of revenue) (%)			
Advertising and promotional expenses	9.2	8.0	1.2
Staff costs	8.3	8.7	-0.4
Research and development	3.1	3.6	-0.5

Notes:

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

FINANCIAL HIGHLIGHTS

	As at 30 June 2022 (Unaudited)	As at 31 December 2021 (Audited)	Change
Assets and Liabilities data (RMB'000)			(%)
Non-current assets	1,131,273	1,154,660	-2.0
Current assets	11,095,567	10,083,326	10.0
Current liabilities	3,020,552	2,668,029	13.2
Non-current liabilities	14,842	14,316	3.7
Equity attributable to equity shareholders	7,699,227	7,116,765	8.2
Non-controlling interests	1,492,219	1,438,876	3.7
Asset and Working Capital data			
Current asset ratio	3.7	3.8	
Gearing ratio (%) (Note 3)	1.7	1.8	-0.1 percentage point
Net asset value per share (RMB) (Note 4)	4.4	4.1	RMB+0.3
Inventory turnover days (days) (Note 5)	76	87	-11 days
Trade and bills receivables turnover days (days) (Note 6)	150	149	1 day
Trade and bills payables turnover days (days) (Note 7)	111	122	-11 days
Working capital turnover days (days)	115	114	1 day

Notes:

- (3) The calculation of gearing ratio is based on the interest-bearing debt divided by the total assets of the Group as at the end of the period/year.
- (4) The calculation of net asset value per share is based on the net assets divided by weighted average number of shares for the period/year.
- (5) Inventory turnover days is equal to the average opening and closing inventory divided by costs of sales and multiplied by 181 days (for the six months ended 30 June 2022) and 365 days (for the year ended 31 December 2021).
- (6) Trade and bills receivables turnover days is equal to the average opening and closing trade and bills receivables after allowance of doubtful debts divided by revenue and multiplied by 181 days (for the six months ended 30 June 2022) and 365 days (for the year ended 31 December 2021).
- (7) Trade and bills payables turnover days is equal to the average opening and closing trade and bills payables divided by cost of sales and multiplied by 181 days (for the six months ended 30 June 2022) and 365 days (for the year ended 31 December 2021).

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 interim results of the Company and its subsidiaries (which are collectively referred to as the "Group" or "361° Group") for the six months ended 30 June 2022 (the "period under review").

In the first half of 2022, the downward pressure on the domestic economy of the People's Republic of China ("PRC") increased, but the long-term positive development trend remained unchanged. Under the premise of "domestic circulation", the PRC has increased support for the sports industry, alongside the fact that the holding of large-scale international sports events in the PRC has helped boost the national fitness boom, the domestic sports consumption market still has full potential. At the same time, the accelerated pace of digital transformation in the sports industry, the younger consumer group structure and the continuation of the China-Chic culture trend have all promoted the release of new impetus for the industry. In the long run, the sports industry still has a good ground for further blossoming and is in a golden period of development.

During the period under review, the Group recorded a revenue of RMB3,653.8 million, representing a year-on-year increase of 17.6%. Profit attributable to the equity shareholders of the Company was RMB550.9 million, representing a year-on-year increase of 37.2%. In view of the continuous outbreak of pandemic around the world, coupled with the uncertainty of the macroeconomic environment while taking into account of the Company's development strategy, the Board has prudently resolved not to recommend interim dividend for the six months ended 30 June 2022 in order to preserve cash for the long-term financial health of the Company and help meet challenges and seize opportunities.

UPGRADING CONSUMPTION EXPERIENCE ACROSS ALL CHANNELS AND CONTINUOUSLY ENHANCING BRAND VALUE

In the first half of 2022, the domestic sports industry in the PRC kept its upward development trend, with new growth drivers emerging continuously. Adhering to the business philosophy of "consumer-centric", consolidating the brand positioning of "professionalism, youthfulness, and internationalisation", and focusing on consumer needs, we continued to enhance the professionalism and fashion sense of our products, and strengthen our omni-channel layout to drive the enhancement of consumption experience and expand brand influence.

In terms of channel development, we seized the new industry trend of omni-channel retailing, and deployed more resources across all channels, online and offline, to better meet the diversified and personalised multi-dimensional consumption needs of customers. For offline channels, we continued to upgrade our offline store image, and the number and quality of points-of-sale both increased. For online channels, we vigorously stimulated the role of e-commerce platforms in product sales, brand promotion and brand upgrading, and leveled up the e-commerce purchasing experience. We also actively expanded into new retail models in order to realise the accumulation and conversion of high-quality traffic of viewers in the private domain which boost sales growth. At the same time, we implemented refined management of stores, strengthened the empowerment of the smart retail system, and continued to improve the membership system, resulting in a steady increase in the size and vitality of our online and offline memberships.

We attach great importance to sponsorship of major sports events. In particular, we have a deep relationship with the Asian Games. We have been the sponsor of the Asian Games for four consecutive years and were awarded the "Outstanding Contribution Award of Asian Games (亞運會傑出貢獻獎)" by the Olympic Council of Asia (亞洲奧林匹克理事會). After our 12 years of continuous support, the Asian Games has gradually become a sports symbol closely linked to 361°. With regard to the 19th Asian Games in Hangzhou 2022 (the "Hangzhou Asian Games"), we announced our new brand slogan of "Passion in China, One Extra Degree" (中國熱愛多一度), conveying our brand determination to promote high-quality development of China's sports industry. Due to the impact of the pandemic, the Hangzhou Asian Games will be postponed to 2023. At that time, the event will attract and gather more sports enthusiasts, which will further enhance the brand value of 361°.

CHAIRMAN'S STATEMENT

INSISTING ON THE DUAL DRIVING FORCES OF “PROFESSIONALISM + FASHION” TO BUILD STRONGER CORE COMPETITIVENESS

During the period under review, we insisted on the dual driving forces of “professional sporting products” + “fashionable sporting products” in accordance with our clear brand positioning, promoting the development of core product categories including running, basketball, comprehensive training and sporting lifestyle. While focusing on the sports functionality of our products, we also paid attention to the incorporation of fashionable sporting elements into our products. By optimising and enriching our brand resource matrix, we strived to attract consumers of different circles and thus expand our brand influence.

In terms of professional sporting product category, adhering to the consistent brand resource strategy, we continued to strengthen our image as a brand of functional products for sports by sponsoring elite marathon runners, signing contracts with well-known sports figures as our brand spokespersons, sponsoring to various national and professional sports teams, etc. Meanwhile, we intensified efforts to empower products with professional sports resources. For example, our newly launched flagship basketball shoes BIG3 3.0 were promoted to the international stage with the brilliant performance of our spokesperson Spencer Dinwiddie in the 2022 NBA. In addition, we have also built up our brand's reputation among the mass sports crowd by organising our own-brand events such as “Touch Down and Burn • A Fireball Plan” (觸地即燃 • 球局計劃) and “Track Three” (三號賽道).

For fashionable sporting product category, we continued to deepen the brand rejuvenation layout, and promoted 361°'s brand spirit of “One Extra Degree of Passion” to reach a wider range of young audience and better demonstrate the trendy fashion of the brand. We joined hands with our global brand endorser GONG Jun (龔俊) to initiate a new proposition for sports fashion, i.e. “I am the Future of the East”, and launched GONG Jun's “Track” (軌跡)2.0 products, which received enthusiastic response from the market. We also conducted various intellectual property (“IP”) collaborations with Three-Body Problem, KAKAO FRIENDS, Lay's, and Sanxingdui (三星堆), and innovatively integrated fashion trend elements such as national style, science fiction, and meta-universe into the design of IP co-branded products by launching a world-wide product series and “I am the Future of the East” series of NFT digital collections, which increased product attention and further highlighted the fashion attributes of our products.

DEEPLY CULTIVATING THE LAYOUT OF DIFFERENTIATED BRAND RESOURCES, AND MAKING CONTINUOUS BREAKTHROUGHS IN THE KIDS BUSINESS

Driven by multiple factors such as the relaxation of the fertility policy, the upgrading of the consumption structure, and the reformation of the young parents' concepts, the domestic kids' wear market is still very promising. In view of the broad market space, 361° Kids fully supported and was fully committed to fulfill the needs of customers of all ages, including toddlers, children and teenagers with its brand statement “Love it, Kids” (熱愛吧 • 少年), and quickly responded to changes in industry trends, flexibly expanded its product lines and developed into finer market segments.

We continued to enrich our product series and tap into the needs of children and teenagers for sports products in sporting and living scenarios. Based on comprehensive coverage of customer needs, the products are further divided into different categories to match running, football, basketball, outdoor activities, campus life and other different scenarios. Meanwhile, we strengthened product innovation to unlock more sports scenarios. We launched our first professional rope skipping shoes for the youth in February 2022, and then became the official partner of China National Rope Skipping Team in April, through which we not only demonstrated our professionalism and brand advantages in the sports field, but also showed our commitment and social responsibility for the national policy of “Sports Power”.

CHAIRMAN'S STATEMENT

Focusing on the product positioning of “new technology-driven China-Chic” (科技新國潮), 361° Kids deeply explored the deployment of differentiated brand resources and kept making breakthroughs in new fields. We established partnerships with football clubs, such as Guoan and Luneng (all are youth football training systems), and fully capitalised on the first-mover advantage in the field of youth football, which provides us with the capacity of comprehensively integrating the superior resources such as the most prestigious football clubs and football schools in China, and improves the professional function attributes of our products. As for the practical needs of kids and teenagers while exercising, we constantly improve the technology system to better meet the needs of youth sports clothing in different scenarios. 361° Kids' products also echo our development strategy of adult products by incorporating childlike interest and fashion elements into the product design, therefore highlighting fashion trends on top of sports functions. During the period under review, we launched IP co-branded products such as China Aerospace • Space Imagination, Dunhuang, Little Monsters, Miffy and NONOPANDA, and jointly established the first store themed aerospace with China Aerospace • Space Imagination to continuously enhance our differentiation advantage.

EMPOWERING PRODUCTS WITH SCIENTIFIC RESEARCH AND INNOVATION AND GROWING LONG-TERM VALUE FOR BRANDS IN MULTI-DIMENSIONAL ASPECTS

The Group attaches great importance to the strong driving force of scientific research and innovation on brand development. Through continuously upgrading the 3TECH platform, and rapidly applying scientific and technological innovation results on our products, we thereby constantly improve the sense of technology and trend of our products. Our self-developed new technology product mix is growing richer, as evidenced by the launch of a number of innovative technology products, such as professional basketball shoes AG2X with new ENRG-X scientific material, and 3TECH running shoes 2.0 with innovative technologies.

It is worth mentioning that our professional running shoes products persist its great momentum of high quality development. During the period under review, 361-STRATA 4, the international product line of running shoes, was included in the list of the best running shoes for 2022 by Runner's World USA Magazine. Our research and development (“R&D”) team collaborated with LI Zicheng, the Asia and China marathon champion, in upgrading the “Flying Flame” (飛燃) professional marathon running carbon shoes to launch Flying Flame ST. We also introduced “Speeding” (飛飈), the second carbon running shoes co-developed by LI Zicheng with 361°, with key breakthroughs in running functionality to better suit elite runners. In the future, we will continually introduce more professional running shoes to the market in a planned manner to enhance our brand influence and expand our customer club membership on an ongoing basis.

In addition, facing the recurrent outbreaks of COVID-19 in various regions of China, we are mindful of epidemic prevention and control and have taken initiatives to undertake our social responsibility. During the period under review, we donated more than RMB20 million in cash and supplies to assist in the battle against the epidemic in Quanzhou and Jilin, and manufactured uniforms for the medical team supporting Shanghai in the provision of strong logistical support for the battle against the epidemic. We have actively fulfilled our role as a national brand by spreading “One Extra Degree of Warmth” to the community, enhancing the long-term value of our brand.

OUTLOOK

On behalf of the Board, I would like to express our sincere appreciation to all our shareholders for their recognition and long-term support for 361°. I would also like to thank all our staff members and business partners. Looking ahead, we project that the sports industry will continue to embrace a positive environment with ample space for development. As a leading sports goods enterprise in the PRC, 361° will continue to focus on consumers' needs, grasp new trends and opportunities in the industry, deepen its positioning as a professional, youthful, and internationalised brand and promote the brand spirit of “One Extra Degree of Passion” to a wide range of consumer groups. 361° will actively undertake its social responsibilities and continue to enhance product value and brand influence. The Group will be committed to continually developing its business, ensuring sustainable development of its business, supply chain and business partnerships, so as to create more benefits for the shareholders, staff members and society.

Ding Huihuang

Chairman

Hong Kong SAR of the PRC, 23 August 2022

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In the first half of 2022, the international environment became more complex and volatile, with high inflation, supply chain shortages and other issues intertwined, which continued to bring uncertainties to the recovery of the global economy. Despite these uncertainties and the COVID-19 pandemic, the domestic economy has maintained its long-term positive development trend. According to the National Bureau of Statistics of China (“NBS”), China’s gross domestic product (“GDP”) in the first half of 2022 amounted to RMB56.3 trillion, representing a year-on-year increase of 2.5%, fully showing its strong resilience and potential, and reflecting that China is still one of the main forces leading the global economic recovery.

Under the premise of “internal circulation”, the role of domestic consumption in boosting China’s economic development has increased significantly, and the state continues to stimulate household consumption. However, the overall household consumption sentiment was under pressure as result of the repeated outbreaks of the pandemic in many parts of the country. According to the NBS, the total retail sales of social consumer goods nationwide in the first half of 2022 amounted to RMB21.0 trillion, representing a year-on-year decrease of 0.7%. However, with the improving pandemic prevention situation and the implementation of measures promoting steady growth, domestic household consumption displayed a positive trend of improvement in May and June 2022, with China’s per capita GDP exceeding US\$10,000. Benefiting from the advantages of the mega-scale market, coupled with the promotion of multiple driving forces such as policy support, consumption structure upgrade and consumption mode innovation, the steady development of the domestic consumption market is still strongly supported.



MANAGEMENT DISCUSSION AND ANALYSIS

Despite of the short-term disruption to the overall domestic consumption market, the strong support of the national policy for the sports consumption industry as well as the rising consumption desire and capability of domestic residents for sports have laid a solid foundation for a long-term stable growth of the industry. In the first half of 2022, the General Office of the Communist Party of China Central Committee and the General Office of the State Council jointly issued the Opinions on Building a Higher Level of Public Service System for Fitness and Physical Activity (《關於構建更高水平的全民健身公共服務體系的意見》), which re-proposed the target of having 38.5% of the population taking part in regular exercise by 2025, and such figure will rise to more than 45% by 2035. The General Administration of Sport of China also planned to construct 2,000 sports parks and other fitness facilities nationwide during the 14th Five-year Plan period. In July 2022, the General Administration of Sport of China issued the Work Plan on Utilizing Sports to Stabilize the Economy and Promote and Energize Consumption (《關於體育助力穩經濟促消費激活力的工作方案》), pursuant to which sports products and services will be diversified continuously to ignite sports consumption and promote the high-quality development of the sports industry. Under the policy guidance, local governments have launched

a series of measures to alleviate the difficulties faced by sports companies, including distributing sports vouchers, further unleashing the potential of domestic consumption on sports. Overall, strong policy support has provided a solid foundation for the development of China's domestic sports product industry and a favorable environment for the industry to thrive.

As a result of the combined effect of the pandemic and policy guidance, nationals care much more about their physical health and the concept of nationals' physical fitness has become more popular. The successful hosting of the Beijing Winter Olympics in February 2022 has also greatly stimulated the nationals' interest in and passion for sports, thereby accelerating the upgrade in domestic sports consumption. It is noteworthy that the newly amended Law of the People's Republic of China on Physical Culture and Sports (《中華人民共和國體育法》) (the "Sports Law") will come into effect on 1 January 2023, which will further highlight the fundamental role of national fitness in the development of sports. In the next year or two, several world-class sports events such as the Asian Games and the FISU World University Games Summer will be held in China, which will drive the penetration rate of sports in China and the development of the sports industry.



MANAGEMENT DISCUSSION AND ANALYSIS

In the post-pandemic era, the economic and social digitalisation upgrade has accelerated with the ever-changing consumer preferences and habits. The sports products consumption has been diversifying and the industry has been developing multi-dimensionally, which have a new opportunity in the industry. Online channels will continue to be an important driver of growth in the sports industry. According to the NBS, national online retail sales increased 3.1% in the first half of 2022 from the corresponding period in 2021, and the online retail sales of physical goods reached RMB5.4 trillion with its share in the total retail sales of social consumer goods increasing from 24.5% in 2021 to 25.9% in 2022. In addition, as Generation Z, representing the youth born between 1995 to 2009, is gradually emerging as the main force of sports consumption, features including advanced technology application, Guochao (i.e. Chinese cultural elements) in design etc. are increasingly manifested in the sports industry, which will stimulate the development and extend the prosperity of the industry.

Domestic sports industry has tremendous potential in the consumption market in the long run. The state keeps advancing its new urbanisation strategy to constantly improve its quality and efficiency, building a solid foundation for the development of the domestic sports industry and creating a considerable market in the lower-tier areas. Besides, the kids' wear market, as an important component of the domestic clothing market, is on the rise due to the further loosened family plan, i.e. three-child policy, and the rising trend of residents' consumption. Furthermore, sportswear has an edge over the traditional kids' wear in terms of technology application, Guochao design, and channel management, etc., allowing them to better serve the needs of families and kids. The multifarious catalysts point to a high potential future in the market. It is noteworthy that the latest revised Sports Law in the PRC has updated contents relating to youth by putting forward prioritising the development of youth and school sports, which will generate a great driving force for the kids' wear industry and promote development of the domestic sports industry.

The Group has been closely monitoring the development direction of the sports industry while constantly strengthening its positioning as a "professional, youthful and internationalised" brand of sporting goods to enhance its brand value and expand its brand influence. In addition, the Group will upgrade its brand products and consolidate and optimise sales channels to provide consumers with more value-added professional sporting products.

BUSINESS REVIEW

361° Brands and Positioning

The *361°* Group is one of the leading sportswear companies with a vertically integrated industry chain in China. Adhering to the brand belief of "One Extra Degree of Passion" (多一度熱愛), *361°* strives to be a global respectable brand, since its establishment in 2003, and provide high-performance and value-for-money sports products for consumers. The products are targeted at the mass market in order to meet the needs of adults and children in professional sports and sports life.

The *361°* brand focuses on providing professional and high-performance sports footwear, apparel, and accessories of running, basketball, comprehensive training, sports life and other categories.

The *361° Kids* brand, which is an independently operating business unit, principally provides childlike, highly functional sports apparel, footwear, and accessories to children and adolescents.

MANAGEMENT DISCUSSION AND ANALYSIS

In recent years, consumers' demand for sporting goods has become more diversified, evolving from functional products that were previously used for sports only to composite products that are worn daily for fashion. Younger generations prefer to express their personalities and living attitudes through their outfits, coupled with the popularity of the Guochao trend, huge opportunities are presented for the Group's businesses. Positioned consistently as a "professional, youthful, and internationalised" brand, the Group concentrates its resources on developing its core brand 361°. It insists on gearing its brand development towards professional sporting goods and fashionable sporting goods.

Focusing on sports functionality and combining sports fashion, 361° strives to breakthrough consumer circles and expand its brand influence while satisfying core customers' demands.

Efficient and Flexible Business Model

361° principally engages in brand management, R&D, design, manufacturing and distribution of products. The Group strategically adopts a distribution business model whereby the first-tier exclusive distributors distribute the products under the 361° brand in their respective, exclusive geographical regions. Subject to approval by the Group's retail channel management department, distributors could choose to either open stores directly or further distribute the products under the 361° brand to authorised retailers. This flexible business model enables the Group to rapidly capture market share at the lowest cost. As such, the Group is able to focus its resources on brand creativity and management, R&D and design of products and other areas, while fully leveraging the capabilities of the distributors and the authorised retailers to launch the products.

The Group has a comprehensive distributor management system in place to ensure that the brand concept, product technology and features are accurately communicated at each end of sales. The Group renews the agreements with its exclusive distributors on a yearly basis. The key terms of the distributorship agreements generally include terms such as geographical exclusivity, product exclusivity, payment terms, order requirements and store management. Through multiple training programs each year, the Group ensures that distributors and authorised retailers could accurately convey the knowledge about the latest technology and products to consumers, so as to assist the consumers to choose the most suitable products. Furthermore, the Group insists on projecting a consistent store image across its nationwide distribution network. The Group strictly monitors the display of products in every store as well as the promotion materials, in order to highlight the quarterly marketing themes.



MANAGEMENT DISCUSSION AND ANALYSIS

The Group's systematic order management model efficiently ensures smooth supply of goods, transparent inventory control and stable retail prices. The Group currently hosts four trade fairs per year for the 361° core brand to showcase new season's products. All distributors and authorised retailers are invited to attend the events. The orders of the authorised retailers will be consolidated by the respective first-tier distributors, who in turn will place such orders with the Group. The Group will review the orders and give suggestions to its distributors regarding the placement of the orders so as to enhance the accuracy of the orders and avoid excessive inventory and discounts at the retail end, and at the same time stabilise retailers' profitability and support sustainable development, achieving a win-win result. Trade fairs are generally hosted six months ahead of the launch of relevant products to ensure the orders would be manufactured and delivered to the distributors on time. During the period under review, the Group organised two trade fairs for 361° core brand products, namely the 2022 Winter Trade Fair and the 2023 Spring Trade Fair. The orders of the trade fairs achieved impressive results in terms of trading volume and price, with a steady year-on-year increase.

During the post-pandemic era, the Group actively worked with distributors and authorised retailers to cope with consumers' relatively subdued demand for discretionary products. The Group continued to control operating costs to improve operational efficiency through the optimisation of the supply chain system, logistics cost control and the integration of information platforms. The Group also fully leveraged its WeChat mini program "You Yan You Du (有顏有度)", Pinduoduo, Tik Tok, Xiaohongshu and other novel retail platforms to bring consumers better and more flexible consumption experience in a model that breaks geographical boundaries, and create incremental space for the retailers in the post-pandemic era.

361° Core Brand's Retail Network in the PRC

As at 30 June 2022, the 361° brand's retail network comprised 5,365 stores, representing a net increase of 95 stores compared to the end of 31 December 2021. Geographically, approximately 76.7% of the stores were in third- and lower-tier cities in China, while 4.6% and 18.7% were located respectively in first- and second-tier cities in the country. The Group encourages its distributors and their authorised retailers to continue to open new stores in shopping malls and department stores in the future while closing down smaller stores and opening larger stores so as to optimise the distribution channel mix.

Upholding the concept of "One Extra Degree of Passion" (多一度熱愛), the Group continued to adopt a consumer-centric approach, capitalised on new trends in consumption habits and provided the best shopping experience for consumers. As of 30 June 2022, the number of the latest ninth-generation image stores of 361° brand increased to 1,969, accounting for 36.7% of the total number of the Group's stores. The ninth-generation image stores adopted light and simple decoration and various props. This reduced the decoration cost, enriched the shopping experience, and effectively improved the stores' efficiency while enhancing the image projected by them.

Meanwhile, during the post-pandemic era, the Group developed its physical stores, online e-commerce operations and new retail channels simultaneously to forge ahead with the upgrade of the consumption experience provided by omni-channel retailing. During the period under review, the smart-retail system (智慧零售系統) for physical stores was in place and the number of stores covered by the system has increased, enabling the collection of customers' interest data in a timely manner while making use of user data to provide feedback to product design and R&D, product pricing strategy, marketing strategy, etc.. Through improving its attractive membership system, the Group provided target consumer groups with a wide range of membership privileges. During the period under review, the number of online and offline members have increased approximately 11% as compare to the end of 2021. In addition, the Group refined the operation and management of its relationships with members to improve the effectiveness of managing the larger groups of members and enhance customer stickiness.

The Group continues to promote its proprietary WeChat mini program "You Yan You Du (有顏有度)", which frequently updates abundant information about trendy outfits and can directly divert the viewers to the WeChat Mall or offline stores, thus increasing the conversion of such viewers into customers. The Group is committed to enabling a round-the-clock online consumption experience which can be dubbed "Thousands of Stores with Thousands of Images (千店千面)" at WeChat Mall and can allow the Group to tap the traffic of viewers in the private domain of online community in all aspects and thus boost sales growth.

MANAGEMENT DISCUSSION AND ANALYSIS



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

	As at 30 June 2022		As at 31 December 2021	
	Number of 361° authorised retail stores	% of total number of 361° authorised retail stores	Number of 361° authorised retail stores	% of total number of 361° authorised retail stores
Eastern region ⁽¹⁾	897	16.7	875	16.6
Southern region ⁽²⁾	574	10.7	570	10.8
Western region ⁽³⁾	1,287	24.0	1,256	23.8
Northern region ⁽⁴⁾	2,607	48.6	2,569	48.7
Total	5,365	100	5,270	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

Brand Promotion and Marketing

The Group generally budgets 9% to 11% of its annual revenue for brand promotion and marketing. The Group continues to invest in its brand building, with focus on official sponsorships for large-scale international sports events and China national teams, which quickly elevates the awareness of its brand. 361° has sponsored the Asian Games for four consecutive times in the past 12 years. Such continuous support has linked 361° and the Asian Game together as a symbol in the sports industry, which in turn, further enhances our brand value. With our new slogan for the Asian Games – “Passion in China, One Extra Degree (中國熱愛多一度)”, we have demonstrated our determination to contribute to the high quality development of China’s sports industry. In the future, 361° will continue to contribute to the Asian Games and the development of Chinese and international sports events, so that the world can see the power of China.

In addition to the sponsorship of large-scale sports events, the Group also strategically formulates marketing campaigns that closely follows consumer habit and preferences. By integrating fashion trends and professional functionality, we launched a series of cross-over products with renowned IPs, which received overwhelming responses from the young generation. Our co-branding operation mode has been maturing. In 2022, the Group has successfully launched cross-over series with well-known IPs, namely the Three-Body Problem, KAKAO FRIENDS, Lay’s, and Sanxingdui (三星堆), and achieved strong sales performance. The revenue contribution of the co-branding series accounted for approximately 5% of the overall revenue for the first half of 2022. 361° has been exploring innovative collaboration models by working with brands, IP and designers with an aim to inject endless creativities into product designs.



MANAGEMENT DISCUSSION AND ANALYSIS

In 2022, the Group also launched a world-wide product series for the first time. The series is regarded as a “window” for 361° to demonstrate its attitude of sports trendy with the inspiration from the story series of Chinese science fiction book IP, Three-Body Problem, and by integrating two trendy elements of “national style” and “science fiction”, showing the personality of the new youth generation with oriental connotations. On 20 April 2022, 361° launched the “I am the Future of the East” series of NFT digital collections in conjunction with the famous hip-hop IP FATKO on the Ant Chain, with a total circulation of 2,500 tokens. Meanwhile, 361° also launched physical apparel products on its e-commerce platform that correspond to these digital collections. Such innovative and trendy digital + physical product release breaks the dimensional barrier, increases product attention and sets an example in the market.

361° actively appointed celebrity endorsers to deeply develop endorsement resources, bringing product awareness to new heights and achieving strong sales performances. In terms of running, the Group signed contracts with China’s National Triathlon Team, sponsored winners of China and Asia Marathon Champion, LI Zicheng, women’s marathon athlete HE Yinli, and many other elite marathon runners including GUAN Siyang, MA Liangwu and ZHAO Na. The Group successfully promoted and organised the “Track Three” (三號賽道), an own-brand event, in major cities in China. The move spiked the number of members of running groups and continued to enhance the Group’s brand reputation among the runners. In March 2022, 361° released a new running proposition – “Running Forward (我們都是向前跑的人)”, and launched its racing family running shoe matrix – Speeding (飛馳), Flying Flame (飛燃) and Flying Flame ST (飛燃ST). In April 2022, 361° held a “Fast Speed (疾速開馳)” Elite Test Tournament in Shijiazhuang, Hebei Province, where the professional racing carbon plate running shoes of 361° were well-tested in actual practices. In June 2022, the 10KM Elite Challenge of “Track Three (三號賽道)” was successfully held, and the professional racing shoes of Flying Flame ST (飛燃ST) helped runners to achieve enhanced performances.

361° × FATKO
我是东方未来·系列数字藏品
361°首款数字藏品高能来袭

活力飞盘 | 情绪嘻哈 | 反转球场 | 跃地滑板 | 解答春天

4月20日起 限量开抢

天猫数字藏品 | 天猫IPmart | 361°

此次数字藏品由361° | 天猫数字藏品 | 天猫IPmart | 蚂蚁链联合打造

MANAGEMENT DISCUSSION AND ANALYSIS

In terms of basketball, the Group signed a contract with Aaron GORDON, an international basketball superstar, and Kyranbek MAKAN, a well-known Chinese professional basketball player. Moreover, on 10 January 2022, international basketball superstar Spencer DINWIDDIE became the first NBA guard player to be signed by 361°, marking the start of 361°'s continued development in guard shoes. In May 2022, Spencer DINWIDDIE led the team to the Western Conference Finals, showing 361°'s unique vision in basketball while realising the product exposure in the international arena. In June 2022, 361° released its latest flagship basketball shoes BIG3 3.0 PRO, which was widely welcomed by the market. At the same time, the Group has also successfully created its own-brand basketball event "Touch Down and Burn • A Fireball Plan (觸地即燃 • 球局計劃)", which activates the enthusiasm of the public to form a basketball team and further enhance brand influence for the 361° basketball products.

In terms of comprehensive training, the Group sponsored the resources that included China's national sports teams such as China National Women's Water Polo Team and China National Triathlon Team, as well as professional sports players such as XU Can, the WBA Featherweight World Boxing Champion and TEAM M23, which is China's professional boxer training and brokerage team, so as to strengthen the Group's image as a brand of functional products for sports.

In terms of trendy sports, the Group signed a contract with GONG Jun (龔俊), a well-known young Chinese actor, to engage him as the global brand endorser. As one of the most popular actors in the domestic entertainment industry, GONG Jun is well-known for his sunny and handsome appearance, coupled with his exercise habits, and he is both sporty and fashionable. Moreover, GONG Jun is passionate and committed to his acting career, which perfectly fits him in with the brand positioning and the brand spirit of 361°, that is, "One Extra Degree of Passion (多一度熱愛)". Following the launch of the GONG Jun's exclusive series "Track (軌跡)" 1.0 in November 2021, the "Track (軌跡)" 2.0 triggered a frenzy of panic buying and hot sales again at the launch in June 2022. The Group also signed a contract with WANG Anyu (王安宇), a young Chinese actor, which will further assist 361° in entering the youth market to better reach young users and demonstrate the fashion of the brand.

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

Sponsorship period	Sporting event	Capacity
2020-2022	The 19th Asian Games in Hangzhou 2022	Official Partner
2021-2022	THE ROC Triathlon	Official Footwear Sponsor
2022	Paris Star 10km Race	Event Sponsor

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

Name of sporting team
China National Rope Skipping Team
China National Triathlon Team
Guangdong Swimming Team
TEAM M23, China Professional Boxer Training and Brokerage Team
China National Women's Water Polo Team
Mongolian Delegation
Tianjin Swimming Team

MANAGEMENT DISCUSSION AND ANALYSIS

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

Athletes

Name of spokespersons	Sports	Key achievements in recent years
GUAN Siyang 關思楊	Running	2nd in Men in the 2021 Wuxi Marathon 2nd in Men in the 2020 Changzhou Marathon 2nd in Men in the 2020 Chengdu Marathon 3rd in Men in the 2020 Guangzhou Marathon
HE Yinli 何引麗	Running	2nd in Women in the 2020 Changzhou Marathon 2nd in Women in the 2020 Duolun Marathon 2nd in Women of China in the 2020 Xiamen International Marathon 1st in Women of China in the 2019 Dongying International Marathon 1st in Women of China in the 2019 Chongqing Marathon 1st in Women of China in the 2019 Xiamen Marathon
LI Zicheng 李子成	Running	1st in Men in the 2021 Wuxi Marathon 1st in Men in the 2021 Zaozhuang Marathon 1st in Men in the 2021 Dongying Marathon 1st in Men in the 2020 Wuxi Marathon 1st in Men in the 2020 Chengdu Marathon 1st in Men of China in the 2019 Wuxi International Marathon 1st in Men of China in the 2019 Xiamen International Marathon 1st in Group Category of the 2019 Zhejiang Marathon Relay Awarded as the Top Athlete in Men's Competition Group at the award ceremony of the 2019 China Marathon Majors



MANAGEMENT DISCUSSION AND ANALYSIS

Name of spokespersons	Sports	Key achievements in recent years
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
ZHAO Na 趙娜	Running	2nd in Women in the 2021 Rizhao Half Marathon 1st in Women in the 2021 Dongying Half Marathon 1st in Women in the 2020 Dongqian Lake Half Marathon 1st in Women in the 2020 Zhejiang Elite Marathon 1st in Women in the 2020 Taizhou Half Marathon 1st in Women in the 2020 Meishan Bay Half Marathon 1st in Women in the 2019 Rizhao Full Marathon
Aaron GORDON	Basketball	NBA top dunker Played for the Denver Nuggets
Kyranbek MAKAN	Basketball	Chinese professional basketball player
Spencer DINWIDDIE	Basketball	the 2017-2018 NBA All-Star Weekend Skills Challenge winner
WU Zejian 吳澤建	Basketball	Famous Chinese grassroots player Xiamen AG brand manager



MANAGEMENT DISCUSSION AND ANALYSIS

Name of spokespersons	Sports	Key achievements in recent years
Donald HILLEBREGT	Triathlon	National champion in the 2019 NED Half Triathlon 3rd in the 2019 Rabat ATU Triathlon African Cup
Jannick SCHAUFLEER	Triathlon	2nd in 2022 Europe Triathlon Premium Cup Holten 5th in 2021 GER Sprint Triathlon National Championships 2nd in 2019 Valencia ETU Triathlon U23 European Championships 2nd in 2019 Magog CAMTRI Sprint Triathlon American Cup 3rd in 2019 Holten ETU Sprint Triathlon Premium European Cup
Maximilian ROHDE	Triathlon	8th in the 2019 Lake Chilwa Challenge Race 2nd in the 2018 Northman Half for 70.3 miles 8th in the 2018 India Half for 70.3 miles
Niklas LUDWIG	Triathlon	11th in the Age Group of the 2021 St. Bolton Challenge Race
Thomas CREMERS	Triathlon	4th in the U23 Age Group of the 2020 Punta Umbria ETU Championships 6th in the 2019 Netherlands Biathlon Championships
Tom OOSTERDIJK	Triathlon	Champion in the Age Group of the 2020 New Zealand Triathlon Championships
Valerie BARTHELEMY	Triathlon	10th in Tokyo 2020 Olympic Games 5th in Tokyo 2020 Mixed Team Event 1st in 2021 World Triathlon Mixed Relay Olympic Qualification Event Lisbon 1st in 2020 Riga ETU Triathlon Baltic Championships 3rd in 2019 Miyazaki ITU Triathlon World Cup 3rd in 2019 Cagliari ITU Triathlon World Cup
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

Celebrities

GONG Jun 龔俊	N/A	A famous Chinese actor
WANG Anyu 王安宇	N/A	A famous Chinese actor

MANAGEMENT DISCUSSION AND ANALYSIS

361° Kids

During the period under review, the business of 361° Kids continued to grow and contributed approximately 18.7% to the Group's total revenue, representing a year-on-year increase of 37.1%.

361° Kids has been in operation as an independent business unit since its launch in 2010. 361° Kids follows the brand spirit of "One Extra Degree of Passion" of the 361° core brand and conducts marketing with its brand statement "Love it, Kids!" (熱愛吧·少年!), focusing on the market for children's and teenagers' sporting goods. 361° Kids is committed to fulfilling the needs of children and teenagers in all kinds of sports. Horizontally, its user group comprehensively covers toddlers under three years old, children between three and ten years old, and teenagers between ten and fourteen years old; vertically, it broadens the product segments to cater the needs for different sports for children in different ages.

Adhering to the positioning of "new technology-driven China-Chic" (科技新國潮), 361° Kids continues to enrich its product portfolio with endless innovations. 361° Kids fully taps into the needs of children and teenagers for sports apparel in various sports, such as running, football, basketball, rope skipping, outdoor activities and campus life by developing a comprehensive range of finely classified product categories.

As at 30 June 2022, there were 2,097 points-of-sale in total offering 361° Kids products, representing a net increase of 201 as compared to the end of 31 December 2021, including the 401 points-of-sale which were located at 361° brand's authorised retail stores, selling both 361° core brand products and 361° Kids products. Geographically, approximately 70.6% of the points-of-sale were located in third-tier and lower-tier cities in China, while 6.0% and 23.4% were respectively located in first- and second-tier cities in China. As of 30 June 2022, the number of the latest fourth-generation image stores of 361° Kids increased to 1,258, representing 60% of the total number of 361° Kids stores. Their overall design matches the current trends and with 361°'s unique brand images. The combination of distinctive thematic displays and well-planned shopping routes have effectively improved shopping experience of consumers.



MANAGEMENT DISCUSSION AND ANALYSIS

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 30 June 2022		As at 31 December 2021	
	Number of 361° Kids authorised points-of-sale	% of total number of 361° Kids authorised points-of-sale	Number of 361° Kids authorised points-of-sale	% of total number of 361° Kids authorised points-of-sale
Eastern region ⁽¹⁾	332	15.8	287	15.1
Southern region ⁽²⁾	297	14.2	273	14.4
Western region ⁽³⁾	469	22.4	424	22.4
Northern region ⁽⁴⁾	999	47.6	912	48.1
Total	2,097	100	1,896	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 period under review, 361° Kids hosted two trade fairs, which were the 2022 Winter Trade Fair and the 2023 Spring Trade Fair. Order amounts generated were encouraging with both volume and price achieving solid growth.

361° Kids was the first to collaborate with youth football clubs and the youth system, such as Guoan, Luneng etc, which provided the opportunity for the Group to integrate advantages and resources from prestigious football clubs and schools in China.

361° Kids focuses on the practical needs of kids and teenagers. With the ergonomics as its theory and methods of experiment in human movement science, 361° Kids has built a comprehensive technology system to meet the functional needs of exercise in different weather and occasions. Leveraging on the system, the Group has launched products with FUNFOAM technology, decontamination technology, cooling technology and alken heating technology (烯暖科技).

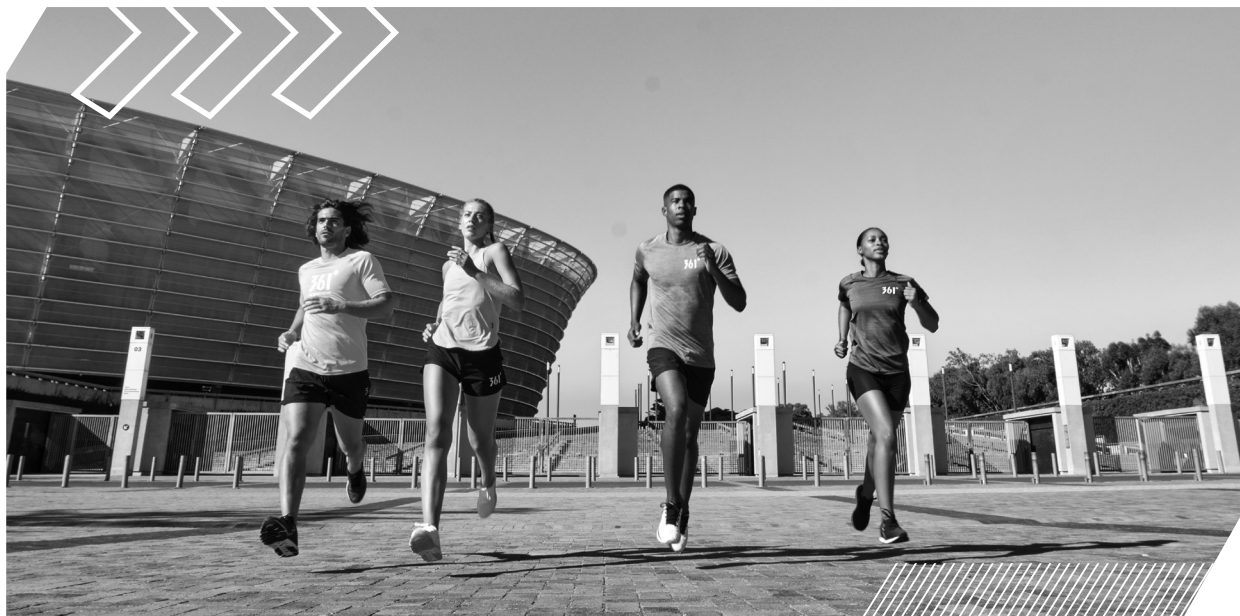
361° Kids' product design integrates navity and uptrend elements, creating a series of product combining functionality and fashion trends. In 2022, 361° Kids successively launched co-branded products with China Aerospace • Space Imagination, Dunhuang, Little Monsters, Miffy, NONOPANDA and KAKAO FRIENDS. With the advent of space fever, 361° Kids cooperated

with the "China Aerospace" IP, which represents the power of China's science and technology to launch a series of products. The futuristic and scientific design has won acclaims from the market. In addition, 361° Kids and China Aerospace • Space Imagination jointly set up the first aerospace-themed store in Anyang, Henan Province. The store was designed in a futuristic color of space silver and furnished with multiple elements of China aerospace technology such as "China Space Station" and "astronauts", so as to deliver an immersive experience of the fascinating aerospace to consumers.

361° focuses on the field of kids sport by constantly increasing its investment in rope skipping products and establishing a special R&D department for this sport. By detailed analysis of rope skipping movements and landing postures through infrared, high-speed camera and other technologies, 361° is committed to provide professional products to both athletes and the mass market. For example, the "Leaping Antelope Rope Skipping Shoes" (閃羚跳繩鞋) under the brand of 361° Kids are professional rope skipping shoes developed to fulfill the specific needs of teenagers in rope skipping. This product series is designed and tested with a number of rope skipping champions and the Fujian Rope Skipping Association (福建省跳繩協會). Inspired by the bionics of antelope, this series has been well received by rope skipping fans since launching. In April 2022, 361° Kids also became an official partner of the China National Rope Skipping Team to



MANAGEMENT DISCUSSION AND ANALYSIS



provide the full set of professional rope skipping equipment, thus supporting more athletes in winning honor for our country on the world stage. Meanwhile, 361° will work with China Rope Skipping Association (全國跳繩推廣委員會) to actively promote the development of rope skipping among the young generation. By continuous product research and development, sports event and community building, both parties will join hands to promote rope skipping in teenager groups while helping them to build a stronger and healthier lifestyle.

361° International

Since 2015, the Group has actively expanded its footprints in international markets and has enhanced our brand recognition worldwide. As the world is moving away from the COVID-19 shadow, the Group will largely focus on the steady development of overseas market. In the future, the Group will actively strengthen its market presence in the United States, Europe, as well as countries and regions along the Belt and Road Initiative, to further increase its influence in overseas markets.

361° is still a relatively young brand in the international market but its product performance is showing promising results and it is competitive against a series of major international brands. The following table sets out key honor won by the 361° International products during the period under review:

Name	Award
361-STRATA 4	Selected by the United States' "Runner's World" magazine as one of the Best Picks for Running Shoes in 2022

Affected by the pandemic, as of 30 June 2022, the number of overseas points-of-sale of the Group was 1,117. In the future, the Group will prudently adjust the strategy and pace of its overseas business development according to the changes of the pandemic. During the period under review, the 361° International business recorded a revenue of RMB49.9 million and contributed approximately 1.4% to the Group's total revenue, representing a year-on-year increase of 24.1%.

E-Commerce

During the period under review, sales generated from the online store (exclusive products) amounted to RMB781.8 million, representing a year-on-year increase of 60.3%. Our e-commerce platform has multiple strategic purpose by acting as an important sales channel, a brand promotion stage as well as a brand value enhancement accelerator.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group conducts its e-commerce business mainly through renowned e-commerce platforms in China, including Tmall, Taobao, JD.com, Vip.com, and other new platforms such as Pinduoduo and Tik Tok. Compared to physical stores, e-commerce is a round-the-clock sales channel that allows the Group to promote products 24/7 and quickly expand its presence across the country. Currently, the Group mainly sells online-exclusive products on the online platforms. Online-exclusive products are designed to present “High-performance”, “Attractive Appearance” and “Personality”, which are differentiated from the products sold in physical stores. Meanwhile, e-commerce platforms can also help the Group’s distributors and their authorised retailers to clear a portion of inventory.

Benefiting from the improved product strength, effectiveness of e-commerce product planning and enhanced operational quality, 361°’s e-commerce business grows rapidly. Centering on online customers, the Group has made use of big data to conduct precise product planning and to maintain sales schedules. As more premium and popular co-branded products are launched on the e-commerce platforms, the sales boom and discussions brought by these products have formed an online and offline interaction, which attributed to vertical penetration from online to offline. E-commerce is concentrated on the improvement of operational capabilities. 361° has enhanced marketing through multi-dimensional aspects, such as focusing on various excellent platforms inside and outside to increase the penetration

rate of the target groups, enhancing capacity on original content creation to expand brand influence and activity of followers, and creating vertical community marketing to cultivate potential customers.

During the period under review, the Group continued to improve the efficiency of e-commerce platforms so as to foster them as a platform for the debut of new products and co-branded products. In 2022, a daily live streaming module has been established on mainstream online shopping platforms such as Tmall, improving the efficiency of live streaming re-direction. By means of live streaming, the Group brought 361° brand’s fashionable and professional sports products to the core consumer groups quickly. This mode of recreational marketing drove the growth in sales and played a great role in brand promotion at the same time.

In the future, the Group will accelerate digital transformation of its e-commerce platform and drive business growth with big data; create marketing events for best-selling product categories such as running shoes and basketball shoes; significantly upgrade the e-commerce teams for interface design and operation by recruiting high-calibre talents; and increase investment in the development, design and operation of online-exclusive products and the timely upgrade of the supply chain.

强劲回弹
全掌PEBA超临界科技，
更轻质，能量反馈更澎湃

超临界科技中底
QUICKFLAME

回弹 / 持续提供能量回馈	75%
硬度 / 硬度更低，舒适性更好	41-45c
压缩比 / 久穿不变形，性能稳定	35%

强韧碳板 抗扭支撑

QUICKBONE
嵌入式高强碳板，升级中足刚性，强韧抗扭转

MANAGEMENT DISCUSSION AND ANALYSIS

Production

During the period under review, there has been no change in the Group's production policy on striking a balance between in-house production and outsourcing to original equipment manufacturers ("OEMs") in terms of costs, production scheduling and intellectual property rights. For footwear products, the Group manufactures up to approximately 45% of its footwear products at its two factories at Jiangtou and Wuli in Jinjiang, Fujian Province, the PRC and outsources the remainder to a number of quality factories. The Jiangtou factory houses 14 production lines and has an annual production capacity of 12 million pairs of footwear products. The Wuli Industrial Complex in the Wuli Economic Zone houses 9 production lines with an annual production capacity of 9 million pairs of footwear products. For apparel products, the Group operates production facilities in Jinjiang City that have the capacity to produce approximately 25% of the Group's products to meet market demand whilst the production of the remainder is outsourced to other factories.

Research and Development

During the period under review, the Group's expenditure on R&D accounted for 3.1% of the Group's total revenue. The Group's R&D center is aiming to develop diversified products tailored for consumers' tastes and demands based on its positioning as a professional sports brand with fashion elements. Moreover, to align with its unique positioning as mentioned above, the Group has set up a dedicated design team for each production line. The products are designed by experienced, trend-following personnel so that consumers can shine in the sport arena with most in-vogue dress which integrates sports professionalism with fashion when wearing our products.

Specifically, the Group's research centre in Wuli Industrial Park, Jinjiang city, Fujian Province, has advanced capabilities and equipment to carry out testing and has been awarded various titles such as a national advanced technology enterprise, national green factory, exemplary unit of the national sports industry, national industrial design centre and provincial technology centre. It can support the research and innovation experiments of intelligent sports equipment, structural sports equipment, functional sports equipment and functional material R&D.



MANAGEMENT DISCUSSION AND ANALYSIS

361° brand's core competency lies on consistently launching self-developed products with latest technology. Following the launch of "Flying Flame" (飛燃) professional carbon-plated running shoes in March 2021, 361° is once again collaborating with marathon champion Mr. LI Zicheng to introduce its latest top-tier running shoes "Speeding" (飛颯) in March 2022, which suits elite runners better. The area of its heteromorphic carbon-plate structure is the largest among all carbon-plated running shoes currently on the market, which enables the soles to provide more stability and bounce power. Furthermore, its soles are divided into anterior and posterior parts, so that the separated middle-layer of the sole not only reduces the shoes' weight but also further releases the potential of carbon plate in generating more bounce power. Such design is also the first try in the domestic industry. On 18 April 2022, LI Zicheng used 2 hours, 14 minutes and 10 seconds with "Speeding" (飛颯) running shoes in the 361° Elite Test Race, which ranked top 5 among his career scores.

In addition, 361° further upgraded "Flying Flame" (飛燃) running shoes to "Flying Flame ST" (飛燃ST), which are lighter and softer in overall rebound to satisfy the needs of both professional runners for long-distance training and general runners at all levels, and thus attracted much attention of marathon runners.

BIG3 1.0 launched in March 2019 was the first 361° professional basketball shoes. The BIG3 3.0 was launched in March 2022 with enhanced appearance by combining a flowing color gradient TPU with high permeability mesh fabric as the body. Its function has also been strengthened overall. ENRG-X is applied to the full palm to increase the bounce, and such high-performance rebound from the middle-layer will definitely help to achieve better performance in race. The BIG3 3.0 PRO launched in June 2022 is the best-selling flagship professional guard basketball shoes of 361° so far.

As of 30 June 2022, the Group obtained 274 patents with a total of 710 technicians engaging in R&D, including 428 footwear research staffs, 214 apparel research staffs and 68 accessories research staffs. The Group's expenditure on R&D is expected to increase due to its intensifying efforts to carry out the product upgrading program for combining functionality and design, with the aim of creating more distinctive products.

FINANCIAL REVIEW

Revenue

During the period under review, the Group recorded a year-on-year increase of 17.6% in revenue to RMB3,653.8 million (for the six months ended 30 June 2021 ("1H2021"): RMB3,107.1 million) of which 18.7% and 1.7% (1H2021: 16.0% and 0.9%) of the total revenue were respectively contributed by the 361° Kids business and business grouped under Others (namely, sales of shoe soles). The remaining 79.6% (1H2021: 83.1%) of the total revenue was mainly derived from the sales of the 361° core brand products and sales from the international businesses of 361°.

Sales of the Group's two core products, namely footwear and apparel, increased by 7.2% year-on-year and 18.4% year-on-year respectively. Over 92% of the products for spring and summer of 2022 was delivered and recognised as the revenue from the sales during the period under review. In the second half of 2022, the products to be delivered will mainly be those for the fall and winter of 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2022, the proportion of footwear sales in the total revenue edged down from 44.4% to 40.5% whereas the proportion of apparel sales slightly increased from 37.6% to 37.8% compared to those in the same period of the previous year. Footwear and apparel products remained the major contributors of the Group's sales revenue during the period under review.

The average wholesale price (the "AWP") of footwear and apparel edged up by 6.9% and 13.8% year-on-year respectively. The increase in footwear and apparel's AWP was mainly due to (i) the upward adjustments of the wholesale prices to cover the increase in cost of production as a result of the imported inflation from the global economy under the post-pandemic environment; (ii) the upgrade of product mix by launching a variety of new products with a higher AWP; (iii) and the e-commerce business which has driven revenue growth, all these initiatives have added up to the increase in AWP as compared to that of products in the same period of the previous year. In addition, the sales volume of footwear and apparel products slightly increased by 0.3% and 4.0% year-on-year respectively. Although there was an upward adjustment of the wholesale prices and more upgraded new products with a higher AWP were launched for the period under review, the Group still achieved a slight growth of the sales volume of footwear and apparel, in particular under the adverse epidemic situation in the early second quarter in China which led to the adverse impact on the whole economy in China, as compared with the same period of the previous year.

As to the accessories, this category of products can complement the footwear and apparel products, and thus can enrich the product mix. During the period under review, the sales volume of the accessories decreased by 9.2% and the AWP of the accessories increased by 42.6% year-on-year. This was mainly due to the change in product mix by launching a variety of upgraded new products with a higher AWP which led to a year-on-year increase of 30.2% in the revenue from the sales of accessories for the period under review.

Revenue from the overseas business during the period under review increased by 24.1% year-on-year to RMB49.9 million (1H2021: RMB40.2 million) and accounted for approximately 1.4% of the total revenue of the Group.

The revenue from 361° Kids for the six months ended 30 June 2022 continued to grow, recording a year-on-year increase of 37.1% to RMB683.1 million (1H2021: RMB498.2 million), and accounted for approximately 18.7% (1H2021: 16.0%) of the Group's revenue during the period under review. The growth was mainly attributable to a year-on-year increase of 30.0% in the sales volume of apparel and footwear products and a year-on-year increase of 5.6% in their AWP as a result of the continuous growth in the Kids business, the success of the Group's diversification strategy to diversify the products range to cover different aged groups of the youth as well as the upgrade of product mix by launching a variety of new products with new technologies and comfortable raw materials.



MANAGEMENT DISCUSSION AND ANALYSIS

The revenue from the sales of the Group's web-exclusive products at the e-commerce business increased by 60.3% year-on-year to RMB781.8 million (1H2021: RMB487.8 million) and accounted for approximately 21.4% (1H2021: 15.7%) of the total revenue during the period under review. The Group is confident that the e-commerce business will continue to play a significant role in contributing to the Group's revenue in view of the increasing trend for consumers to switch from the traditional offline to online shopping.

The revenue from the Group's businesses which are grouped under "Others" represented the revenue from the sales of shoe soles by the Group's 51%-owned subsidiary to independent third parties. During the period under review, around 50.8% of that subsidiary's products were sold to the Group and the remaining portion was sold to independent third parties. The revenue at that subsidiary for the six months ended 30 June 2022 was RMB62.5 million (1H2021: RMB25.7 million) and accounted for approximately 1.7% (1H2021: 0.9%) of the Group's total revenue.

The following table sets forth a breakdown of the Group's revenue by the type of product during the period under review:

	For the six months ended 30 June		2021		Changes %
	2022				
	RMB'000	% of Revenue	RMB'000	% of Revenue	
By Products					
Adults					
Footwear	1,480,348	40.5	1,380,542	44.4	7.2
Apparel	1,382,357	37.8	1,167,736	37.6	18.4
Accessories	45,533	1.3	34,982	1.1	30.2
361° Kids	683,066	18.7	498,186	16.0	37.1
Others⁽¹⁾	62,452	1.7	25,663	0.9	143.4
Total	3,653,756	100.0	3,107,109	100.0	17.6

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

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

	For the six months ended 30 June		2021		Changes	
	2022					
	Total units sold	Average wholesale selling price ⁽¹⁾	Total units sold	Average wholesale selling price ⁽¹⁾	Units sold	Average wholesale selling price
	'000	RMB	'000	RMB	(%)	(%)
By Volume and the AWP						
Adults						
Footwear (pairs)	12,549	118.0	12,512	110.3	0.3	6.9
Apparel (pieces)	18,013	76.7	17,320	67.4	4.0	13.8
Accessories (pieces/pairs)	2,615	17.4	2,879	12.2	-9.2	42.6
361° Kids	10,005	68.3	7,699	64.7	30.0	5.6

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

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Sales

Cost of sales of the Group for the first half of 2022 increased by 18.3% year-on-year to RMB2,138.1 million (1H2021: RMB1,807.4 million). During the period under review, the cost of internal production decreased by 18.1% year-on-year and the cost of outsourced products increased by 49.6% year-on-year. The overall increase in cost of sales was basically in line with the increase in sales revenue during the period under review, as the cost of outsourced products in the same period last year included an amount of RMB10.5 million which represented a provision for slow-moving inventories written back with respect to the products for the overseas market as the products were sold, and no such item was incurred during the period under review.

There was a change in the mix of the internally produced products and outsourced products: the portion of outsourced footwear products and apparel products were 57.2% (1H2021: 48.2%) and 78.3% (1H2021: 67.0%) while the portion of internal production were 42.8% (1H 2021: 51.8%) and 21.7% (1H 2021: 33.0%) respectively.

During the period under review, as the Group's production facilities located in Quanzhou was in a serious epidemic situation subject to strengthened precautionary measures, the Group has shifted more outstanding orders to the outsourcing production in order to minimize the risk and to meet the orders under the adverse situation.

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

	For the six months ended 30 June				Changes %
	2022		2021		
	RMB'000	% of total costs of sales	RMB'000	% of total costs of sales	
Footwear & Apparel					
Internal Production					
Raw materials	412,667	19.3	547,099	30.3	-24.6
Labour	96,768	4.5	98,869	5.5	-2.1
Overheads	175,173	8.2	189,552	10.5	-7.6
	684,608	32.0	835,520	46.3	-18.1
Outsourced Products					
Footwear	621,542	29.0	399,996	22.1	55.4
Apparel	794,432	37.2	545,295	30.2	45.7
Accessories	37,530	1.8	26,602	1.4	41.1
	1,453,504	68.0	971,893	53.7	49.6
Cost of sales	2,138,112	100.0	1,807,413	100.0	18.3

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

The Group recorded a gross profit of RMB1,515.6 million during the period under review (1H2021: RMB1,299.7 million), representing a year-on-year slight decrease of 0.3 percentage points in the gross profit margin to 41.5%.

During the period under review, the gross profit margins of footwear, apparel, and the products of the “Others” business increased by 0.4, 0.3 and 5.1 percentage points year-on-year respectively while that of accessories and 361° Kids products dropped by 3.7 and 1.3 percentage points year-on-year respectively.

The gross profit margin of the footwear slightly increased from 43.1% to 43.5%. This was mainly due to the upgrade of product mix by launching a variety of new products with high gross profit margin and an increase in the proportion of sales revenue generated from its e-commerce platform which conducted business at a higher gross profit margin than the sales made to distributors.

The gross profit margin of the apparel products during the period under review was 41.5% (1H2021: 41.2%), representing a year-on-year increase of 0.3 percentage points. This was mainly due to the increase in proportion of sales revenue generated from its e-commerce platform as well as its higher gross profit margin.

As to the accessories, their gross profit margin dropped by 3.7 percentage points year-on-year to 35.6%. This was mainly due to the change in product mix of the accessories and the increase in cost of production in which the Group did not fully transfer the incremental cost to the distributors.

The gross profit margin of the 361° Kids business slightly decreased from 42.0% to 40.7%. It was mainly attributable to the change in product mix and the increase in cost of production which was not fully transferred to the distributors in order to boost the sales and increase its market share in this Kids segment under the keen competition in this market. The decrease in gross profit margin was partly offset by the increase in the proportion of sales revenue generated from its e-commerce platform which conducted business at a higher gross profit margin.

The gross profit margin of shoe soles, which was categorised under “Others”, was 7.4% (1H2021: 2.3%), increased by a 5.1 percentage points year-on-year during the period under review. It was mainly due to the upgrade of product mix with high profit margin and increase in selling price to customers.

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

	For the six months ended 30 June				Changes percentage point
	2022		2021		
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	
Adults					
Footwear	643,470	43.5	594,477	43.1	0.4
Apparel	573,504	41.5	481,593	41.2	0.3
Accessories	16,215	35.6	13,731	39.3	-3.7
361° Kids	277,832	40.7	209,306	42.0	-1.3
Others⁽¹⁾	4,623	7.4	589	2.3	5.1
Total	1,515,644	41.5	1,299,696	41.8	-0.3

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

MANAGEMENT DISCUSSION AND ANALYSIS

Other revenue

Other revenue of RMB128.2 million (1H2021: RMB110.1 million) mainly comprised of (i) interest income of RMB40.2 million (1H2021: RMB53.1 million) earned from bank deposits both in Hong Kong and the PRC; (ii) the discretionary government subsidies of RMB19.6 million (1H2021: RMB12.3 million) which was due to the Group's contribution to local economies; (iii) the commission of RMB43.9 million (1H2021: RMB33.3 million) charged from the sales of distributors' inventories through the e-commerce business and (iv) other income of RMB24.5 million (1H2021: RMB11.4 million).

Other net (loss)/gain

The other net loss of RMB8.1 million (1H2021: other net gain of RMB3.7 million) mainly represented the net foreign exchange loss of RMB5.2 million (1H2021: net exchange gain of RMB4.4 million). Since the Group's principal business is located in the PRC and adopts Renminbi as its functional currency, the depreciation of Renminbi resulted in 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 one another, the timing difference of converting local currencies to Renminbi along the time of advancements and repayments incurs currency gain or loss. Besides, there was a loss on disposal of plant and equipment and others amounted to RMB2.9 million (1H2021: other loss of RMB0.7 million).

Selling and distribution expenses

For the six months ended 30 June 2022, selling and distribution expenses increased by 30.7% year-on-year to RMB603.6 million (1H2021: RMB461.7 million). The increase was mainly due to the commitment of more resources to an advertising and promotion program for the purpose of boosting sales and enhancing the 361° brand, in particular, more activities held via the e-commerce platform, the increase in logistic charges in relation to the e-commerce business, the increase in service fees charged by the e-commerce platforms and the increase in sales revenue during the period under review, resulting in the increase of selling and distribution expenses.

Advertising and promotional expenses increased by 35.6% year-on-year to RMB335.4 million (1H2021: RMB247.3 million) and accounted for approximately 9.2% (1H2021: 8.0%) of the Group's revenue. In view of the continuous growth in the sports industry during the period under review, the Group took a more aggressive approach for advertising and promotion activities to enhance both its market position and its brand.

The commission and other service fees paid to the e-platforms, e.g. Tmall and JD.com, were RMB66.8 million (1H2021: RMB49.4 million) and other expenses in relation to the running of this business amounted to RMB39.6 million (1H2021: RMB15.4 million), totalling RMB106.4 million (1H2021: RMB64.8 million). The major expenses incurred by the e-commerce operation increased by 64.2% year-on-year which was in line with the growth of e-commerce business during the period under review.

Administrative expenses

Administrative expenses increased by 2.4% year-on-year to RMB244.8 million for the six months ended 30 June 2022 (1H2021: RMB239.0 million) and represented approximately 6.7% (1H2021: 7.7%) of the Group's revenue. The increase was mainly due to the year-on-year increase of RMB14.1 million in the staff costs which was partially offset by the year-on-year decrease of RMB11.7 million in office expenses primarily attributable to the adoption of refined digital management, which strengthened cost control during the period under review.

Research and development expenses were RMB113.8 million (1H2021: RMB110.4 million) and accounted for 3.1% (1H2021: 3.6%) of the revenue during the period under review. The Group continued to incur substantial capital to finance its R&D activities and maintained its R&D expenses in the range of 3-4% of the total revenue as the Group believes that R&D is of vital importance to the success of the Group and it would enhance the Group's product development and competitiveness in the market.

MANAGEMENT DISCUSSION AND ANALYSIS

Provision for Impairment Loss

As the pandemic still waxes and wanes in the world, in particular, the adverse situation in the early second quarter in China, the Group made an additional provision for impairment loss arising from trade receivables of RMB15.3 million (1H2021: RMB2.5 million) as a conservative measure during the period under review. The total provision for impairment loss arising from trade receivables as at 30 June 2022 amounted to RMB 147.7 million (31 December 2021: RMB132.4 million) which represented 4.2% (31 December 2021: 5.0%) of the trade receivables before provision at the end of the period under review.

Finance costs

For the six months ended 30 June 2022, finance costs decreased by 85.3% year-on-year to RMB4.7 million (1H2021: RMB31.8 million) which represented interest paid of RMB4.7 million (1H2021: RMB4.6 million) in relation to bank borrowings. In the same period last year, the Group incurred a finance cost of RMB27.1 million which represented 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 Dollar Notes”) issued on 3 June 2016 and amortised over the period. As the US Dollar Notes were fully redeemed on the maturity date of 3 June 2021 in accordance with the terms of the Indentures, no such finance cost was incurred for the period under review, as a result, the finance cost was significantly decreased for the period under review.

As at 30 June 2022, the Group had bank borrowings of RMB200 million for liquidity of two subsidiaries being run in the PRC and a mortgage bank loan of RMB7.6 million for financing the acquisition of an office in Hong Kong.

Income tax expense

During the period under review, income tax expense of the Group amounted to RMB163.0 million (1H2021: RMB207.8 million) and the effective tax rate for the period was 21.3% (1H2021: 30.7%).

The Group’s operating subsidiaries are mainly based in China. One of the Group’s mainland China-based operating subsidiaries succeeded to obtain the approval as a high and new technology enterprise (“HNTE”) and enjoys a reduced income tax rate of 15% from a local tax authority in late 2018 with a validity period of three years. The validity period had been further extended of three years to late 2024. Therefore, it was charged at a tax rate of 15%. The other major mainland China-based operating subsidiaries are still subject to the standard corporate income tax rate of 25%.

No provision has been made for profit tax paid by the Group’s subsidiaries in Hong Kong since no assessable profit was generated in Hong Kong. As the US Dollar Notes were issued and listed in Hong Kong, the relevant interest and cost have been all accrued and paid by the holding company. Such finance costs were not allowed to be deducted from the taxable income of the Group’s China-based operating subsidiaries.

For the period ended 30 June 2021, there was a withholding tax expenses amounting to RMB53.4 million incurred in relation to the remittance of funds from its operating subsidiaries in China by way of dividends to its holding company for financing the repurchase and redemption of the senior unsecured US Dollar Notes at the maturity date of 3 June 2021. No such remittance of funds was made during the period under review, and therefore no withholding tax expenses were incurred during the period under review. Accordingly, the effective tax rate was decreased from 30.7% to 21.3% for the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

Non-controlling interest

The decrease in non-controlling interest was mainly due to a decrease in profit from a non wholly-owned subsidiary which engaged in the e-commerce business.

Since the Group set up a partnership with two independent investors (the "Partnership") for financing the expansion of the e-commerce business in the same period last year, the Group supplied e-commerce products with a discounted price to this subsidiary to demonstrate its support to the expansion plan of its e-commerce business to penetrate into the e-market segment during the first half of 2021. During the period under review, the price of e-commerce products supplied by the Group was back to normal level. As a result, the profit of this subsidiary decreased during the period under review. In addition, since most of the profit generated by this subsidiary in 1H2021 was offset by the accumulated tax loss, no unutilised accumulated tax loss was available during the period under review. Therefore,

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

the profit of this subsidiary was subject to the standard corporate income tax rate of 25% during the period under review, which led to the further drop of profit of the e-commerce subsidiary.

CAPITAL AND OTHER INFORMATION

Liquidity and financial resources

Net cash generated from operating activities of the Group for the first half of 2022 amounted to RMB23.4 million. As at 30 June 2022, cash and cash equivalents, including bank deposits and cash in hands and fixed deposits with original maturities not exceeding three months, amounted to RMB3,423.5 million, representing a net increase of RMB81.9 million compared to the position as at 31 December 2021.

	For the six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Net cash generated from/(used in) operating activities	23,444	(19,909)
Payment for the purchase of property, plant and equipment	(18,223)	(380)
Interest paid	(4,645)	(33,424)
Repurchase of US\$ Notes	-	(967,326)
Redemption of US\$ Notes	-	(752,005)
Decrease in pledged deposits	12,998	34,305
Proceeds from disposal of property, plant and equipment	9,431	311
Repayment of bank loans	(621)	(1,550)
Net uplift of deposits (with maturity over three months)	-	1,000,000
Capital injection by non-controlling interests of a subsidiary	-	199,950
Interest received	59,733	59,999
Other net cash outflow	(223)	(873)
Net increase/(decrease) in cash and cash equivalents	81,894	(480,902)

MANAGEMENT DISCUSSION AND ANALYSIS

The net cash generated from operating activities amounted to RMB23.4 million for the six months ended 30 June 2022 and this is mainly caused by the increase in trade and other payables, partially offset by the increase in inventories, increase in trade and bills receivable and increase in deposits, prepayments and other receivables during the period under review. The increase in inventories was mainly due to increase in raw materials to cope with the outstanding sales orders. The increase in trade and bills receivable was mainly due to the increase in sales revenue. The increase in deposits, prepayments and other receivables was mainly caused by the increase in deposit paid to subcontractors for the increase in purchase and subcontracting orders in order to fulfil its outstanding sales orders and the prepayments made to advertisers and suppliers under the promotion contracts. The increase in trade and other payables was mainly due to the increase in purchases of raw materials and sub-contracting charges payable to the OEMs caused by the growth of business, which was partly offset by the effect of the acceleration of settlement to the suppliers in exchange for a better trade terms at the request of suppliers and subcontractors, and the consideration of strengthening the long term relationship with subcontractors and suppliers under the uncertain market situation caused by the epidemic.

During the six months ended 30 June 2022, capital expenditure amounted to RMB18.2 million (1H2021: RMB0.4 million) and it was mainly incurred for the maintenance of facilities in relation to production and staff accommodation in Wuli Industrial Park, Jinjiang. The interest of RMB4.6 million (1H2021: RMB33.4 million) paid for the period was mainly the interest for the bank loans. For the period ended 30 June 2021, the Group repurchased and cancelled US\$149.8 million worth of US Dollar Notes in principal amount by the use of RMB967.3 million and fully redeemed the US Dollar Notes on the maturity date of 3 June 2021 by the use of RMB752.0 million and no such transactions were made for the period under review. The decrease of RMB13.0 million in pledged deposits was due to less amount of bills issued as at 30 June 2022 compared with those six months ago. The Group received proceeds from disposal of property, plant and equipment of RMB9.4 million (1H2021: RMB0.3 million) during the period under review. The net decrease of RMB0.6 million in bank loans (1H2021: RMB1.6 million in bank loans) represented

the repayment of the principal of the bank mortgage loan in relation to the office in Hong Kong. For the period ended 30 June 2021, the Group made a net withdrawal of RMB1,000 million of time deposit with maturity over three months to redeem the US Dollar Notes due and received the balance of RMB199.9 million from investors for the investment in the Group's e-commerce business which represented approximately a 2.88% equity interest in the Group's e-commerce business on a fully diluted basis in the same period last year and no such items were made in the period under review. The interest received amounted to RMB59.7 million (1H2021: RMB59.9 million) representing an interest income generated from the fixed deposit placed in the PRC and Hong Kong.

The Group's gearing ratio (calculated based on the interest-bearing debt divided by the total assets of the Group as at 30 June 2022) was 1.7% as at 30 June 2022 (As at 31 December 2021: 1.8%). Other than the bank borrowings and the mortgage, the Group has not used other debt instruments to finance its operations for the period of six months ended 30 June 2022.

Treasury policy and foreign exchange risk

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

The Group manages its foreign exchange risk by matching the currency of its loans and borrowings with the Group's functional currency of major cash receipts and underlying assets as far as possible. As at 30 June 2022, all borrowings were at floating rate. As part of its policy, the Group continues to monitor its borrowing profiles, taking into consideration the funding needs and market conditions to minimize the interest rate exposure. Any substantial fluctuation in the exchange rate of foreign currencies against Renminbi may have a financial impact on the Group.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of assets

As at 30 June 2022, a property with a net book value of RMB39.1 million (As at 31 December 2021: RMB38.8 million) was pledged as security for a banking facility of the Group of RMB35.8 million (As at 31 December 2021: RMB35.8 million). The aforesaid banking facility was used to finance the acquisition of an office unit in Hong Kong. The office unit is for the Group's own use and not for any investment purpose. Bills payable as at 30 June 2022 were secured by pledged bank deposits of RMB33.9 million (As at 31 December 2021: RMB46.9 million) and RMB5.3 million was pledged as the guarantee deposits for the 2022 Asian Games Committee (As at 31 December 2021: RMB5.3 million).

Working capital management

The average working capital cycle for the six months ended 30 June 2022 slightly increased to 115 days (For the year ended 31 December 2021: 114 days). The increase was mainly due to the slight increase of the turnover cycle of the trade and bills receivable and the shortening of inventory turnover days which was fully offset by the decrease in the trade and bills payable turnover days.

The average trade and bills receivable cycle was 150 days for the six months ended 30 June 2022 (for the year ended 31 December 2021: 149 days), representing a slight increase of 1 day. Although the whole economy was seriously affected by the epidemic in the early second quarter of the period under review, the Group was still able to maintain the trade and bills receivable turnover days approximately the same as last year's level. As at 30 June 2022, an aggregated amount of RMB3,356.5 million (97.7%) of trade and bills receivables was within 180 days of which around 79.9% was within 90 days.

Although the trade and bills receivable turnover cycle was maintained around the same level as compared with last year, the Group has made an additional provision for doubtful debts of RMB15.3 million (1H2021: RMB2.5 million) in view of the continuing uncertain market condition caused by the pandemic during the period under review. The Group will continue to closely monitor the situation of its trade and bills receivables and stay in touch with all the distributors on a more frequent basis, and believes that there will be improvement in the collection of debts for the second half of this year.

The average inventory turnover cycle was 76 days for the six months ended 30 June 2022 (for the year ended 31 December 2021: 87 days). The improved inventory turnover cycle was mainly due to the continuous growth of the sports industry and the distributors' more aggressive attitude on taking the delivery of the orders according to the expected timetable to meet the strong market demand. About 85.0% of the stock were finished goods and were mainly products for the summer and fall of 2022. All the goods for the 361° core brand were either self-produced or supplied by OEMs according to the orders received from distributors. No extra stock was produced or retained by the Group.

As at 30 June 2022, prepayments to suppliers were RMB950.9 million, representing a 0.5% decrease compared with the RMB955.3 million as at 31 December 2021. The prepayments were deposits paid for raw materials and to outsourced suppliers for the acceptance of the orders for production of products at the 2022 fall and winter trade fairs. The balance of other prepayments, RMB234.2 million (as at 31 December 2021: RMB164.3 million), was mainly the payment in relation to the advertising and promotion contracts.

The average trade and bills payable cycle decreased by 11 days to 111 days for the six months ended 30 June 2022 (for the year ended 31 December 2021: 122 days). The decrease was mainly due to the shortening of the settlement period which was set for the purpose of maintaining long-term relationships with suppliers and in exchange for better trade terms with the suppliers. The Group believes that the average trade and bills payable cycle will be maintained at approximately 110 days in the long run.

Contingent liabilities

For the period ended 30 June 2022, the Group did not have any material contingent liabilities.

Material acquisitions and disposals

For the period ended 30 June 2022, the Group did not make any material acquisitions or disposal of subsidiaries or associates.

MANAGEMENT DISCUSSION AND ANALYSIS

Significant investments

For the six months ended 30 June 2022, the Group had no significant investments.

As at the date of this report, the Group does not have any plan for material investment or capital assets for the year ending 31 December 2022.

Employees and emoluments

As at 30 June 2022, the Group employed a total of 7,950 full time employees in the PRC who included management staff, technicians, salespersons and workers. For the six months ended 30 June 2022, the Group's total remuneration paid to employees was RMB304.1 million, representing 8.3% 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 that its strength lies in the quality of its employees and has placed a great emphasis on fringe benefits. The Group also continuously offers comprehensive training to employees with the aim of fostering a learning culture that could enhance the employees' professional knowledge and skills.

PROSPECT

With the faster rising vaccination rate, the world's economy has begun recovering post-pandemic, albeit with divergence among different regions. In the post-pandemic era, China's economy has demonstrated its unique advantage of a strong capability for endogenous growth. The country's economy shows steadily growing momentum and is expected to continue to lead the world in the economic recovery. According to *Global Economic Prospects*, China's economy is forecasted to grow by 8.5% in 2021 and 5.8% in 2022, higher than the forecasted global average economic growth rates for both years. With the Chinese nationals' heightened health consciousness and the Chinese government's move to step up its policies on fostering the citizens' physical fitness, the sports industry is working apace towards the goal of becoming a pillar of the national economy.

The complex and volatile international situation as well as the persistently high inflation abroad have exacerbated the uncertainty of the global economy. According to *Global Economic Prospects* published by the World Bank in June 2022, the global growth is predicted to be weakened to 2.9% in 2022, while China's economic growth is expected to reach 4.3%, above the global average. Under the new development pattern of "domestic circulation", the support under the policy of China's domestic sports industry has increased. The successful holding of the Beijing Winter Olympic Games has further stimulated the national fitness boom, alongside the normalisation of the epidemic, residents have increasingly attached importance to their health. In addition, several international sports events will be held in China in the future. Coupled with factors such as consumption upgrading and digital transformation of the industry, China's domestic sports industry will usher in a promising market prospect.

MANAGEMENT DISCUSSION AND ANALYSIS

Looking ahead to the second half of 2022, China's sports industry will be full of momentum for development. Adhering to the "consumer-centric" business philosophy, 361° will continue to deepen its brand positioning of "professional, youthful, and internationalised", and optimise the integration of resources to continuously expand its brand influence and enhance its core competitiveness. In terms of brand building, the Group will proceed with its strategy of developing "professional sporting goods" and "fashionable sporting goods", continue to enhance the core support of product sports functionality, and give full play to the enabling role of spokespersons and IP joint operations, so as to enhance the trend attributes of products and reach a wider range of consumer groups. In terms of kids' wear, the Group will seize the favorable opportunity for industry development to strengthen the in-depth expansion to enrich the product range. Furthermore, the Group will continue to deepen the layout of differentiated brand resources, and enhance the health technology and fashion trend of products, with the aim to better meet the living needs of children's sports and further increase the market share of kids' wear.

In terms of sales, the Group will strive to promote a balanced development of online and offline channels to further upgrade customers' consumption experience. We endeavor to satisfy the demands of different groups through the benign interaction among offline physical store terminals, online e-commerce and new retail channels, so as to synergistically improve the overall operating efficiency. The Group will accelerate offline channels' penetration by increasing the coverage of the ninth-generation stores under the brand of 361° and the fourth-generation stores under the brand of 361° Kids to strengthen the geographical advantage of offline physical stores. As for online channels, the Group will further leverage on the multiple effects of e-commerce platforms, while, in line with the new retail trend, vigorously expand new retail mode and continuously promote our proprietary WeChat mini program "You Yan You Du (有顏有度)", so as to boost the sales performance in multiple dimensions. At the same time, the Group will continue to strengthen scientific research and innovations to promote the high-quality transformation of scientific research results, in order to continuously improve its product power and enhance the core competitiveness of its brands.

Although the Hangzhou Asian Games, of which the Group is the official partner, was postponed due to the pandemic, we believe that the future hosting of the Hangzhou Asian Games will further enhance the value of the 361° brand in light of the unprecedented domestic boom in national fitness during the Beijing Winter Olympics. The Group will also actively sponsor various large-scale sports events to further promote the development of sports undertakings in China and the world at large, and enhance the influence of the 361° brand in the international market. In addition, amid the rising and vital "China-Chic" atmosphere, the "China-Chic" consumption fashion is destined to be overwhelming in China in the long run. Sports consumption will also gain strong momentum for development, coupled with the increasing preference of consumers for our local brands, the Group will continue to seize this opportunity to achieve a further leap in brand value.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue	3	3,653,756	3,107,109
Cost of sales		(2,138,112)	(1,807,413)
Gross profit		1,515,644	1,299,696
Other revenue	4	128,165	110,096
Other net (loss)/gain	4	(8,136)	3,673
Selling and distribution expenses		(603,566)	(461,696)
Administrative expenses		(244,829)	(239,023)
Provision for expected credit losses allowance on trade receivables	9	(15,334)	(2,500)
Profit from operations		771,944	710,246
Loss on repurchase of senior unsecured notes		–	(1,228)
Finance costs	5(a)	(4,660)	(31,763)
Profit before income tax	5	767,284	677,255
Income tax expense	6	(163,027)	(207,795)
Profit for the period		604,257	469,460
Attributable to:			
Equity shareholders of the Company		550,914	401,435
Non-controlling interests		53,343	68,025
Profit for the period		604,257	469,460
Earnings per share			
Basic and diluted (RMB cents)	7	26.65	19.42

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2022

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Profit for the period	604,257	469,460
Other comprehensive income for the period, net of income tax		
Item that will not be reclassified to profit or loss:		
Equity investments designated at fair value through other comprehensive income (non-recycling) – net movement in fair value reserve	713	502
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements	4,896	5,094
Total comprehensive income for the period, net of income tax	609,866	475,056
Attributable to:		
Equity shareholders of the Company	556,523	407,031
Non-controlling interests	53,343	68,025
Total comprehensive income for the period	609,866	475,056

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

	<i>Notes</i>	At 30 June 2022 RMB'000 (Unaudited)	At 31 December 2021 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	795,535	822,547
Right-of-use assets		103,489	105,262
		899,024	927,809
<hr/>			
Other financial asset		27,568	26,729
Deposits and prepayments	9	102,445	102,344
Deferred tax assets		102,236	97,778
		1,131,273	1,154,660
<hr/>			
Current assets			
Inventories	10	907,797	890,937
Trade debtors	9	3,352,890	2,527,055
Bills receivables	9	82,304	72,683
Deposits, prepayments and other receivables	9	1,289,872	1,201,471
Pledged bank deposits	11	39,172	52,170
Deposits with banks	11	2,000,000	2,000,000
Cash and cash equivalents	11	3,423,532	3,339,010
		11,095,567	10,083,326
<hr/>			
Current liabilities			
Trade and other payables	12	2,386,078	2,091,625
Lease liabilities		283	391
Bank loans	13	207,556	207,837
Current taxation		426,635	368,176
		3,020,552	2,668,029
<hr/>			
Net current assets		8,075,015	7,415,297

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

	<i>Note</i>	At 30 June 2022 RMB'000 (Unaudited)	At 31 December 2021 RMB'000 (Audited)
Total assets less current liabilities		9,206,288	8,569,957
Non-current liability			
Lease liabilities		409	644
Deferred tax liability		14,433	13,672
		14,842	14,316
Net assets		9,191,446	8,555,641
Capital and reserves			
Share capital	<i>14(a)</i>	182,298	182,298
Reserves		7,516,929	6,934,467
Total equity attributable to equity shareholders of the Company		7,699,227	7,116,765
Non-controlling interests		1,492,219	1,438,876
Total equity		9,191,446	8,555,641

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2022

Notes	Attributable to equity shareholders of the Company								Non-controlling interests	Total equity
	Share capital	Other reserves	Statutory reserve	Exchange reserve	Fair value reserve (non-recycling)	Share option reserve	Retained profits	Total		
	(note 15(a))									
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2021 (Audited)	182,298	228,115	836,710	(48,691)	9,711	-	5,400,770	6,608,913	957,078	7,565,991
Changes in equity for the six months ended 30 June 2021:										
Profit for the period (Unaudited)	-	-	-	-	-	-	401,435	401,435	68,025	469,460
Other comprehensive income (Unaudited)	-	-	-	5,094	502	-	-	5,596	-	5,596
Total comprehensive income (Unaudited)	-	-	-	5,094	502	-	401,435	407,031	68,025	475,056
Capital injection by non-controlling interests of subsidiary (Note)	-	(141,343)	-	-	-	-	-	(141,343)	341,293	199,950
Appropriation to statutory reserve	-	-	56,966	-	-	-	(56,966)	-	-	-
Equity-settled share option payment (Note 5)	-	-	-	-	-	1,352	-	1,352	-	1,352
Balance at 30 June 2021 (Unaudited)	182,298	86,772	893,676	(43,597)	10,213	1,352	5,745,239	6,875,953	1,366,396	8,242,349
Balance at 1 January 2022 (Audited)	182,298	86,772	944,125	(34,581)	16,971	26,125	5,895,055	7,116,765	1,438,876	8,555,641
Changes in equity for the six months ended 30 June 2022:										
Profit for the period (Unaudited)	-	-	-	-	-	-	550,914	550,914	53,343	604,257
Other comprehensive income (Unaudited)	-	-	-	4,896	713	-	-	5,609	-	5,609
Total comprehensive income (Unaudited)	-	-	-	4,896	713	-	550,914	556,523	53,343	609,866
Appropriation to statutory reserve	-	-	51,327	-	-	-	(51,327)	-	-	-
Equity-settled share option payment (Note 5)	-	-	-	-	-	25,939	-	25,939	-	25,939
Balance at 30 June 2022 (Unaudited)	182,298	86,772	995,452	(29,685)	17,684	52,064	6,394,642	7,699,227	1,492,219	9,191,446

Note: Further to Note 13(vi) to the consolidated financial statements for the year ended 31 December 2020, during the six months ended 30 June 2021, the Group and the non-controlling interests have further contributed the remaining capital of RMB400,000,000 in the Partnership and the Partnership injected the amount so received of RMB400,000,000 to Duoyidu, which resulted in the effective equity interest held by the Group decreased from 72.13% to 69.25%. As a result, a deemed disposal of a subsidiary of approximately RMB141,343,000 was recognised during the six months ended 30 June 2021 and accounted for as an equity transaction and recorded in "Other reserves".

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2022

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Operating activities		
Cash generated from operations	131,835	183,884
People's Republic of China income tax paid	(108,391)	(203,793)
Net cash generated from/(used in) operating activities	23,444	(19,909)
Investing activities		
Payment for the purchase of property, plant and equipment	(18,223)	(380)
Proceeds from disposal of property, plant and equipment	9,431	311
Decrease in pledged bank deposits	12,998	34,305
Placements of fixed deposits held at banks with maturity over three months	(2,000,000)	(2,000,000)
Uplift of fixed deposits held at banks with maturity over three months	2,000,000	3,000,000
Interest received	59,733	59,999
Net cash generated from investing activities	63,939	1,094,235
Financing activities		
Payment for repurchase of senior unsecured notes	–	(967,326)
Redemption of senior unsecured notes	–	(752,005)
Capital injection by non-controlling interests of subsidiary	–	199,950
Principal element of lease rentals paid	(208)	(845)
Interest element of lease rentals paid	(15)	(28)
Repayment of bank loans	(621)	(1,550)
Interest paid	(4,645)	(33,424)
Net cash used in financing activities	(5,489)	(1,555,228)
Net increase/(decrease) in cash and cash equivalents	81,894	(480,902)
Cash and cash equivalents at 1 January	3,339,010	3,451,331
Effect of foreign exchange rate changes	2,628	(4,319)
Cash and cash equivalents at 30 June	3,423,532	2,966,110

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2022

1. BASIS OF PREPARATION

These condensed consolidated financial statements for the six months ended 30 June 2022 (“interim financial statements”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This interim financial statements was authorised for issue by the Company’s board of directors on 23 August 2022.

The preparation of the interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those described in the annual financial statements for the year ended 31 December 2021.

The interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2021.

The financial information relating to the financial year ended 31 December 2021 that is included in the interim financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2021 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 March 2022.

The interim financial statements have been prepared on historical cost basis except for certain financial instruments which are measured at fair values. As the Group mainly operates in the People’s Republic of China (the “PRC”), Renminbi (“RMB”) is used as the presentation currency of the interim financial statements.

2. CHANGES IN ACCOUNTING POLICIES

The accounting policies and method of computation adopted in preparing these interim financial statements were consistent with those adopted for the Group’s consolidated financial statements for the year ended 31 December 2021 other than changes in accounting policies resulting from adoption of the new or amendments to HKFRSs effective for the accounting periods beginning on or after 1 January 2022.

The HKICPA has issued a number of new or amendments to HKFRSs that are first effective for the current accounting period of the Group. 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 in these interim financial statements. The Group has not adopted any amendments to HKFRSs that is not yet effective for the current accounting period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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.

During the year ended 31 December 2021, the Group granted 45,200,000 share options to certain employees of distributors. The fair value of the share options is expensed over the vesting period and the fair value of the share options granted recognised as a deduction of revenue for the six months ended 30 June 2022 amounted to approximately RMB14,118,000 (six months ended 30 June 2021: Nil). The revenue amount disclosed below shows the Group's revenue after deducting the fair value of share options granted to certain employees of the Group's distributors recognised for the six months ended 30 June 2022. Details of the share option scheme are set forth in Note 31 to the 2021 annual financial statements.

Disaggregation of revenue

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

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
– Footwear	1,792,874	1,582,282
– Apparel	1,740,002	1,456,273
– Accessories	58,428	42,891
– Others	62,452	25,663
	3,653,756	3,107,109

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 included one (six months ended 30 June 2021: two) customer with whom transactions have exceeded 10% of the Group's revenues. During the period ended 30 June 2022, revenues from sales of footwear, apparel and accessories to the (six months ended 30 June 2021: two) customer, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately RMB623,000,000 (six months ended 30 June 2021: RMB1,119,000,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2022

3. REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has 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.

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 period. Accordingly, no analysis by geographical segments has been provided for the period. In addition, no information on segment assets and liabilities was prepared for review by the Group's most senior executive management for the period for the purpose of resource allocation and performance assessment.

(i) Segment results

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and expenses incurred by 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 is set out below.

	Adults		Kids		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2022	2021	2022	2021	2022	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Disaggregated by timing of revenue recognition						
Point in time	2,970,690	2,608,923	683,066	498,186	3,653,756	3,107,109
Revenue from external customers	2,970,690	2,608,923	683,066	498,186	3,653,756	3,107,109
Inter-segment revenue	4,177	13,913	–	–	4,177	13,913
Reportable segment revenue	2,974,867	2,622,836	683,066	498,186	3,657,933	3,121,022
Cost of sales	(1,737,609)	(1,532,161)	(405,234)	(288,880)	(2,142,843)	(1,821,041)
Reportable segment profit (gross profit)	1,237,258	1,090,675	277,832	209,306	1,515,090	1,299,981

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2022

3. REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Revenue		
Reportable segment revenue	3,657,933	3,121,022
Elimination of inter-segment revenue	(4,177)	(13,913)
Consolidated revenue (<i>note 3(a)</i>)	3,653,756	3,107,109
Profit before income tax		
Reportable segment profit	1,515,090	1,299,981
Elimination of inter-segment profit	554	(285)
Reportable segment profit derived from the Group's external customers	1,515,644	1,299,696
Other revenue	128,165	110,096
Other net (loss)/gain	(8,136)	3,673
Selling and distribution expenses	(603,566)	(461,696)
Administrative expenses	(244,829)	(239,023)
Provision for expected credit losses allowance on trade receivables	(15,334)	(2,500)
Loss on repurchase of senior unsecured notes	–	(1,228)
Finance costs	(4,660)	(31,763)
Consolidated profit before income tax	767,284	677,255

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2022

4. OTHER REVENUE AND OTHER NET GAIN

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Other revenue		
Interest income on financial assets measured at amortised cost	40,169	53,121
Government grants [#]	19,607	12,273
Commission income [*]	43,932	33,259
Others	24,457	11,443
	128,165	110,096
Other net (loss)/gain		
Net foreign exchange (loss)/gain	(5,169)	4,358
Loss on disposal of property, plant and equipment	(2,967)	(531)
Loss on lease modification	–	(154)
	(8,136)	3,673

Note:

[#] Government grants 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.

^{*} Commission income represented the service income by providing e-commerce platforms for the Group's distributors, which is calculated at certain percentage of the online sales amount.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2022

5. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
(a) Finance costs:		
Interest on lease liabilities	15	28
Interest on bank loans	4,645	4,640
Finance charges on senior unsecured notes	–	27,095
Total interest expense on financial liabilities not carried at fair value through profit or loss	4,660	31,763
(b) Other items:		
Depreciation of property, plant and equipment	30,285	34,984
Depreciation of right-of-use assets	1,294	2,342
Staff costs (including directors' emoluments)	304,141	270,059
– Contributions to defined contribution retirement plans	9,382	7,053
– Equity settled share-based payment	11,821	571
– Salaries, wages and other benefits	282,938	262,435
Equity settled share-based payment (<i>Note a</i>)	25,939	1,352
– Staff (as above)	11,821	571
– Business partners (<i>Note 3(a)</i>)	14,118	781
Expenses relating to short-term leases	3,721	1,968
Research and development costs (<i>Note b</i>)	113,849	110,446
Cost of inventories (<i>Note c</i>)	2,138,112	1,807,413

Notes:

- (a) During the year ended 31 December 2021, the Company granted 54,800,000 and 45,200,000 share options to the employees and business partners (collectively referred to as the "Grantees") respectively under the share option scheme. The options will entitle the Grantees to subscribe for a total of 100,000,000 new shares of HK\$0.10 each at an exercise price of HK\$4.1 per share. All the share options granted are exercisable from 21 December 2022 and expiring on 20 June 2023 (both dates inclusive). During the six months ended 30 June 2022, share-based payment of approximately RMB25,939,000 for the share option scheme was recognised in the consolidated profit or loss with a corresponding credit in share option reserve.
- (b) Research and development costs include approximately RMB42,447,000 (six months ended 30 June 2021: RMB41,634,000) relating to staff costs of employees in the research and development department and depreciation, which amounts are also included in the respective total amounts disclosed separately above. Research and development costs included in administrative expenses in the condensed consolidated statement of profit or loss.
- (c) Cost of inventories includes RMB Nil (six months ended 30 June 2021: RMB10,526,000) relating to written off of inventories and RMB106,880,000 (six months ended 30 June 2021: RMB105,457,000) relating to staff costs and depreciation, which amounts are also included in the respective amount disclosed separately above.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Current tax		
Provision for the period	166,850	197,313
– PRC income tax (Note (ii))	166,850	143,880
– Withholding tax (Note (iv))	–	53,433
Deferred tax	(3,823)	10,482
– Withholding tax	–	8,560
– Origination of temporary differences	(3,823)	1,922
	163,027	207,795

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands (six months ended 30 June 2021: nil).
- (ii) No provision has been made for Profits Tax in Hong Kong, Brazil, United States of America and the Netherlands as the Group did not earn any income subject to Profits Tax in Hong Kong, Brazil, United States of America and the Netherlands during the six months ended 30 June 2022 (six months ended 30 June 2021: nil).
- (iii) All PRC subsidiaries are subject to income tax at 25% (six months ended 30 June 2021: 25%) for the six months ended 30 June 2022 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 a high and new technology enterprise ("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 from 30 November 2018 to 29 November 2021. The validity period had been further extended of three years from 30 November 2021 to 29 November 2024. The subsidiary was approved to be HNTE and enjoyed the preferential tax rate for HNTE for the six months ended 30 June 2022 (six months ended 30 June 2021: Same).
- (iv) The PRC tax law imposes a withholding tax at 5% for dividends declared by the PRC subsidiaries to its immediate holding company outside the PRC for remitted earnings. As at 30 June 2022, the deferred tax liabilities for withholding taxes have not been provided on unremitted earnings (30 June 2021: RMB53,433,000).

7. 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 approximately RMB550,914,000 (six months ended 30 June 2021: RMB401,435,000) and the weighted average of 2,067,602,000 (six months ended 30 June 2021: 2,067,602,000) ordinary shares in issue during the six months ended 30 June 2022.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2022

7. EARNINGS PER SHARE (Continued)

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential shares comprise shares to be issued under share option scheme. In relation to shares to be issued under share option scheme, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the year) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. For the six months ended 30 June 2022, the assumed conversion of potential ordinary shares in relation to the share option has an anti-dilutive effect to the basic earnings per share as the exercise price of the options exceeds the average market price of ordinary shares of the Company (six months ended 30 June 2021: Same).

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the Group acquired and disposed items of property, plant and equipment of approximately RMB18,223,000 (six months ended 30 June 2021: approximately RMB380,000) and RMB12,398,000 (six months ended 30 June 2021: RMB842,000) respectively.

9. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	At 30 June 2022 RMB'000 (Unaudited)	At 31 December 2021 RMB'000 (Audited)
Trade receivables	3,500,641	2,659,472
Less: Allowance for expected credit loss	(147,751)	(132,417)
Trade receivables, net of loss allowance	3,352,890	2,527,055
Bills receivables	82,304	72,683
Trade and bills receivables (Note d)	3,435,194	2,599,738
Deposits, prepayments and other receivables		
<i>Current</i>		
Deposits	1,018	81
Prepayments (Note a)	1,185,122	1,119,607
Other receivables (Note b)	103,732	81,783
	1,289,872	1,201,471
<i>Non-current</i>		
Deposits and prepayments (Note c)	102,445	102,344

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2022

9. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

Notes:

- (a) Included in prepayments are amounts prepaid to suppliers, advertisers and prepaid of promotional items of approximately RMB950,904,000, RMB51,874,000 and RMB130,871,000 respectively (31 December 2021: RMB955,265,000, RMB49,977,000 and RMB92,777,000).
- (b) Included in other receivables are the interest receivables of approximately RMB19,704,000 (31 December 2021: RMB23,778,000).
- (c) Non-current portion of deposits and prepayments mainly represent the initial deposits paid to local government authorities for acquisition of land use rights for development.
- (d) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade and bills receivables, based on the invoice date and net of allowance for expected credit loss is as follows:

	At 30 June 2022 RMB'000 (Unaudited)	At 31 December 2021 RMB'000 (Audited)
Within 90 days	2,743,328	2,038,910
Over 90 days but within 180 days	613,123	445,148
Over 180 days but within 360 days	78,743	115,680
	3,435,194	2,599,738

Trade and bills receivables are due within 30 to 180 days (31 December 2021: 30 to 180 days) from the date of billing.

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

10. INVENTORIES

	At 30 June 2022 RMB'000 (Unaudited)	At 31 December 2021 RMB'000 (Audited)
Raw materials	103,692	69,347
Work in progress	32,644	26,877
Finished goods	771,461	794,713
	907,797	890,937

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2022

11. CASH AND BANK DEPOSITS

	At 30 June 2022 RMB'000 (Unaudited)	At 31 December 2021 RMB'000 (Audited)
Pledged bank deposits	39,172	52,170
Deposits with banks		
– More than three months to maturity when placed	2,000,000	2,000,000
Cash at bank and on hand	3,423,532	3,339,010
Cash and bank deposits	5,462,704	5,391,180

Pledged bank deposits comprised deposits of approximately RMB33,922,000 (31 December 2021: RMB46,920,000) pledged to certain banks as security for certain banking facilities and guarantee deposits of approximately RMB5,250,000 (31 December 2021: RMB5,250,000) for payment to guaranteed parties denominated in RMB placed in designated accounts. Such guarantee deposit will be released upon the expiry of the guarantee agreements.

At 30 June 2022, balances that were placed with banks or on hand in the PRC amounted to approximately RMB5,418,742,000 (31 December 2021: RMB5,338,594,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

12. TRADE AND OTHER PAYABLES

	At 30 June 2022 RMB'000 (Unaudited)	At 31 December 2021 RMB'000 (Audited)
Trade payables	1,262,680	1,093,279
Bills payables (<i>Note 13</i>)	112,800	156,400
	1,375,480	1,249,679
Contract liabilities	89,391	142,653
Other payables and accruals*	921,207	699,293
Trade and other payables	2,386,078	2,091,625

* Other payables and accruals mainly included the accrued advertising expenses of approximately RMB193,891,000 (31 December 2021: RMB202,681,000), other payables relating to promotional items, trade fairs and e-commerce platforms of approximately RMB97,551,000 (31 December 2021: RMB111,475,000) and other tax payables of approximately RMB225,201,000 (31 December 2021: RMB129,717,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2022

12. TRADE AND OTHER PAYABLES (Continued)

As at 30 June 2022, an amount due to non-controlling interests of a subsidiary of approximately RMB6,164,000 (31 December 2021: RMB11,436,000) was included in other payable and accruals. The amount due to non-controlling interests were unsecured, interest-free and repayable on demand.

As of the end of the reporting period, the ageing analysis of trade and bills payables by invoice, is as follows:

	At 30 June 2022 RMB'000 (Unaudited)	At 31 December 2021 RMB'000 (Audited)
Due within 1 month or on demand	419,312	315,299
Due after 1 month but within 3 months	450,684	396,001
Due after 3 months but within 6 months	505,484	538,379
	1,375,480	1,249,679

13. BANK LOANS

As at 30 June 2022, bank loans were classified as current liabilities which were repayable within one year or on demand and secured as follows:

	At 30 June 2022 RMB'000 (Unaudited)	At 31 December 2021 RMB'000 (Audited)
Secured bank loans	7,556	7,837
Unsecured bank loans	200,000	200,000
	207,556	207,837
Non-current	6,618	7,033
Current	1,470	1,407
	8,088	8,440

As at 30 June 2022, certain bank loans and bills payables (Note 12) of the Group were secured by a property with carrying amount of approximately RMB39,113,000 (31 December 2021: RMB38,796,000) and pledged bank deposits of approximately RMB33,922,000 (31 December 2021: RMB46,920,000) (Note 11). As at 30 June 2022, bank loans and bills payables of the Group were also guaranteed by certain subsidiaries of the Company (31 December 2021: Same).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2022

14. CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	At 30 June 2022		At 31 December 2021	
	No. of shares '000	Amounts HK\$'000	No. of shares '000	Amounts HK\$'000
Authorised:				
Ordinary shares of HK\$0.1 each	10,000,000	10,000,000	10,000,000	1,000,000

	No. of shares '000	Amount	
		HK\$'000	RMB'000
Ordinary shares, issued and fully paid:			
At 1 July 2021, 31 December 2021, 1 January 2022 and 30 June 2022	2,067,602	206,760	182,298

(b) Dividends

The board of directors of the Company does not recommend the payment of interim or special dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2022

15. MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions and balances with related parties

	At 30 June 2022 RMB'000 (Unaudited)	At 31 December 2021 RMB'000 (Audited)
Amount due to non-controlling interest of a subsidiary (included in trade and other payables) (Note 12)	(6,164)	(11,436)

(b) Key management personnel remuneration

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Short-term employee benefits	16,497	17,316
Post-employment benefits	310	237
	16,807	17,553

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

16. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets measured at fair value

(i) Fair value hierarchy

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2022

16. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets measured at fair value (Continued)

(i) Fair value hierarchy (Continued)

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
Recurring fair value measurement:				
At 30 June 2022 (Unaudited)				
Financial asset:				
Unlisted equity security	27,568	–	–	27,568
At 31 December 2021 (Audited)				
Financial asset:				
Unlisted equity security	26,729	–	–	26,729

During the six months ended 30 June 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (six months ended 30 June 2021: 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.

(ii) Information about Level 3 fair value measurements

The fair value of unlisted equity instruments is determined by adjusted net assets value approach. Under adjusted net assets value approach, total value of the equity was based on the sum of the net asset value, determined by marking every asset and liability on (and of) the investee's balance sheet to fair value. The fair value measurement is negatively correlated to the discount for lack of marketability. As at 30 June 2022, it is estimated that with all other variables held constant, a decrease/increase in discount for lack of marketability by 5 % (31 December 2021: 5%) would have increased/decreased the Group's other comprehensive income by approximately RMB1,821,000 (31 December 2021: approximately RMB1,813,000).

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

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Balance at 1 January	26,729	18,188
Net unrealised gain recognised in other comprehensive income during the period	839	591
Balance at 30 June	27,568	18,779

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2022

17. COMMITMENTS

- (a) Contractual commitments outstanding at 30 June 2022 not provided for in the interim financial statements were as follows:

	At 30 June 2022 RMB'000 (Unaudited)	At 31 December 2021 RMB'000 (Audited)
Advertising and marketing expenses	43,763	94,121

- (b) Capital commitments outstanding at 30 June 2022 not provided for in the interim financial statements were as follows:

	At 30 June 2022 RMB'000 (Unaudited)	At 31 December 2021 RMB'000 (Audited)
Construction in progress	2,249	2,249

- (c) At 30 June 2022, the lease commitments for short-term leases not included in the lease liabilities as follows:

	At 30 June 2022 RMB'000 (Unaudited)	At 31 December 2021 RMB'000 (Audited)
Within 1 year	26	106

CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

In the opinion of the directors of the Company, the Company had complied with the code provisions as set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2022.

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

As at 30 June 2022, 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 associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules, were as follows:

LONG AND SHORT POSITION IN THE COMPANY

Name of Director	Long/short position	Nature of interest	Note	Number of ordinary shares	Percentage
Mr. Ding Wuhao	Long	Beneficial owner		11,962,000	0.58%
		Interest in controlled corporation	(1)	340,066,332	16.45%
Mr. Ding Huihuang	Long	Beneficial owner		9,189,000	0.44%
		Interest in controlled corporation	(2)	327,624,454	15.85%
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 327,624,454 shares of the Company held by Ming Rong International Company Limited by virtue of it being controlled by Mr. Ding Huihuang. He is the elder brother of Mr. Ding Huirong and the brother-in-law of Mr. Ding Wuhao.
- (3) Mr. Ding Huirong is deemed to be interested in 324,066,454 shares of the Company held by Hui Rong International Company Limited by virtue of it being controlled by Mr. Ding Huirong. He is the younger brother of Mr. Ding Huihuang and the brother-in-law of Mr. Ding Wuhao.
- (4) Mr. Wang Jiabi is deemed to be interested in 168,784,611 shares of the Company held by Jia Wei International Co, Ltd. by virtue of it being controlled by Mr. Wang Jiabi.

Save as disclosed above, as at 30 June 2022, none of the Directors or chief executive of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION

SHARE OPTION SCHEME

Share Option Scheme

The Company adopted a share option scheme on 18 May 2021 (“the Share Option Scheme”) for the purpose of enabling the Group to grant options to the eligible participants under the Share Option Scheme as incentives or rewards for their contribution to the Group.

The maximum number of shares which may be issued upon the exercise of all the options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the adoption of the Share Option Scheme initially i.e. 206,760,200 shares. No options may be granted to any eligible participant under the Share Option Scheme such that the total number of shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company’s issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme any time during a period as determined by the board of Directors and not exceeding 10 years from the date of the grant under the Share Option Scheme. There is no minimum period for which an option must be held before it can be exercised. Eligible participants of the Share Option Scheme are required to pay the Company HK\$1.0 upon acceptance of the grant on or before 21 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 the shares as stated in the Stock Exchange’s daily quotations sheets for trade in one or more board lots of the shares on the offer date; and
- (c) the average closing price of the shares as stated in the Stock Exchange’s daily quotations 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 18 May 2021 after which no further options pursuant to the Share Option Scheme may be granted. Please refer to the circular of the Company dated 16 April 2021 for further details of the terms of the Share Option Scheme.

CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION

On 21 June 2021, the Company granted a total of 100,000,000 share options to 118 eligible participants of the Group under the Share Option Scheme. Each option shall entitle the grantee to subscribe for one share upon exercise of such option at an exercise price of HK\$4.10 per Share (Notes 1 and 2). None of the grantees is a director, chief executive or substantial shareholder of the Company or an associate of any of them, or a supplier of goods or services to any member of the Group. No option was granted in excess of the individual limit of each eligible participant. The following table discloses movements in the Company's share options during the six months ended 30 June 2022:

	Balance as at 1 January 2022	Granted during the period (Note 3)	Exercised during the period	Lapsed during the period	Cancelled during the period	Balance as at 30 June 2022
Employees of the Group	54,480,000	–	–	(880,000)	–	53,600,000
Other participants	45,200,000	–	–	–	–	45,200,000
	99,680,000	–	–	(880,000)	–	98,800,000

Notes:

- The closing price was HK\$4.10 per share on the date of the grant.
- The closing price of the shares of the Company immediately before the date of grant was HK\$4.12 per share.
- All of the share options are exercisable from 21 December 2022 and expiring on 20 June 2023 (both dates inclusive). The vesting period of the share options is from the date of grant until the commencement of the exercise period. The Company has used the Binomial Model to determine the fair value of the options as at the date of grant, which is to be recorded in profit or loss over the vesting period. The fair value of the options granted by the Company was HK\$1.14 per share. After taking into account of the historical staff turnover ratio, a pre-vesting forfeiture rate of 28.55% was adopted to determine the number of options to be forfeited before the vesting period. Other than the exercise price mentioned above, the inputs used in the Binomial Model, which are based on the management's best estimate to determine the fair value of options, include:

	Granted on 21 June 2021
Closing price as at the date of grant	HK\$4.10
Risk free interest rate	0.14%
Expected dividend yield	3.70%
Expected volatility	57.03%
Suboptimal factor	2.47%

The expected life of the options is based on the directors' estimation and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION

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

As at 30 June 2022, the interests or short positions of the persons (other than a Director or chief executive of the Company) in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of shareholders	Note	Nature of interest	Long/Short position in ordinary shares held ⁽¹⁾	Percentage of total issued shares
Dings International Company Limited	(2)	Beneficial owner	L 340,066,332	16.45%
Ming Rong International Company Limited	(3)	Beneficial owner	L 327,624,454	15.85%
Hui Rong International Company Limited	(4)	Beneficial owner	L 324,066,454	15.67%
Jia Wei International Co., Ltd.	(5)	Beneficial owner	L 168,784,611	8.16%
Jia Chen International Co., Ltd.	(6)	Beneficial owner	L 168,784,611	8.16%
Wang Jiachen	(6)	Interest in controlled corporation	L 168,784,611	8.16%

Notes:

- The letter "L" indicates long position whereas the letter "S" indicates short position.
- The entire issued share capital of Dings International Company Limited is owned by Mr. Ding Wuhao, an executive director and the president of the Company. Mr. Ding Wuhao is the sole director of Dings International Company Limited.
- 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 sole director of Ming Rong International Company Limited.
- 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 sole director of Hui Rong International Company Limited.
- 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 sole director of Jia Wei International Co., Ltd..
- These shares are held by Jia Chen International Co., Ltd., which the entire issued share capital is owned by Mr. Wang Jiachen. Mr. Wang Jiachen is the brother of Mr. Wang Jiabi, an executive director.

Save as disclosed above, as at 30 June 2022, no person (other than a Director or chief executive of the Company) had registered an interest or short position in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2022.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the Company has confirmed with all directors of the Company that they had complied with the required standard set out in the Model Code throughout the six months ended 30 June 2022.

REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

The Company has established an audit committee which is accountable to the Board and the primary duties of which include the review and supervision of the Group's financial reporting process and internal control measures.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements of the Group for the six months ended 30 June 2022. They considered that the unaudited interim financial statements of the Group for the six months ended 30 June 2022 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been made.

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Announcement of interim results

23 August 2022

DIVIDENDS

The Board resolved not to declare an interim dividend for the six months ended 30 June 2022.

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

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

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

Wu Ming Wai Louie (胡明偉)
Hon Ping Cho Terence (韓炳祖)
Chen Chuang (陳闌)

BOARD COMMITTEES

Audit Committee

Wu Ming Wai Louie (胡明偉)
(*Chairman*)
Hon Ping Cho Terence (韓炳祖)
Chen Chuang (陳闌)

Remuneration Committee

Chen Chuang (陳闌) (*Chairman*)
Wang Jiabi (王加碧)
Hon Ping Cho Terence (韓炳祖)

Nomination Committee

Hon Ping Cho Terence (韓炳祖)
(*Chairman*)
Ding Wuhao (丁伍號)
Wu Ming Wai Louie (胡明偉)

COMPANY SECRETARY

Li Yuen Fai Roger (李苑輝)
FCCA, HKICPA

AUTHORISED REPRESENTATIVES

Ding Wuhao (丁伍號)
Li Yuen Fai Roger (李苑輝)

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

Moore Stephens CPA Limited

LEGAL ADVISERS AS TO HONG KONG LAWS

Chiu & Partners

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