

361°

361 DEGREES
INTERNATIONAL LIMITED

STOCK CODE: 1361



361°

杭州2022年第19届亚运会官方合作伙伴
Official Prestige Partner of the 19th Asian Games Hangzhou 2022

ANNUAL REPORT 2022

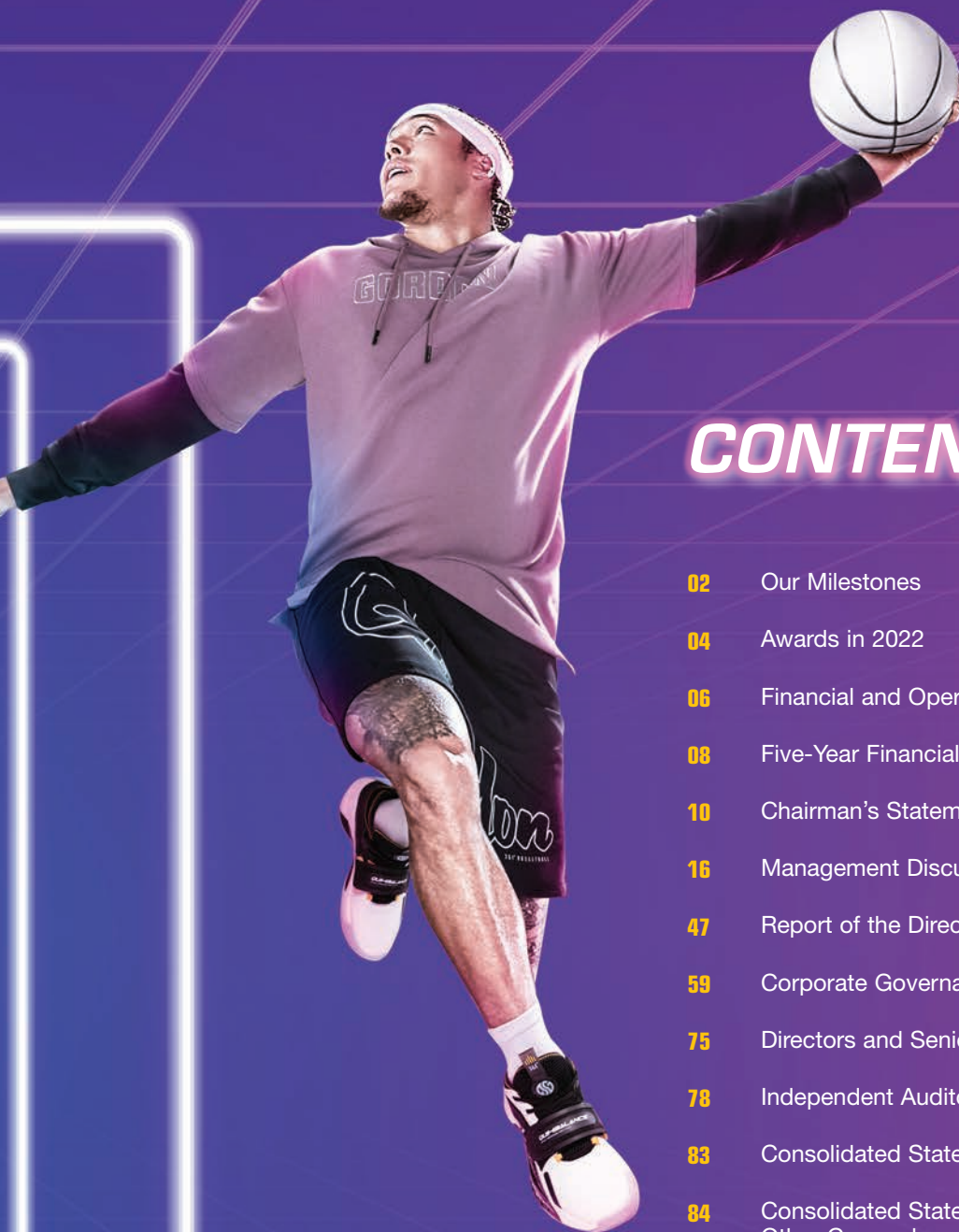


ABOUT US

Established in 2003, 361° was successfully listed on the Main Board of the Hong Kong Stock Exchange (stock code: 01361.HK) in 2009. As a leading sportswear enterprise in China, with the brand positioning of “professional, youthful, and internationalised”, 361° is a comprehensive sports goods company integrating branding, research and development, design, production and distribution. Leverage on such advantages, 361° will continue to adhere to high-value, multi-category sports products and promote the brand spirit of “ONE DEGREE BEYOND” (多一度熱愛) to a wider range of consumers. 361° focuses on the development of the 361° brand and the 361° kids brand. 361° follows the strategy of developing “professional sports” and “sports fashion”, focusing on the functionality and trendiness of its core categories of product, namely those for running, basketball, comprehensive training and sports life. It has launched co-branded products with well-known IPs to reach broader consumer groups. Continuing sports DNA of 361°, 361° kids is positioned as a “Youth Sports Expert”, with differentiated competitive advantages of professional functionality, health technology and latest fashion trends to better meet the needs of various sports and life for children and adolescents.

Currently, 361° has over 8,000 points-of-sale in China and worldwide, selling to all major cities and regions in China, thereby making it a strong market presence.





CONTENTS

02	Our Milestones
04	Awards in 2022
06	Financial and Operational Review
08	Five-Year Financial Summary
10	Chairman's Statement
16	Management Discussion and Analysis
47	Report of the Directors
59	Corporate Governance Report
75	Directors and Senior Management
78	Independent Auditor's Report
83	Consolidated Statement of Profit or Loss
84	Consolidated Statement of Profit or Loss and Other Comprehensive Income
85	Consolidated Statement of Financial Position
87	Consolidated Statement of Changes in Equity
88	Consolidated Statement of Cash Flows
90	Notes to the Consolidated Financial Statements
163	Shareholder Information
164	Company Information

OUR MILESTONES

2003

361° brand established

361°

2009

361° was officially listed on the Main Board of the Hong Kong Stock Exchange (stock code: 01361.HK)

361° became the official sponsor of the Olympic Council and the delegation of the 2010 Asian Games

361° kids brand launched

2016

361° became the official partner of the 2016 Summer Olympic and Paralympic Games, being the first Chinese sporting goods brand to sponsor the Olympics

2005

361° was awarded "China Famous Brand" and selected as one of "China's 500 Most Valuable Brands". It also ranked first in the "China's Top 100 Potential Enterprises" list released by Forbes (Chinese version) and became one of the most promising enterprises in China

361° formally entered into e-commerce

2015

2018

361° launched sportswear and accessories products jointly with QG Club, a China famous E-sports championship team, formally expanding to the field of E-sports, and becoming the first Chinese sports brand to start the systematic operation of e-sports strategy

361° was named as one of "China's 500 Most Valuable Brands" for 14 consecutive years

361°

2020

361° was recognised by the industry with the following design and marketing awards

- 2019 Best Sports Innovation Award
- 2020 ISPO Award – Running Shoes
- The 43rd Spring/Summer 2021 Fabrics China Award – Marketing
- Recommended by Runner's World, a Swedish magazine, as the "Best Buy"
- 2020 Red Dot Award – Product Design

361° signed a contract with Aaron GORDON, an international basketball superstar, to engage him as a new brand ambassador, marking an important step for the basketball strategy

361° has been the official partner of the Asian Games for the fourth consecutive times

361° appointed GONG Jun (龚俊) as the global brand ambassador, a well-known young Chinese actor, deepening the brand rejuvenation

361° was recognised by the industry with the following product design and sporting contribution awards:

- Test 4 Outside Best Buy Award
- 2021 Top 25 Best Running Shoes
- 2021 German Red Dot Design Award
- 2021 Carbon-plated Running Shoes Certified by the World Athletics
- Outstanding Contribution Award of the Asian Games
- Fashion Brands Award of China

361° launched NFT digital collection with the famous IP FATKO

361° cared about environmental protection and was the first in the industry to put forward the "carbon capture" concept

361° became an official partner of China National Rope Skipping Team

361° signed a contract with an international basketball superstar, Spencer DINWIDDIE for continued expansion in basketball products

361° launched its racing family running shoe matrix and released multiple carbon-plated running shoes

2021

2022

AWARDS IN 2022



1

The “Best Marketing Brand” in sports industry for 2022 in the 7th Sports Industry Carnival

The Company’s own-branded IP event “Light Up (觸地即燃)”



2

“The Sports Technology Awards” in the 9th Chinese Sports Industry Awards 2022

Marathon running shoes “Flying Flame II” of 361 Degrees

3

“Best IR Company” in the small-cap category in the 8th Hong Kong Investor Relations Association Awards 2022

361 Degrees

4

“Best IR Team” in the 8th Hong Kong Investor Relations Association Awards 2022

The Company’s investor relations team, namely Mr. Yongling Mophy Chen, Mr. Roger Li, Ms. Nina Zhan, and Ms. Annabel Zhang



5

“Best IR Officer” in the 8th Hong Kong Investor Relations Association Awards 2022



6

“Best IR Director” in the 6th China IR Annual Awards



7

“Best Capital Market Communication Award” in the 6th China IR Annual Awards

The Company’s investor relations team

FINANCIAL AND OPERATIONAL REVIEW

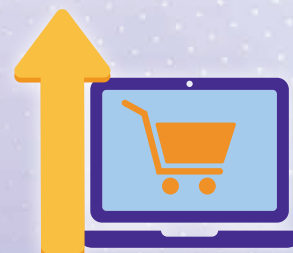
FINANCIAL PERFORMANCE



Revenue increased by 17.3% to
RMB6.96 Billion



Revenue from the 361° Kids Business increased by 30.3% to
RMB1.44 Billion



Revenue from E-commerce business increased by 37.3% to
RMB1.69 Billion



Profit attributable to equity shareholders increased by 24.2% to
RMB747 Million



Basic earnings per share increased by 24.2% to
RMB36.1 cents

OPERATIONAL PERFORMANCE



Number of 361° stores in Mainland China stood at

5,480



Number of 361° Kids stores in Mainland China

2,288



Number of 361° international points-of-sale stood at

1,192

Western
Region

1,247

Number of 361°
authorised retail
outlets

Northern
Region

2,631

Number of 361°
authorised retail
outlets

Eastern
Region

998

Number of 361°
authorised retail
outlets

Southern
Region

604

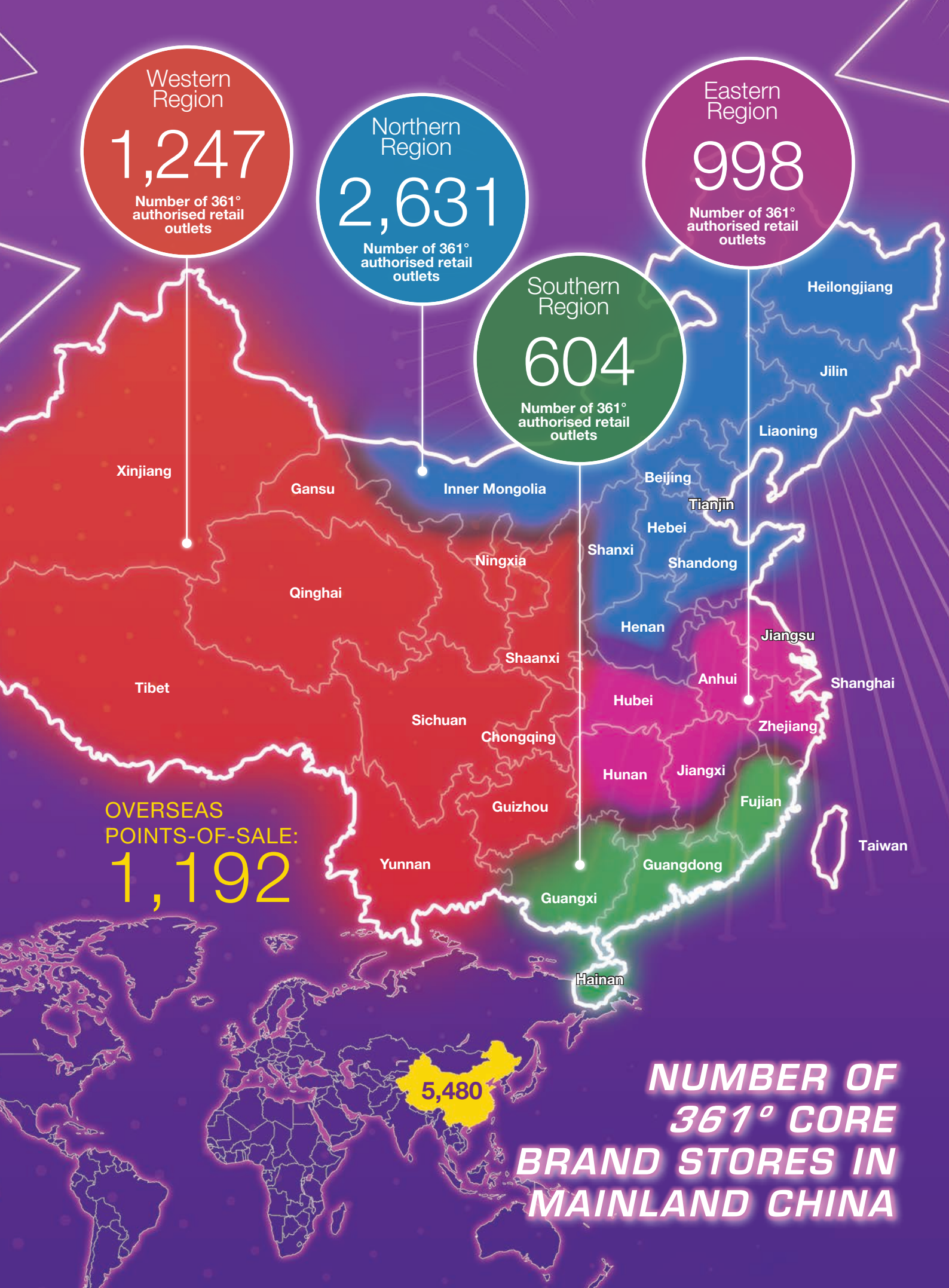
Number of 361°
authorised retail
outlets

OVERSEAS
POINTS-OF-SALE:

1,192

5,480

**NUMBER OF
361° CORE
BRAND STORES IN
MAINLAND CHINA**



FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2022	2021	2020	2019	2018
Profitability data (RMB'000)					
Revenue	6,960,826	5,933,482	5,126,958	5,631,866	5,187,446
Gross profit	2,820,648	2,472,420	1,941,733	2,269,616	2,105,871
Operating profit	1,074,145	1,083,122	822,690	887,250	782,327
Profit attributable to equity shareholders	747,117	601,700	415,065	432,403	303,665
Earnings per share					
– basic (RMB cents)	36.1	29.1	20.1	20.9	14.7
– diluted (RMB cents)	36.1	29.1	20.1	20.9	14.7
Profitability ratios (%)					
Gross profit margin	40.5	41.7	37.9	40.3	40.6
Operating profit margin	15.4	18.3	16.0	15.8	15.1
Margin of profit attributable to equity shareholders	10.7	10.1	8.1	7.7	5.9
Effective income tax rate (Note 1)	23.3	29.0	29.4	35.0	46.5
Return on shareholders' equity (Note 2)	9.9	8.8	6.4	7.2	5.3
Operating ratio (as a percentage of revenue) (%)					
Advertising and promotion expenses (Note 3)	11.4	10.2	9.6	9.0	10.7
Staff costs	9.8	11.1	9.8	9.1	8.8
Research and development	3.8	4.2	4.0	3.8	4.1

Notes:

- 1) Effective income tax rate is equal to the income tax divided by the profit before taxation.
- 2) Return on shareholders' equity is equal to the profit attributable to equity shareholders divided by the average opening and closing equity attributable to equity shareholders of the Company.
- 3) Advertising and promotion expenses included the cost of advertising expenses via e-commerce platforms in this year and 2021. In previous years, the cost of advertising expenses via e-commerce platform was grouped under online selling expenses and excluded in the calculation of advertising and promotion expenses as a percentage of revenue.

FIVE-YEAR FINANCIAL SUMMARY

	As at 31 December				
	2022	2021	2020	2019	2018
Assets and liabilities data (RMB'000)					
Non-current assets	1,152,133	1,154,660	1,181,475	1,246,409	1,314,958
Current assets	11,283,764	10,083,326	10,440,087	10,659,854	10,650,036
Current liabilities	2,905,509	2,668,029	4,041,217	2,809,010	3,354,251
Non-current liabilities	112,709	14,316	14,354	2,438,239	2,716,354
Equity attributable to equity shareholders	7,943,530	7,116,765	6,608,913	6,322,505	5,767,650
Non-controlling interests	1,474,149	1,438,876	957,078	336,509	126,739
Asset and working capital data					
Current asset ratios	3.9	3.8	2.6	3.8	3.2
Gearing ratios (%) (Note 4)	2.4	1.8	16.7	21.2	23.6
Net asset value per share (RMB) (Note 5)	4.6	4.1	3.7	3.2	2.9
Inventory turnover days (days) (Note 6)	91	87	111	120	110
Trade and bills receivable turnover days (days) (Note 7)	147	149	159	149	160
Trade and bills payable turnover days (days) (Note 8)	121	122	151	179	195
Working capital turnover days (days)	117	114	119	90	75

Notes:

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

CHAIRMAN'S STATEMENT

By accelerating brand influence upgrade and building core brand competitive advantage, the Group captures new opportunities arising from the prosperous industry development.



CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of 361 Degrees International Limited (the "Company"), I am pleased to present the financial results of the Company and its subsidiaries (which are collectively referred to as the "Group" or "361° Group") for the year ended 31 December 2022 (the "year under review").

In 2022, the People's Republic of China ("PRC") managed to surmount multiple challenges in its economy, and continued to amass the potential for high-quality development momentum as the overall recovery continued. The impact of the COVID-19 outbreak ("the pandemic") and the continuous holding of major international sports events served as the impetus for the significant increase in national health awareness, which accelerated the penetration of the concept of national fitness and injected long-term growth momentum into the domestic sports consumption market. Under the new development landscape of "domestic circulation", the PRC has strengthened its policy support and guidance for the sports industry, fostering positive developments in sports consumption channels, scenarios and circles, and spurring the sports industry to unleash strong vitality. In conclusion, sports industry will emerge into a prime opportunity for development and an integral force in driving the recovery of the country's economy in the future.

During the year under review, the Group recorded a revenue of RMB6.96 billion, representing a year-on-year increase of 17.3%. Profit attributable to the equity shareholders was RMB747 million, representing a year-on-year increase of 24.2%. In view of the prevailing complexity of the global environment and the rapidly increasing uncertainties of the macroeconomy, in consideration of the Company's long-term development strategy, the Board has prudently decided not to recommend the 2022 final dividend for the time being in order to retain cash strength to better capture the development opportunities during the post-pandemic recovery and to proactively address the uncertainties in the market.

OPTIMISING AND UPGRADING CONSUMER EXPERIENCE TO CREATE HIGHER BRAND VALUE

In 2022, the sports industry in China maintained a high level of prosperity with new development opportunities emerging. Adhering to the "consumer-centric" business philosophy and consolidating our positioning as a "professional, youthful, and internationalised" brand, we accelerated the construction of quality network with steadily improved omni-channel operational efficiency to optimise and upgrade consumer experience for a more superior brand image.

In terms of channel development, we seized the opportunity of digital transformation for the sports industry and further promoted the construction and integration of online and offline channels to better serve the diversified, personalised and high-quality consumption needs of our customers. For offline channels, we improved our store operation quality by expanding store number and upgrading store image; for online channels, we proactively explored and expanded new retail models on the strength of e-commerce platforms in brand sales, promotion and upgrading to improve consumers' shopping experience from online to offline in multiple dimensions. In addition, our proprietary WeChat mini program "You Yan You Du (有顏有度)", our smart retail system empowerment and improved membership management system have enhanced the positive interaction between online and offline, leading to a new round of growth in sales performance.



We have a long-standing passion for sponsoring major sports events with a strong sportsmanship. Meanwhile, we have extensive experience in sponsoring and supporting major sports events with our sponsorships of the Asian Games for four consecutive times up to this day. With 13 years of our dedicated support, we have built a strong relationship with the Asian Games, 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), which continues to expand the international influence of our brand. As an official partner of the 19th Asian Games in Hangzhou 2022 (the “Hangzhou Asian Games”), we announced our new brand slogan of “One Degree Beyond Chinese Passion” (中國熱愛多一度) and launched the 361° Asian Games “Xinhuo” (薪火) product series in July 2022, in order to convey the culture of the Asian Games and the “passionate” culture of our brand, contributing to the high-quality development of China’s sports industry. The Hangzhou Asian Games will be grand opened in September 2023, and 361°’s sponsorship rights and interests in the event will be fully realised. By then, the Asian Games will be an opportunity for the 361° brand to be fully displayed in the international arena, helping 361° to enhance its brand value in all aspects.

DEEPENING THE DUAL DRIVING STRATEGY OF “PROFESSIONAL SPORTS + SPORTS FASHION” AND FOCUSING RESOURCES TO ENHANCE CORE COMPETITIVENESS

During the year under review, we continued to deepen the dual driving development strategy of “professional sports” + “sports fashion” in accordance with our clear brand positioning, promoting the development of core product categories relating to running, basketball, comprehensive training and sports life. While focusing on the sports functionality of our products, we have incorporated sports fashion trends to continue enriching and optimising our product matrix. We continue to meet the increasingly diverse and various demands of consumers and to break through the consumer circle to reach a broader consumer base.

In terms of professional sporting product category, we are committed to fostering actively develop resource matrix for high-quality professional sporting products. We focus on running, basketball, comprehensive training and other categories, sponsoring elite marathon runners, signing renowned sports figures as our brand spokespersons, and sponsoring various national and professional sports teams, in a bid to strengthen influence among the sports population by actively developing our own-brand events such as “Light Up” (觸地即燃) and “3# Track” (三號賽道) and launching a series of offline activities themed “361° Women’s Fitness Gym” and showcase the professional sporting product functionality of our brand.



It is worth mentioning that the expertise of 361° brand has been further validated and demonstrated driven by well-known contracted sports figures. For example, our professional racing carbon running shoes “Furious” (飛馳) assisted LI Zicheng, our running spokesperson, to break the 13-year record for half marathons in China in October 2022; our newly launched flagship basketball shoes BIG3 3.0 and DVD1 basketball shoes with exclusive signature were brought to international attention by the brilliant performance of our basketball spokesperson Spencer DINWIDDIE in international arenas in 2022, which had won acclaims from the market; and the Group also signed contract with GONG Li (龔莉), the world karate champion, as the spokesperson for 361° Women's Sports Style which has empowered successively our women's sporting product category.

For fashionable sporting product category, we focused on deepening the brand rejuvenation by fully leveraging the influence of our global brand ambassadors of our fashionable sporting product category, GONG Jun (龔俊) and WANG Anyu (王安宇), among young audience. The launch of GONG Jun's “Track” (軌跡) series products has received enthusiastic response from the market, accelerating the penetration of 361°'s brand belief of “ONE DEGREE BEYOND” (多一度熱愛) among the younger generation. In addition, leveraging on the new outdoor recreational sports buzz, we have recently signed GAO Qunxiang (高群翔) and REN Qing (任晴) as 361° skateboarding ambassadors, and Paraboy (傘兵) as 361° e-sports promotional ambassador, to develop new sports tracks and further enrich our brand resource matrix. During the year under review, we continued to launch IP co-branded products with Three-Body Problem, KAKAO FRIENDS, Lay's, Sanxingdu (三星堆), Pepsi and SpongeBob SquarePants. Building on our established co-branding model, we boldly and innovatively integrated fashion trend elements such as “China Chic”, “science fiction” and “meta-universe” into the product design, which enlivened the vitality and technological sense of our products and gained tremendous visibility in the market.

ACCELERATING THE LAYOUT OF DIFFERENTIATED BRAND RESOURCES AND EXPANDING THE ADVANTAGES OF THE KIDS APPAREL BUSINESS

China attaches great importance to youth and school sports, coupled with the steady rise in national incomes, upgrading of consumption and the growing popularity of national fitness, the inherent advantages of sport brands in kids' apparel products have been significantly amplified, providing propitious opportunities for the development of our kids' business.





In view of the vast market space in kids' wear industry, we invested resources to scale up the layout of our kids' business with a focus on the market in children's and adolescents' sporting goods. With its brand statement of "CHASING YOUR LOVE!" (熱愛吧·少年!) and positioning as a "Youth Sports Expert" (青少年運動專家), 361° Kids expanded its product lines and sub-categories across the board, while proactively innovating and broadening its product categories for campus to cater for the sports needs of children and adolescents for a greater market share and brand influence.

361° Kids accelerated the layout of differentiated brand resources to grasp new development opportunities in the kids' wear industry. Through the joint partnerships with Beijing Zhonghe Guoan Junior Training and Shandong Luneng Taishan F.C. Youth Team, we consolidated our pioneering position in the field of youth football by comprehensively integrating the superior resources of the best football clubs in China. We also launched the new rope skipping shoes and sponsored the national rope skipping team in the first half of 2022 to further cultivate consumer recognition for 361° Kids as a "Youth Sports Expert". In terms of product, we continuously enriched our product matrix with functionality and technology to bring more comfortable and healthy sports products to children and adolescents by focusing on their practical needs during exercise, in addition to leveraging our strengths in IP co-branding to incorporate fashionable and trendy elements into our products. During the year under review, we launched IP co-branded products such as China Aerospace • Space Imagination, Dunhuang (敦煌), Little Monsters, Miffy, NONOPANDA, KAKAO FRIENDS, and Sanrio (三麗鷗), highlighting the competitiveness of 361° Kids brand.

BREAKTHROUGHS IN R&D OF PRODUCT INNOVATIONS WHILE CONTINUING TO TAKE ADVANTAGE OF THE MOMENTUM OF E-COMMERCE

We place innovation in scientific research as the core driving force to promote the long-term development of the brand. During the year under review, we continued to step up research and innovation efforts, bringing in a steady stream of scientific and technological innovation-empowered products, and several of the Group's products received multiple industry awards. On the 361° Brand Day in 2022, we proudly put forward the concept of "carbon capture" (碳捕捉) for the first time in the industry and have adopted the new "Carbon Quikical Tech" (CQT 碳臨界科技) to practice green and low-carbon concept, with the launch of a number of footwear products applying such a technology at the same time, such as "Flying Flame II" (飛燃 II) and AG3 PRO, which have greatly expanded the boundaries of our own scientific research innovations and boosted our confidence in achieving long-term value of the Group.

Our e-commerce business continued to grow rapidly benefiting from improved product quality, effective e-commerce product planning, and optimised operational efficiency. During the year under review, we maintained strong cooperation with Tmall, JD.com and Tik Tok to leverage celebrity traffic and develop digital collectibles for driving result growth and enhancing brand innovation. With a view to expanding more incremental market share, we tapped into the momentum of our e-commerce business in multiple dimensions by optimising the product structure, expanding the network of our e-commerce channels and extending our product lifecycle management, thereby positioning e-commerce as an important driver of the Group's overall business development.

On the other hand, we attached great importance to the pandemic prevention and control in China with our social responsibility in mind, and have taken the initiative to show our support to the frontline. During the year under review, we donated more than RMB20 million in cash and supplies to assist in the battle against the pandemic in Quanzhou City and Jilin province, and promptly provided strong equipment support to the medical team supporting Shanghai, the Fujian medical team supporting Hainan and Shanghai Blue Sky Rescue (BSR) team. Amid the launch of "Track" (軌跡) 3.0, we initiated the "GoGo Dog Rescue Plan" (GoGo 救助計劃) jointly with our global brand ambassador GONG Jun and China Small Animal Protection Association to fulfil our role as a national brand with concrete actions. We will continue to make contribution to the cause of public welfare by spreading "One Extra Degree of Warmth" to the community and thus building a far-reaching brand influence.

OUTLOOK

On behalf of the Board, I would like to express our sincere appreciation to all our shareholders for their recognition and support for 361° in the past year. I would also like to thank all of our staff members and business partners. Looking ahead, we believe that the sports industry will play an increasingly significant role in propelling the national economic growth with vast space for development. As a leading sportswear enterprise in the PRC, 361° will always adhere to the "consumer-centric" approach, deepen its positioning as a "professional, youthful, and internationalised" brand, and promote the brand spirit of "ONE DEGREE BEYOND" (多一度熱愛) to a wider range of consumer groups. 361° will prioritise and accelerate scientific research and innovation empowerment, while actively undertaking its social responsibilities to promote the leap in product value and brand influence. In striving to maintain stability, the Group will make every effort to seize new industry opportunities, ensuring high-quality development of its business, supply chain and business partner for greater values to the shareholders, staff members and society.

Ding Huihuang
Chairman

Hong Kong SAR of the PRC, 16 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS



INDUSTRY REVIEW

2022 witnessed an intricate and severe international environment and global economic recovery was dragged by a combination of geopolitical turmoil, high inflation, supply chain mismatch and weakening demands. Facing the uncertain macro environment along with the pandemic resurgence, China's economy was somehow affected, but remained resilient for a long-term upbeat trajectory. According to National Bureau of Statistics of China ("NBS"), amid the pandemic situation, China's gross domestic product ("GDP") amounted to RMB121,020.7 billion in 2022, still representing a year-on-year growth of 3.0%.

Due to the lingering pandemic, China's consumption market was pressured and hit to varying degrees, resulting in weakening consumption vitality of residents. However, as a vital way to empower the "internal circulation", consumption has been effectively supported at the policy level. The government has frequently introduced policies and measures to stabilise the economy and stimulate consumption, which firmly underpinned our domestic consumption market. According to the NBS, the total retail sales of social consumer goods nationwide amounted to RMB43,973.3 billion in 2022, representing a year-on-year decrease of 0.2%. Specifically, China's online retail sales expanded by 4.0% due to strong growth momentum for online consumption. Moreover, residents' income continued to grow and China's per capita disposable income reached

RMB36,883 in 2022, representing an increase of 2.9% in real terms. As domestic precautionary measures continued to be optimised, daily lives have gradually returned to normal, and policies have also given a priority to boosting consumption, which laid a sound foundation for market recovery. On the strength of the mega-scale market and strong policy support, China's consumption market maintains a great growth and potential in the medium to long term.

Under the strategy of "Sports Power", the development of the industry has received strong government support by the introduction of a number of major support policies, which has deepened the supply-side structural reform of the industry and popularised the concept of national fitness, thus bringing greater room for development. In the first half of 2022, policies and measures such as the Standards for Basic Public Services for National Fitness (2021 Edition) (《全民健身基本公共服務標準(二零二一年版)》), the Opinions on Building a Higher Level of Public Service System for National 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》), the Notice on Further Improving Sports Work for the Elderly (《關於進一步做好老年人體育工作的通知》), and the Guiding Opinions on Promoting High-quality Development of Rural Sports in the **14th Five-Year Plan Period** (《關於推進「十四五」農民體育高質量發展的指導意見》) have been issued successively, and the emphasis on the sports

industry is evident given the state's comprehensive and systematic revision of the Law of the People's Republic of China on Physical Culture and Sports (《中華人民共和國體育法》) for the first time after 27 years. In the second half of 2022, policy support for the sports industry was further strengthened, as evidenced by policy documents such as the Work Plan on Utilising Sports to Stabilise 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》), the Development Plan for the Outdoor Sports Industry (2022-2025) (《戶外運動產業發展規劃(二零二二—二零二五年)》), and the Guiding Opinions on Promoting the Healthy and Orderly Development of Camping Tourism and Leisure (《關於推動露營旅遊休閒健康有序發展的指導意見》) released successively. It is notable that in December 2022, the Central Committee of the Communist Party of China and the State Council jointly issued the Outline of the Strategic Plan for Expanding Domestic Demand (2022-2035) (《擴大內需戰略規劃綱要(二零二二—二零三五年)》), and the National Development and Reform Commission issued the Implementation Plan of Strategy for Expanding Domestic Demand in the 14th Five-Year Plan Period (《「十四五」擴大內需戰略實施方案》), both of which explicitly mentioned the promotion of mass sports consumption. The introduction of these policies has contributed to the steady and high-quality development of the domestic sports industry, which is playing an increasingly important role in the economic recovery.

With the continuous introduction of the supportive national policies to the sports industry, people's health awareness has also seen notable increase during the pandemic with the spark of their enthusiasm for sports products in the wake of a series of domestic and international major sports events, which all made contribution to the continued high demand of the sports industry. The success holding of the 2022 Beijing Winter Olympics and Winter Paralympics, and the victory of China women's national football team in the Asian Football Confederation (AFC) Women's Asian Cup have further boosted the nation's cultural confidence and at the same time drive the trend of "China-Chic", offering an impetus for the growth of domestic sports brand. In general, with the supportive national policies and guidance, increasing national fitness awareness, and the driving effect of home and abroad sports events, the domestic sports product industry is expected to maintain the promising prospect.

With the accelerated digital transformation of the sports industry, significant changes in channels, scenarios and consumer circles have emerged in domestic sports goods consumption, indicating new potentials for industry development. In the new retail era, the cross-border integration model of "Sports+" has grown rapidly featured by the emerging new models and business forms, and the integration of online and offline retail sales has become a major trend, which will further release the growth potential of the industry. Meanwhile, the young generation as represented by Generation Z (those born between 1995 and



2009) have been growing to be the mainstay in driving the high-quality development of the industry, with a stronger demand for more diversified, personalised and China-chic sports products. The emergence of outdoor sports such as Frisbee and camping has created new buzz, thus bringing new opportunities for development of the sports industry.

In the long run, the massive population base and improving national economy will lay a solid foundation for the development of domestic sports product industry, while the furtherance of China's new urbanisation strategy and consumption upgrading will provide long-term growth momentum for the industry development.

As an important sub-sector of the domestic footwear and apparel sector, kids' wear has maintained a relatively high boom. Against the backdrop of placing great importance on youth and school sports by the government, the inbuilt advantages of sports brand in kids' wear products are amplified, thus unleashing the potential for long-term growth. In addition, the country's strong advocacy of environmental and sustainable development constitutes an important direction for the high-quality development of the domestic sports product industry, which further reinforces the role of product innovation in driving the growth of the industry.

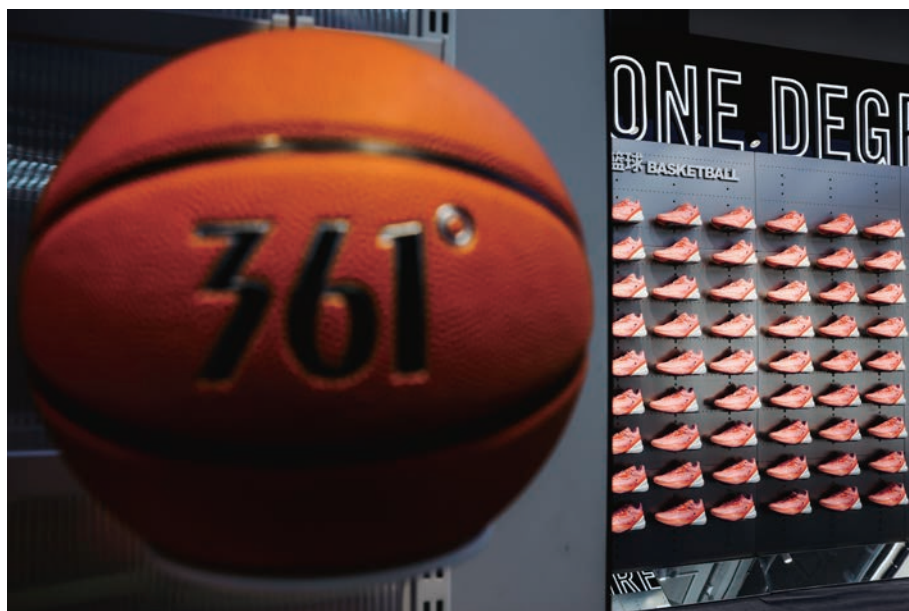
The Group will act in tandem with new trends by continuing to strengthen its positioning as a "professional, youthful and internationalised" brand of sporting goods and actively making breakthroughs in innovation. In the meantime, the Group will position itself to seize the new opportunities in the new era, in order to continuously enhance its product power and brand value while expanding its brand influence. Adhering to its passion for the sports industry, the Group will strive to provide consumers with better professional sporting products, with dedication to fulfilling its social responsibility as a national enterprise, in a bid to become a globalised and esteemed sports brand.

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 positioning of "ONE DEGREE BEYOND" (多一度热爱), 361° strives to be a global respectable brand since its establishment in 2003, and provides 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, children and adolescents in professional sports and sports life.

The 361° brand focuses on providing professional and high-performance footwear, apparel, and accessories to consumers to include categories such as running, basketball, comprehensive training and sports life.



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

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. As younger generations prefer to express their personalities and living attitudes through their outfits, coupled with the popularity of the "China-Chic" 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°*. With its operating strategy insisting on gearing "professional sports" and "sports fashion", *361°* strives to enlarge consumer base 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 and 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. As such, the Group is able to focus its resources on brand development and management, R&D and design of products and other areas, while co-operating with the powerful distributors and authorised retailers to efficiently launch the products.

The Group has a comprehensive distributor management system in place to ensure that the brand concept, product functions, features and designs 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 marketing themes in different timelines, so that the nationwide sales outlets maintain standardisation and high quality.



The Group's systematic order management model efficiently ensures a smooth supply of goods, transparent inventory control and stable retail prices. The Group 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 provide suggestions to enhance the reasonableness of product selection and ensure healthy inventory levels and stable discounts at the retail end, and at the same time stabilise retailers' profitability and support sustainable development for mutual benefits. Trade fairs are generally hosted six months ahead of the launch of relevant products to ensure that the orders would be manufactured and delivered to the distributors on time. During the year under review, the Group organised four trade fairs for 361° brand products, namely the 2022 Autumn Trade Fair, the 2023 Spring Trade Fair, the 2023 Summer Trade Fair and the 2023 Autumn Trade Fair. The orders of the trade fairs achieved robust 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 channels. The Group also fully leveraged its WeChat mini program "You Yan You Du (有顏有度)", Pinduoduo (拼多多), Tik Tok, Xiaohongshu (小紅書) and other retail platforms to provide better and more flexible experience for its customers in a model that breaks geographical boundaries, and create incremental space for the authorised retailers in the post-pandemic era.

361° Core Brand's Retail Network in the PRC

As at 31 December 2022, the 361° brand's retail network comprised 5,480 stores, representing a net increase of 210 stores compared to the end of 31 December 2021. Geographically, approximately 76.3% of the stores were in third- and lower-tier cities in China, while 4.6% and 19.1% of which were located respectively in first- and second-tier cities in the country. The Group encourages its distributors and authorised retailers to continue to open new stores in shopping malls and department stores to expand store area and upgrade store image in the future, so as to optimise the distribution channel mix.

Upholding the concept of "ONE DEGREE BEYOND" (多一度熱愛), the Group continues to adopt a consumer-centric approach, capitalises on new trends in consumption habits and provides the best shopping experience for consumers. As of 31 December 2022, the number of the latest ninth-generation image stores of 361° brand increased to 2,664, accounting for 48.6% of the total number of the Group's stores, representing an increase of 20.4% as compared with the same period of the previous year. The ninth-generation image stores adopted light and simple decoration with 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 has put forward the development of its physical stores, online e-commerce operations and new retail channels simultaneously to forge ahead with the upgrade of consumption experience through omni-channel retailing. During the year under review, the smart-retail system for physical stores was in place and the number of stores covered by the system has increased, enabling the collection of consumer data in a timely manner while making use of user data to provide feedback on product design and R&D, pricing strategy and marketing strategy. Through improving its attractive membership system, the Group provides target consumer groups with a wide range of membership privileges. 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.

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

	As at 31 December 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⁾	998	18.2	875	16.6
Southern region ⁽²⁾	604	11.0	570	10.8
Western region ⁽³⁾	1,247	22.8	1,256	23.8
Northern region ⁽⁴⁾	2,631	48.0	2,569	48.7
Total	5,480	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.



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 a focus on official sponsorships for large-scale international sports events and China national teams, which quickly elevates our brand awareness. 361° has sponsored the Asian Games for four consecutive times in the past 13 years. Such continuous support has linked 361° and the Asian Games together as a symbol in the sports industry, which in turn further enhances our brand value. Our new slogan for the Asian Games – “One Degree Beyond Chinese Passion” (中國熱愛多一度) demonstrates our determination to contribute to the quality development of China’s sports industry and China’s passion to promote the development of world sports. In the future, 361° will continue uniting the passion of China to contribute to the development of Chinese and international sports events including the Asian Games, so as to show the soft power of China to the world.

In addition to the sponsorship of large-scale sports events, the Group also strategically formulates marketing campaigns that closely follow consumer habits and preferences. By integrating fashion trends and professional functionality, our series of cross-over products with renowned IPs received overwhelming responses from the young generation. Our co-branding model has

proven to be an effective strategy. In 2022, the Group successfully launched cross-over series with well-known IPs, namely Three-Body Problem, KAKAO FRIENDS, Lay’s, and Sanxingdu (三星堆), and achieved strong sales performance. The revenue contribution of the co-branding series accounted for approximately 5% of the overall revenue in 2022. 361° has been exploring innovative collaboration models by working with brands, owners of IPs and designers with an aim to inject endless creativities into product designs.

In 2022, the Group also launched a cross-over product series for the first time. Being inspired by the Chinese science fiction IP, Three-Body Problem, and by integrating the two trendy elements of “China-Chic” and “science fiction”, the co-branding series demonstrates 361°’s attitude in sports trend, where the new generation may express their personality through 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 simultaneously launched physical apparel products on its online and offline stores that correspond to these digital collections. Such innovative “digital+physical” product release breaks the dimensional barrier and establishes the brand as a model in the market by bringing attention to the products.



361° actively appoints celebrity ambassadors to 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 (李子成), women's marathon athlete HE Yinli (何引麗), and many other elite marathon runners including LI Bo (李波), CHENG Qianyu (程乾育), GUAN Siyang (關思楊), MA Liangwu (馬亮武) and ZHAO Na (趙娜). The Group successfully promoted and organised the event "3# Track" (三號賽道) 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 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 – "Furious" (飛颯), "Flying Flame" (飛燃) and "Flying Flame ST" (飛燃ST). In April 2022, 361° held a "Fast Speed" (疾速開颯) 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 "3# Track" (三號賽道) was successfully held, and the professional racing shoes of "Flying Flame ST" (飛燃ST) helped runners achieve enhanced performances. In 2022, 361° initiated a running event of "3# Track – Online Running Relay in 10 Cities" (三號賽道10城接力賽線上跑) in partnership with Joyrun, a running application, aiming to attract more people into the sports of running. A series of events under 3# Track – 10 Kilometers Race were held in December 2022, and were equipped with professional field facilities and improved services for more elite runners with the professional running shoes products of 361°.

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. In addition, on 10 January 2022, international basketball superstar Spencer DINWIDDIE was signed by 361°, marking the start of 361°'s continuous 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. On 16 December 2022, 361° launched DVD1, basketball shoes with exclusive signature of the brand spokesperson, Spencer Dinwiddie. This pair of basketball shoes was designed specifically for linebackers by giving full consideration to their needs in action. For instance, there is 7mm difference between the forefoot and heel soles, which

provides users with a more lightweight and flexible fit. The new 361° dynamic binding system, the self-developed ENRG-X midsole material, as well as the high-hardness nylon twist tab and the stable TPU bracket for heels applied in this product provide a comprehensive scientific and technological support. 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 "Light Up" (觸地即燃), which motivated a vast number of players and teams, enhanced its influence in the sports community and built up its reputation as a basketball fashion brand. "Light Up" (觸地即燃) has been established as one of the most popular brand organised basketball events in China in 2022.

In addition, the Group sponsored the resources of 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 (徐燦), the WBA Featherweight world boxing champion; and TEAM M23, a 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 ambassador. As one of the most popular actors in the domestic entertainment industry, GONG Jun has a cheerful and attractive appearance as well as good exercise habits, and he is both sporty and fashionable. In addition, GONG Jun is passionate about and committed to his acting career, which perfectly fits him in with the brand positioning and the brand spirit of 361°, that is, "ONE DEGREE BEYOND" (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 series in June 2022 and the "Track" (軌跡) 3.0 series in November 2022 triggered a frenzy of purchases and hot sales once again after the launch. The Group also signed a contract with WANG Anyu (王安宇), a young Chinese actor, which successfully assisted 361° in entering the youth market to better reach young users and demonstrate the fashion of the brand. In 2022, the Group also signed contracts with GAO Qunxiang (高群翔) and REN Qing (任晴) to engage them as 361° skateboarding ambassadors, and signed Paraboy as 361° e-sports ambassador, which further diversified our brand resources matrix in the new sports business.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets out all of the Group's sporting event sponsorships in recent years:

Sponsorship period	Sporting events	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
2022	Palma Marathon	Official Footwear Sponsor
2022	Doncaster 10km Race	Official Footwear Sponsor

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

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



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

Athletes

Name of spokespersons	Sports	Key achievements in recent years
CHENG Ganyu 程乾育	Running	3rd in Men in the 2022 Hangzhou Marathon 2nd in Men in the 2022 Jiande Xin'anJiang Half Marathon 3rd in the 2021 Hood to Coast Hainan 3rd in the 2021 Hood to Coast Zhangjiakou 1st in Men in the 2020 Changzhou Xitai Lake Half Marathon 1st in Men in the 2020 Gaochun Cittaslow International Marathon
GUAN Siyang 關思揚	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 Bo 李波	Running	2nd in Men in the 2022 Macau International Marathon 1st in the 2022 Cuiyunshan SnowRun Challenge Race 1st in Men in the 2021 Yongchuang Half Marathon 1st in Men in the 2020 Chongqing Marathon 3rd in Men in the 2020 Xi'an Half Marathon 1st in Men in the 2020 Jiangjin Half Marathon 1st in Men in the 2020 Yangtze River Three Gorges Half Marathon
LI Zicheng 李子成	Running	1st in Men in the 2022 Ningbo Marathon 1st in Men in the 2022 Tai Lake Tuying Marathon 1st in Men in the 2022 Tonglu Half Marathon 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
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 2022 Ningbo Marathon 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
Aaron GORDON	Basketball	International basketball superstar
Kyranbek MAKAN	Basketball	Chinese professional basketball player

MANAGEMENT DISCUSSION AND ANALYSIS

Name of spokespersons	Sports	Key achievements in recent years
Spencer DINWIDDIE	Basketball	International basketball superstar
WU Zejian 吳澤建	Basketball	Famous Chinese grassroots player Xiamen AG brand manager
GONG Li 龔莉	Karate	Karate World Champion Bronze Medal in Women in the 2020 Tokyo Olympics Karate over 61kg
XU Can 徐燦	Boxing	The Best Male Boxer of the “Grand Annual Fight of China’s Belt and Road” WBA Featherweight World Boxing Champion
GAO Qunxiang 高群翔	Skateboarding	Champion in Men of the 14th National Games Skateboarding Street
REN Qing 任晴	Skateboarding	Champion in Women in the 2019 National Longboard Master
Paraboy 傘兵	E-sports	Champion in the 2021 PMGC PEL Final Champion The Most Popular Player/Most Valuable Player in the 2021 PEL Mobile Player of the Year of the 2021 Esports Awards The Best Freelancer of the 2021 PEL S4 Regular Season Champion/MVP/Scoring Leader of the 2020 PEL S2 Season MVP of the 2020 PEL S2 Regular Season Champion/MVP/“Men” of the 2020 Tiger Men Second Place/MVP/Scoring Leader of the 2020 PEL S1 Season
Donald HILLEBREGT	Triathlon	National champion in the 2019 NED Half Triathlon 3rd in the 2019 Rabat ATU Triathlon African Cup
Jannick SCHAUFLER	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
Celebrities		
GONG Jun 龔俊	N/A	A famous Chinese actor
WANG Anyu 王安宇	N/A	A famous Chinese actor



361° Kids Business

During the year under review, the business of 361° Kids continued to grow and recorded a revenue of RMB1,442.2 million and contributed approximately 20.7% of the Group's total revenue, representing a year-on-year increase of 30.3%.

361° Kids follows the brand spirit of "ONE DEGREE BEYOND" (多一度热爱) of the 361° core brand and conducts marketing with its brand statement "CHASING YOUR LOVE!" (热爱吧·少年!), and has been positioned as a "Youth Sports Expert" (青少年运动专家) with a focus on the market for children's and adolescents' sporting goods. 361° Kids is committed to fulfilling the needs of children and adolescents in all kinds of sports.

361° Kids employs various resources to enhance its product and marketing capabilities, thus facilitating the shaping of consumer perception for its brand positioning. 361° Kids continues to expand product offerings for campus life by introducing professional items for rope skipping and running. A series of technological upgrades, namely 3D technology and Zhiyan technology (炙炎科技) etc. have been incorporated to enrich product matrix. 361° Kids focuses on the practical needs of kids and adolescents. Based on ergonomic and human movement

science or human engineering, 361° Kids has built a comprehensive technology system to meet the functional needs of exercise in different weather and occasions for adolescents and children. It has launched products with innovative technology such as FUNFOAM technology, decontamination technology, cooling technology and alken heating technology (烯暖科技) to meet the sport dressing demands in different scenarios. Its mid- and high-priced sports products apply Rudolf silver ion antibacterial technology (鲁道夫银离子抗菌科技), where silver ion can safeguard children's health in sports by virtue of its anti-odor, fresh, cool and comfortable, safe, eco-friendly, universal, durable and highly antibacterial features.

By integrating playfulness and trendy elements, its products are both fashionable and functional. In 2022, 361° Kids successfully launched co-branded products with China Aerospace • Space Imagination, Dunhuang (敦煌), Little Monsters, Miffy, Sanrio (三麗鷗), NONOPANDA and KAKAO FRIENDS. In addition, 361° Kids 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.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2022, there were 2,288 points-of-sale in total offering 361° Kids products, representing a net increase of 392 as compared with the end of 31 December 2021, and including the 412 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 70.3% of the points-of-sale were located in third-tier and lower-tier cities in China, while 6.0% and 23.7% were respectively located in first- and second-tier cities in China. As of 31 December 2022, the number of the latest fourth-generation image stores of 361° Kids increased to

1,642, representing 71.8% of the total number of 361° Kids stores, increased by 26.4% as compared with that as of 31 December 2021. Their overall design matches the current trends and 361°'s unique brand images. The combination of distinctive thematic displays and well-planned shopping routes have effectively improved shopping experience of consumers.

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

	As at 31 December 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⁾	421	18.4	287	15.1
Southern region ⁽²⁾	329	14.4	273	14.4
Western region ⁽³⁾	476	20.8	424	22.4
Northern region ⁽⁴⁾	1,062	46.4	912	48.1
Total	2,288	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.



361° Kids Collaborative Resources:

Sponsorship period	Partner	Capacity
2019-2024	Beijing Sinobo Guoan Youth Training	Official Partner and Exclusive Equipment Cooperative Brand
2020-2022	Luneng Youth Training	Official Partner and Exclusive Equipment Cooperative Brand
2022-2024	China National Rope Skipping Team	Official Partner

During the year under review, 361° Kids brand hosted four trade fairs, which were the 2022 Winter Trade Fair, the 2023 Spring Trade Fair, the 2023 Summer Trade Fair and the 2023 Autumn Trade Fair. Order amounts generated were encouraging with both volume and price achieving solid growth.

361° focuses on the field of kids sports by constantly increasing its investment in rope skipping products and establishing a special R&D department for the sport. With detailed analysis of rope skipping movements and landing postures through infrared ray, high-speed camera and other

technologies, 361° is committed to providing 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 adolescents 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 the launch. In April 2022, 361° also became an official partner of the China National Rope Skipping Team to



provide a full set of professional rope skipping equipment, thus supporting more athletes in winning honours 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. Through continuous product R&D, sports event and community building, both parties will join hands to promote rope skipping in adolescent groups while helping them build a stronger and healthier lifestyle. 361° launched the 2.0 version of rope skipping shoes in late 2022, sponsored and helped the China National Rope Skipping Team, and won 77 medals in the 2022 Asian Rope Skipping Championships.

361° International Business

Since 2015, the Group has actively expanded its footprints in international markets and has enhanced our brand recognition worldwide. In the post-pandemic era, the Group will further focus on the steady development of overseas market. In the future, the Group will actively strengthen the emerging market presence in Europe, as well as countries and regions along the Belt and Road Initiative, to further increase its influence in overseas markets.

Despite the relatively short history of 361° in the international market, its product performance with promising results is competitive against international brands and it has been continuously recognised by various international awards over the years. During the year under review, 361° STRATA 4 running shoes were successfully selected by the United States “Runner’s World” magazine as one of the Best Picks for Running Shoes in 2022, and product endorsements continued to accumulate.

As of 31 December 2022, the number of overseas points-of-sale of the Group was 1,192. In the future, the Group will prudently improve the strategy and the pace of its overseas business development according to the changes of the pandemic situation. During the year under review, the 361° International business recorded a revenue of RMB123.6 million and contributed approximately 1.8% to the Group’s total revenue, representing a year-on-year increase of 37.6%.

E-Commerce Business

During the year under review, revenue from the web-exclusive products of the e-commerce business amounted to RMB1,685.4 million and contributed approximately 24.2% of the Group’s total revenue, representing a year-on-year increase of 37.3%. Our e-commerce business serves multiple strategic purposes with its roles as an important





sales channel, a major brand image establishment platform. E-commerce focuses on improving product strength and brand strength, supported by digitalisation and big data, improving quality and efficiency, and continuously expanding incremental space to further the overall development of the Group's business.

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 (拼多多) and Tik Tok. Compared with 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 off-season inventory.

Benefiting from the improved product strength, effectiveness of e-commerce product planning and enhanced operational quality, 361°'s e-commerce business has grown rapidly. Centering on online customers, the Group has made use of big data to conduct precise product promotion and to control sales schedules. As more high gross profit and popular co-branded products are launched on the e-commerce platforms, the sales boom and market buzz brought by these products have upsurged an online and offline interaction, which attributed to the vertical penetration from online to offline. E-commerce is

concentrated on the improvement of core profit channels and operational capabilities. 361° has enhanced marketing through multidimensional aspects, such as focusing on various excellent platforms both on and off site to increase the penetration rate of the target groups, enhancing the originality of content creation to enhance brand influence and followers' engagement, and creating vertical community marketing to cultivate potential customers.

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; upgrade the e-commerce interface design and operation by recruiting talents; and increase investment in the development, design and operation of online-exclusive products with the timely upgrade of the supply chain.

Production

During the year under review, there was 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 42% of its footwear products at its two factories at Jiangtou and Wuli in Jinjiang, Fujian Province, the PRC and outsources the remaining portion 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 24% of the Group's products to meet the market demand whilst the production of the remainder is outsourced to other factories. The Group is committed to upgrading its supply chain system, with a view to continue to efficiently respond to product demands and effectively control production costs, as well as provide strong support for the Group's overall business development through its supply chain system. In addition, the Group actively encourages its core suppliers to expand production capacity, optimise their capacity distribution and relocate capacities in a timely manner, which has effectively supported and guided the development and growth of our supply chain partners to effectively cope with the impact of energy, labour recruitment, raw material costs and unforeseen events, thereby providing better and more stable production services to the Group. As a result, the Group and its supply chain partners have achieved synergetic development and established a long-term solid strategic partnership that brings multi benefits.

Research and Development

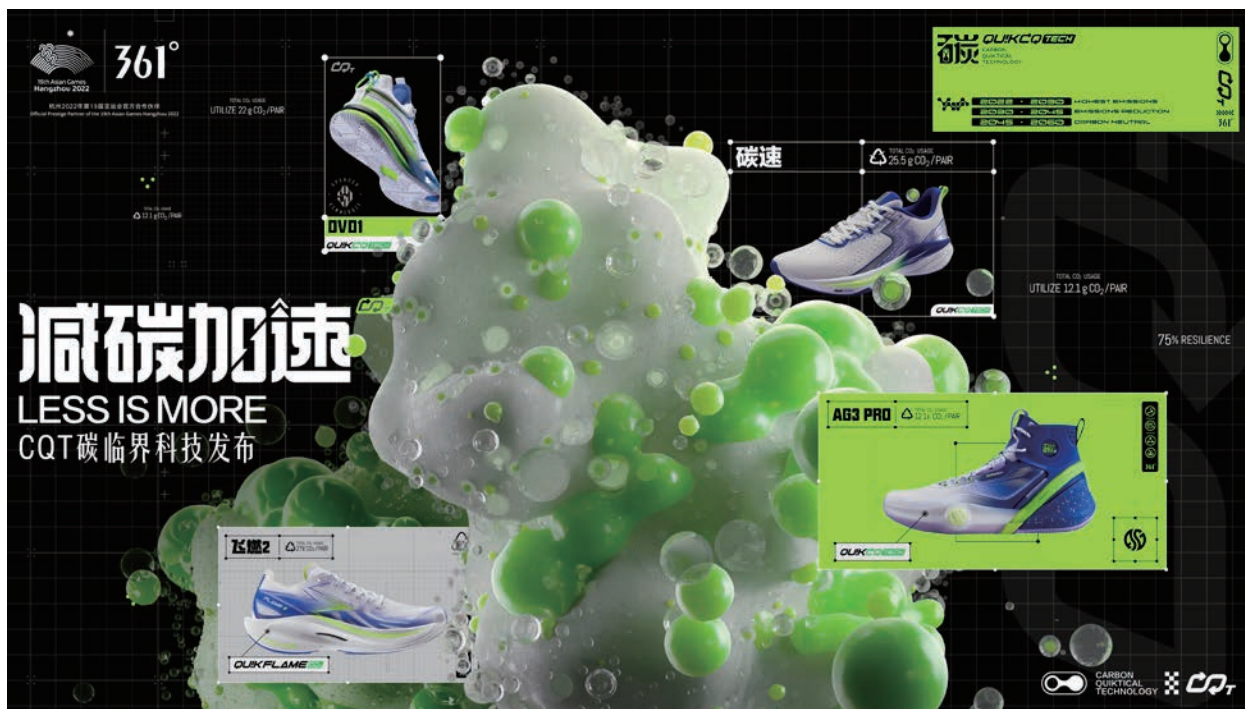
During the year under review, the Group's expenditure on R&D accounted for 3.8% of the Group's total revenue. With our R&D centres, the Group developed diversified products tailored for consumers' tastes and demands based on its positioning as a professional sports brand with fashion elements. Moreover, 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 of sports professionalism and 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, national society service station 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.

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° once again collaborates with marathon champion LI Zicheng (李子成) to introduce its latest top-tier running shoes "Furious" (飛騰) tailored for elite runners in March 2022. 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. In addition, its soles are divided into anterior and posterior parts, where 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 30 October 2022, in Tonglu Half Marathon, LI Zicheng broke the record for half marathon in China with the "Furious" (飛騰) at a record of 1:02:44. Meanwhile, 361° carbon running shoes "Furious" (飛騰) was awarded "Product Innovation in Consumer Brand of the Year" by TMTPOST.

In Xiamen Marathon held in November 2022, many more runners who finished under 3 hours were wearing 361° products increased significantly to 8.5%. 361° is among the top 3 domestic sports brand during this marathon, which demonstrates the high recognition by runners. In December 2022, 361° launched the Carbon Critical Technology (CQT) running shoes "Flying Flame II" (飛燃II), the latest product of its racing series. It is featured with the brand-new "CQT" to further upgrade its performance and adaptability. On 20 November 2022, LI Zicheng (李子成) wore his first-ever "Flying Flame II" (飛燃II) running shoes and won the half marathon championship in the Suzhou No. 1 Road Around Taihu Lake Marathon. In addition, "Flying Flame II" (飛燃II) won the Best Sports Technology Award at the 9th "Sports Money Annual Summit and Award Ceremony".

Following the launch of BIG3 1.0 in March 2019, the BIG3 3.0 was launched in March 2022 with enhanced appearance by combining a flowing color gradient TPU with high permeability mesh fabric in 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 supported by the middle-layer will definitely help achieve better performance in races. The BIG3 3.0 PRO launched in June 2022 is the best-selling



flagship professional guard basketball shoes of 361° so far. The “Zen” (禪) basketball series, originated from the popular “Zen Silence” (禪寂), “Zen Ge” (禪戈), were impressive products for basketball fans. “Zen 4” (禪4) was released in 2022 following the introduction of “Zen 3” (禪3) in 2021. “Zen 4” (禪4) basketball shoes adopt the full-foot-sole Q-resilience technology developed for cushioning performance, which provides over 60% rebound rate, thereby meeting the cushioning demand in games. In addition, “Zen 4” (禪4) adopts velcro tape design on the surface to improve the overall appearance, and provides supreme stability and support for foot.

As of 31 December 2022, the Group has obtained 295 patents with a total of 776 technicians engaging in R&D, including 437 footwear research staff, 248 apparel research staff and 91 children and accessories research staff. The Group’s expenditure on R&D is expected to increase due to its intensifying efforts to carry out the product upgrading programme for combining functionality and design, with the aim of creating more distinctive products.

On 26 December 2022, 361° Brand Day was held in Xiamen under the theme of “Accelerating Carbon Reduction”. By embracing technology to promote green and low-carbon lifestyle, 361° put forward the concept of “carbon capture” for the first time. 361° has adopted the new “Carbon Quikical Tech” to practice green and low-carbon concept, and launched a number of footwear products applying the technology at the same time, such as “Flying Flame II” (飛燃II) and AG3 PRO. Based on supercritical physical foaming technology, “Carbon Quikical Tech” uses carbon dioxide instead of nitrogen to carry out supercritical physical foaming process by heating and pressurising, which “captures and consumes” carbon dioxide. Take “Flying Flame II” (飛燃II) carbon-plated running shoes as an example, the material produced by the technology is featured with superior cushioning performance and lightweight, with an advance ratio of more than 75% and an energy conversion rate of 88%+, which is more durable than traditional foaming materials, making an improvement of footwear products in professional performance and comfort.

Awards

The following table sets out key awards won by the Group during the year under review

In January 2022	International product 361-STRATA 4 was shortlisted by the United States' "Runner's World" magazine as one of the Best Picks for Running Shoes 2022
In February 2022	Sanliuyidu (China) Co., Ltd. was granted the Excellence Award at the 47th (2023 Spring/Summer) Chinese Popular Fabrics by China Textile Information Center and China Textiles Development Center
In June 2022	Sanliuyidu (China) Co., Ltd. was granted the Best Downstream Partner Award for 2022/2023 China's Fashion Trend by China Chemical Fibers Association
In August 2022	Sanliuyidu (China) Co., Ltd. was granted the Excellence Award at the 48th (2023/24 Autumn/Winter) Chinese Popular Fabrics by China Textile Information Center and China Textiles Development Center
In August 2022	A short-sleeved POLO shirt designed and developed by Sanliuyidu (China) Co., Ltd., with cooling ice sensation function of $Q-MAX \geq 0.33W/cm^2$ was recognised as the "POLO shirt with the highest value of instant contact cooling" after official review by WRCA
In September 2022	Sanliuyidu (China) Co., Ltd. was granted the Excellent Award in the 2022 China Fashion Fabric Design Competition by China Textile Information Center and China Textiles Development Center
In September 2022	Sanliuyidu (China) Co., Ltd. was granted the Excellent Award in the 5th China Eco-friendly Fabric Design Competition 2022 by China Textile Information Center and China Textiles Development Center
In October 2022	The aerogel cotton-padded clothes sent to be elected by Sanliuyidu (China) Co., Ltd. was granted the 2022 Top Ten Textile Innovation Products – Sports Function Product Award by China National Textile And Apparel Council
In December 2022	Sanliuyidu (China) Co., Ltd. was awarded the 2022 Most Investment Value Consumer Brand at the 2022 Yangtze River Delta High-quality Integrated Development Forum and the first 21st Century Consumer Summit initiated by Southern Finance Omnimedia Corp. and 21st Century Business Herald
In December 2022	361° Kids was awarded the High-quality Domestic Product of the Year and Children's Shoes Brand of the Year – Outstanding Award in the 8th "Cherry Awards" Selection 2022, and 361° Kids' shadow series running shoes product 3.0 was awarded the Innovative Product of the Year in the 8th "Cherry Awards" Selection 2022
In December 2022	Professional racing shoes product "Furious" (飛飈) was awarded the Consumer Brand Product of the Year – Innovation Award at the 2022 T-EDGE Conference & Awards
In January 2023	361° marathon running shoes product "Flying Flame II" (飛燃II) won the Best Sports Technology Award at the 9th "Sports Money Annual Summit and Award Ceremony"
In January 2023	361° own-brand event "Light Up" (觸地即燃) won the Marketing Brand of the Year 2022 at 7th Sports Industry Carnival organized by Lanxiang Sports

FINANCIAL REVIEW

Revenue

During the year under review, the Group recorded a year-on-year increase of 17.3% in revenue to RMB6,960.8 million (2021: RMB5,933.5 million). In particular, the 361° Kids business and business grouped under others (namely, sales of shoe soles) contributed 20.7% and 1.7% (2021: 18.7% and 1.3%) of the total revenue respectively. The 361° core brand products contributed 77.6% (2021: 80.0%) of the total revenue.

In terms of product segment, sales of the Group's two core product lines, namely footwear and apparel, increased by 12.7% year-on-year and 14.0% year-on-year respectively. During the year under review, approximately 95% of the 2022's spring, summer, fall and winter products were delivered, and their respective revenue were recognized, and the remaining 5% of the 2022's winter products were delivered at the beginning of 2023.

For the year under review, footwear and apparel sales slightly decreased from 42.7% to 41.0% year-on-year and from 36.2% to 35.2% year-on-year of the total revenue respectively which was mainly due to the increase in proportion of sales revenue by 361° Kids from 18.7% to 20.7% of the total revenue for the year under review. Nevertheless, footwear and apparel products still remained the major sources of the Group's sales revenue during the year under review.

The average wholesale price ("AWP") of footwear and apparel edged up by 6.1% and 7.9% 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 caused by the general 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; and (iii) the increase in proportion of sales revenue generated from the e-commerce business which has a higher AWP than the sales made to distributors, above reasons contributed to increase in AWP as compared to that of last year. In addition, the sales volume of footwear and apparel products increased by 6.2% and 5.7% year-on-year, respectively. This was mainly due to the success of the Group's marketing strategy by continuous brand image enhancement and promotion as well as the introduction of consumer-oriented and high-quality new products via our newly developed platform despite the repeated pandemic outbreak in China during the year under review.

As to the accessories, this category of products can complement the footwear and apparel products for product mix enrichment. During the year under review, the sales volume of the accessories increased by 12.3% and the AWP of the accessories increased by 23.8% 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 39.0% in the revenue from the sales of accessories for the year under review.

MANAGEMENT DISCUSSION AND ANALYSIS

In terms of the overseas business, the revenue increased by 37.6% year-on-year to RMB123.6 million (2021: RMB89.8 million) and accounted for approximately 1.8% (2021: 1.5%) of the total revenue of the Group. Despite the weakened demand in the overseas market by virtue of the of the pandemic downturn as a result of the post pandemic and the high inflation environment in the global market, the Group's international team has successfully ventured new markets in various countries and promoted the Company's products, which attributed to the increase in overseas sales.

The revenue from 361° Kids for the year continued to achieve strong growth, recording a year-on-year increase of 30.3% to RMB1,442.2 million (2021: RMB1,106.8 million), and accounted for approximately 20.7% (2021: 18.7%) of the Group's revenue during the year under review. The growth was attributable to a year-on-year increase of 21.1% in the sale volume of apparel and footwear products and a year-on-year increase of 7.5% in their AWP as a result of the continued growth in the Kids business, the success of the Group's diversification strategy in products range to cover different age groups of the children as well as the upgrade of product mix by launching a variety of new products with new technologies and adopting comfortable raw materials. With the implementation of the Three-child Policy, the incentive schemes to improve birth rate and the policy to implement more sport activities by students at school, the Group believes that the Kids business will continue to be a key revenue stream for the Group and a growth driver in the upcoming years.

The revenue from the sales of the Group's web-exclusive products at the e-commerce business increased by 37.3% year-on-year to RMB1,685.4 million (2021: RMB1,227.4 million) and accounted for approximately 24.2% (2021: 20.7%) of the total revenue during the year under review. In view of the continuous development of information technology in China, the Group expects that the consumption trend of consumers' behavior shifting from offline to online will continue in China. Thereby, the Group will continue to invest more resources to enhance our existing e-commerce system and more marketing effort will be devoted to promoting the e-commerce business. 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 year under review, approximately 58% of that subsidiary's products were supplied to the Group and the remaining portion was sold to independent third parties. The revenue grouped under "Others" for the year ended 31 December 2022 was RMB121.8 million (2021: RMB78.7 million) and accounted for approximately 1.7% (2021: 1.3%) of the Group's total revenue.

The following table sets out the breakdown of the Group's revenue by product type for the years indicated:

	For the year ended 31 December 2022		For the year ended 31 December 2021		Changes (%)
	RMB'000	% of Revenue	RMB'000	% of Revenue	
By Products					
Revenue					
Adults					
Footwear	2,853,617	41.0	2,532,076	42.7	12.7
Apparel	2,447,466	35.2	2,147,035	36.2	14.0
Accessories	95,718	1.4	68,847	1.1	39.0
361° Kids	1,442,201	20.7	1,106,839	18.7	30.3
Others⁽¹⁾	121,824	1.7	78,685	1.3	54.8
Total	6,960,826	100.0	5,933,482	100.0	17.3

Note:

(1) Others comprised of sales of shoe soles.

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

	For the year ended 31 December 2022		For the year ended 31 December 2021		Changes	
	Total units sold	AWP ⁽¹⁾	Total units sold	AWP ⁽¹⁾	Units sold	AWP
	'000	RMB	'000	RMB	(%)	(%)
By volume and AWP						
Adults						
Footwear (pairs)	23,787	120.0	22,397	113.1	+6.2	+6.1
Apparel (pieces)	28,489	85.9	26,959	79.6	+5.7	+7.9
Accessories (pieces/pairs)	5,408	17.7	4,817	14.3	+12.3	+23.8
361° Kids	17,668	81.6	14,591	75.9	+21.1	+7.5

Note:

(1) The AWP represents the revenue divided by the total units sold for the year.

Cost of Sales

Cost of sales comprised the cost of in-house production and outsourcing cost and it was increased by 19.6% year-on-year to RMB4,140.2 million (2021: RMB3,461.1 million). During the year under review, the cost of internal production decreased by 10.7% year-on-year and the cost of outsourced products increased by 43.6% year-on-year. Considering the increase in logistic charges caused by the repeated pandemic outbreak throughout China, the increase in raw materials costs and the increase in manufacturing fixed overheads absorption rate for internal production due to the shift of orders to outsourced production for the year under review, increase in the overall cost of sales in the year under review, but part of the increase in the cost of sales, were partly offset by the writeback of provision for slow-moving inventories of RMB3.4 million (2021: RMB9.7 million) due to the sale of products in overseas markets that had previously been provisioned for slow-moving inventories during the year under review. As for cost of sales, the overall increase in cost of sales was basically in line with the increase in sales revenue during the year under review.

During the year under review, as the Group's production facilities located in Quanzhou were in a serious pandemic situation subject to strengthened precautionary measures, the Group has shifted more outstanding orders to the outsourced production to minimize risk and to meet the orders' delivery schedules requirements for on-time delivery under adverse situation.

As a result, there was a change in the mix of the internally produced products and outsourced products during the year under review: the portion of in-house production footwear and apparel products decreased to 33.0% (2021: 44.2%) and the portion of outsourced footwear, apparel and accessories products increased to 67.0% (2021: 55.8%).

MANAGEMENT DISCUSSION AND ANALYSIS

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

	For the year ended 31 December 2022		For the year ended 31 December 2021	
	RMB'000	% of total costs of sales	RMB'000	% of total costs of sales
Footwear & Apparel (In-house Production)				
Raw materials	833,563	20.1	992,824	28.7
Labour	184,309	4.5	209,610	6.1
Overheads	346,977	8.4	325,847	9.4
	1,364,849	33.0	1,528,281	44.2
Outsourced Products				
Footwear	1,270,258	30.7	775,045	22.4
Apparel	1,428,754	34.5	1,103,737	31.9
Accessories	76,317	1.8	53,999	1.5
	2,775,329	67.0	1,932,781	55.8
Cost of sales	4,140,178	100.0	3,461,062	100.0

Gross profit and gross profit margin

The Group recorded a gross profit of RMB2,820.6 million (2021: RMB2,472.4 million) for the year of 2022, representing a year-on-year decrease of 1.2 percentage points in the gross profit margin to 40.5% during the year under review.

During the year under review, the gross profit margins of footwear, accessories, 361° Kids and others products dropped by 1.9, 2.4, 0.3 and 10.2 percentage points year-on-year, respectively while that of apparel slightly increased by 0.2 percentage point year-on-year.

The gross profit margin of the footwear decreased from 43.1% to 41.2% representing a year-on-year drop by 1.9 percentage points. This was mainly due to the increase in cost of production by shifting more orders to OEMs as a result of the measure adopted on the risk management for production in view of the serious pandemic situation in our production facilities located in Quanzhou, which was partly offset by impact of the increase in AWP to recover part of the increase in cost of production, the change in sales mix and the increase in proportion of sales revenue generated from the 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 year under review was 41.6% (2021: 41.4%), representing a year-on-year slight increase of 0.2 percentage points. This was mainly attributable to the change in sales mix by selling more high gross profit margin products and the increase in proportion of sales revenue generated from its e-commerce platform. However, the increase in gross profit margin was partly offset by the increase in cost of production in relation to shifting more orders to OEMs under the serious pandemic situation in our production facilities located in Quanzhou.

As to the accessories, the gross profit margin dropped by 2.4 percentage points year-on-year to 36.0% (2021: 38.4%). 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 41.2% to 40.9%, representing a year-on-year drop by 0.3 percentage points. It was mainly attributable to the change in product mix and the increase in cost of production during the year under review. 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 categorized under “Others,” was 2.5% (2021: 12.7%), decreased by 10.2 percentage points year-on-year. The decrease in the gross profit margin was due to the increase in cost of production and the change in sales mix by acceptance of more orders with lower margins in the second half of the year.

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

	For the year ended 31 December 2022		For the year ended 31 December 2021		Changes Percentage point
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	
Adults					
Footwear	1,174,944	41.2	1,091,227	43.1	-1.9
Apparel	1,018,005	41.6	888,696	41.4	+0.2
Accessories	34,425	36.0	26,455	38.4	-2.4
361° Kids	590,213	40.9	456,039	41.2	-0.3
Others⁽¹⁾	3,061	2.5	10,003	12.7	-10.2
Total	2,820,648	40.5	2,472,420	41.7	-1.2

Note:

(1) Others comprised of sales of shoe soles.

Other revenue

Other revenue of RMB414.9 million (2021: RMB354.1 million) mainly comprised of (i) interest income of RMB82.9 million (2021: RMB81.4 million) earned from bank deposits both in Hong Kong and the PRC; (ii) the discretionary government subsidies of RMB208.3 million (2021: RMB182.3 million) which was due to the Group's contribution to local economies; (iii) the commission of RMB82.3 million (2021: RMB58.1 million) charged from the sales of distributors' inventories through the e-commerce business; and (iv) others income of RMB41.4 million (2021: RMB32.3 million).

Other net loss

The other net loss of RMB20.4 million (2021: RMB2.9 million) mainly represented the net foreign exchange loss of RMB13.6 million (2021: RMB2.1 million) and the loss on disposal of plant and equipment and others amounted to RMB6.8 million (2021: RMB0.8 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 and the time of advancements and repayments incurs exchange gain or loss.

Selling and distribution expenses

During the year under review, selling and distribution expenses increased by 25.7% year-on-year to RMB1,433.3 million (2021: RMB1,140.1 million). The selling expenses comprised advertising and promotional expenses, staff costs, online selling expenses, packing expenses and others. The increase was mainly due to the increasing resource commitment to advertising and promotion program to boost sales and enhance 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 fee charged by e-commerce platforms, increase in trade fairs expenses and increase in sales activities during the year under review, resulting in the increase of selling and distribution expenses.

Advertising and promotional expenses increased by 31.0% year-on-year to RMB791.6 million (2021: RMB604.4 million) and accounted for approximately 11.4% (2021: 10.2%) of the Group's revenue. In 2021, the amount of advertising and promotional expenses included the deduction of an over-provision of accrued advertising expenses in previous years amounted of RMB39.7 million being written-back and set-off against the gross advertising and promotion expenses before the over-provision written-back of RMB644.1 million which represented 10.9% of the Group's revenue in 2021. In view of the Chinese Government's favorable policy to support for the development of the PRC's sport industry and the continuous growth in the sports industry during the year under review, the Group took a more aggressive approach for advertising and promotion activities in 2022 to enhance both its market position and its brand.

The online selling expenses mainly consisted of commission, other service fees paid to the e-commerce platforms, such as Tmall and JD.com, and the direct selling and distribution expenses in relation to the e-commerce business. During the year under review, the online selling expenses increased by 27.7% year-on-year to RMB296.6 million (2021: RMB232.2 million) which was mainly attributable to the increase in the e-commerce platform services expenses amounted to RMB158.7 million (2021: RMB128.0 million) and increase in other expenses included in running the e-commerce business amounted to RMB137.9 million (2021: RMB104.2 million) to cope with the growth of e-commerce business during the year under review.

Administrative expenses

Administrative expenses decreased by 3.0% year on year to RMB541.4 million for the year ended 31 December 2022 (2021: RMB558.4 million) and represented approximately 7.8% (2021: 9.4%) of the Group's revenue. The decrease was mainly attributable to the adoption of refined digital management, which strengthened effective cost control on travelling, entertainment, office expenses and control of others expense which were in aggregate decreased by RMB58.4 million. The decrease of administrative expense was partly offset by the impact of the increase in research and development ("R&D") and amortization of the fair value of the stock options granted to the staffs of RMB18.9 million and RMB22.2 million respectively, during the year under review.

R&D expenses increased by 7.6% year-on-year to RMB265.8 million (2021: RMB246.9 million) and accounted for 3.8% (2021: 4.2%) of the Group's revenue for the year 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 per year. The Group believes that R&D is of vital importance to the success of the Group, and it would upgrade the product development and competitiveness enhance in the market.

Provision for Impairment Loss

During the year under review, in particular, the adverse situation in the early second quarter and fourth quarter in China and the adoption of strengthened precautionary measures by many provinces, subject to the adverse effects of these measures on the market, the Group has agreed to extend the credit period to our distributors to demonstrate our support to the distributors under the adverse market condition. As a result, the aging for the trade receivables as at 31 December 2022 was extended. As a result, the Group made an additional provision for impairment loss arising from trade receivables of RMB166.4 million (2021: RMB42.1 million) as a conservative measure during the year under review. The total provision for impairment loss arising from trade receivables as of 31 December 2022 amounted to RMB298.8 million (2021: RMB132.4 million) which represented 9.2% (2021: 5.0%) of the trade receivables before provision at the year end.

Finance costs

During the year under review, financing costs decreased by 74.5% year-on-year to RMB9.4 million (2021: RMB36.8 million) which represented interest paid of RMB9.4 million (2021: RMB9.7 million) in relation to bank borrowings. In 2021, the Group incurred a finance cost of RMB27.1 million which mainly 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 amortized 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 year under review, as a result, the finance cost significantly decreased during the year under review.

As of 31 December 2022, the Group had short-term and long-term bank borrowings, totaling of RMB285.0 million for liquidity of two subsidiaries operating in the PRC and a mortgage bank loan of RMB7.3 million for financing the acquisition of an office in Hong Kong.

Income tax expense

During the year under review, income tax expense of the Group amounted to RMB248.0 million (2021: RMB302.9 million) and the effective tax rate for the year was 23.3% (2021: 29.0%).

The Group's operating subsidiaries are mainly based in China. One of the Group's mainland China-based operating subsidiaries in obtaining 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 for 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 Hong Kong profits tax by the Group's holding company and subsidiaries in Hong Kong since no operating income 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 in 2021. Such finance costs were not allowed to be deducted from the taxable income of the Group's China-based operating subsidiaries.

For the year ended 31 December 2021, there were withholding tax expenses amounting to RMB62.2 million incurred in relation to the remittance of fund 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 and provision of its operating funds. No such remittance of funds was made during the year under review, and therefore no withholding tax expenses were incurred during the year under review. Accordingly, the effective tax rate decreased from 29.0% to 23.3% for the year under review.

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 second half of 2020, 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 last year. During the year 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 year under review. In addition, since most of the profit generated by this subsidiary in 2021 was offset by the accumulated tax loss and there was no unutilized accumulated tax loss to set-off against its profits during the year under review. Therefore, the profit of this subsidiary was subject to the standard corporate income tax rate of 25% during the year under review, which led to the further drop of profit of the e-commerce subsidiary.

CAPITAL AND OTHER INFORMATION

Liquidity and financial resources

During the year under review, net cash inflow from operating activities of the Group amounted to RMB380.3 million. As of 31 December 2022, cash and cash equivalents, including bank deposits and cash in hands and fixed deposits with original maturities not exceeding three months, amounted to RMB3,860.4 million, representing a net increase of RMB524.9 million compared to the position as of 31 December 2021.

The net increase was mainly attributable to the following items:

	For the year ended	
	2022	2021
	RMB'000	RMB'000
Net cash generated from operating activities	380,337	371,952
Net capital expenditure	(30,957)	(8,982)
Dividends paid to non-controlling interests	(34,390)	–
Net withdrawal of pledged deposit	28,032	10,458
Proceeds from bank loans	265,000	100,000
Proceeds from an investor for capital injection of a subsidiary	–	199,950
Repayment of bank loans	(181,295)	(102,156)
Net uplift of deposits (with maturity over three months)	–	1,000,000
Interest received	84,888	67,827
Interest paid	(9,381)	(35,544)
Payment for repurchase of senior unsecured US\$ Notes	–	(967,326)
Redemption of senior unsecured US\$ Notes	–	(752,005)
Increase in amount due to non-controlling interests	19,870	7,000
Other net cash inflow/(outflow)	2,749	(2,125)
Net increase/(decrease) in cash and cash equivalents	524,853	(110,951)

The net cash generated from operating activities amounted to RMB380.3 million for the year ended 31 December 2022, which was mainly caused by the increase in operating profit, the increase in inventories, increase in trade receivable, decrease in bills receivable, decrease in deposits, prepayments and other receivables and increase in trade and other payables.

The increase in inventories was mainly due to increase in work in progress and finished goods to meet with the outstanding sales orders. The net increase in trade and bills receivable was mainly due to the increase in sales revenue and the extension of credit period granted to the distributors under the adverse pandemic situation in the fourth quarter of 2022 to demonstrate the Group's support to the distributors. The decrease in deposits, prepayments and other receivables was mainly caused by the slight decrease in advanced payments to subcontractors for the purchase and subcontracting orders to fulfil its outstanding sales orders which was partly offset by the increase in prepayments made to advertisers. 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 and the adjustment of settlement cycle to the suppliers and subcontractors back to normal whereas the Group accelerated the settlement amount to the suppliers in exchange for a better trade terms at the request of suppliers and subcontractors in last year.

During the year under review, capital expenditure amounted to RMB31.0 million (2021: RMB9.0 million) and it was mainly incurred for the maintenance and replacement of some facilities in relation to production and replacement of some office equipment. A dividend of RMB34.4 million was paid by a non wholly-owned subsidiary to non-controlling interests for the year ended 31 December 2022 (2021: Nil). The net withdrawal of pledged bank deposit amounting to RMB28.0 million (2021: RMB10.5 million) during the year under review was principally used for the settlement of bills payable to suppliers. The net increase of RMB83.7 million in bank loans (2021: a net decrease of RMB2.2 million in bank loans) represented the increase in bank loans for providing additional working capital to the Group, and the amount of such additional loans was reduced by the repayment of the principal of the mortgage loan in relation to acquisition of the office in Hong Kong. In 2021, the Group received the balance of RMB199.9 million from investors for the investment in the Group's e-commerce business which represented a 2.88% equity interest in the Group's e-commerce business on a fully diluted basis and made a net withdrawal of RMB1,000 million of time deposit with maturity over three months to redeem the US Dollar Notes due. No such items were made for the year ended 31 December 2022. The interest received amounted to RMB84.9 million (2021: RMB67.8 million) representing interest income generated from the fixed deposit placed in the PRC and Hong Kong. The interest of RMB9.4 million (2021: RMB35.5 million) paid for the year was mainly the interest for the bank loans while in 2021, the amount represented interest for bank loans and US Dollar Notes. In 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 outstanding principal of the US Dollar Notes amounted of RMB752.0 million on the maturity date. No such items were made for the year ended 31 December 2022. During the year under review, the Group received a net advances of RMB19.9 million (2021: RMB7 million) made by non-controlling interests of non wholly-owned subsidiaries for re-financing the subsidiaries' initial deposits paid to local government authorities for acquisition of land use rights for development.

The Group's gearing ratio was 2.4% as of 31 December 2022 (2021: 1.8%). (The details of the calculation can be found on Note 4 on page 9). Other than the short-term bank borrowings and the mortgage loan, the Group has long-term bank borrowings amounted of RMB100.0 million (2021: Nil) to finance the working capital for its operations for the year ended 31 December 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 of 31 December 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 monetary impact on the Group.

During the year under review, the Group did not conduct any hedging activity against foreign currency risk.

Pledge of assets

As of 31 December 2022, a property with a net book value of RMB40.1 million (2021: RMB38.8 million) was pledged as security for a banking facility of the Group of RMB38.9 million (2021: RMB35.8 million). The previously mentioned banking facility was used to finance the acquisition of an office unit in Hong Kong, which is for the Group's own use and not for any investment purpose. Bills payable as of 31 December 2022 were secured by pledged bank deposits of RMB18.9 million (2021: RMB46.9 million) and RMB5.3 million was pledged as the guaranteed deposits for the 2022 Asian Games Committee (2021: RMB5.3 million).

Working capital management

The average working capital cycle for the year ended 31 December 2022 was 117 days (2021: 114 days). The increase was mainly due to the increase in turnover cycle of inventory and decrease in trade and bills payable turnover days which was partly offset by the shortening of the turnover cycles of the trade and bills receivable.

The average trade and bills receivable cycle was 147 days for the year ended 31 December 2022 (2021: 149 days), representing a decrease of 2 days. Although the market condition was adversely affected by the pandemic situation in China, in particular, throughout the fourth quarter of 2022 and the Group has extended the credit periods granted to some distributors whose businesses were located in the regions that were more seriously affected by the pandemic. The overall trade and bills receivable level were under the effective control during the year under review. As at 31 December 2022, an aggregated amount of RMB2,809.6 million (92.9%) of trade and bills receivable was within 180 days, of which around 70.6% was within 90 days and 22.3% was over 90 days but within 180 days.

Although the trade and bills receivable turnover cycle was slightly improved, in view of the extended aging of the trade and bills receivable as at 31 December 2022, the Group has made an additional provision for impairment losses of RMB166.4 million (2021: RMB42.1 million) charged for the sake of prudence during the year under review. As the Chinese Government has removed most of the prevention and control measures for the pandemic in early 2023, the Group believes that the market conditions will be improved in the forthcoming year. With the adoption of effective control and closer monitoring of the distributors, the Group believes that there will be further improvement in the average trade and bills receivable.

The average inventory turnover cycle was 91 days for the year ended 31 December 2022 (2021: 87 days), representing an increase of 4 days. About 89.9% of the inventory was finished goods and mainly 2022 winter and 2023 spring products. Although the inventory turnover cycle increased, no slow-moving inventory was recognized during the year under review (2021: Nil). All the goods for the 361° core brand were either self-produced or supplied by original equipment manufacturers (OEMs) according to the orders received from distributors. No extra stock was produced or retained by the Group. The Group believes that the inventory management will be further improved in the forthcoming year.

As at 31 December 2022, prepayments to suppliers were RMB895.4 million, representing a 6.3% decrease compared with the RMB955.3 million as of 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 2023 spring and summer trade fairs' products. The balance of other prepayments, RMB207.6 million (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 1 day to 121 days for the year ended 31 December 2022 (2021: 122 days). Although the economy was severely affected by the pandemic for the year under review, the Group was still able to maintain the trade and bills payable turnover days approximately the same as last year's level. The Group believes that the average trade and bills payable cycle will be maintained at approximately 120 days in the forthcoming year.

Contingent liabilities

For the year ended 31 December 2022, the Group did not have any material contingent liabilities.

Material acquisitions and disposals

For the year ended 31 December 2022, the Group did not make any material acquisitions or disposal of subsidiaries or associates except for what have been disclosed below.

On 16 July 2020, Sanliuyidu (China) Co., Ltd. (三六一度(中國)有限公司), a wholly owned subsidiary of the Company, entered into a limited partnership agreement (the "Limited Partnership Agreement") with two independent third parties, in respect of the establishment of a limited partnership in the PRC (the "Partnership"). According to the Limited Partnership Agreement, the total amount of capital commitments of the Partnership is RMB1,100.0 million, of which the Group and the two independent third parties will contribute RMB550.1 million, RMB548.8 million and RMB1.1 million, respectively.

On the same date, after the establishment of the Partnership, all the partners in the Partnership entered into a capital increase agreement (the "Capital Increase Agreement") with (i) shareholders of Duoyidu (Quanzhou) E-commerce Co., Ltd. (多一度(泉州)電子商務有限公司) ("Duoyidu Quanzhou"), an indirect non-wholly owned subsidiary of the Company and (ii) Duoyidu Quanzhou, pursuant to which the Partnership agreed to make an investment of RMB1,100.0 million by cash (the "Investment") in Duoyidu Quanzhou.

Duoyidu Quanzhou has received an aggregate amount of RMB700 million for the year ended 31 December 2020 and has received the remaining balance of RMB400 million in 2021. Accordingly, the Group's effective equity interest in Duoyidu Quanzhou was diluted from 72.13% to 69.25% in last year. The decrease of the 2.88% effective equity interest in Duoyidu Quanzhou was recognized as a deemed disposal and accounted for as an equity transaction and recorded in "Other Reserve" in last year.

Details of the above transactions are set out in the announcements of the Company dated 7 July 2020, 16 July 2020 and 22 July 2020.

Significant investments

For the year ended 31 December 2022, the Group had no significant investments.

As at the date of this report, the Group does not have any concrete future plan for material investment or capital assets. Meanwhile, the Group will continue to actively and regularly review its investment plan, and explore any strategic investment opportunities for the Group's business development, and will use its internal resources for such investment should suitable opportunities arise.

Employees and emoluments

As at 31 December 2022, the Group employed a total of 7,441 full time employees in the PRC who included management staff, technicians, salespersons and workers. For the year ended 31 December 2022, the Group's total remuneration paid to employees was RMB681.2 million, representing 9.8% of the Group's revenue. The 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.

PROSPECTS

The compounded factors of geopolitical instability and increasing inflation rate have casted cloud over the global economy. After three years of the pandemic, Chinese people has an increasing awareness on healthy lifestyle. With a raft of policies launched by the Chinese government to guide the quality development of the sports industry, it is expected that the industry will play an increasingly important role in the economic recovery process.

Looking ahead to 2023, spurred on by the accelerated economy recovery and the large-scale international sports events, it is expected that the release of long-suppressed demand for sporting goods will be accelerated, and thus driving the sports industry into a prime period of quality development. 361° will uphold the business philosophy of “consumer-centric”, consolidate the brand positioning of “professional, youthful, and internationalised”, and further integrate and improve the allocation of resources in an effort to constantly elevate its influence within the industry and increase the market share. In terms of brand building, the Group will carry forward its operation strategy of developing “professional sports” and “Sports Fashion”, and continue to enhance the sports functionality and trend attributes of products. In addition, it will seize the opportunities under sports fashion trends, and continuously strive to reach a wide range of consumer groups beyond the existing consumer base. In terms of 361° Kids brand, the Group will keep up with the opportunities of the national policies on youth sports and the wave of domestic consumption upgrade to further enrich product lines and broaden product segments. Health technology and playfulness and trendy elements will also be incorporated into the kids’ products to fully meet the needs of various sports lifestyle for children and adolescents and improve the competitiveness of the kids’ brand.

In terms of sales, the Group will improve the efficiency of its omni-channel operations through synergies of online and offline stores, while actively promoting the refinement of store management, thereby improving customers’ consumption experience and satisfying the diversified needs of different consumer groups. The Group will seize the opportunity of the recovery of offline consumption to accelerate the quality expansion of the ninth-generation stores under the 361° core brand and the fourth-generation stores under the 361° Kids brand, to enhance the brand influence steadily. In terms of online presence, the Group will continue to drive its e-commerce development, by exploring the business potentials across new e-commerce and retail channels. One such direction is to fully leverage our WeChat mini program “You Yan You Du (有顏有度)”, to explore and realize the synergies between online and offline channels, so as to establish the Group’s ecommerce business as its major growth driver. At the same time, considering the requirements under the “dual carbon” goal, the Group will meet the environmental needs of consumers and carry out multi-dimensional scientific research and innovation to drive a quality development of the brand.

The Group will continue to sponsor various major sports events with its resources to enhance the stature and international recognition of the 361° brand. Notably, the Group will serve as an official partner of the Hangzhou Asian Games that will be held in September 2023. The Hangzhou Asian Games is expected to inject new momentum to the enthusiasm in sports in China, and the Group will seize the opportunity to further enhance its brand value. In addition, the domestic demand for sports consumption has remained robust due to digitalisation, “China-Chic”, rejuvenation and environmental protection. The Group will make best efforts to grasp the emerging trends and opportunities of the industry and promote the rapid enhancement of 361° brand value.

REPORT OF THE DIRECTORS

The Directors are pleased to present the annual report together with the audited financial statements for the year ended 31 December 2022.

BUSINESS REVIEW

General

For the review of the business of the Group for the year ended 31 December 2022, please refer to the section headed “Management Discussion and Analysis – Business review” on pages 18 to 34 of this report.

Principal risks and uncertainties facing the Group

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

Risks pertaining to the sportswear market in the PRC

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

Risks pertaining to the distributorship model

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

Risk pertaining to the Group’s operations

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

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

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

Past performance and forward looking statements risks

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

Prospects

For the likely development of the Group's business, please refer to "Management Discussion and Analysis – Prospects" on page 46 of this report.

Post year-end events

Except as disclosed in this annual report, since 31 December 2022, being the end of the financial year under review, no important event has occurred affecting the Group.

Analysis of key financial performance indicators

For details of the key financial performance indicators to the performance the Group's business, please refer to "Financial Summary" on pages 8 and 9 of this annual report.

Environmental policies and performance

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

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

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

The Company will separately publish the Environmental, Social and Governance Report for the year ended 31 December 2022 in compliance with Appendix 27 to the Listing Rules in due course.

Compliance with laws and regulations

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

Account of the Group's relationships with its key stakeholders

(i) Employees

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

(ii) Suppliers

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

(iii) Distributors

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

(iv) Authorised retailers

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

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The Company is incorporated in the Cayman Islands and has its registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Its principal place of business in Hong Kong is at Room 1609, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the Company's subsidiaries are set out in note 13 to the financial statements on pages 125 to 128 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total	
	sales	purchases
The largest customer	8%	
Five largest customers in aggregate	26%	
The largest supplier		5%
Five largest suppliers in aggregate		22%

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

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2022 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 83 to 162 of this annual report.

TRANSFER TO RESERVES AND DIVIDENDS

Profits attributable to equity shareholders, before dividends, of RMB747,117,000 (2021: RMB601,700,000) have been transferred to reserves. At 31 December 2022, aggregate amount of reserves available for distribution to equity shareholders of the Company amounted to approximately RMB1,269,477,000 (2021: RMB1,228,639,000). Other movements in reserves are set out in the consolidated statement of changes in equity.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2022. The Company is not aware of any arrangement under which a shareholder of the Company has waived or agreed to waive any dividends.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year under review amounted to RMB14,261,000 (2021: RMB13,666,000).

FIXED ASSETS

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

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 23(c) to the financial statements.

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

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

For the year ended 31 December 2021, the Company repurchased and cancelled approximately US\$149.8 million (2020: US\$80.1 million) principal amount of the US\$ Notes listed on the Stock Exchange through the open market on the Stock Exchange for a total price of approximately US\$149.8 million (2020: US\$70.6 million), representing approximately 37.45% (2020: 20.03%) of the initial aggregate principal amount of the US\$ Notes. As at 3 June 2021, the Company fully redeemed the remaining principal amount of the US\$ Notes on the maturity date. Accordingly, the US\$ Notes was delisted on the Stock Exchange (bond code: 5662) on the same date.

As at 31 December 2022 and 2021, there was no outstanding principal amount of the US\$ Notes after such repurchases and cancellations and redemption made in 2021.

Except as disclosed in this section, neither Company nor any of its subsidiaries made any purchase, sale or buy-back of listed securities of the Company for the year ended 31 December 2022.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

The Directors during the financial year were:

Executive Directors

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

Independent non-executive Directors

Mr. Wu Ming Wai Louie
Mr. Hon Ping Cho Terence
Mr. Chen Chuang

REPORT OF THE DIRECTORS

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

Pursuant to Article 84(1) of the Articles, Mr. Ding Wuhao, Mr. Hon Ping Cho Terence and Mr. Chen Chuang will retire from office by rotation at the forthcoming AGM. Mr. Ding Wuhao, Mr. Hon Ping Cho Terence and Mr. Chen Chuang are eligible and offer themselves for re-election.

DIRECTOR'S SERVICE CONTRACTS

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

PERMITTED INDEMNITY PROVISION

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

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

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

As 31 December 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 shares (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 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 31 December 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.

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 Directors shall, in accordance with the provisions of the Share Option Scheme and the Listing Rules, be entitled but shall not be bound at any time within a period of 10 years commencing from the date of option of the Share Option Scheme to make an Offer to any person belonging to the following classes of participants (the “Eligible Participants”):

- (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group;
- (b) a director or proposed director (including an independent non-executive director) of any member of the Group;
- (c) a direct or indirect shareholder of any member of the Group;
- (d) a supplier of goods or services to any member of the Group;
- (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; and
- (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and, for the purposes of the Share Option Scheme, the Offer may be made to any company wholly owned by one or more Eligible Participants.

REPORT OF THE DIRECTORS

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. As at the date of this annual report, the total number of Shares available for issue upon the exercise of the options to be granted under the Share Option Scheme was 109,880,200 (taking into account 3,120,000 options lapsed), representing 5.31% of the total issued Shares as at the date of this annual report. 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 by the grantee 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. The vesting period of options granted under the Share Option Scheme is from the date of grant until the commencement of the exercise period. 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 granted 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. As at the date of this annual report, the remaining life of the Share Option Scheme was approximately 8 years. Please refer to the circular of the Company dated 16 April 2021 for further details of the terms of the Share Option Scheme.

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 (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 1% individual limit of each eligible participant. The following table discloses movements in the Company's share options during the year ended 31 December 2022:

Name or category of participant	Date of grant	Vesting period	Exercise period	Exercise price per share	Balance as at 1 January 2022	Granted during the period	Number of Options			Balance as at 31 December 2022
							Exercised during the period	Cancelled during the period	Lapsed during the period	
Employees of the Group	21 June 2021	From date of grant until commencement of exercise period	From 21 December 2022 and expiring on 20 June 2023 (both dates inclusive)	HK\$4.10	54,480,000	-	-	-	(2,800,000)	51,680,000
Business partners of the Group	21 June 2021	From date of grant until commencement of exercise period	From 21 December 2022 and expiring on 20 June 2023 (both dates inclusive)	HK\$4.10	45,200,000	-	-	-	-	45,200,000
					99,680,000	-	-	-	(2,800,000)	96,880,000

Notes:

1. 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.
2. 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. 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.

The number of options available for grant under the mandate of the Share Option Scheme (taking into account the number of options lapsed) was 107,080,200 and 109,880,200 as at 1 January 2022 and 31 December 2022 respectively. The Company did not grant any share options during the year ended 31 December 2022.

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

As at 31 December 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	340,066,332 (L)	16.45%
Ming Rong International Company Limited	(3)	Beneficial owner	327,624,454 (L)	15.85%
Hui Rong International Company Limited	(4)	Beneficial owner	324,066,454 (L)	15.67%
Jia Wei International Co., Ltd.	(5)	Beneficial owner	168,784,611 (L)	8.16%
Jia Chen International Co., Ltd.	(6)	Beneficial owner	168,784,611 (L)	8.16%
Mr. Wang Jiachen	(6)	Interest in controlled corporation	168,784,611 (L)	8.16%

Notes:

1. The letter “L” indicates long position whereas the letter “S” indicates short position.
2. The entire issued share capital of Dings International Company Limited is owned by Mr. Ding Wuhao, an executive director and the president of the Company. Mr. Ding Wuhao is the sole director of Dings International Company Limited.
3. The entire issued share capital of Ming Rong International Company Limited is owned by Mr. Ding Huihuang, an executive director and the chairman of the Company. Mr. Ding Huihuang is the sole director of Ming Rong International Company Limited.
4. The entire issued share capital of Hui Rong International Company Limited is owned by Mr. Ding Huirong, an executive director. Mr. Ding Huirong is the sole director of Hui Rong International Company Limited.
5. The entire issued share capital of Jia Wei International Co., Ltd. is owned by Mr. Wang Jiabi, an executive director. Mr. Wang Jiabi is the sole director of Jia Wei International Co., Ltd.
6. The entire issued share capital of Jia Chen International Co., Ltd. is owned by Mr. Wang Jiachen, who is the brother of Mr. Wang Jiabi, an executive director of the Company.

Save as disclosed above, as at 31 December 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.

SUFFICIENCY OF PUBLIC FLOAT

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

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the shareholders of the Company by reason of their holding of the Company’s listed securities.

MANAGEMENT CONTRACTS

Other than Directors’ service contracts and employment contracts with the Group’s senior management in full-time employment, no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2022.

DIRECTORS’ INTERESTS IN CONTRACTS

No transaction, arrangement or contract of significance to which the Company, or any of its holding companies or subsidiaries was a party, and in which director of the Company had a material interest, subsisted at the end of the year or at any time during the year. No transaction, arrangement, or contract of significance had been entered into between the Company or any of its subsidiaries and the controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries, and no transaction, arrangement, or contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholder of the Company or any of its subsidiaries was entered into.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2022, none of the Directors or their respective close associates had any business or interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group. Please also refer to the paragraph headed "Compliance with the Deed of Non-competition" below.

COMPLIANCE WITH THE DEED OF NON-COMPETITION

Each of Mr. Ding Wuhao, Dings International Company Limited, Mr. Ding Huihuang, Ming Rong International Company Limited, Mr. Ding Huirong and Hui Rong International Company Limited (collectively the "Covenantors" and each a "Covenantor") confirmed that, as at 31 December 2022, he/it had complied with the terms of the deed of non-competition ("Deed of Non-competition") dated 10 June 2009 signed by each of them in favour of the Group.

To monitor the compliance of the terms of the Deed of Non-competition by the Covenantors, the independent non-executive Directors have reviewed, among others, the business activities undertaken by the Covenantors (if any) outside of the Group. Based on the result of such review, the independent non-executive Directors are satisfied that the Covenantors have complied with the terms of the Deed of Non-competition for the year ended 31 December 2022.

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2022 are set out in note 20 to the financial statements.

RELATED PARTY TRANSACTIONS

The related party transactions conducted during the year under review as disclosed in note 27 to the financial statements did not constitute connected transactions as defined under Chapter 14A of the Listing Rules.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on pages 8 and 9 of this annual report.

RETIREMENT SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the plan vest immediately. No forfeited contributions may be used by the Group to reduce the existing level of contributions as the contributions are fully vested to the employees upon payments to the MPF Scheme.

The employees of the subsidiaries of the Company in the PRC are members of the retirement schemes operated by the local authorities. The subsidiaries are required to contribute a certain percentage of the eligible employees' salaries to these schemes to fund the benefits. The only obligation of the Group with respect to these schemes is the required contributions under the schemes. No forfeited contributions will be used by the Group to reduce the existing level of contributions.

The Group's total contributions to retirement schemes charged to the consolidated income statement during the year ended 31 December 2022 amounted to RMB34,495,000 (2021: RMB28,802,000).

CONFIRMATION OF INDEPENDENCE

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

CORPORATE GOVERNANCE CODE PRACTICES

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. Upon the Company's enquires, all the Directors have confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2022.

AUDIT COMMITTEE

The Audit Committee has reviewed with management and the external auditors the accounting principles and policies adopted by the Group and the audited annual consolidated financial statements for the year ended 31 December 2022.

AUDITORS

KPMG has resigned as the auditor of the Company with effect from 13 November 2019 as KPMG and the Company could not reach a consensus on the audit service fee regarding the annual audit for the financial year ended 31 December 2019. The Board, with the recommendation from the Audit Committee, has resolved to appoint Moore Stephens CPA Limited ("Moore") as the new auditor of the Company with effect from 13 November 2019 to fill the casual vacancy following the resignation of KPMG.

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

By order and on behalf of the board of Directors

DING HUIHUANG

Chairman

Hong Kong SAR of the PRC, 16 March 2023

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company applied the principles and complied with all the code provisions as set out in the Corporate Governance Code (the “CG Code”) contained in the Appendix 14 to the Listing Rules during the year ended 31 December 2022, by focusing on areas such as risk management and internal control as well as effective and timely communication with shareholders so as to ensure and enhance corporate transparency and accountability.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

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

CORPORATE CULTURE AND STRATEGY

Overview

The vision of 361° depicts the future development direction and the long-term goal of the Company, serving as guidance for the Company in making all strategic decisions. The values of 361° set parameters for practices in the Company’s daily business activities. Such vision and values together build a basic methodological framework for all decision-making and business activities of the Company, and provide guidance and direction for its operation and management. The corporate culture of 361° is thus born.

Vision of 361°: To be an Internationalised and Respected Sports Brand

361° is principally engaged in sports-related products as well as the improvement and innovation of their functions. Setting out from the domestic market of China with a global vision, 361° envisages becoming an internationally recognized sports brand and its products and their use value being recognized widely by consumers both at home and abroad. We carry out business in many countries and strive to maintain good relationships with relevant stakeholders, including governments, communities, media, employees, business partners, various sports organizations, etc., and create value to them.

Core Values of 361°

1. Loyalty — Cohesion: Being honest, industrious and responsible, and prioritising corporate interest.
2. Pragmatism — Execution: Being practical and responsive, and judging by actual results.
3. Collaboration — Synergy: Seeking common ground and handling differences properly, and complementing one another for ultimate win-win.
4. Efficiency — Capability: Sticking to the goal from the outset, and being punctual, credible and innovative.

By adhering to the brand belief of “ONE DEGREE BEYOND” (多一度熱愛), 361° will make continuous contribution to the society by shouldering its social responsibilities and to the sports development of China and the world through its business operations. The Company will persevere with its rules of practice so as to advance to the vision and goals.

Practices on building corporate culture

Promotion and training on corporate culture

In February 2021, the Company revised and published the latest version of *Corporate Culture Manual* as a set of practicable codes of conduct for corporate culture. In September 2022, the Company prepared a *Corporate Culture System and Practice Report* for the Board to discuss and evaluate the implementation of corporate culture. Throughout 2022, the Company has completed 6 corporate culture trainings for new employees; corporate culture tests were conducted for participants after each training session and all of the new employees passed the tests. In order to promote our cultural concept to all employees for them to gain a better understanding and knowledge, the Company's human resources department launched the "Corporate Culture Month" in April 2022, during which a total of 4,558 valid answers were collected at the corporate culture contest where 3,400 persons got perfect scores.

Initiatives and projects on team building

Sport is the innate gene of the Company as a sports brand. Each year, the Company carries out 4 quarterly large-scale value series staff events based on the need of practising corporate culture and team building, aiming to practise and promote its corporate culture in the sports events by implanting its core values into these events. For example, the "Loyalty" mini-marathon was held in March 2022, attracting more than 1,700 participants; and the "Collaboration Cup" tug-of-war was held in May 2022, attracting more than 160 players and over 400 cheerleaders. In addition, the Company has set up several clubs for sports including basketball, badminton, running, aerobics, yoga and reading to enhance its vitality and cultivate employees' enterprising awareness. Throughout 2022, the Company carried out 136 activities with more than 2,300 participants.

BOARD OF DIRECTORS

Responsibilities, accountabilities and contributions of the Board and the Management

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

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

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

Corporate governance

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

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

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

	Training courses	Board Meeting	Annual General Meeting	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors						
Mr. Ding Huihuang (Chairman)	i	6/6	1/1	N/A	N/A	N/A
Mr. Ding Wuhao (President)	i	6/6	1/1	N/A	N/A	1/1
Mr. Ding Huirong (Vice President)	i	6/6	1/1	N/A	N/A	N/A
Mr. Wang Jiabi (Vice President)	i	6/6	1/1	N/A	1/1	N/A
Independent Non-executive Directors						
Mr. Wu Ming Wai Louie	i, ii, iii	6/6	1/1	4/4	N/A	1/1
Mr. Hon Ping Cho Terence	i, ii, iii	6/6	1/1	4/4	1/1	1/1
Mr. Chen Chuang	i	6/6	1/1	4/4	1/1	N/A

Notes:

- i. Directors who attended Corporate Governance training course organised by the Company's legal adviser during the year under review.
- ii. Directors who attended courses organised by professional bodies during the year.
- iii. Directors who attended courses organised by the Hong Kong Institute of Certified Public Accountants.

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

Board composition

For the year ended 31 December 2022 and as at 31 December 2022, the Board comprised of four executive Directors and three independent non-executive Directors. Biographical details of the current Directors and the relationships between the Directors (if any) are set out in the section headed "Directors and Senior Management" of this annual report.

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

The composition of the Board is well balanced with the Directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. A summary of the board diversity policy of the Company is set out on page 66 of this annual report. The executive Directors and independent non-executive Directors bring a variety of experience and expertise to the Company. In determining the independence of the independent non-executive Directors, the Board follows the requirements as set out in Rule 3.13 of the Listing Rules. The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

THE ROLES OF THE CHAIRMAN AND PRESIDENT

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

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

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

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

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

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

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

TERMS OF APPOINTMENT OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 30 June 2009, renewable upon expiry, and each of such service contracts was renewed on 30 June 2012, 30 June 2015, 30 June 2018 and 30 June, 2021, respectively. Each of Mr. Hon Ping Cho Terence, Mr. Chen Chuang and Mr. Wu Ming Wai Louie, all of whom are independent non-executive Directors, has entered into a service contract with the Company for a term of three years commencing from 20 May 2019 and 27 August 2019 and 4 August 2020, respectively, which are also renewable upon expiry. The service contracts with Mr. Hon Ping Cho Terence and Mr. Chen Chuang were renewed on 20 May 2022 and 27 August 2022 respectively.

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

COMPANY SECRETARY

Mr. Li Yuen Fai Roger, the company secretary of the Company, reports to Mr. Ding Wuhao, the President. The details of his biographical is set out in the section headed “Director and Senior Management” of this annual report. Mr. Li has also confirmed that he has taken no less than 15 hours relevant professional training during the financial year.

BOARD COMMITTEES

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

AUDIT COMMITTEE

The audit committee of the Board (the “Audit Committee”) was established on 10 June 2009 with written terms of reference in compliance with the CG Code. During the reporting period, the Audit Committee comprised three members who all are independent non-executive Directors, namely, Mr Wu Ming Wai Louie, Mr. Hon Ping Cho Terence and Mr. Chen Chuang with Mr. Wu Ming Wai Louie being the chairman.

The Audit Committee has reviewed the Group’s consolidated financial statements for the year ended 31 December 2022, including the accounting principles and practice adopted by the Group.

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

- (i) any changes in accounting policies and practices;
- (ii) major judgmental areas;

- (iii) significant adjustments resulting from audit;
- (iv) the going concern assumptions and any qualifications;
- (v) compliance with accounting standards;
- (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting; and
- (vii) reviewing the fairness of connected transactions and making disclosures in accordance with the Listing Rules and accounting standards.

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

The Audit Committee held four meetings during the year ended 31 December 2022 with three meetings having been attended by external auditors. The meetings primarily discussed the auditing, internal audit function, risk management, internal controls and financial reporting matters of the Company. The Audit Committee has including but not limited to: (i) considered significant or unusual items that are, or may need to be, reflected in the reports and accounts and matters that have been put forward by the Company's staff responsible for the accounting and financial reporting function as well as external auditors; (ii) oversighted the Company's financial reporting system and internal control procedures to review the Company's financial controls, internal control and risk management systems; (iii) reviewed the effectiveness of internal audit function by the review of internal audit reports and meeting with the head of internal audit department; and (iv) discussed with the management about the risk management and internal control system of the Company to ensure that management has performed its duty to have an effective risk management and internal control system. The discussion also included (a) the adequacy of resources; (b) staff qualifications and experience; (c) training programmes and budget of the Company's accounting and financial reporting function; (d) major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings; (e) ensured co-ordination between the internal and external auditors; (f) ensured the internal audit function is adequately resourced and has appropriate standing within the Company; (g) reviewed and monitored the effectiveness of the internal audit function of the Group; (h) review of the Group's financial and accounting policies and practices and the external auditors' management letter; (i) material queries raised by the external auditors to management about accounting records, and financial accounts and systems of control as well as management's responses; and (j) reviewed and monitored the effectiveness of the whistleblowing and anti-corruption policies and systems of the Company. During the year under review, the Audit Committee has also reviewed the consolidated financial statements of the Group for the six months ended 30 June 2022 and the year ended 31 December 2022. For the details of members' attendance of the Audit Committee's meeting, please refer to the table on page 61.

REMUNERATION COMMITTEE

The remuneration committee of the Board (the “Remuneration Committee”) was established on 10 June 2009 with written terms of reference in compliance with the CG Code. During the reporting year, the Remuneration Committee comprised three members, namely, Mr. Chen Chuang, Mr. Wang Jiabi and Mr. Hon Ping Cho Terence with Mr. Chen Chuang being the chairman.

The primary duties of the Remuneration Committee include to: (i) make recommendations to the Board on the Company’s policy and structure for all Directors’ and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (ii) review and approve the management’s remuneration proposals with reference to the Board’s corporate goals and objectives; (iii) make recommendation to the Board on the remuneration packages of individual executive Directors and senior management including benefits in kind, pension rights and compensation payments; (iv) make recommendations to the Board on the remuneration of non-executive Directors; (v) consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group; (vi) review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; (vii) ensure that no director or any of his associates is involved in deciding his own remuneration; and (viii) review and/or approve matters relating to share schemes of the Company under Chapter 17 of the Listing Rules.

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

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

The Remuneration Committee held one meeting, including to assess performance of the executive Directors, review and approve the remuneration packages of Directors and senior management of the Group during the year ended 31 December 2022.

For the details of members’ attendance of the Remuneration Committee Meeting, please refer to the table on page 61.

NOMINATION COMMITTEE

The nomination committee of the Board (the “Nomination Committee”) was established on 10 June 2009 with written terms of reference in compliance with the CG Code. During the reporting year, the Nomination Committee comprised of three members, namely Mr. Ding Wuhao, Mr. Wu Ming Wai Louie and Mr. Hon Ping Cho Terence with Mr. Hon Ping Cho Terence being the chairman.

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

Board Diversity Policy

The Company has adopted the board diversity policy on 29 August 2013, which was revised on 1 January 2019 (the "Board Diversity Policy"). The purpose of the Board Diversity Policy is to set out the basic principles to be followed to ensure that the Board has appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. Under the Board Diversity Policy, the selection of Board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to, gender, age, cultural background, educational background, and professional experience, which are the measurable objectives for implementing the Board Diversity Policy. The Nomination Committee is also responsible for reviewing the Board Diversity Policy, developing and reviewing measurable objectives for implementing the policy and monitoring the progress on achieving these measurable objectives. The review of the Board Diversity Policy and the measurable objectives shall be carried out at least annually to ensure the continued effectiveness of the Board. For the year ended 31 December 2022, the Company has achieved the following measurable objectives that the Board has set for implementing the Board Diversity Policy:

- (a) To ensure at least two members of the Board shall have obtained accounting or other professional qualification;
- (b) To ensure at least one-third of the members of the Board shall have attained bachelor's degree or higher level of education;
- (c) To ensure at least one member of the Board was or currently is director of listed companies (including Hong Kong and other regions) other than the Company;
- (d) To ensure Board has members coming from different cultural backgrounds (including Hong Kong and PRC); and
- (e) To ensure the age distribution of the members of the Board comprised of people from at least two decades.

The Nomination Committee has primary responsibility for identifying suitably qualified candidates to become members of the Board and shall give adequate consideration to the Board Diversity Policy in selection of Board candidates. Board nomination and appointments will continue to be made on merit basis based on the Group's business needs from time to time with adequate consideration of diversity of Board members. As to gender diversity of the Board and in the workforce, please refer to page 61 of this annual report.

A summary of nomination process is as follows:

Appointment of new director

- (1) The Nomination Committee or the Board shall, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out in the Board Diversity Policy to determine whether such candidate is qualified for directorship.
- (2) If the process yields one or more desirable candidates, the Nomination Committee shall rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).
- (3) The Nomination Committee shall then recommend to the Board to appoint the appropriate candidate for directorship.
- (4) For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the Nomination Committee and the Board shall evaluate such candidate based on the criteria as set out in the Board Diversity Policy to determine whether such candidate is qualified for directorship and where appropriate, the Nomination Committee and/or the Board shall make recommendation to shareholders in respect of the proposed election of director at the general meeting.

Re-election of Director at General Meeting

- (1) The Nomination Committee and the Board shall review the overall contribution and service to the Company of the retiring director including his/her attendance of Board meetings and, where applicable, general meetings, and the level of participation and performance on the Board.
- (2) The Nomination Committee shall also review and determine whether the retiring director continues to meet the criteria as set out in the Board Diversity Policy.
- (3) The Nomination Committee and/or the Board shall then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

During the year under review, the Nomination Committee held one meeting in the year ended 31 December 2022. The work carried out by the Nomination Committee during the year included to nominate the members of Board for retirement and re-election at the annual general meeting and to review the structure, size and composition of the Board. For the details of members' attendance of the Nomination Committee meeting, please refer to page 61 of this annual report. The Nomination Committee also considered the Board Diversity Policy and whether the Board had the appropriate balance of skills, experience and diversity of perspectives necessary to enhance the effectiveness of the Board and to maintain high standards of corporate governance. After due consideration, the Nomination Committee has concluded that based on the Company's existing business model and specific needs, the current composition of the Board satisfies the Board Diversity Policy for the year under review.

Independence of Independent Non-Executive Directors

The independent non-executive Directors play a significant role in the Board as they bring an impartial view on the Company's strategies, performance and control, as well as ensuring that the interests of all shareholders of the Company are considered. All independent non-executive Directors possess appropriate academic, professional qualifications or related financial management experience.

In addition to the annual meeting among the Chairman and the independent non-executive Directors only as well as the annual confirmation of independence pursuant to the Rule 3.13 of the Listing Rules as noted above, the Nomination Committee and the Board are committed to review and assess the Directors' independence annually in order to ensure that independent views and input of the independent non-executive Directors are made available to the Board. Factors taken into account in such independence review include, and are not limited to, the following:

- (1) required character, integrity, perspectives, skills, expertise and experience to fulfill their roles;
- (2) time commitment and attention to the Company's affairs;
- (3) firm commitment to their independent roles and to the Board;
- (4) declaration of conflicts of interest (if any) in their roles as independent non-executive Directors;
- (5) no involvement in the daily management of the Company nor in any relationship or circumstances which would affect the exercise of their independent judgement; and
- (6) further reappointment of an independent non-executive Director (including any long-serving independent non-executive Director, where applicable) is subject to a separate resolution to be approved by the shareholders.

DIVERSITY

In terms of gender diversity, while the Board is currently a single gender board, the Nomination Committee and the Board recognise the importance and benefits of gender diversity at the Board level and are committed to identify female candidates and appoint at least one female director on the Board no later than 31 December 2024.

As at 31 December 2022, the Group employed a total of 7,441 full time employees in the PRC who included senior management, management staff, technicians, salespersons and workers. The gender ratio in the workforce was as follows:

Overall male to female ratio	Male 52%; Female 48%
By rank and gender:	
Senior management	Male 75%; Female 25%
Management staff	Male 54%; Female 46%
Technicians	Male 53%; Female 47%
Salespersons	Male 44%; Female 56%
Workers	Male 51%; Female 49%

The Company will continue to take gender diversity into consideration during recruitment and increase the female proportion at all levels over time with the ultimate goal of achieving gender parity, such that there is a pipeline of female senior management and potential successors to the Board in the future.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration of the members of the senior management by band for the year ended 31 December 2022 is set out below:

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

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

AUDITORS' REMUNERATION

During the year ended 31 December 2022, the remuneration paid or payable to the external auditors, in respect of their audit and non-audit services are as follows:

	2022
Statutory audit services	HK\$3,070,000
Non-audit services	HK\$260,000
Total	HK\$3,330,000

RISK MANAGEMENT AND INTERNAL CONTROL

Overview

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

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

Board

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

Audit Committee

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

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

IARM Department

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

Management

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

Risk management process

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

Risk identification

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

Risk assessment

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

Control activities

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

Risk monitoring

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

Risk management review

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

Annual Review

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

Whistleblowing and Anti-Corruption Policies

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

The Company has also established an anti-corruption policy and system to promote and support anti-corruption laws and regulations. The anti-corruption policy sets out the basic standard of conduct which applies to all directors and employees of the Company. It also provides guidance on accepting advantages and handling conflicts of interest.

Policy and Procedures of Handling and Dissemination of Inside Information

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

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

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

Relationship with Investors

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

Shareholders' Communication Policy

The Group's Investor Relations Department has established several channels and maintained close communication with shareholders and potential investors through emails, conference calls, one-on-one meetings, broker conferences, and non-deal roadshows, to ensure that its shareholders and potential investors are provided with ready, equal and timely access to balanced and understandable information and updates about the Company for exercising their rights in an informed manner and engaging actively with the Company. To cope with the outbreak of pandemic during the year under review, the Group actively maintained communication with the capital market through new channels such as video and audio conferences. The Group also managed to arrange several physical events for investors and analysts, including inviting them to participate in the Group's trade fairs held in different quarter, so as to deepen the capital market's understanding of the Group's business and operations and further enhance corporate transparency. An annual general meeting (and if necessary, extraordinary general meetings) would be held to provide a forum for shareholders to make comments and exchange views with the Directors and senior management.

The investors may also visit the Group's Investor Relations website at www.ir.361sport.com where the Group's announcements, financial information, stock quotes, list of analysts, results briefing, press releases and other information are posted. The Group welcomes all investors to continue to give their opinions and suggestions to the Group. For any enquiries, please feel free to contact our Investor Relations Department via email to nina@361sportshk.com. Corporate communications such as annual reports, interim reports, circulars and announcements are available on the website of the Stock Exchange as well.

During the year under review, the Company was honored to win the "Best IR Company" in the small-cap category at the 8th Investor Relations Awards 2022 organised by Hong Kong Investor Relations Association. In addition, the Company's investor relations team, namely Mr. Chen Yongling, Mr. Roger Li, Ms. Nina Zhan, and Ms. Annabel Zhang, won the title of the "Best IR Team", while Ms. Nina Zhan was also awarded the "Best IR Officer". The Company's investor relations team has also won the "Best Capital Market Communication Award" in the 6th China IR Annual Awards. The Group will strive to improve the quality of investor relations work and continue to enhance corporate transparency.

The Board has conducted an annual review of the implementation and effectiveness of the shareholders' communication policy of the Company, and concluded that the policy was implemented effectively during the year under review.

Voting by Poll

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

Dividend Policy

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

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

Convening of extraordinary general meeting on requisition by Shareholders

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

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

Procedures for putting forward proposals at general meetings

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

Procedures for directing shareholders' enquiries to the Board

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

The Company Secretary

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

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

Constitutional Documents

For the purposes of, among others, (i) bringing the M&A into line with the latest legal and regulatory requirements, including the applicable laws of the Cayman Islands and the amendments made to Appendix 3 to the Listing Rules which took effect on 1 January 2022; (ii) allowing general meetings to be held as hybrid meetings or electronic meetings where the shareholders of the Company may attend by electronic means in addition to physical meetings which the shareholders may attend in person; (iii) making some other housekeeping improvements, a special resolution for approving the amendments to the memorandum of association and the articles of association of the Company (the “M&A”) and adopting the amended and restated M&A was passed at annual general meeting of the Company held on 18 May 2022. The full text of the new M&A is available on the websites of the Stock Exchange and the Company respectively.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Ding Wuhao (丁伍號), aged 57, joined the Group in June 2003 and has been the President of the Company since August 2008. He is primarily responsible for the Group's overall strategies, planning and business development. He has over 20 years of experience in the PRC sportswear industry. Since December 2006, he has been a member of the Chinese People's Political Consultative Conference ("CPPCC") Fujian Province Jinjiang City Committee (中國人民政治協商會議 福建省晉江市委員會). In October 2008, he received the award of the "2008 Most Socially Responsible Entrepreneur in China" (二零零八年度中國最具社會責任企業家) by the Annual Selection Organising Committee of China Human Resources Management (中國人力資源管理年度評選組委會). In May 2009, he received the "Contribution Award for China TV Sports Programmes" (中國體育電視貢獻獎) by CCTV Sports Channel (中央電視台體育頻道). In 2010, he was awarded "Top Ten Chinese Entrepreneur of Integrity of the Year (創業中國年度十大誠信人物獎)" by "Example for China (《榜樣中國》)", "Outstanding Contribution Award for Asian Games (亞運突出貢獻獎)" by 16th Asian Games Organising Committee (第十六屆亞運會組委會), and "Outstanding Contribution Award of Asian Games (亞洲體育傑出貢獻獎)" by Olympic Council of Asia (亞洲奧林匹克理事會). In 2011, he was awarded "The Most Caring Chinese Entrepreneur on Staff's Development (中國最關注員工發展企業家)" at the eighth session of China Human Resource Management Innovation Summit (第八屆中國人力資源管理創新高峰會) and "Top Ten Youth Business Leader in Asia (亞洲十大青年商業領袖)" by Forbes. He completed a CEO in China's Enterprise/Finance program at the Cheung Kong Graduate School of Business in August 2012. Mr. Ding is the brother-in-law of Mr. Ding Huihuang and Mr. Ding Huirong, both of whom are executive Directors. Mr. Ding is the sole director and sole shareholder of Dings International Company Limited, a substantial shareholder of the Company.

Mr. Ding Huihuang (丁輝煌), aged 57, joined the Group in June 2003. He was appointed as an executive Director in August 2008 and is the chairman of the Company. He is primarily responsible for overall strategies, operation planning and footwear production. He has over 20 years of experience in the PRC sportswear industry. He was awarded the "Top Ten Outstanding Youths in China Industrial Economy" (中國工業經濟十大傑出青年) by the Organising Committee of China Industry Forum (中國工業論壇組委會) in January 2008 and the "Top Ten Outstanding Youth Entrepreneurs of Quanzhou City" (泉州市十大傑出青年企業家) jointly issued by 18 governmental and commercial institutions in Quanzhou City, Fujian Province, the PRC, in February 2007. He has been a standing member of the third committee of Quanzhou City Shoe Commercial Association (泉州市鞋業商會) and a vice chairman of Fujian Province Shoe Industry Association (福建省鞋業行業協會) since January 2006 and January 2007 respectively. Mr. Ding is the elder brother of Mr. Ding Huirong and the brother-in-law of Mr. Ding Wuhao, both of whom are executive Directors. Mr. Ding is the sole director and sole shareholder of Ming Rong International Company Limited, a substantial shareholder of the Company.

Mr. Ding Huirong (丁輝榮), aged 51, joined the Group in June 2003 and was appointed as an executive Director in August 2008 and is a vice president of the Company. He is primarily responsible for financial management and infrastructure construction management of the Company, more specifically the construction of the new production facility and warehouse of the Group at the Wuli Industrial Park. He has over 20 years of experience in financial management. Mr. Ding is the younger brother of Mr. Ding Huihuang and the brother-in-law of Mr. Ding Wuhao, both executive Directors. Mr. Ding is the sole director and sole shareholder of Hui Rong International Company Limited, a substantial shareholder of the Company.

Mr. Wang Jiabi (王加碧), aged 65, joined the Group in June 2003 and was appointed as an executive Director in August 2008 and is a vice president of the Company. He is primarily responsible for human resources and external public relationship. Mr. Wang has over 20 years of experience in the PRC sportswear industry. He has completed an EMBA programme offered by Peking University (北京大學) in January 2010. Mr. Wang is the sole director and sole shareholder of Jia Wei International Co., Ltd., a substantial shareholder of the Company.

Independent non-executive Directors

Mr. Wu Ming Wai Louie (胡明偉), aged 62, joined the Group in August 2020 and is an independent non-executive Director. Mr. Wu has over 35 years of extensive experience in corporate finance, accounting, auditing, taxation, and financial management. He was awarded a professional diploma in Accountancy from The Hong Kong Polytechnic in 1986. He is the sole practitioner of Louie Wu & Co., a certified public accountants firm in Hong Kong since 1993. Mr. Wu is a fellow member of the Hong Kong Institute of Certified Public Accountants and fellow member of both the Taxation Institute of Hong Kong and the Society of Chinese Accountants and Auditors. Mr. Wu is also a Certified Tax Adviser in Hong Kong and the member of the Finance Committee of the Hong Kong Arts Centre, and the honorary auditors of both Anita Mui “True Heart” Charity Foundation and Hong Kong Federation of Drama Societies.

Mr. Hon Ping Cho Terence (韓炳祖), aged 63, joined the Group in May 2019 and is an independent non-executive Director. Mr. Hon has over 30 years of experience in corporate finance, accounting, auditing, corporate administration and business development. He was awarded a master’s degree in Business Administration (Financial Services) from The Hong Kong Polytechnic University in November 2004. He is currently an independent non-executive director of Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (Stock code: 00520), Daphne International Holdings Limited (Stock code: 00210) and SinoMab BioScience Limited (Stock code: 03681). He was an independent non-executive director of Jimu Group Limited (Stock code: 08187) from December 2017 to May 2021. Mr. Hon is a fellow member of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales.

Mr. Chen Chuang (陳闌), aged 45, joined the Group in August 2019 and is an independent non-executive Director. Mr. Chen has over 15 years of experience in corporate strategy, large enterprises innovation, and internal innovation. He was awarded a bachelor’s degree and a master’s degree in Management from the Dalian University of Technology (大連理工大學). He also received his doctorate degree in Business Administration from Tsinghua University (清華大學). He is currently an independent non-executive director of Hengan International Group Company Limited (Stock code: 01044) and a professor of business management at the Master of Business Administration Education Center of the School of Management of Xiamen University (廈門大學管理學院工商管理教育中心). Mr. Chen is a committee member of Case Research Division of Chinese Society for Management Modernisation (中國管理現代化研究會案例研究專業委員會).

SENIOR MANAGEMENT

Mr. Chen Yongling Mophy (陳永靈), aged 49, joined the Group in August 2005 and serves as the vice president of the board of directors of the Group. He is primarily responsible for the strategy planning and capital operation of the Group. Mr. Chen is widely recognised as the outstanding party member of the Revolutionary Committee of the Chinese Kuomintang, and is also the director of Entrepreneur Union of Revolutionary Committee of the Chinese Kuomintang in Quanzhou, the member of the 12th and 13th Sessions of Quanzhou Committee of Chinese People’s Political Consultative Conference, and the standing director of Fujian Economic Association. Mr. Chen has developed expertise in corporate strategy, capital operation and new retail chain operation management. He is known for his ability in corporate financial management, corporate capital operation and new retail chain operation management, with extensive working experience in areas of finance, real estate, agriculture and national FMCG (Fast Moving Consumer Goods) retail chain industry. Mr. Chen holds qualifications for economics and accountant of the PRC, and is qualified as the International Certified Senior Accountant and National Secretary (second class). He is known for being honored as the talent for the China Strategic Talent Pool, Xiamen Government “550” Industrial Talent, Quanzhou and Jinjiang High-level Talent, Hong Kong Quality Talent and Jinjiang Outstanding Talent. With exceptional expertise in the fields of economy and finance, Mr. Chen has received several national awards, including “China’s Chief Accountant of the Year Award” and “Chinese Economist Award”.

Mr. Li Yuen Fai Roger (李苑輝), aged 62, is the chief financial officer, an authorised representative and the company secretary of the Group and is responsible for the overall financial management and company secretarial functions of the Group. He joined the Group as an independent non-executive director in July 2016 and changed to the current designation with effect from August 2020. Mr. Li has over 30 years of experience in corporate finance, accounting, auditing, corporate administration and business development. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Taxation Institution of Hong Kong. He was a member of the 7th, 8th and 9th Member of People’s Political and Consultative Congress of Heilongjiang Province in the People’s Republic of China, and was appointed as the Economic Advisor of the Government of Chengde City of Hebei Province in the People’s Republic of China in 1995.

Ms. Zhan Nina Xiao Xiao (詹瀟瀟), aged 41, is the vice-president of investor relations and is primarily responsible for the Group's investor relations programme. She joined the Group in October 2015. Ms. Zhan has over 15 years of experience in corporate finance, investor relations, corporate governance and management from her previous positions in investment banking, communication advisory and Hong Kong listed company. She received her bachelor's degree from Peking University, majoring in international relations and double majoring in economics. She received her master's degree from the University of Pennsylvania in 2005, majoring in international political economy.

Mr. Zheng Yexin (鄭業欣), aged 49, joined the Group in May 2018 serving as the general manager of brand management center. He is primarily responsible for formulation and implementation of brand strategy and construction and management of brand system. Mr. Zheng received his bachelor's degree in arts from Shanxi University in 1997. He has over 20 years of experience in brand strategy, marketing promotion and innovation management, and has over 10 years of experience in serving various international 4A and local advertisement companies, where he provided marketing strategies and innovation services to numerous leading enterprises in the PRC and abroad. Prior to joining the Group, he worked in the brand management center of an industry leader in 2015 and was responsible for multi-product category strategy and promotion.

Mr. Geng Huajie (耿華杰), aged 39, is the general manager of the Kids business of the Group and is primarily responsible for the daily operation of the Kids business of the Group. He joined the Group in May 2016 and has over 15 years of experience in branding, sales, merchandising operation and business management. He graduated from Henan University of Economics and Law with a bachelor's degree in public service management in 2006. Prior to joining the Group, he had worked for children's sportswear industry leaders for many years.

Mr. Wang Xinning (王新寧), aged 41, joined the Group in December 2012 and currently serves as the general manager of the Group's e-commerce management center, and is primarily responsible for the works regarding online e-commerce business of the Group. Mr. Wang received his bachelor's degree in computer and information engineering in 2005. Prior to joining the Group, Mr. Wang worked for and served a number of international and domestic leading sports brand companies. He has extensive experience in the design, development and manufacturing of footwear and the e-commerce operation of sports brands.

Ms. Jin Yanli (金豔麗), aged 47, joined the Group in July 2019 serving as the general manager of the overseas business center. She is primarily responsible for the channel development, brand building and operating management in overseas markets. She has been serving as the general manager of the American branch concurrently since June 2021. Ms. Jin received her master's degree in interpreting and translation from University of Leeds in the UK in 2005 and MBA degree from Kedge Business School in Shanghai Jiao Tong University in 2009 respectively. Ms. Jin has worked in retail industry for over 15 years and accumulated extensive operating and management experiences in sports, apparel and accessories retail sectors.

Mr. Saygin Emeksiz, aged 42, joined the Group in March 2021 serving as the general manager of a wholly-owned subsidiary in Europe. He is primarily responsible for the brand building, market development and operating management in the EMEA (Europe, Middle East, Africa) region. Mr. Saygin Emeksiz held senior management positions at various well-known sports and retail brands and has accumulated over 20 years of experience in sales, product, brand and business management.

Mr. Dong Hui (董輝), aged 43, joined the Group in April 2022 serving as the general manager of the information management center, and is primarily responsible for the information management of the Group. Mr. Dong is a postgraduate student majoring in information management, and has nearly 20 years of experience in enterprise informatization and digitization. He specializes in the management and operation in terms of end-to-end value realization of enterprise supply chain, digitalization, industrial internet and intelligent manufacturing, and has been awarded the honorary title of National Outstanding CIO for many times. He also serves as an expert member of China Intelligent Manufacturing Committee of 100, a member of China Industrial Service Alliance Committee and an expert member of Guangdong Digital Transformation Committee.

INDEPENDENT AUDITOR'S REPORT



MOORE

Moore Stephens CPA Limited

801-806 Silvercord, Tower 1,
30 Canton Road, Tsimshatsui,
Kowloon, Hong Kong

T +852 2375 3180
F +852 2375 3828

www.moore.hk

大
華
馬
施
雲
會
計
師
事
務
所
有
限
公
司

OPINION

We have audited the consolidated financial statements of 361 Degrees International Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages 83 to 162, which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements as at and for the year ended 31 December 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition: Distributor arrangements (Refer to Notes 1(s) and 3 to the consolidated financial statements)

The Key Audit Matter

Revenue of the Group mainly comprises sales of footwear, apparel and accessories through its network of distributors. For the year ended 31 December 2022, such revenue of the Group amounted to approximately RMB5,161,340,000.

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

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

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

How the matter was addressed in our audit

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

- assessing the design, implementation and operating effectiveness of management's key internal control and procedures for revenue recognition;
- inspecting all distribution agreements signed in the current year to understand the terms of sales transactions including the terms of delivery and acceptance and any discount or return arrangements to assess the Group's revenue recognition criteria with reference to the requirements of the prevailing accounting standards;
- for sales transactions during the reporting period, comparing, on a sample basis, details in the sales invoices to the relevant goods delivery notes, which were signed by the distributors, to assess if the related revenue, especially those recognised around the reporting period end had been recognised on the basis of the terms of sales as set out in the distribution agreements;
- identifying significant sales returns, if any, during the reporting period and after the financial year end and inspecting relevant underlying documentation to assess whether sales returns had been accounted for in the appropriate financial period;
- obtaining external confirmations of the outstanding trade receivable balances as at the end of reporting period directly from distributors, on a sample basis. Where the distributors did not return the requested confirmations, inspecting the sales invoices and related goods delivery notes signed by the distributors indicating the distributors' acknowledgement of delivery of the goods sold during the reporting period; and
- inspecting significant manual adjustments, if any, to revenue during the reporting period, enquiring of management the reasons for such adjustments and comparing the details of the adjustments to relevant underlying documentation.

Expected credit loss assessment of trade receivables (Refer to Notes 1(h), 2(ii), 16 and 25(a) to the consolidated financial statements)

The Key Audit Matter

As at 31 December 2022, the gross trade receivables of the Group amounted to approximately RMB3,253,117,000 and of its related allowance for expected credit loss amounted to approximately RMB298,834,000.

The management of the Company performed periodic assessment on the recoverability of the trade receivables and the sufficiency of the allowance for expected credit loss. The management of the Company estimated the expected credit loss allowance based on provision matrix through grouping of various customers that have similar loss patterns, after considering the credit profile of respective customers, ageing analysis, historical settlement records, subsequent settlement status and on-going trading relationships with the relevant customers. The management of the Company also considered the forward-looking information that may impact the customers' ability to repay the outstanding balances as to estimate the expected credit loss allowance.

We have identified the management's assessment of the recoverability of the trade receivables and estimation of expected credit loss allowance as a key audit matter because the amounts involved were significant and the assessment required significant management judgement and estimation uncertainty.

How the matter was addressed in our audit

Our audit procedures to address the expected credit loss assessment of trade receivables included the following:

- obtaining an understanding of the Group's key internal controls and assessment process of the estimation of expected credit loss allowance for trade receivables and assessing the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud;
- evaluating and validating the key internal controls over the estimation of expected credit loss allowance for trade receivables;
- obtaining and testing the ageing analysis of the trade receivables, on a sample basis, to the underlying financial records and post year-end settlements to bank receipts and discussing with the management of the Company about their evaluation of the background and financial capability of the debtors and their credit assessment that the amounts were recoverable;
- inquiring the management of the Company for the status of each of the material trade receivables past due as at the year ended and corroborating explanation from the management with supporting evidence, such as understanding on-going business relationship with the customers based on the trade records, checking historical and subsequent settlement status of and other correspondence with the customers;
- assessing the appropriateness of the expected credit loss provisioning methodology including the identification of credit-impaired trade receivables, the reasonableness of the grouping of trade receivables in the provision matrix and the accuracy of roll rates applied on each time band and the estimated loss rates adopted;
- examining the key data inputs to assess their accuracy and completeness and challenge the assumptions including both historical and forward-looking information especially the market data with particular focus on the impact of the pandemic, used in determination of the expected credit loss allowance with our internal valuation specialists; and
- assessing the adequacy of the disclosures related to expected credit loss allowance of trade receivables in the context of HKFRSs in the consolidated financial statements.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

Moore Stephens CPA Limited
Certified Public Accountants

Hung, Wan Fong Joanne
Practising Certificate Number: P05419

Hong Kong, 16 March 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	<i>Notes</i>	2022 RMB'000	2021 RMB'000
Revenue	3	6,960,826	5,933,482
Cost of sales		(4,140,178)	(3,461,062)
Gross profit		2,820,648	2,472,420
Other revenue	4	414,947	354,118
Other net loss	4	(20,391)	(2,850)
Selling and distribution expenses		(1,433,251)	(1,140,051)
Administrative expenses		(541,391)	(558,401)
Provision for expected credit losses on trade receivables	25(a)	(166,417)	(42,114)
Profit from operations		1,074,145	1,083,122
Loss on repurchase of senior unsecured notes		–	(1,228)
Finance costs	5(a)	(9,409)	(36,818)
Profit before income tax	5	1,064,736	1,045,076
Income tax expense	6	(247,956)	(302,871)
Profit for the year		816,780	742,205
Attributable to:			
Equity holders of the Company		747,117	601,700
Non-controlling interests		69,663	140,505
Profit for the year		816,780	742,205
Earnings per share	10		
Basic and diluted (RMB cents)		36.1	29.1

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	<i>Notes</i>	2022 RMB'000	2021 RMB'000
Profit for the year		816,780	742,205
Other comprehensive income for the year, net of income tax	<i>9</i>		
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		5,287	7,260
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements		12,498	14,110
Total comprehensive income for the year, net of income tax		834,565	763,575
Attributable to:			
Equity holders of the Company		764,902	623,070
Non-controlling interests		69,663	140,505
Total comprehensive income for the year		834,565	763,575

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	<i>Notes</i>	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment	11	772,585	822,547
Right-of-use assets	12	102,050	105,262
		874,635	927,809
Other financial asset	14	32,948	26,729
Deposits and prepayments	16	93,476	102,344
Deferred tax assets	23	151,074	97,778
		1,152,133	1,154,660
Current assets			
Inventories	15	1,182,455	890,937
Trade receivables	16	2,954,283	2,527,055
Bills receivable	16	69,610	72,683
Deposits, prepayments and other receivables	16	1,192,836	1,201,471
Pledged bank deposits	17	24,138	52,170
Deposits with banks	17	2,000,000	2,000,000
Cash and cash equivalents	17	3,860,442	3,339,010
		11,283,764	10,083,326
Current liabilities			
Trade and other payables	18	2,326,795	2,091,625
Lease liabilities	19	303	391
Bank loans	20	192,282	207,837
Current taxation		386,129	368,176
		2,905,509	2,668,029
Net current assets		8,378,255	7,415,297

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Total assets less current liabilities		9,530,388	8,569,957
Non-current liabilities			
Lease liabilities	19	269	644
Bank loans	20	100,000	–
Deferred tax liabilities	22	12,440	13,672
		112,709	14,316
Net assets		9,417,679	8,555,641
Capital and reserves			
Share capital	23(c)	182,298	182,298
Reserves	23(d)	7,761,232	6,934,467
Total equity attributable to equity holders of the Company		7,943,530	7,116,765
Non-controlling interests	28	1,474,149	1,438,876
Total equity		9,417,679	8,555,641

The consolidated financial statements on pages 83 to 162 were approved and authorised for issue by the board of directors on and are signed on its behalf by:

Ding Wuhao
Director

Ding Huihuang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

Attributable to equity holders of the Company										
	Share capital	Other reserves	Statutory reserve	Exchange reserve	Fair value reserve (non-recycling)	Share Option reserve	Retained profits	Total	Non-controlling interests	Total equity
Notes	(Note 23(c))	(Note 23(d)(i))	(Note 23(d)(ii))	(Note 23(d)(iii))	(Note 23(d)(iv))	(Note 23(d)(v))				
	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	182,298	228,115	836,710	(48,691)	9,711	-	5,400,770	6,608,913	957,078	7,565,991
Profit for the year	-	-	-	-	-	-	601,700	601,700	140,505	742,205
Other comprehensive income	-	-	-	14,110	7,260	-	-	21,370	-	21,370
Total comprehensive income for the year	-	-	-	14,110	7,260	-	601,700	623,070	140,505	763,575
Capital injection by non-controlling interests of subsidiaries	13(v)	(141,343)	-	-	-	-	-	(141,343)	341,293	199,950
Appropriation to statutory reserve	-	-	107,415	-	-	-	(107,415)	-	-	-
Equity-settled share option expense	30	-	-	-	-	26,125	-	26,125	-	26,125
Balance at 31 December 2021 and 1 January 2022	182,298	86,772	944,125	(34,581)	16,971	26,125	5,895,055	7,116,765	1,438,876	8,555,641
Profit for the year	-	-	-	-	-	-	747,117	747,117	69,663	816,780
Other comprehensive income	-	-	-	12,498	5,287	-	-	17,785	-	17,785
Total comprehensive income for the year	-	-	-	12,498	5,287	-	747,117	764,902	69,663	834,565
Appropriation to statutory reserve	-	-	63,056	-	-	-	(63,056)	-	-	-
Dividends to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	(34,390)	(34,390)
Equity-settled share option expense	30	-	-	-	-	61,863	-	61,863	-	61,863
Balance at 31 December 2022	182,298	86,772	1,007,181	(22,083)	22,258	87,988	6,579,116	7,943,530	1,474,149	9,417,679

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	<i>Notes</i>	2022 RMB'000	2021 RMB'000
Operating activities			
Profit before income tax		1,064,736	1,045,076
Adjustments for:			
Depreciation of property, plant and equipment	5(c)	65,475	68,568
Depreciation of right-of-use assets	5(c)	3,103	4,970
Effect of foreign exchange rates changes		12,758	6,968
Finance costs	5(a)	9,409	36,818
Equity-settled share option expense	30	43,647	26,125
Loss on repurchase of senior unsecured notes	21	–	1,228
Loss on lease termination	4	–	82
Provision for expected credit loss of trade receivables	5(c)	166,417	42,114
Interest income	4	(82,922)	(81,359)
Net loss on disposal of property, plant and equipment	4	6,814	641
Reversal of impairment of inventories	5(c)	(3,417)	(9,664)
Written off of trade receivable		–	145
Changes in working capital:			
Inventories		(286,572)	(119,517)
Trade receivables		(592,890)	(385,452)
Bills receivable		3,073	571
Deposits, prepayments and other receivables		1,083	(296,084)
Trade and other payables		255,088	318,824
Current accounts with non-controlling interests		–	10,726
Cash generated from operations		665,802	670,780
People's Republic of China income tax paid		(285,465)	(298,828)
Net cash generated from operating activities		380,337	371,952
Investing activities			
Payment for the purchase of property, plant and equipment		(30,957)	(8,982)
Deposits paid for the purchase of land use rights		–	(617)
Proceeds from disposal of property, plant and equipment		3,125	341
Decrease in pledged bank deposits		28,032	10,458
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		84,888	67,827
Net cash generated from investing activities		85,088	1,069,027

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	<i>Notes</i>	2022 RMB'000	2021 RMB'000
Financing activities			
Payment for repurchase of senior unsecured notes	17	–	(967,326)
Redemption of senior unsecured notes	17	–	(752,005)
Principal element of lease rentals paid	17	(348)	(1,793)
Interest element of lease rentals paid	17	(28)	(56)
Proceeds from bank loans	17	265,000	100,000
Proceeds from investor for capital injection in a subsidiary	13	–	199,950
Repayment of bank loans	17	(181,295)	(102,156)
Increase in amounts due to non-controlling interests	17	19,870	7,000
Interest paid	17	(9,381)	(35,544)
Dividends paid to non-controlling interests	23(b)	(34,390)	–
Net cash generated/(used in) financing activities		59,428	(1,551,930)
Net increase/(decrease) in cash and cash equivalents		524,853	(110,951)
Cash and cash equivalents at 1 January		3,339,010	3,451,331
Effect of foreign exchange rate changes		(3,421)	(1,370)
Cash and cash equivalents at 31 December	17	3,860,442	3,339,010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation

The Company and other investment holding subsidiaries incorporated in the Cayman Islands, the British Virgin Islands (the “BVI”) and Hong Kong have their functional currency in Hong Kong dollars (“HK\$”) and subsidiaries established in the People’s Republic of China (the “PRC”) have their functional currency in Renminbi (“RMB”). As the Group mainly operates in the PRC, RMB is used as the presentation currency of the Group’s consolidated financial statements. All financial information presented is rounded to the nearest thousand except otherwise stated. The measurement basis used in the preparation of the consolidated financial statements is the historical costs basis except for equity investments designated as at fair value through other comprehensive income (“FVOCI”) as explained in Notes 1(e), 14 and 25(g)(i).

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Change in accounting policies

The significant account policies and methods of computation used by the Group in the preparation of the consolidated financial statements for the year ended 31 December 2022 are consistent with those adopted in the consolidated financial statements for the year ended 31 December 2021, except for the adoption of the amendments to HKFRSs as explained in below.

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group.

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions Beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 cycle
Amendments to AG 5 (Revised)	Merger Accounting for Common Control Combination

The adoption of these amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not adopted any new or amendments to HKFRSs that is not yet effective for the current accounting period (Note 31).

(d) Basis of consolidation

The consolidated financial statements for the year ended 31 December 2022 comprise 361 Degrees International Limited (the "Company") and its subsidiaries (together referred to as the "Group").

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Basis of consolidation (Continued)

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity holders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity holders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(m) or (n) depending on the nature of the liability.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in above.

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

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

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

Business combination

The Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed. If the test is not met, or if the acquirer elects not to apply the test, the Group shall then perform the assessment to determine if the inputs and substantive process that together significantly contribute to the ability to create output are present to determine whether the set of activities and assets is a business.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Basis of consolidation (Continued)

Business combination (Continued)

Business combinations not under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at fair value or at the non-controlling interests' proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

(e) Other investments in equity securities

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

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 25(g)(i).

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

Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in Note 1(s)(v).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Property, plant and equipment

Property, plant and equipment (excluding construction in progress) are stated at cost less accumulated depreciation and impairment losses (see Note 1(h)(ii)).

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the item has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to profit or loss in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in future economic benefits expected to be obtained from the use of the item and the cost of such item can be measured reliably, the expenditure is capitalised as an additional cost of the item.

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

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

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

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

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Construction in progress represented the operating and accounting systems under construction and is stated at cost less accumulated impairment losses. Cost includes the costs of construction of system, installation, testing and other direct costs. No reclassification to the appropriate category of property, plant and equipment and provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Leases when the Group is a lessee

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

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of laptops and office furniture that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Note 1(h)(ii)) and adjusted for any remeasurement of the lease liabilities (other than adjustments to lease liabilities resulting from Covid-19-related rent concessions in which the Group applied the practical expedient).

The right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments (“HKFRS 9”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments included in the measurement of the lease liability comprise the following payments during the lease term:

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

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/ expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Lease modifications

Except for Covid-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Covid-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2022; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way as if the changes are not lease modifications. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments

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

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

Measurement of ECLs

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

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

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

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

ECLs are measured on either of the following bases:

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) Credit losses from financial instruments (Continued)

Significant increases in credit risk

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

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

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

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

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

Basis of calculation of interest income

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(i) Credit losses from financial instruments (Continued)

Credit-impaired financial assets

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

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

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

Write-off policy

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

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

(ii) Impairment of other non-current assets

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(i) Inventories

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Inventories (Continued)

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

(j) Contract liabilities

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

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

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

(k) Trade and other receivables

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

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

(l) Cash and cash equivalents

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

(m) Trade and other payables

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

(n) Bank loans and interest-bearing borrowings

Bank loans and interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, bank loans and interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 1(u)).

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

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

The Group participates in defined contribution retirement benefit schemes for those employees who are eligible to participate. Contributions are charged to profit or loss as they are paid/become payable in accordance with the rules of the scheme, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund.

The employees of the subsidiaries within the Group which operate in the PRC are required to participate in the central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme as specified in relevant rules and regulations in the PRC. The Group has no legal or construction obligations to pay further contributions after payment of the fixed contributions.

(p) Share-based payments

The Group operates a share option scheme for remuneration of its employees (including the directors of the Company) and other eligible participants.

The employee services received in exchange for the grant of any share options are measured at their fair value. These are indirectly determined by reference to the share options granted. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

For the services received from the parties other than employees, there shall be a rebuttable presumption that the fair value of the services received can be estimated reliably. The fair value shall be measured at the date the counterparties render service. In rare cases, if the entity rebuts this presumption because it cannot estimate reliably the fair value of the goods or services received, the entity shall measure the goods or services received, and the corresponding increase in equity, indirectly, by reference to the fair value of the share option granted, measured at the date the entity obtains the goods or the counterparty renders service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Share-based payments (Continued)

All services received in exchange for the grant of share options is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in “Share-based payment reserve” within equity. If service or non-market performance conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market performance and service conditions are included in assumptions about the number of share options that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based payment reserve.

Where a grant of share options is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the grant is recognised immediately. This includes any grant where non-vesting conditions within the control of either the Group or the employee are not met.

At the time when the share options are exercised, the amount previously recognised in share-based payment reserve and the proceeds received net of any directly attributable transaction costs up to the nominal value of the share issued are reallocated to share capital with any excess being recorded as share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

(q) Income tax

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income tax (Continued)

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

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

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

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

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

(r) Provisions and contingent liabilities

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue and other income

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

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

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

Consideration payable to a customer

Consideration payable to a customer includes cash amounts or other items that the Group pays, or expects to pay, to the customer. The Group shall account for consideration payable to a customer as a reduction of the transaction price, and therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the Group. The Group shall recognise the reduction of revenue when (or as) the later of either of the following events occurs:

- the Group recognises revenue for the transfer of the related goods or services to the customer; and
- the Group pays or promises to pay the consideration (even if the payment is conditional on a future event).

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

(i) Sale of goods

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

(ii) Interest income

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue and other income (Continued)

Consideration payable to a customer (Continued)

(iii) Government grants

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

(iv) Commission income

Commission income represents service income by providing e-commerce platforms for distributors which is calculated based on online sales amount. Such income are recognised at a point in time when the services are rendered which is generally the time when the ultimate customers had received the goods.

(v) Dividends

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

(t) Translation of foreign currencies

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

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

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

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

(u) Borrowing costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Borrowing costs (Continued)

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

(v) Research and development and advertising

Expenditure on research and development is recognised as an expense in the period in which it is incurred. Expenditure on advertising are recognised as an expense in the period in which the relevant services have been rendered to the Group over the period covered by the agreement.

(w) Related parties

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Segment reporting

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

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

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

2. ACCOUNTING JUDGEMENT AND ESTIMATES

Sources of estimation uncertainty

Note 25 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Useful lives of property, plant and equipment

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

(ii) Impairment losses on financial assets

The Group estimates the ECL allowances for trade receivables, deposits and other receivables which requires the use of estimates and judgements. ECLs are based on the Group's historical credit loss experience, adjusted for factors that are specific to the counterparties, and an assessment of both the current and forecast general economic conditions at the end of reporting period. Where the estimation is different from the previous estimate, such difference will affect the carrying amounts of the financial assets and thus the impairment loss in the period in which such estimate is changed. The Group keeps assessing the ECL of the financial assets during their respective expected lives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

2. ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

Sources of estimation uncertainty (Continued)

(iii) Other impairment losses

If circumstances indicate that carrying value of property, plant and equipment (Note 11), right-of-use assets (Note 12) and other non-financial assets may not be recoverable, these assets may be considered impaired, and an impairment loss may be recognised in accordance with HKAS 36 Impairment of assets. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amount may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to revenue and amount of operating costs and discount rate.

(iv) Net realisable value of inventories

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

(v) Income tax

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

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. Revenue of the Group mainly comprises sales of footwear, apparel and accessories through its network of distributors. For the year ended 31 December 2022, such revenue of the Group amounted to approximately RMB5,161,340,000 (2021: RMB4,870,210,000).

During the year ended 31 December 2021, the Group granted 45,200,000 share options to certain employees of distributors. As mentioned in Note 30, the fair value of the share options are expensed over the vesting period and the fair value of the share options granted recognised as a deduction of revenue (Note 5(c)).

Disaggregation of revenue

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

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
– Footwear	3,508,768	2,948,049
– Apparel	3,211,143	2,819,927
– Accessories	119,091	86,821
– Others	121,824	78,685
	6,960,826	5,933,482

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

During the year ended 31 December 2022, the Group's customer base is diversified and has no customer (2021: one) with whom transactions have exceeded 10% of the Group's revenue. During the year ended 31 December 2021, sales of footwear, apparel, accessories and others in both reportable segments (Note 3(b)) to the one customer, including sales to entities under its common control, as known to the Group, were approximately RMB614,862,000. Details of concentrations of credit risk arising from the customers are set out in Note 25(a). During the year ended 31 December 2021, the Group has granted 12,480,000 share options to the employees of this customer as the sales incentive, the amount of approximately RMB4,165,000 is accounted for as reduction of the relevant revenue generated during the year ended 31 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 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 year. Accordingly, no analysis by geographical segments has been provided for the year. In addition, no information on segment assets and liabilities was prepared for review by the Group's most senior executive management for the year for the purpose of resource allocation and performance assessment.

(i) Segment results

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

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

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

	Adults		Kids		Total	
	2022	2021	2022	2021	2022	2021
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Disaggregated by timing of revenue recognition						
Point in time	5,518,625	4,826,643	1,442,201	1,106,839	6,960,826	5,933,482
Revenue from external customers	5,518,625	4,826,643	1,442,201	1,106,839	6,960,826	5,933,482
Inter-segment revenue	29,610	28,414	-	-	29,610	28,414
Reportable segment revenue	5,548,235	4,855,057	1,442,201	1,106,839	6,990,436	5,961,896
Cost of sales	(3,317,727)	(2,838,136)	(851,989)	(650,800)	(4,169,716)	(3,488,936)
Reportable segment profit (gross profit)	2,230,508	2,016,921	590,212	456,039	2,820,720	2,472,960

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

3. REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

	2022 RMB'000	2021 RMB'000
Revenue		
Reportable segment revenue	6,990,436	5,961,896
Elimination of inter-segment revenue	(29,610)	(28,414)
<hr/>		
Consolidated revenue <i>(Note 3(a))</i>	6,960,826	5,933,482
<hr/>		
Profit before income tax		
Reportable segment profit	2,820,720	2,472,960
Elimination of inter-segment profits	(72)	(540)
<hr/>		
Reportable segment profit derived from the Group's external customers	2,820,648	2,472,420
Other revenue	414,947	354,118
Other net loss	(20,391)	(2,850)
Selling and distribution expenses	(1,433,251)	(1,140,051)
Administrative expenses	(541,391)	(558,401)
Provision for credit loss on trade receivables	(166,417)	(42,114)
Loss on repurchase of senior unsecured notes	-	(1,228)
Finance costs	(9,409)	(36,818)
<hr/>		
Profit before income tax	1,064,736	1,045,076

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

4. OTHER REVENUE AND OTHER NET LOSS

	2022 RMB'000	2021 RMB'000
Other revenue		
Interest income on financial assets measured at amortised cost	82,922	81,359
Government grants (<i>Note (a)</i>)	208,288	182,275
Commission income (<i>Note (b)</i>)	82,383	58,140
Others	41,354	32,344
	414,947	354,118
Other net loss		
Net loss on disposal of property, plant and equipment	(6,814)	(641)
Net foreign exchange loss	(13,577)	(2,127)
Loss on lease termination	-	(82)
	(20,391)	(2,850)

Notes:

- (a) 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.
- (b) 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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5. PROFIT BEFORE INCOME TAX

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

	2022	2021
	RMB'000	RMB'000
(a) Finance costs		
Interest on lease liabilities (<i>Note 19</i>)	28	56
Interest on bank loans	9,381	9,668
Finance charges on senior unsecured note	–	27,094
	<hr/>	<hr/>
Total interest expense on financial liabilities not carried at fair value through profit or loss	9,409	36,818
	<hr/>	<hr/>
(b) Staff costs (including directors' emoluments (<i>Note 7</i>))[®]		
Contributions to defined contribution retirement plans	34,495	28,802
Equity settled share-based payment (<i>Note 30</i>)	33,226	11,041
Salaries, wages and other benefits	613,445	616,566
	<hr/>	<hr/>
	681,166	656,409
	<hr/>	<hr/>
(c) Other items		
Auditor's remuneration		
– audit services	2,872	2,879
– non-audit services	237	216
Depreciation of property, plant and equipment (<i>Note 11</i>) ^{***}	65,475	68,568
Depreciation of right-of-use assets (<i>Note 12</i>) ^{**}	3,103	4,970
Equity settled share-based payment (<i>Note 30</i>)		
– staff cost (<i>Note 5(b)</i>)	33,226	11,041
– sales incentives to customers (reduction of revenue) (<i>Note 3(a)</i>)	28,637	15,084
Written off of trade receivables	–	145
Reversal of provision for impairment of inventories (<i>Note 15(b)</i>), included in cost of inventories	(3,417)	(9,664)
Expense relating to short-term leases (<i>Note 12</i>)	4,069	4,880
Advertising and promotional expenses	791,570	604,395
E-commerce platform service expenses	158,659	127,993
Research and development costs [*]	265,794	246,936
Cost of inventories ^{**}	4,140,178	3,461,062

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

5. PROFIT BEFORE INCOME TAX (Continued)

Notes:

- * Research and development costs include the materials cost of approximately RMB122,679,000 (2021: RMB105,290,000) and RMB105,448,000 (2021: RMB86,567,000) relating to staff costs of employees in the research and development department and depreciation, which amounts are also included in the total staff costs as disclosed in Note 5(b) or the respective total amounts disclosed separately above. Research and development costs included in administrative expenses in the consolidated statement of profit or loss.
- ** Depreciation of right-of-use assets of approximately RMB671,000 (2021: RMB671,000) and RMB2,432,000 (2021: RMB4,299,000) are charged to selling and distribution expense, administrative expenses, respectively for the year ended 31 December 2022.
- *** Depreciation of property, plant and equipment of approximately RMB8,886,000 (2021: RMB11,056,000), RMB3,382,000 (2021: RMB3,220,000), RMB4,545,000 (2021: RMB6,070,000) and RMB48,662,000 (2021: RMB48,222,000) are charged to cost of sales, selling and distribution expense, research and development and administrative expenses, respectively for the year ended 31 December 2022.
- ④ Staff costs of approximately RMB301,053,000 (2021: RMB314,119,000), RMB132,440,000 (2021: RMB128,758,000), RMB105,448,000 (2021: RMB86,567,000) and RMB142,225,000 (2021: RMB126,965,000) are charged to cost of sales, selling and distribution expense, research and development and administrative expenses, respectively for the year ended 31 December 2022.

No forfeited contributions available for offset against existing contributions during the year (2021: Nil).

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

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

	2022 RMB'000	2021 RMB'000
Current tax – PRC		
Enterprise Income Tax	303,416	258,597
Withholding tax	–	62,193
	303,416	320,790
Deferred tax		
Origination and reversal of temporary differences (Note 22)	(55,460)	(17,919)
	(55,460)	(17,919)
	247,956	302,871

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI (2021: nil).

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

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

No provision has been made for Profits Tax in Hong Kong, Brazil, USA and the Netherlands as the Group did not have any assessable profits subject to Profits Tax in Hong Kong, Brazil, USA and Netherlands during the year (2021: nil).

All PRC subsidiaries are subject to income tax at 25% (2021: 25%) for the year under the Enterprise Income Tax law ("EIT law"), except for one of the subsidiaries of the Company operating in the PRC which was approved to be high and new technology enterprises ("HNTE"). HNTE is 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 and the validity period has been extended from 30 November 2021 to 29 November 2024.

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

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

	2022 RMB'000	2021 RMB'000
Profit before income tax	1,064,736	1,045,076
Notional tax on profit before income tax, calculated at the rates applicable to profits in the jurisdictions concerned	254,229	256,290
Tax effect of non-deductible expenses	3,311	4,422
Tax effect of non-taxable income	(670)	(3,192)
Utilisation of unused tax losses not recognised	(8,914)	(16,842)
Withholding tax on dividends	-	62,193
Income tax expense	247,956	302,871

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

7. DIRECTORS' EMOLUMENTS

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

	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2022				
Executive directors				
Ding Wuhao	–	1,401	16	1,417
Ding Huihuang	–	1,137	16	1,153
Ding Huirong	–	1,138	16	1,154
Wang Jiabi	–	589	10	599
Independent non-executive directors				
Hon Ping Cho Terence	362	–	–	362
Chen Chuang	362	–	–	362
Wu Ming Wai Louie	483	–	–	483
	1,207	4,265	58	5,530
For the year ended 31 December 2021				
Executive directors				
Ding Wuhao	–	1,307	15	1,322
Ding Huihuang	–	1,065	15	1,080
Ding Huirong	–	1,069	15	1,084
Wang Jiabi	–	588	15	603
Independent non-executive directors				
Hon Ping Cho Terence	348	–	–	348
Chen Chuang	348	–	–	348
Wu Ming Wai Louie	464	–	–	464
	1,160	4,029	60	5,249

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

7. DIRECTORS' EMOLUMENTS (Continued)

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

No emolument was paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2021: nil). No arrangement under which directors of the Company waived or agreed to waive any emoluments during the year (2021: nil).

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals whose emoluments were highest in the Group include one (2021: nil) director of the Company whose emoluments are disclosed above. The emoluments payable to the remaining four (2021: nil) individual during the year are as follows:

	2022 RMB'000	2021 RMB'000
Salaries and other emoluments	7,469	9,433
Equity settled share-based payments	4,381	1,491
Bonus	1,463	2,271
Retirement scheme contributions	53	36
	13,366	13,231

The emoluments of the four (2021: five) individuals with the highest emoluments are within the following bands:

	2022 Number of individuals	2021 Number of individuals
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,500,001 to HK\$3,000,000	2	4
HK\$3,000,001 to HK\$3,500,000	1	1

No emolument was paid or payable by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2021: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

9. OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income:

	2022			2021		
	Before-tax amount	Tax charge (Note 22)	Net-of-tax amount	Before-tax amount	Tax credit (Note 22)	Net-of-tax amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Equity investments designated at FVOCI (non-recycling) – net movement in fair value reserve (Note 25(g))	6,219	(932)	5,287	8,541	(1,281)	7,260
Exchange differences on translation of financial statements	12,498	–	12,498	14,110	–	14,110
Other comprehensive income	18,717	(932)	17,785	22,651	(1,281)	21,370

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of approximately RMB747,117,000 (2021: RMB601,700,000) and the weighted average of 2,067,602,000 (2021: 2,067,602,000) ordinary shares in issue during the year.

(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 (Note 30), 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 year ended 31 December 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 (2021: Same).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

	Buildings situated on leasehold land classified as right-of-use assets (Note 12) RMB'000	Plant and machinery RMB'000	Office equipment and other fixed assets RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 2021	1,213,313	264,228	239,417	34,837	29,800	1,781,595
Exchange realignment	(1,258)	–	(188)	–	–	(1,446)
Additions	199	8,855	308	873	–	10,235
Disposals	–	(4,980)	(290)	(58)	–	(5,328)
At 31 December 2021	1,212,254	268,103	239,247	35,652	29,800	1,785,056
Accumulated depreciation and amortisation:						
At 1 January 2021	480,183	197,402	191,644	29,485	–	898,714
Exchange realignment	(241)	–	(186)	–	–	(427)
Charge for the year (Note 5(c))	49,421	10,272	8,276	599	–	68,568
Written back on disposals	–	(4,003)	(290)	(53)	–	(4,346)
At 31 December 2021	529,363	203,671	199,444	30,031	–	962,509
Net book value:						
At 31 December 2021	682,891	64,432	39,803	5,621	29,800	822,547

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

	Buildings situated on leasehold land classified as right-of-use assets (Note 12) RMB'000	Plant and machinery RMB'000	Office equipment and other fixed assets RMB'000	Motor vehicles RMB'000	Construction in progress (Note) RMB'000	Total RMB'000
Cost:						
At 1 January 2022	1,212,254	268,103	239,247	35,652	29,800	1,785,056
Exchange realignment	3,235	-	906	-	-	4,141
Additions	4	20,527	329	1,384	-	22,244
Disposals	-	(56,440)	(6,557)	-	-	(62,997)
At 31 December 2022	1,215,493	232,190	233,925	37,036	29,800	1,748,444
Accumulated depreciation and amortisation:						
At 1 January 2022	529,363	203,671	199,444	30,031	-	962,509
Exchange realignment	745	-	188	-	-	933
Charge for the year (Note 5(c))	50,922	8,704	5,190	659	-	65,475
Written back on disposals	-	(48,332)	(4,726)	-	-	(53,058)
At 31 December 2022	581,030	164,043	200,096	30,690	-	975,859
Net book value:						
At 31 December 2022	634,463	68,147	33,829	6,346	29,800	772,585

Note: The construction in progress represented the operating and accounting software developed by the Group itself and the software will be available for use starting from 1 January 2023.

As at 31 December 2022, a building located in Hong Kong with net book value of approximately RMB40,065,000 (2021: RMB38,796,000) was pledged as security for the Group's banking facility for issuing bills payable and bank borrowings (Note 20).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

12. RIGHT-OF-USE ASSETS

	Buildings RMB'000	Interests in leasehold land held for own use RMB'000	Total RMB'000
Cost:			
At 1 January 2021	7,523	113,327	120,850
Exchange realignment	245	–	245
Additions	1,048	–	1,048
Termination of lease	(1,773)	–	(1,773)
At 31 December 2021 and 1 January 2022	7,043	113,327	120,370
Exchange realignment	(117)	–	(117)
Additions	–	–	–
Termination of lease	(5,996)	–	(5,996)
At 31 December 2022	930	113,327	114,257
Accumulated depreciation:			
At 1 January 2021	5,114	5,969	11,083
Exchange realignment	152	–	152
Charge for the year (<i>Note 5(c)</i>)	1,960	3,010	4,970
Written back on termination of lease	(1,097)	–	(1,097)
At 31 December 2021 and 1 January 2022	6,129	8,979	15,108
Exchange realignment	(8)	–	(8)
Charge for the year (<i>Note 5(c)</i>)	279	2,824	3,103
Written back on termination of lease	(5,996)	–	(5,996)
At 31 December 2022	404	11,803	12,207
Net book value:			
At 31 December 2022	526	101,524	102,050
At 31 December 2021	914	104,348	105,262

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

12. RIGHT-OF-USE ASSETS (Continued)

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

	2022 RMB'000	2021 RMB'000
Depreciation expense of right-of-use assets (as above) (Note 5(c))	3,103	4,970
Interest on lease liabilities (Note 19)	28	56
Loss on lease termination (Note 4)	–	82
Expense relating to short-term leases (Note 5(c))	4,069	4,880
Total amount recognised in the consolidated profit or loss	7,200	9,988

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 19 and 25(b), respectively.

Ownership interests in leasehold land held for own use

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

Other properties leased for own use

The Group has obtained the right to use other properties as its office through tenancy agreements. The leases typically run for an initial period of one to three years (2021: one to three years). Lease payments are usually increased every year to reflect market rentals. None of the leases include contingent rental.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

13. INVESTMENTS IN SUBSIDIARIES

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

Name of subsidiaries	Place of establishment/ incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Sanliuyidu Holdings Company Limited	BVI	100 shares of United States dollar ("US\$") 1 each	100% (2021: 100%)	100% (2021: 100%)	-	Investment holding
361 Enterprise Company Limited	Hong Kong	1 share	100% (2021: 100%)	-	100% (2021: 100%)	Investment holding
361 Investment Company Limited	Hong Kong	1 share	100% (2021: 100%)	-	100% (2021: 100%)	Investment holding
361 Degrees (Hong Kong) Investment Limited	Hong Kong	1 share	87% (2021: 87%)	-	100% (2021: 100%)	Investment holding
Sanliuyidu (Fujian) Sports Goods Co., Ltd. 三六一度(福建)體育用品有限公司 (Notes (i) and (iv))	PRC	HK\$280,000,000	100% (2021: 100%)	-	100% (2021: 100%)	Manufacture and trading of sporting goods
Sanliuyidu (China) Co., Ltd. 三六一度(中國) 有限公司 (Notes (i) and (iv))	PRC	HK\$1,068,359,692	100% (2021: 100%)	-	100% (2021: 100%)	Manufacture and trading of sporting goods
Sanliuyidu Xiamen Industry & Trade Co., Limited 三六一度(廈門)工貿有限公司 (Notes (i) and (iv))	PRC	RMB100,000,000	100% (2021: 100%)	-	100% (2021: 100%)	Trading of sporting goods
Sanliuyidu (Fujian) Shoes and Plastics Technology Co., Ltd. 三六一度(福建)鞋塑科技有限公司 (Notes (iii) and (iv))	PRC	HK\$120,000,000	51% (2021: 51%)	-	51% (2021: 51%)	Manufacture and trading of shoes soles
361 Degrees Children's Clothing Co., Ltd. 三六一度童裝有限公司 (Notes (i) and (iv))	PRC	HK\$80,000,000	87% (2021: 87%)	-	100% (2021: 100%)	Trading of children sporting goods
Yue Lei International Limited 宇彌國際有限公司	Hong Kong	100,000 shares	100% (2021: 100%)	-	100% (2021: 100%)	Trading of sporting goods
361 Degrees Kids Wear Holdings Limited	BVI	1 share of US\$1	100% (2021: 100%)	-	100% (2021: 100%)	Investment holding
361 Degrees Kids Wear Limited	Cayman Islands	1,000,000 shares of HK\$0.01 each	87% (2021: 87%)	-	87% (2021: 87%)	Investment holding
361 Degrees Kids Wear Investment Limited	BVI	1 share of US\$1	87% (2021: 87%)	-	100% (2021: 100%)	Investment holding
One Way International Enterprise Limited 萬唯國際實業有限公司	Hong Kong	10,000 shares	70% (2021: 70%)	-	70% (2021: 70%)	Investment holding
Zhonglan Sports Goods Co., Ltd. 中蘭體育用品有限公司 (Notes (i) and (iv))	PRC	RMB49,910,463	70% (2021: 70%)	-	100% (2021: 100%)	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

13. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiaries	Place of establishment/ incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Wangwei (Xiamen) Industry & Trade Co., Limited 望唯(廈門)工貿有限公司 (Notes (ii) and (iv))	PRC	RMB5,000,000	70% (2021: 70%)	-	100% (2021: 100%)	Trading of sporting goods
361 USA, Inc	United States	US\$19	100% (2021: 100%)	-	100% (2021: 100%)	Trading of sporting goods
Yue Lei do Brasil Comércio, Importação e Exportação de Artigos Esportivos Ltda	Brazil	62,310,627 shares of Brazilian Real 1 each	100% (2021: 100%)	-	100% (2021: 100%)	Trading of sporting goods
Quanzhou Jinjiang Jiangtuo Minhai Gas Station Ltd. 泉州晉江江頭閩海加油站有限公司 (Notes (ii) and (iv))	PRC	RMB25,100,000	51% (2021: 51%)	-	51% (2021: 51%)	Operating of gas station
Duoyidu (Quanzhou) E-commerce Co., Ltd. ("Duoyidu") 多一度(泉州)電子商務有限公司 (Notes (ii), (iv) and (v))	PRC	RMB4,676,829	69% (2021: 69%)	-	87% (2021: 85%)	Distribution and sales of the Group's 361° products via the e-commerce platform
361° Europe Holding B.V.	Netherlands	Euro 100	100% (2021: 100%)	-	100% (2021: 100%)	Investment holding
361° Europe B.V.	Netherlands	Euro 100	100% (2021: 100%)	-	100% (2021: 100%)	Trading of sporting goods
Sanliuyidu (Xiamen) Investment Management Consulting Co., Ltd. 三六一度(廈門)投資管理諮詢有限公司 (Notes (ii) and (iv))	PRC	RMB1,000,000	100% (2021: 100%)	-	100% (2021: 100%)	Investment holding
Quanzhou Shenghong Trading Co., Ltd. 泉州市晟鴻商貿有限公司(Notes (ii) and (iv))	PRC	RMB1,000,000	100% (2021: 100%)	-	100% (2021: 100%)	Trading of sporting goods
Quanzhou 361 Degrees Investment Company Limited ("Quanzhou 361") 泉州三六一度投資有限公司 (Notes (ii), (iv) and Note (vi))	PRC	RMB99,000,000 (2021: RMB50,000,000)	50.5% (2021: 100%)	-	50.5% (2021: 100%)	Investment holding
Zhuji 361 Degrees Children's Wear Co. Limited ("Zhuji 361 Degrees") 諸暨市三六一度童裝有限公司 (Notes (ii) and (iv))	PRC	HK\$134,737,000	74% (2021: 74%) (Note (vi))	-	85% (2021: 85%)	Trading of children sporting goods
Quanzhou Xingtong Trading Co., Ltd 泉州興桐商貿有限公司(Notes (ii) and (iv))	PRC	RMB1,000,000	69% (2021: 69%)	-	100% (2021: 100%)	Trading of sporting goods

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

13. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiaries	Place of establishment/ incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Jinjiang Jinfa No.1 Equity Investment Partnership (Limited Partnership) 晉江市晉發一號股權投資合夥企業 (有限合夥) (Notes (ii), (iv) and (v))	PRC	RMB1,100,000,000	50% (2021: 50%)	–	50% (2021: 50%)	Investment holding
Quanzhou Shuodong Trading Co., Ltd 泉州燦動商貿有限公司 (Notes (ii) and (iv))	PRC	RMB5,000,000	100% (2021: N/A)	–	100% (2021: N/A)	Trading of sporting goods
Quanzhou Yiqi aidong Trading Co., Ltd 泉州逸啟愛動商貿有限公司 (Notes (ii) and (iv))	PRC	RMB5,000,000	100% (2021: N/A)	–	100% (2021: N/A)	Trading of sporting goods
361 (Hainan) Health Technology Co., Ltd 三六一度(海南)健康科技有限公司 (Notes (ii) and (iv))	PRC	RMB20,000,000	100% (2021: N/A)	–	100% (2021: N/A)	Science and technology promotion and application service
361 (Hainan) Supply Chain Technology Co., Ltd 三六一度(海南)供應鏈科技 有限公司(Notes (ii) and (iv))	PRC	HK\$20,000,000	100% (2021: N/A)	–	100% (2021: N/A)	Trading of sporting goods
Sanliudu (Xiamen) Sports Technology Co., Ltd 三六一度(廈門)體育科技有限公司 (Notes (ii) and (iv))	PRC	RMB50,000,000	100% (2021: N/A)	–	100% (2021: N/A)	Research and development of sporting goods
Sanliudu (Sichuan) Shoes Co., Ltd 三六一度(四川)鞋業有限公司 (Notes (ii) and (iv))	PRC	RMB50,000,000	100% (2021: N/A)	–	100% (2021: N/A)	Manufacture and trading of sporting goods

Notes:

- (i) These entities are wholly foreign owned enterprises established in the PRC.
- (ii) These entities are limited liability companies established in the PRC.
- (iii) The entity is a sino-foreign equity joint venture enterprise registered in the PRC.
- (iv) The English translation of the company names is for reference only. The official names of these companies are in Chinese.
- (v) On 16 July 2020, the Group entered into a limited partnership agreement (the "Limited Partnership Agreement") with two independent third parties, in respect of the establishment of a limited partnership in the PRC (the "Partnership"). The purpose of the Partnership is to make investment into Duoyidu by way of subscription of not more than 40% of equity interest in Duoyidu. According to the Limited Partnership Agreement, the total amount of capital commitments of the Partnership is RMB1,100,000,000 and of which the Group and the two independent third parties would contribute RMB550,110,000 and RMB549,900,000 respectively. The Partnership is owned as to 50.01% and 49.99% by the Group and the two independent third parties respectively. Therefore, the Group owns the majority of voting rights and exercises control over the Partnership and accounted for it as an indirectly non-wholly owned subsidiary of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

13. INVESTMENTS IN SUBSIDIARIES (Continued)

Notes: (Continued)

(v) (Continued)

On the same date, the Group entered into an investment agreement with (i) a non-controlling interest of Duoyidu and (ii) the Partnership. Pursuant to which the Partnership agreed to acquire approximately 35.85% of equity interest in Duoyidu, by way of subscribing for additional registered capital at a consideration of RMB1,100,000,000.

During the year ended 31 December 2020, the Group and the two independent third parties had contributed RMB350,060,000 and RMB349,940,000 respectively into the Partnership. The Partnership then injected the total amount so received of RMB700,000,000 to Duoyidu according to the investment agreement. The remaining capital of RMB400,000,000 had not yet paid up to the Partnership as at 31 December 2020.

In the opinion of the directors of the Company, after considering the legal advice from the Group's PRC external legal adviser, the equity interest held by the Partnership was based on the its paid-up capital contribution to Duoyidu as at 31 December 2020, which resulted in the effective equity interest held by the Group decreased from 80% to 72.13% during the year ended 31 December 2020. As a result, a deemed disposal of a subsidiary of approximately RMB190,376,000 was recognised and accounted for as an equity transaction and recorded in "Other reserves" during the year ended 31 December 2020.

During the year ended 31 December 2021, the Group and the two independent third parties have contributed RMB200,040,000 and RMB199,960,000 respectively in the Partnership and the Partnership injected the amount so received of RMB400,000,000 to Duoyidu. A further deemed disposal of approximately RMB141,343,000 is recognised during the year ended 31 December 2021 and accounted for as an equity transaction and recorded in "Other reserves". The capital contributions under the above mentioned agreement were then completed.

(vi) On 14 July 2022, the Group entered into a capital increase agreement ("Capital Increase Agreement") with an independent third party, in respect of increase the registered capital of Quanzhou 361 from RMB50,000,000 to RMB99,000,000. According to the Capital Increase Agreement, the total amount of capital commitments of the independent third party is RMB49,000,000, of which the independent third party would contribute RMB49,000,000. Quanzhou 361 is owned as to 50.5% and 49.5% by the Group and the independent third party respectively. Therefore, the Group still owns the majority of voting rights and exercises control over Quanzhou 361 and accounted for it as an indirectly non-wholly owned subsidiary of the Company. No gain or loss arising from such deemed disposal of a subsidiary was recognized during the year ended 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

14. OTHER NON-CURRENT FINANCIAL ASSET

	2022	2021
	RMB'000	RMB'000
Equity securities designated at FVOCI (non-recycling)		
– Unlisted equity securities	32,948	26,729

The unlisted equity securities represent equity interest of 6.7% (2021: 6.7%) in Jinjiang Merchant Investment Co., Ltd, a company incorporated in the PRC and engaged in property development. The Group designated its investment in Jinjiang Merchant Investment Co., Ltd at FVOCI (non-recycling), as the investment is held for strategic purposes. No dividends income was recognised on this investment during the year (2021: nil).

15. INVENTORIES

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

	2022	2021
	RMB'000	RMB'000
Raw materials	60,072	69,347
Work in progress	59,884	26,877
Finished goods	1,062,499	794,713
	1,182,455	890,937

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

	2022	2021
	RMB'000	RMB'000
Carrying amount of inventories sold	4,143,580	3,470,726
Reversal of provision for impairment of inventories	(3,417)	(9,664)
	4,140,163	3,461,062

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

16. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2022 RMB'000	2021 RMB'000
Trade receivables	3,253,117	2,659,472
Less: allowance for expected credit loss	(298,834)	(132,417)
Trade receivables, net of loss allowance (Note (a))	2,954,283	2,527,055
Bills receivable (Note (a))	69,610	72,683
Deposits, prepayments and other receivables		
<i>Current</i>		
Deposits	631	81
Prepayments (Note (b))	1,103,040	1,119,607
Other receivables (Note (d))	89,165	81,783
	1,192,836	1,201,471
<i>Non-current</i>		
Deposits and prepayments (Note (c))	93,476	102,344

Notes:

- (a) 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:

	2022 RMB'000	2021 RMB'000
Within 90 days	2,136,041	2,038,910
Over 90 days but within 180 days	673,526	445,148
Over 180 days but within 360 days	214,326	115,680
	3,023,893	2,599,738

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

Notes: (Continued)

(a) (Continued)

Trade and bills receivables are due within 30 to 180 days (2021: 30 to 180 days) from the date of billing. Further details on the Group's credit policy and the movement in the ECL allowance for trade receivables are set out in Note 25(a).

Bills receivable represented certain bank acceptance bills not endorsed as at 31 December 2022. The directors of the Company considered the expected credit loss for these bills is immaterial in view of no history of default and good repayment history of these customers. As at 31 December 2022, the Group endorsed certain bank acceptance bills totaling RMB129,510,000 (2021: RMB317,983,000) to suppliers for settling trade payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and trade payables. These derecognised bank acceptance bills had a maturity date of less than six months from the reporting date. In the opinion of the directors of the Company, after considering the advice of a PRC legal adviser, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

- (b) Prepayments mainly represent advanced payments to suppliers and advertisers of RMB895,389,000 and RMB56,148,000 respectively (2021: RMB955,265,000 and RMB49,977,000).
- (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) Other receivables mainly include the interest receivables from bank deposits of approximately RMB25,744,000 (2021: RMB23,778,000), other receivables relating to trade fairs and e-commerce platforms of approximately RMB18,134,000 (2021: RMB25,858,000) and other tax recoverable of approximately RMB12,585,000 (2021: RMB5,109,000).

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

17. CASH AND BANK DEPOSITS AND OTHER CASH FLOW INFORMATION

	2022 RMB'000	2021 RMB'000
Pledged bank deposits	24,138	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	3,860,442	3,339,010
	5,884,580	5,391,180

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

Pledged bank deposits comprised deposits of approximately RMB18,888,000 pledged to certain banks as security for certain banking facilities (Note 20), and guarantee deposits of approximately RMB5,250,000 for payment to guaranteed parties denominated in RMB placed in designated accounts. At the request of 2022 Asian Games Committee, the Group is required to place certain amount of cash in designated bank accounts as guarantee deposits. In the event that the Group does not meet its contractual obligations under the agreements signed with 2022 Asian Games Committee within specified period, the deposits can be withdrawn without consent of the Group. Such guarantee deposit will be released upon the expiry of the guarantee agreements.

Details of interest rate are set out in note 25(c)(i).

At 31 December 2022, balances placed with banks or on hand in the PRC were amounted to approximately RMB5,848,032,000 (2021: RMB5,286,424,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

Reconciliation of liabilities arising from financing activities

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

	Lease liabilities RMB'000 (Note 19)	Amounts due to non-controlling interests RMB'000 (Note 28)	Bank loans RMB'000 (Note 20)	Interest-bearing borrowings RMB'000 (Note 21)	Total RMB'000
At 1 January 2021	2,229	–	210,222	1,726,570	1,939,021
Changes from financing cash flows:					
Payment for repurchase of senior unsecured notes	–	–	–	(967,326)	(967,326)
Redemption of senior unsecured notes	–	–	–	(752,005)	(752,005)
Advance made by non-controlling interests	–	710	–	–	710
Principal capital element of lease rentals paid	(1,793)	–	–	–	(1,793)
Interest element of lease rentals paid	(56)	–	–	–	(56)
Proceeds from bank loans	–	–	100,000	–	100,000
Repayment of bank loans	–	–	(102,156)	–	(102,156)
Interest paid	–	–	(9,668)	(25,876)	(35,544)
Total changes from financing cash flows	(1,849)	710	(11,824)	(1,745,207)	(1,758,170)
Exchange realignment	72	–	(229)	(9,685)	(9,842)
Other changes:					
Interest expense (Note 5(a))	56	–	9,668	27,094	36,818
Management fee	–	10,726	–	–	10,726
Addition of lease liabilities	1,048	–	–	–	1,048
Termination of lease	(521)	–	–	–	(521)
Loss on repurchase of senior unsecured notes	–	–	–	1,228	1,228
Total other changes	583	10,726	9,668	28,322	49,299
At 31 December 2021	1,035	11,436	207,837	–	220,308

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

Reconciliation of liabilities arising from financing activities (Continued)

	Lease liabilities RMB'000 <i>(Note 19)</i>	Amounts due to non- controlling interests RMB'000 <i>(Note 28)</i>	Bank loans RMB'000 <i>(Note 20)</i>	Total RMB'000
At 1 January 2022	1,035	11,436	207,837	220,308
Changes from financing cash flows:				
Advance made by non-controlling interests	-	19,870	-	19,870
Principal capital element of lease rentals paid	(348)	-	-	(348)
Interest element of lease rentals paid	(28)	-	-	(28)
Proceeds from bank loans	-	-	265,000	265,000
Repayment of bank loans	-	-	(181,295)	(181,295)
Interest paid	-	-	(9,381)	(9,381)
Total changes from financing cash flows	(376)	19,870	74,324	93,818
Exchange realignment	(115)	-	740	625
Other changes:				
Interest expense <i>(Note 5(a))</i>	28	-	9,381	9,409
Cancellation of management fee	-	(11,436)	-	(11,436)
Total other changes	28	(11,436)	9,381	(2,027)
At 31 December 2022	572	19,870	292,282	312,724

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

18. TRADE AND OTHER PAYABLES

	2022 RMB'000	2021 RMB'000
Trade creditors	1,439,864	1,093,279
Bills payable (Note 20)	62,800	156,400
	1,502,664	1,249,679
Contract liabilities (Note (a))	60,050	142,653
Other payables and accruals	764,081	699,293
	2,326,795	2,091,625

As of the end of the reporting period, the ageing analysis of trade creditors and bills payable based on invoice date, is as follows:

	2022 RMB'000	2021 RMB'000
Within 1 month	301,936	315,299
After 1 month but within 3 months	414,485	396,001
After 3 months but within 6 months	786,243	538,379
	1,502,664	1,249,679

Notes:

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

	2022 RMB'000	2021 RMB'000
Balance at 1 January	142,653	211,453
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(142,653)	(211,453)
Increase in contract liabilities as a result of receiving forward sales deposits and instalments during the year	60,050	142,653
Balance at 31 December	60,050	142,653

- (b) Other payables and accruals mainly included (a) the accrued advertising expenses of approximately RMB253,263,000 (2021: RMB202,681,000); (b) the accrued employee compensation of approximately RMB103,028,000 (2021: RMB105,387,000); (c) the other payables relating to shelf allowance, trade fairs, and e-commerce platforms of approximately RMB123,949,000 (2021: RMB111,475,000); (d) the other payables relating to decoration of approximately RMB48,274,000 (2021: RMB8,545,000); and (e) other tax payables of approximately RMB122,080,000 (2021: RMB129,717,000). As at 31 December 2022, an amount due to non-controlling interests of a subsidiary of approximately RMB19,870,000 (2021: RMB11,436,000) was included in other payable and accruals.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

19. LEASE LIABILITIES

	2022 RMB'000	2021 RMB'000
At 1 January	1,035	2,229
Addition	–	1,048
Termination of lease	–	(521)
Payment of principal and interest	(376)	(1,849)
Interest expenses (<i>Note 5(a)</i>)	28	56
Exchange realignment	(115)	72
Balance at 31 December	572	1,035
Current	303	391
Non-current	269	644
	572	1,035

The following table shows the remaining contractual maturities of the Group's lease liabilities:

	31 December 2022		31 December 2021	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	303	321	366	423
After 1 year but within 2 years	269	273	361	361
After 2 years but within 5 years	–	–	308	308
	269	273	669	669
	572	594	1,035	1,092
Less: total future interest expenses		(22)		(57)
Present value of lease liabilities		572		1,035

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

19. LEASE LIABILITIES (Continued)

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

	2022 RMB'000	2021 RMB'000
Within operating cash flows	4,069	4,880
Within financing cash flows (Note 17)	376	1,849
	4,445	6,729

20. BANK LOANS

	2022 RMB'000	2021 RMB'000
Secured bank loan (Note (b))	7,282	7,837
Unsecured bank loans (Note (c))	285,000	200,000
	292,282	207,837
Less: Amounts shown under non-current liabilities	100,000	–
Amounts shown under current liabilities	192,282	207,837

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

	2022 RMB'000	2021 RMB'000
Facilities amount	1,168,056	1,026,152
Utilisation at the end of the reporting period		
– Bills payable (Note 18) (Note (a))	62,800	156,400
– Bank loans	292,282	207,837
	355,082	364,237

20. BANK LOANS (Continued)

Notes:

- (a) As at 31 December 2022, bills payable of the Group were secured by pledged bank deposits of RMB18,888,000 (2021: RMB46,920,000) (Note 17) and guaranteed by certain subsidiaries of the Company (2021: same).
- (b) As at 31 December 2022, secured bank loan of the Group was variable rate loan with principal amount of HK\$8,213,000 (equivalent to approximately RMB7,282,000) (2021: HK\$9,585,000 (equivalent to approximately RMB7,837,000)) which carried annual interests of HK prime rate. The effective interest rates of the secured bank loan was 3.095% (2021: 2.845%) per annum.

Such loan was secured by a property with carrying amount of RMB40,065,000 (2021: RMB38,796,000) (Note 11).

Analysis of the amounts due based on scheduled payment dates set out in the loan agreements (ignoring the effect of any repayment on demand clause) is as follows:

	2022 RMB'000	2021 RMB'000
2 – 5 years	7,282	6,431
After 5 years	–	1,406

- (c) As at 31 December 2022, unsecured bank loans of the Group were also guaranteed by certain subsidiaries of the Company (2021: same).

All the unsecured bank loans were variable rate loans which carried annual interests ranging from 4.35% to 4.90% of the benchmark rate offered by the People's Bank of China. The effective interest rates of the unsecured bank loans were ranging from 3.5000% to 4.5675% (2021: 3.8500% to 4.7850%) per annum.

As at 31 December 2022, the unsecured bank loans of approximately RMB100,000,000 were repayable in June 2024 and the remaining balances were repayable in March, May and December 2023. As at 31 December 2021, all the unsecured bank loans were repayable in May and June 2022.

21. EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

22. DEFERRED ASSETS/(LIABILITIES)

Deferred tax assets and liabilities recognised:

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

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

	Credit loss allowance RMB'000	Expenses deductible on paid basis RMB'000	Income taxable on receipt basis RMB'000	Revaluation of other financial asset RMB'000	Total RMB'000
Deferred tax arising from:					
Balance at 1 January 2021	24,396	54,162	(9,376)	(1,714)	67,468
Credited/(Charged) to profit or loss (Note 6(a))	8,935	5,553	3,431	–	17,919
Charged to reserves (Note 9)	–	–	–	(1,281)	(1,281)
Balance at 31 December 2021 and 1 January 2022	33,331	59,715	(5,945)	(2,995)	84,106
Credited/(Charged) to profit or loss (Note 6(a))	42,181	13,771	(492)	–	55,460
Charged to reserves (Note 9)	–	–	–	(932)	(932)
Balance at 31 December 2022	75,512	73,486	(6,437)	(3,927)	138,634

22. DEFERRED ASSETS/(LIABILITIES) (Continued)

Deferred tax assets and liabilities recognised: (Continued)

(ii) Reconciliation to the consolidated statement of financial position

	2022 RMB'000	2021 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	151,074	97,778
Net deferred tax liabilities recognised in the consolidated statement of financial position	(12,440)	(13,672)
	138,634	84,106

Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 1(q), the Group has not recognised deferred tax assets of approximately RMB25,082,000 (2021: RMB16,168,000) in respect of cumulative tax losses as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses will expire within 5 years when such losses were incurred under current tax legislation.

Deferred tax liabilities not recognised

At 31 December 2022, the Group has not recognised deferred tax liabilities of RMB271,035,000 (2021: RMB236,769,000) in respect of temporary differences relating to the undistributed profits of subsidiaries amounting to RMB5,420,692,000 (2021: RMB4,735,380,000) that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

23. CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

	Notes	Share capital RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2021		182,298	–	(175,798)	6,500
Changes in equity for 2021:					
Profit and total comprehensive income for the year (Note)		–	–	1,404,437	1,404,437
Equity-settled share option expense (Note 30)	24(b)	–	26,125	–	26,125
Balance at 31 December 2021 and 1 January 2022		182,298	26,125	1,228,639	1,437,062
Changes in equity for 2022:					
Loss and total comprehensive income for the year (Note)		–	–	40,838	40,838
Equity-settled share option expense (Note 30)		–	61,863	–	61,863
Balance at 31 December 2022		182,298	87,988	1,269,477	1,539,763

Note: Included in the loss and total comprehensive income for the year, the exchange gain arising from the translation of foreign currencies in accordance with the accounting policy set out in note 1(t) of approximately RMB119,719,000 (2021: exchange loss of approximately RMB20,153,000) was recognised for the year ended 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

23. CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends

The board of directors of the Company does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: Nil).

(c) Share capital

	2022		2021	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.1 each	10,000,000	1,000,000	10,000,000	1,000,000
	Number of shares '000	Amount HK\$'000	Amount RMB'000	
Ordinary shares, issued and fully paid:				
At 1 January 2021, 31 December 2021 and 31 December 2022	2,067,602	206,760	182,298	

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

(d) Nature and purpose of reserves

(i) Other reserves

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

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

As at 31 December 2019, in the opinion of the directors of the Company, the investment by the Investor with total consideration of RMB500,000,000 was completed. The difference between the net assets shared by the non-controlling interests of RMB171,998,000 and the total consideration received was treated as an equity movement and recorded in "Other reserves".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

23. CAPITAL, RESERVES AND DIVIDENDS (Continued)

(d) Nature and purpose of reserves (Continued)

(i) Other reserves (Continued)

As disclosed in Note 13(v), the effective equity interest held by the Group was considered to decrease from 80% to 72.13% upon the partial capital injection to Duoyidu by the Partnership during the year ended 31 December 2020. As a result, a deemed disposal of a subsidiary of approximately RMB190,376,000 was recognised and accounted for as an equity transaction and recorded in "Other reserves". During the year ended 31 December 2021, the effective equity interest held by the Group was further decreased to 69.25% upon injection of remaining capital to Duoyidu by the Partnership, a deemed disposal of a subsidiary of approximately RMB141,343,000 is recognised and recorded in "Other reserves" accordingly.

(ii) Statutory reserve

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

(iii) Exchange reserve

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

(iv) Fair value reserve (non-recycling)

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

(v) Share option reserve

Share-based payment reserve represents the portion of grant date fair value of unexercised share options of the Company.

(e) Distributability of reserves

At 31 December 2022, aggregate amount of reserves available for distribution to equity holders of the Company amounted to approximately RMB2,554,146,000 (2021: RMB1,328,444,000). After the end of the reporting period, the directors of the Company did not recommend the payment of final dividend (2021: Nil) for the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

23. CAPITAL, RESERVES AND DIVIDENDS (Continued)

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost. The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors capital with reference to its debt position. The Group's strategy was to maintain the equity and debt in a balanced position and ensure there were adequate working capital to service its debt obligation. The Group's gearing ratio, being the Group's interest bearing debt over its total assets, as at 31 December 2022 was approximately 2.35% (2021: 1.85%).

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

24. FINANCIAL INSTRUMENTS BY CATEGORY

The Group holds the following financial instruments:

	2022 RMB'000	2021 RMB'000
Financial assets		
Financial assets at amortised cost		
Trade receivables	2,954,283	2,527,055
Bills receivable	69,610	72,683
Other receivables	89,165	81,783
Pledged bank deposits	24,138	52,170
Deposits with banks	2,000,000	2,000,000
Cash and cash equivalents	3,860,442	3,339,010
Financial assets at FVOCI:		
Other financial asset	32,948	26,729
	9,030,586	8,099,430
Financial liabilities		
Financial liabilities at amortised cost		
Trade and other payables	2,266,680	1,937,536
Lease liabilities	572	1,035
Bank loans	292,282	207,837
	2,559,534	2,146,408

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

(a) Credit risk

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

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 12% (2021: 11%) and 32% (2021: 44%) of the gross trade receivables was due from the Group's largest customer and the five largest customers respectively.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

(a) Credit risk (Continued)

Trade receivables (Continued)

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

	Weighted average expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000	Net carrying amount RMB'000
At 31 December 2022				
Current (not past due)	2.3	2,448,009	(16,675)	2,431,334
1 – 90 days past due	22.2	440,177	(58,200)	381,977
More than 90 days past due	61.4	364,931	(223,959)	140,972
		3,253,117	(298,834)	2,954,283
At 31 December 2021				
Current (not past due)	1.5	2,190,943	(33,042)	2,157,901
1 – 90 days past due	8.3	280,411	(23,189)	257,222
More than 90 days past due	40.5	188,118	(76,186)	111,932
		2,659,472	(132,417)	2,527,055

Except for customers with significant balances or credit-impaired, which are assessed for impairment individually, the remaining trade receivables are grouped under a provision matrix based on shared credit risk characteristics by reference to the repayment history over a period of 12 month and the corresponding historical credit losses experienced within this period. The historical loss rates were adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group had considered that the PRC's gross domestic growth and unemployment rate are to be the most relevant factor, and these are applied in the regression model given the impact of COVID-19 pandemic and some significant changes in the market indexes, and accordingly, adjusted the historical loss rates based on expected changes of this factor.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

(a) Credit risk (Continued)

Trade receivables (Continued)

Movement in the ECL allowance in respect of trade receivables during the year is as follows: Measurement of ECLs:

	Lifetime ECL – not credit impaired RMB'000	Lifetime ECL – credit impaired RMB'000	Total RMB'000
At 1 January 2021	82,611	7,692	90,303
Provision for impairment losses	(26,380)	68,494	42,114
At 31 December 2021 and 1 January 2022	56,231	76,186	132,417
Provision for impairment losses	18,644	147,773	166,417
At 31 December 2022	74,875	223,959	298,834

Other receivables

For other receivables, in order to minimise the credit risk, the management of the Group closely monitor the follow-up action taken to recover any past due receivable balances. In addition, the Group monitors subsequent settlement of each of the receivables to ensure that adequate impairment losses are made for irrecoverable amounts. In addition, the Group has applied the general approach in HKFRS 9 to measure the ECL allowance at 12-month ECL, since there has not been a significant increase in credit risk since initial recognition for the other receivables. The credit risk on other receivables have not increased significantly since initial recognition as each of the counterparties have no history of default and good repayment records.

(b) Liquidity risk

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

**25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS
(Continued)**

(b) Liquidity risk (Continued)

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

	Contractual undiscounted cash outflow			Total RMB'000	Carrying amount RMB'000
	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years but less than 5 years RMB'000		
At 31 December 2022					
Trade and other payables	2,266,680	–	–	2,266,680	2,266,680
Lease liabilities	303	269	–	572	572
Bank loans	192,282	105,885	–	298,167	292,282
Total	2,459,265	106,154	–	2,565,419	2,559,534
At 31 December 2021					
Trade and other payables	1,937,536	–	–	1,937,536	1,937,536
Lease liabilities	423	361	308	1,092	1,035
Bank loans	212,617	–	–	212,617	207,837
Total	2,150,576	361	308	2,151,245	2,146,408

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

(b) Liquidity risk (Continued)

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

	Contractual undiscounted cash outflow					Carrying amount RMB'000
	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	
At 31 December 2022						
Bank loans	1,525	1,525	4,621	-	7,671	7,167
At 31 December 2021						
Bank loans	1,406	1,406	5,626	-	8,438	7,837

(c) Interest rate risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

(c) Interest rate risk (Continued)

(i) Interest rate profile

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

	2022		2021	
	Effective interest rate per annum %	Amount RMB'000	Effective interest rate per annum %	Amount RMB'000
Fixed rate deposits/ (borrowings)				
Pledged bank deposits	1.3 – 1.55	24,138	1.3 – 1.55	52,170
Deposits with banks	2.3	2,000,000	2.1	2,000,000
Cash and cash equivalents	–	–	–	–
Lease liabilities	4	(572)	4 – 5.01	(1,035)
		2,023,566		2,051,135
Variable rate deposits/ (borrowings)				
Cash and cash equivalents	0.001 – 0.3	3,860,442	0.001 – 0.3	3,339,010
Bank loans	3.1 – 4.57	(292,282)	1 – 4.15	(207,837)
		3,568,160		3,131,173
Total net deposits		5,591,726		5,182,308

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

(c) Interest rate risk (Continued)

(ii) Sensitivity analysis

At 31 December 2022, it is estimated that a general increase/decrease of 100 basis points in both saving and lending interest rates, with all other variables held constant, would have increased/decreased the Group's profit after income tax and retained profits by approximately RMB27,010,000 (2021: RMB23,498,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after income tax (and retained profits) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after income tax (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2021.

(d) Currency risk

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

(i) Exposure to currency risk

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

	Exposure of foreign currencies					
	2022			2021		
	Hong Kong dollars RMB'000	United States dollars RMB'000	Renminbi RMB'000	Hong Kong dollars RMB'000	United States dollars RMB'000	Renminbi RMB'000
Cash and bank deposits	979	4,841	8,979	979	7,157	24,543
Amounts due from group companies	-	-	181,722	-	-	1,329
Amounts due to group companies	-	-	(32,435)	-	-	(29,911)
Net exposure arising from recognised assets and liabilities	979	4,841	158,266	979	7,157	(4,039)

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

(d) Currency risk (Continued)

(ii) Sensitivity analysis

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

	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) on profit after income tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) on profit after income tax and retained profits RMB'000
Hong Kong dollars	5% (5%)	(37) 37	5% (5%)	37 37
Renminbi	5% (5%)	(7,913) 7,913	5% (5%)	(202) 202

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2021.

(e) Commodity price risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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

(f) Business risk

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

(g) Fair value measurement

(i) Financial assets not measured at fair value

Except for the below, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate to their fair values.

(ii) Financial assets measured at fair value

Fair value hierarchy

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

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

	Fair value measurements categorised into			
	Fair value	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement:				
At 31 December 2022				
Financial asset:				
Unlisted equity security	32,948	–	–	32,948
At 31 December 2021				
Financial asset:				
Unlisted equity security	26,729	–	–	26,729

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

(g) Fair value measurement (Continued)

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

Fair value hierarchy (Continued)

During the year, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (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.

Information about Level 3 fair value measurements

The fair value of unlisted equity instruments is determined by adjusted net assets value approach based on assumptions that are not supported by observable market prices or rate. The valuation requires the directors of the Company to make estimates about the fair value of all the assets and liabilities of the investee, as well as the marketability of such investment. The directors of the Company believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable. Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2022 and 2021:

	Valuation technique	Significant unobservable input	Rate	Sensitivity of fair value the input
Unlisted equity investments	Adjusted net assets value	Discount for lack of marketability	2022: 6.82% (2021: 10.48%)	5% (2021: 5%) decrease (increase) in discount for lack of marketability would result in increase (decrease) in fair value by RMB2,270,000 (2021: RMB1,813,000)

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

	2022 RMB'000	2021 RMB'000
Unlisted equity securities:		
Balance at 1 January	26,729	18,188
Net unrealised gain/(loss) recognised in other comprehensive income during the year (<i>Note 9</i>)	6,219	8,541
Balance at 31 December	32,948	26,729

26. COMMITMENTS

- (a) Contractual commitments outstanding at 31 December 2022 not provided for in the consolidated financial statements were as follows.

	2022 RMB'000	2021 RMB'000
Advertising and marketing expenses	68,698	94,121

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

26. COMMITMENTS (Continued)

- (b) Capital commitments outstanding at 31 December 2022 not provided for in the financial statements were as follows:

	2022 RMB'000	2021 RMB'000
Construction in progress	–	2,249

- (c) At 31 December 2022, the total future minimum lease payments under non-cancellable leases are payable as follows:

	2022 RMB'000	2021 RMB'000
Within 1 year	360	106

Lease commitments shown above only represent lease commitments of the Group for short-term leases.

27. MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Transactions and balances with a related party

	2022 RMB'000	2021 RMB'000
Amount due to non-controlling interest of a subsidiary (included in trade and other payables) (Note 17)	(19,870)	(11,436)

(b) Key management personnel remuneration

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

	2022 RMB'000	2021 RMB'000
Short-term employee benefits	34,924	35,274
Equity settled share-based payment	16,673	9,663
Post-employment benefits	522	503
	52,119	45,440

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

28. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Below is the summary of financial information of Duoyidu which is non-wholly-owned subsidiary with material non-controlling interest. The amounts disclosed below are before any inter-company elimination:

	2022 RMB'000	2021 RMB'000
NCI percentage	30.75%	30.75%
<i>Summarised statement of financial position</i>		
Current assets	2,126,889	2,578,995
Non-current assets	29,069	12,827
Current liabilities	999,531	1,328,607
Net assets	1,156,427	1,263,215
Carrying amount of NCI	355,601	388,439
<i>Summarised statement of comprehensive income</i>		
Revenue	1,851,642	1,638,823
Profit for the year	5,045	201,824
Total comprehensive income/(loss) for the year	5,045	201,824
Profit allocated to NCI	1,552	62,015
Dividend paid to NCI	34,390	–
<i>Summarised statement of cash flows</i>		
Cash flows from operating activities	119,337	(871,768)
Cash flows from investing activities	–	–
Cash flows from financing activities	(111,828)	400,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

29. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	2022 RMB'000	2021 RMB'000
Non-current asset			
Investments in subsidiaries	13	1	1
Current assets			
Other receivable		223	249
Amounts due from subsidiaries		1,535,097	1,413,686
Cash and cash equivalents		7,443	24,880
		1,542,763	1,438,815
Current liabilities			
Accruals		2,970	–
Other payables		31	1,754
		3,001	1,754
Net current assets		1,539,762	1,437,061
Total assets less current liabilities		1,539,763	1,437,062
Net assets		1,539,763	1,437,062
Capital and reserves			
	24(a)		
Share capital		182,298	182,298
Reserve		1,357,465	1,254,764
Total equity		1,539,763	1,437,062

30. SHARE OPTION PLAN

Equity-settled share-based payments

Pursuant to a resolution passed by the Company's shareholders at the annual general meeting held on 18 May 2021, the Company adopted a share option scheme (the "Scheme").

Particulars of the Scheme are set out bellows:

Purpose of the Scheme

The purpose of the Scheme is to provide incentives and rewards to eligible participants for their contribution to the Group.

Participants of the Scheme

The board of directors of the Company or a duly authorised committee thereof, may, at its discretion, grant options to any (i) eligible employee (being any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group); (ii) a director or proposed director (including an independent non-executive director) of any member of the Group; (iii) a direct or indirect shareholder of any member of the Group; (iv) a supplier of goods or services to any member of the Group; (v) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; and (vi) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group (collectively the "Participants"), to subscribe for shares of HK\$0.10 each in the share capital of the Company in accordance with the provisions of the Scheme.

Total number of shares available for issue under the Scheme

The maximum number of shares which may be allotted and issued upon exercise of all options to be granted under the Scheme and any other schemes adopted by the Company shall not exceed 10% of the shares of the Company in issue at the time dealings in the shares first commence on the Stock Exchange. The Company may at any time as the Board may think fit seek approval from its shareholders in general meeting to refresh the limit in accordance with the terms of the Scheme. Also, the maximum number of shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes adopted by the Company shall not exceed 30% of the shares of the Company in issue from time to time. No options may be granted under the Scheme or any other schemes adopted by the Company if the grant of such option will result in the limit being exceeded.

Maximum entitlement of each participant

No Participants shall be granted an option if total number of shares issued and to be issued upon exercise of the options and the options granted under any other schemes adopted by the Company (including both exercised, cancelled and outstanding options) in any 12-month period up to and including the date of grant to such Participant would exceed in aggregate 1% of the shares of the Company for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in general meeting with the proposed grantee and his associates abstaining from voting.

Share options granted to a substantial shareholder of the Company or an independent non-executive director, or to any of their respective associates, are subject to approval in advance by the shareholders of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

30. SHARE OPTION PLAN (Continued)

Period within which the shares must be taken up under an option

An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not be more than ten years from the date of grant of the option subject to the provisions of early termination thereof and the board of directors may provide restrictions on the exercise of an option during the period an option may be exercised.

Amount payable upon acceptance of the option and the period within which the payment must be made HK\$1.00 shall be paid within 21 days from the date of offer of the option.

Basis of determining the exercise price of the option

The exercise price for Shares under the Scheme shall be a price determined by the Board, but in any case will not be less than the highest of:

- (1) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer, which must be a trading date;
- (2) 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 date of the offer; or
- (3) the nominal value of a share.

Remaining life of the Scheme

The Scheme shall be valid and effective for a period of 10 years from the date of adoption (i.e. 18 May 2021 and ending on 17 May 2031), after which no further options will be granted but the provisions of the Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted or exercised prior to otherwise as may be required in accordance with the provision of the Scheme.

Share options granted

Details of share options granted under the Scheme are as follows:

	Share options by grant date 21 June 2021 <i>(Note a)</i>
<hr/>	
Number of ordinary shares issued upon exercise <i>(Note c)</i> :	
– Director	–
– Senior management	8,840,000
– Employees	45,960,000
– Business partners <i>(Note b)</i>	45,200,000
	<hr/>
	100,000,000
	<hr/>

30. SHARE OPTION PLAN (Continued)

Share options granted (Continued)

Notes:

- (a) The grant date is the date at which the Company and counterparties (including the employees) agree to a share-based payment arrangement, being when the Company and the counterparties have a shared understanding of the terms and conditions of the arrangement.
- (b) Business partners represented distributors of the Group who are involved in distribution of the Group's products, which comprised the substantial shareholders, senior executives and employees of certain distributors.

The Group appreciated the participations and contributions made by such business partners and would like to give them share-based sales incentives as to motivate them to achieve higher sales target, make more purchase orders from the Group and follow the marketing strategy of the Group, which in turn further increase the Group's sales. Moreover, the Group considered that it would be helpful in promoting the corporate and brand image by attracting more of such business partners and exploring potential business opportunities. As such, in the opinion of the directors of the Company, the fair value of these services cannot be measured reliably and hence measure the services rendered by reference to the fair value of share options granted. Such share-based sales incentive is classified as the consideration payable to business partners at the grant date. As the share-based sales incentive to such business partners is not in exchange for a distinct good or service that transfers to the Group, such payment is accounted for as the reduction in the transaction price when the Group recognised revenue for the transfer of the goods (Note 3(a)) during the first 18 months from the date of grant.

- (c) Share options granted are all exercisable from 21 December 2022 to 20 June 2023.

If the grantee is an eligible employees of the Group and in the event of his ceasing to be an eligible employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, the grantee or his personal representative may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment. Otherwise, the options shall lapse on the date of cessation or termination and not be exercisable.

In respect of the grantees other than eligible employees, the date on which the grantee could no longer make any contribution to the growth and development of any members of the Group by reason of the cessation of its relations with the Group, the options shall lapse on the date.

The Group does not have a legal or constructive obligation to repurchase or settle the options in cash.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

30. SHARE OPTION PLAN (Continued)

Share options granted (Continued)

Details in the exercise prices and the movement of number of share options outstanding and exercisable are as follows:

For the year ended 31 December 2022

	Exercise price per share option HK\$	Equivalent to RMB	Number of share options				Balance as at 31 December 2022
			Balance as at 1 January 2022	Granted during the year	Exercised during the year	Cancelled during the year	
Share options granted by the Group on 21 June 2021							
- Director	4.10	3.40	-	-	-	-	-
- Senior management	4.10	3.40	8,840,000	-	-	(960,000)	7,880,000
- Employees	4.10	3.40	45,640,000	-	-	(1,840,000)	43,800,000
- Business partners	4.10	3.40	45,200,000	-	-	-	45,200,000
			99,680,000	-	-	(2,800,000)	96,880,000
Exercisable at the end of the year							-
Weighted average exercise price on outstanding options							4.10

The options will entitle the grantee to subscribe for a total of 100,000,000 new shares of HK\$0.10 each at an exercise price of HK\$4.10 per share.

The fair values of services received from employees of the Group and the business partners of the Group in return for share options granted are measured by reference to the fair value of share options granted.

30. SHARE OPTION PLAN (Continued)

Share options granted (Continued)

For the year ended 31 December 2022 (Continued)

For the fair value of services measured indirectly by reference to the fair value of the share options granted, the fair value is determined by the directors of the Company with reference to the valuation performed by an independent valuer, Valtech Valuation Advisory Limited using the Binomial Option Pricing Model significant inputs into the model were as follows:

	Share options
Expected volatility	57%
Expected option life	1.5 years
Expected dividend yield	3.70%
Annual risk-free interest rate	0.14%
Fair value (HK\$)	113,699,088

The expected volatility reflects the assumption that the historical volatility of future trends, adjusted for any expected changes to future volatility based on publicly available information, which may also not necessarily be the actual outcome. No other feature of the options was incorporated into the measurement of the fair value.

The variables and assumptions used in estimating the fair value of the share options were the directors' best estimates. Change in subjective input assumptions can materially affect the fair value.

During the year ended 31 December 2022, share-based payment expense for the share option scheme recognised in the consolidated profit or loss is disclosed in Note 5(c) to the consolidated financial statement, with a corresponding credit to the share option reserve.

No share options are exercised during the year. At the time when the share options are subsequently exercised, the amount previously recognised in share option reserve will be transferred to share capital and share premium.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

During the year ended 31 December 2022, 2,800,000 (2021: nil) share options lapsed due to resignation of the grantees during vesting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

31. POSSIBLE IMPACT OF NEW OR AMENDMENTS TO HKFRSs ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2022

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of new or amendments to HKFRSs, which are not yet effective for the year ended 31 December 2022 and which have not been early adopted in these consolidated financial statements. These developments include the following which may be relevant to the Group.

		Effective for annual periods beginning on or after
HKFRS 17	Insurance Contracts and the related Amendments	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024

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

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Announcement of final results	16 March 2023
Closure of register of members	25 April 2023 to 28 April 2023
Record date for determination of entitlement to attend and vote at AGM	28 April 2023

DIVIDENDS

The Board resolved not to pay any final dividend for the year ended 31 December 2022.

CLOSURE OF REGISTER OF MEMBERS

The AGM of the Company will be held on Friday, 28 April 2023. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 25 April 2023 to Friday, 28 April 2023, both days inclusive, during which period no transfer of shares will be effected.

In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 24 April 2023.

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

INVESTOR RELATIONS CONTACT

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

COMPANY INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

Chen Chuang (陳闖) (*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 Cayman Islands law:

Conyers Dill & Pearman

As to Hong Kong law:

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

361°

**361 DEGREES
INTERNATIONAL LIMITED**

STOCK CODE: 1361

