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361 Degrees International Limited

361 度國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1361)

2021 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the “**Board**”) of 361 Degrees International Limited (the “**Company**”) hereby announces the unaudited results of the Company and its subsidiaries (together referred to as the “**Group**”) for the six months ended 30 June 2021. This announcement, containing the full text of the interim report of the Company for the six months ended 30 June 2021 (the “**2021 Interim Report**”), complies with the relevant requirements of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in relation to information to accompany preliminary announcements of interim results.

361°

**361 DEGREES
INTERNATIONAL
LIMITED**

Stock Code: 1361



**INTERIM REPORT
2021**

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FINANCIAL HIGHLIGHTS

Revenue increased from **RMB2,686.1 million** to **RMB3,107.1 million**

Profit attributable to the equity shareholders increased from **RMB302.0 million** to **RMB401.4 million**

	For the six months ended 30 June		
	2021 (Unaudited)	2020 (Unaudited)	Change
Profitability Data (RMB'000)			(%)
Revenue	3,107,109	2,686,126	15.7
Gross profit	1,299,696	1,015,758	28.0
Operating profit	710,246	538,193	32.0
Profit attributable to equity shareholders	401,435	301,966	32.9
Earnings per share – basic (RMB cents)	19.4	14.6	32.9
Profitability Ratios (%)			(% point)
Gross profit margin	41.8	37.8	4.0
Operating profit margin	22.9	20.0	2.9
Margin of profit attributable to equity shareholders	12.9	11.2	1.7
Effective income tax rate (<i>Note 1</i>)	30.7	27.3	3.4
Return on shareholders equity (<i>Note 2</i>)	6.0	4.7	1.3
Operating Ratios (as percentage of revenue) (%)			
Advertising and promotional expenses	8.0	7.4	0.6
Staff costs	8.7	9.0	-0.3
Research and development	3.6	3.8	-0.2

Notes:

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

FINANCIAL HIGHLIGHTS

	As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)	Change
Assets and Liabilities data (RMB'000)			(%)
Non-current assets	1,143,346	1,181,475	-3.2
Current assets	9,377,924	10,440,087	-10.2
Current liabilities	2,256,369	4,041,217	-44.2
Non-current liabilities	22,552	14,354	57.1
Equity attributable to equity shareholders	6,875,953	6,608,913	4.0
Non-controlling interests	1,366,396	957,078	42.8
Asset and Working Capital data			
Current asset ratio	4.2	2.6	
Gearing ratio (%) (Note 3)	2.0	16.7	-14.7 percentage point
Net asset value per share (RMB) (Note 4)	4.0	3.7	RMB+0.3
Inventory turnover days (days) (Note 5)	70	111	-41 days
Trade and bills receivables turnover days (days) (Note 6)	146	159	-13 days
Trade and bills payables turnover days (days) (Note 7)	107	151	-44 days
Working capital turnover days (days)	109	119	-10 days

Notes:

- (3) The calculation of gearing ratio is based on the interest-bearing debt divided by the total asset of the Group as at the end of the period/year.
- (4) The calculation of net asset value per share is based on the net assets divided by weighted average number of shares for the period/year.
- (5) Inventory turnover days is equal to the average opening and closing inventory divided by costs of sales and multiplied by 182 days (for the six months ended 30 June 2021) and 366 days (for the year ended 31 December 2020).
- (6) Trade and bills receivables turnover days is equal to the average opening and closing trade and bills receivables after allowance of doubtful debts divided by revenue and multiplied by 182 days (for the six months ended 30 June 2021) and 366 days (for the year ended 31 December 2020).
- (7) Trade and bills payables turnover days is equal to the average opening and closing trade and bills payables divided by cost of sales and multiplied by 182 days (for the six months ended 30 June 2021) and 366 days (for the year ended 31 December 2020).



CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of 361 Degrees International Limited (the "Company"), I am pleased to present the interim results of the Company and its subsidiaries (which are collectively referred to as the "Group" or "361° Group") for the six months ended 30 June 2021 (the "period under review").

In the first half of 2021, pandemic prevention and control already became a normal practice in the People's Republic of China ("PRC"). The country's economy resumed growth with steadily increasing momentum. The gross domestic product ("GDP") grew by 12.7% year on year. The "internal circulation" component of the country's "dual circulation" strategy for economic development stimulated the market and unleashed the potential for growth in consumption. The sports industry also recovered steadily on the back of a good recovery in the domestic consumption. The Chinese government has started off the "14th Five-year Plan" by stepping up the strategy of developing the country into a sporting power and fostering the nationals' physical fitness. Meanwhile, the lingering effects of the pandemic have also heightened the residents' awareness of the importance of exercise and triggered off changes in consumption habits. This has added new impetus to the development of the sports industry, thus speeding up the industry's recovery. In addition, the resumption of domestic and overseas large-scale sports events and the rising trend of China-Chic also stimulated the domestic sport consumption and opened up new room for the industry's growth. From the perspective of a long-term development, the golden age of the sports industry has arrived. The industry is developing rapidly into a pillar of the national economy.

During the period under review, the Group recorded a revenue of RMB3,107.1 million. Profit attributable to the shareholders of the Company was RMB401.4 million. In view of the lingering uncertainties in the post-pandemic era, the Board has prudently resolved not to recommend interim dividend for the six months ended 30 June 2021 in order to preserve cash for the long-term financial health of the Company and bolster its resilience to tide through the challenging environment.

FURTHER UPGRADING CONSUMER EXPERIENCE WITH CONTINUOUSLY IMPROVED BRAND IMAGE

In the first half of 2021, China's domestic sports industry continued to recover and was full of opportunities. We adhered to the "consumer-centric" approach to business, strengthened our brand positioning that manifests "professionalism, youthfulness and internationalisation", deeply tapped into consumer needs and actively enhanced consumer experience through omni-channel with the aim of expanding the market.

In terms of consumption channels, the Group has actively expanded online channels while upgrading retail stores and advancing the digital transformation of its e-commerce platform in line with the growing trend towards the integration of online and offline consumption. For instance, we officially launched the proprietary WeChat mini program "You Yan You Du (有顏有度)". The membership has expanded further with more well-established customers added to it. This is due to the Group's success in satisfying the consumers' diverse needs by targeting customer groups precisely and optimising and improving the membership management system. We are committed to upgrading the consumer experience through omni-channel under which our offline physical stores, e-commerce operation and new retail channels reinforce each other.

In terms of scientific research and innovation, the Group has been aiming for breakthroughs in the functionality of its products for sports to the professional standards. During the period under review, many of our products won international awards. For example, 361-FIERCE, the international product line of running shoes, was rated as the "Best Deal" by Test 4 Outside, a professional review website in France; 361-STRATA 4 was rated as one of the 25 Top Picks for Running Shoes in 2021 by the United States' "Runner's World" magazine; the "Lightspeed" suit won the German Red Dot Design Award in 2021; and the "Flying Flame" shoes became the IAAF certified carbon running shoes. As of 30 June 2021, the Group obtained approval for 387 patents, including 239 on footwear, 137 on apparel and 11 on accessories.

CHAIRMAN'S STATEMENT

The Group carried on its tradition of actively sponsoring large-scale sports events. On 19 April 2021, it officially became the top partner of the 18th ISF Gymnasiade (School Summer Games) – Jinjiang 2020. We will provide professional and practical apparel and accessories for the event to support the development of youth sports so as to promote the brand spirit of “One Extra Degree of Passion” and expand the brand's international influence.

ENHANCING CORE COMPETITIVENESS COMPREHENSIVELY THROUGH MULTI-DIMENSIONAL INTEGRATION OF SUPERIOR RESOURCES

In the first half of 2021, the Group, guided by its clear brand positioning, optimised and upgraded the portfolio of brands in its two product categories, namely the “professional sporting goods” and “fashionable sporting goods”. This resulted in the Group's steady development. In its professional sporting product category, the Group concentrated its resources on the development of three core types of sporting goods, namely those for basketball, running, and comprehensive training. The Group signed a contract with Aaron GORDON (an active NBA player), an international basketball superstar, and Kyranbek MAKAN, a well-known Chinese professional basketball player, as its brand spokespersons. In addition, the Group sponsored marathon events and elite runners, and gave its support to various national and professional sports teams so as to strengthen the Group's image as a brand of functional products for sports. Meanwhile, we vigorously promoted our own basketball and running events, such as “A Fireball Plan” (燃球局計劃), “Touch Down and Burn” (觸地即燃), “Track Three” (三號賽道) to increase our influence in the respective sports communities.

As to its fashionable sporting product category, the Group leveraged its rich experience in operating co-branded intellectual property (“IP”) products. It continued to launch a number of co-branded products such as The Three-Body Problem, Minions, Captain Tsubasa, Saint Seiya and Initial D, which had been widely recognised within the industry. For example, its cooperation with QQ Speed in co-branding won the Group the Silver Award in the 12th (2020-2021) Tiger Roar Award (IP Marketing Category). In June 2021, the Group officially signed a contract with GONG Jun (龔俊), a well-known young actor in China who matches the Group's youthful brand image, to engage him as the global endorser. This has accentuated such characteristics as trendiness and youthfulness of the Group's products and enhanced its brand image.

Furthermore, the Group has made significant contribution to the development of the growing trend of China-Chic culture. On 24 April 2021, 361° officially entered into a strategic cooperation agreement with the China Cotton Industry Alliance (CCIA) in Urumqi, Xinjiang, to provide products made of high-quality Chinese cotton for consumers. The move can further enhance the influence of the Chinese brands of cotton. At the signing ceremony, we successfully launched a campaign for promoting new products manufactured with Chinese cotton under the theme of “Love for Xinjiang” (熱愛行疆). During such campaign, a series of new Chinese cotton products that feature the China-Chic trend and local cultural characteristics were introduced to the market, promoting the concept of “Producing Quality Chinese Products with Quality Chinese Cotton” (用優質國棉製造優質國貨). Revenue from the sales of such new Chinese cotton product series in the first hour at the product launch event was donated to the China Youth Development Foundation to support the development of youth sports.

EXPANDING KIDS' WEAR BUSINESS THOROUGHLY, STRENGTHENING COMPETITIVE ADVANTAGES THROUGH MULTIPLE CHANNELS

To grasp the growth opportunities in the kids' wear industry, the Group vigorously expanded its product lines and developed finer market segments by enriching the sub-categories of products. It launched a product series for children under three years old and a product series for teenagers who are between 12 and 14 years old to fully tap the kids' and teenagers' needs for sportswear. On the other hand, the Group constantly enriches its product portfolio to meet the consumers' diverse needs. Its current product categories have covered various occasions and purposes such as those of running, football, basketball, outdoor activities and campus life, etc. We comprehensively cooperated with such superior resources as the most prestigious football clubs and football schools in China to keep enhancing our advantages that differentiate the 361° Kids brand from the peers' brands and to consolidate and strengthen the Group's leading position in the domestic kids' wear industry. The Group also sought to expand its market share by strengthening the coordination between 361° Kids and the 361° core brand.

CHAIRMAN'S STATEMENT

361° Kids consistently positions its products as “technology-driven, new China-Chic products” (科技新國潮) so it constantly enhances its health technology to be adopted in its products to provide teenagers with the best experience of sports. To this end, it has successively launched innovative technologies such as dryness and FUNFOAM technology, and cooperated with China State Shipbuilding Corporation to apply the “Zinc anti-microorganism” Technology for military uses in the production of kids’ wear. Meanwhile, the design of the products of 361° Kids also integrated childlike interest and fashion. For example, 361° Kids cooperated with the owner of the “China Aerospace” IP and launched a series of products that featured a sense of future and a sense of science and technology, which earned acclaims from the market. During the period under review, 361° Kids and the 18th Jinjiang Gymnasiade jointly launched the “Youth Sports Promotion Plan”, and became the title sponsor of the track and field events of the Gymnasiade. This further increased the brand’s penetration of the market of teenagers.

UPGRADING BRANDS ONLINE THROUGH PRECISION MARKETING

In the post-pandemic era, the inexorable trend towards the transformation of online sales channels is gathering momentum. E-commerce platforms are fulfilling ever more diverse functions. To tailor to customers’ needs, the Group has adopted appropriate positioning on the e-commerce platforms and carried out the upgrading of its brands online. As a result, e-commerce has become an efficient operation for boosting sales and enhancing brand image. In light of the differences between online and offline customer bases, we made use of big data to conduct product planning with precision. This, coupled with multi-dimensional marketing, led to rapid growth in online sales. For example, AG1 in various colors and “Flying Flame” running shoes sold out in seconds after their online launch. The products which were marketed with a young actor GONG Jun as the endorser also became bestsellers.

Since 2021, the Group has been upgrading its classic products for international markets and taken the lead in launching them on domestic e-commerce platforms. Such products have been well received by young consumers, first- and second-tier city consumers, affluent consumers and consumers with a large average ticket size. During the period under review, we launched Spire-R and Spire-S, both of which are highly sought after by consumers. Our research and development team collaborated with LI Zicheng, the Asia and China marathon champion, in developing the “Flying Flame” professional marathon running carbon shoes, which, once launched, triggered panic-buying on the e-commerce platforms. All this will help to enhance the Group’s brand influence and expand its customer club membership. We will continue to introduce more professional running shoes to the market with careful planning, aiming for a larger market share.

OUTLOOK

On behalf of the Board, I would like to express our sincere appreciation to all our shareholders for their recognition and long-term support for 361°. I would also like to thank all our staff members and business partners. In June 2021, we completed the final redemption of the senior unsecured notes in U.S. dollars by internal resources and adopted a share option scheme. The moves have reduced the liabilities on our balance sheet and motivated us to achieve more. Looking ahead, we expect the sports industry to continue its momentum of steady growth. The industry is full of opportunities for development. As a leading sportswear enterprise in the PRC, 361° always gears itself up to consumers’ needs and positions itself as a specialised, youthful and internationalised brand. It will spare no effort to promote the brand spirit of “One Extra Degree of Passion” so as to provide consumers with more valuable products, and continue to increase brand recognition and influence. The Group will continue to actively develop its business, its supply chain and business partnerships, and to create more benefits for the shareholders, staff members and society.

Ding Huihuang

Chairman

Hong Kong SAR of the PRC, 17 August 2021

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In the first half of 2021, the COVID-19 pandemic waxed and waned but the global economic prospect was improving on the back of the increasing vaccination rate and the accumulation of experience in pandemic prevention and control. According to *Global Economic Prospects* published by the World Bank in June this year, the global economy is predicted to grow by approximately 5.6% in 2021 while the estimate for China's economic growth is raised to 8.5%. As the only major economy in the world to have achieved growth in GDP in 2020, China maintained steady economic growth in the first half of 2021, with a GDP of RMB53.2167 trillion, representing a year-on-year increase of 12.7%, which indicated the steadily growing momentum of the country's economy.

Domestic consumption plays a particularly important role in China's economic development as "internal circulation" which along with "external circulation" forms China's "dual circulation" economic model. Household consumption has been recovering well. According to the National Bureau of the PRC, the total retail sales of social consumer goods in the first half of 2021 amounted to RMB21.1904 trillion, representing a year-on-year increase of 23.0%, with an average growth rate of 4.4% for the past two years. Specifically, the country's online retail market continued to expand, growing by 23.2% year on year to RMB6,113.3 billion in the first half of 2021. The average rate of growth in the country's online retail market was 15.0% for the past two years. The Chinese residents' purchasing power has been growing on the back of steady economic growth and consumption upgrading. Consumption's contribution to economic growth has increased significantly. In the first half of 2021, the per capita disposable income of the Chinese residents reached RMB17,642, representing a year-on-year increase of 12.6%. The ultimate consumer spending rose significantly as a percentage of China's economic growth, to the level of 61.7%. It was the main driving force behind the country's economic growth.

China pressed on with the national plan for developing itself into a world power in sports and for fostering the physical fitness of the nationals. The various relevant policies have stimulated the spending on sporting goods and unleashed the growth potential. This can also accelerate the development of the sports industry into a pillar industry of the national economy. In March 2021, China issued the Outline of the 14th Five-year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range Objectives Through the Year 2035 (《中華人民共和國國民經濟和社會發展第十四個五年規劃和二〇三五年遠景目標綱要》) ("Outline of the Plan"), which for the first time included "the building of a sporting power" in the medium- and long-term plans. In April 2021, the National Development and Reform Commission and the General Administration of Sport of China jointly issued the Implementation Plan for Making up for the Shortcomings of National Fitness Facilities during the 14th Five-year Plan Period (《“十四五”時期全民健身設施補短板工程實施方案》), which proposed building a high-standard national public service system for physical fitness and speeding up the development of the country into a sporting power according to the national strategy of developing China into a healthy country and fostering the nationals' physical fitness. In June 2021, the National Sports Standardisation Technical Committee issued the Key Points of Sports Standardisation in 2021 (《二零二一年體育標準化工作要點》) and guidelines for approving relevant projects to help the country achieve the goal of developing itself into a sporting power. According to the National Bureau of Statistics of the PRC, the added value of the national sports industry accounted for 1.14% of the country's GDP in 2019. This implies huge room for growth in the country's sports industry in light of the fact that added value of the sports industry in developed countries accounted for higher percentages of their GDP and the prediction made by the General Administration of Sport of China that the country's sports industry will account for approximately 4% of the country's GDP by 2035.



MANAGEMENT DISCUSSION AND ANALYSIS

China's sporting goods market, especially the sportswear market, has entered a stage of fast development on the back of steady economic growth, government policy on enhancing nationals' physical fitness and the citizens' rising health consciousness. According to Euromonitor, from 2014 to 2020, the size of China's sportswear market grew from RMB148.3 billion to RMB315.0 billion, representing a compound annual growth rate of approximately 13.37%. In June 2021, UEFA Euro and Copa America, which have been postponed for one year due to the pandemic, have commenced successively; in July 2021, Tokyo Olympics was kicked off. All this can provide a shot in the arm for the sports industry and drive up the spending on sports goods. In the next two years, major international sports events such as the Winter Olympic Games, Asian Games and Asian Cup will be held in China successively. This will further stimulate China's sporting goods market and lay a solid foundation for the consistent and rapid development of the sporting goods industry.

In the post-pandemic era, the change in consumer shopping habits and the ongoing consumption upgrading have combined to accelerate the changes in the sporting goods industry and have presented new opportunities for development. On one hand, the consistently rapid growth in online retail sales of physical goods and the inexorable changes in online sales channels in China have added new impetus to the sporting goods industry. According to the National Bureau of Statistics of the PRC, in the first half of 2021, the value of the online retail sales of physical goods in the country increased by 18.7% year on year, with an average growth rate of 16.5 % for the past two years. The growth rate was significantly higher than that of the total retail sales of consumer goods. Moreover, the online retail sales of physical goods accounted for 23.7% of the total retail sales of consumer goods. On the other hand, according to iiMedia Research, Generation Z currently accounts for about 19% of China's total population and has gradually become the core consumer group, which are big fans of China-Chic and provide impetus to that rising trend. The Xinjiang cotton incident in March 2021 also heightened the public awareness of China's domestic brands and helped to augment their influence amid the rising trend of China-Chic. This opened up more room for the development of the country's sporting goods industry. In addition, the rapidly developing cutting-edge technologies such as 5G telecommunications technology and artificial intelligence are being integrated into the sport consumption. This helped to speed up the digitalisation and further adoption of technology in the sporting goods industry.

China continues with its strategy of a new type of urbanisation under the "14th Five-year Plan", speeding up the country's urbanisation. Data from the country's seventh national census showed that as of the end of 2020, 63.89% of its permanent population are living in urban areas, up by 3.29 percentage points from that in 2019. The percentage is very close to the target of 65% for the year 2025 proposed in the Outline of the Plan. The country's rapid urbanisation can trigger off rapid growth in the demand for sporting goods. At a meeting held in May 2021, the Politburo decided to further optimise the fertility policy and implement the three-child policy in accordance with the law. This bodes well to the future development of the kids' wear industry. With the implementation of the three-child policy, the domestic demand for kids' wear in China is expected to grow further. There will be considerable room for growth in both the market and the industry. According to Euromonitor, the size of the kids' wear market in the PRC is expected to reach RMB473.8 billion in 2025 which will be twice that in 2020.

The Group will continue to strengthen its positioning as a "specialised, youthful and internationalised" brand of sporting goods to enhance its brand influence and recognition. The Group will continue to satisfy consumers' individual needs, actively consolidate its resources and advantages, and enhance the product value consistently so as to grasp the opportunities for the development of the sports industry.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

361° Brands and Positioning

The 361° Group is one of the leading sportswear brands in China. The Group principally engages in brand management, research and development (R&D), design, manufacturing and distribution. Its comprehensive product portfolio includes footwear, apparel and accessories which meet the needs of adults and children in sports and on casual occasions. The Group has been consistently positioned as a provider of high-performance and value-for-money functional sports products (mainly running gear) targeted at the mass market since its establishment in 2003.

The 361° core brand focuses on brand management, R&D, design, manufacturing and distribution of functional and high-performance sports footwear, apparel, and accessories.

The 361° Kids brand, which is an independently operating business unit, principally provides sports apparel, footwear, and accessories to cater for the needs of toddlers to children at the age of up to fourteen years old.

Positioned consistently as a specialised, youthful, and internationalised brand, the Group concentrates its resources on developing its core brand of 361°. The Group has been continuously optimising its brand resource matrix and gearing its brand development towards "professional sporting goods" and "fashionable sporting goods" with its focus on the functionality of its products according to its clear positioning.

Business Model

During the period under review, the distributorship business model adopted by the Group remained unchanged. The first-tier exclusive distributors distributed the products under the 361° brand in their respective, exclusive geographical regions. Distributors could choose to open stores directly, subject to approval by the Group's retail channel management department. Distributors could also choose to further distribute the products under the 361° brand to second-tier authorised retailers. This business model is flexible and stable, enabling the Group to focus its resources on managing sales at the wholesale level while fully leveraging the capabilities of the distributors and the authorised retailers to conduct retail sales.

All of the distributorship agreements are valid for one year. The Group renews the agreements with its exclusive distributors on a yearly basis. The key terms of each of the distributorship agreements generally include terms such as geographical exclusivity, product exclusivity, payment terms, and they are the results of the negotiations between the Group and the relevant distributors. Distributors and authorised retailers are required to attend a number of training programs organised by the Group each year, enabling them to accurately convey the knowledge about the Group's 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 standardisation of product display facilities and promotional materials at the stores and the highlighting of the quarterly marketing themes.



MANAGEMENT DISCUSSION AND ANALYSIS

The Group currently hosts four trade fairs per year for the 361° core brand to showcase its products for new seasons. All distributors and authorised retailers are invited to attend the events. The orders from the distributors and authorised retailers will be consolidated by the respective first-tier distributors, who in turn will place such orders with the Group. The Group will review the orders and give suggestions to its distributors regarding the placement of the orders in order to enhance the accuracy of the reflection of the demand through the orders, avoid excessive inventory and discounts at the retailers so as to stabilise the retailers' profitability and support sustainable development. These trade fairs are generally hosted six months ahead of their respective display and launch seasons to allow the orders to be manufactured and delivered to the distributors. During the period under review, the Group organised two trade fairs for 361° core brand products, namely the 2021 Winter Trade Fair and the 2022 Spring Trade Fair, and achieved solid growth in sales.

During the post-pandemic era, the Group actively worked with distributors and authorised retailers to cope with consumers' relatively subdued demand for discretionary products. Moreover, the Group raised operational efficiency through the policies of giving operational support and providing credit term extension. In the post-pandemic era, the Group continued to control operating costs and advertising expenditures to maintain a stable financial position through the optimisation of the supply chain system, logistics cost control and the integration of information platforms. At the same time, the Group fully leveraged its WeChat mini program "You Yan You Du (有顏有度)", Pinduoduo, Tik Tok and other novel platforms to bring consumers better and flexible consumption experience, and created incremental space for the retailers in the post-pandemic era.

361° Core Brand's Retail Network in the PRC

As at 30 June 2021, the 361° core brand's retail network comprised 5,155 stores. Geographically, approximately 76.26% of the stores were located in third- and lower-tier cities in China, while 5.97% and 17.77% were located respectively in first- and second-tier cities in the country. The Group encourages its distributors and their authorised retailers to open larger stores in shopping malls and department stores in the future while rationalising the retail network by closing down smaller stores so as to optimise the distribution channel mix.

Upholding the concept of "One Extra Degree of Passion" (多一度熱愛), the Group continued to adopt a consumer-centric approach, capitalised on new trends in consumption habits and conducted social marketing at its stores. In the post-pandemic era, the Group integrated and coordinated its online and offline operations and conducted omni-channel marketing to constantly upgrade the multidimensional shopping experience. As of 30 June 2021, the number of the latest ninth-generation image stores increased to 694, accounting for 13.46% of the total number of the Group's stores. The ninth-generation image stores adopted light and simple racks and various props. This reduced the decoration cost, enriched the shopping experience and effectively improved the stores' efficiency while enhancing the image projected by them.

Meanwhile, the Group had its physical stores, online e-commerce operations and new retail channels boost each other's business and thus jointly forge ahead with the upgrade of the consumption experience provided by omni-channel retailing. Through a comprehensive and attractive membership system for the customers, the Group provided target consumer groups with a wealth of membership rights, and its online and offline memberships have increased significantly. The refined operation and management of its relationships with such members resulted in higher effectiveness of managing the larger groups of the members and more repeat business with each of them on average.

The Group launched its proprietary WeChat mini program "You Yan You Du (有顏有度)" on 1 May 2021, which provides a large amount of information about trendy dressing and can directly divert the viewers to the WeChat Mall and thus increase the conversion of such viewers into customers. The Group is trying to enable a round-the-clock online consumption experience which can be dubbed "Thousands of Stores with Thousands of Images (千店千面)" at WeChat Mall and can allow the Group tap the traffic of viewers in the private domain of online community and thus boost sales growth.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at 30 June 2021		As at 31 December 2020	
	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⁾	836	16.2	902	17.5
Southern region ⁽²⁾	624	12.1	617	11.9
Western region ⁽³⁾	1,178	22.9	1,182	22.9
Northern region ⁽⁴⁾	2,517	48.8	2,464	47.7
Total	5,155	100	5,165	100

Notes:

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



MANAGEMENT DISCUSSION AND ANALYSIS

Brand Promotion and Marketing

The Group generally budgets 9% to 11% of its annual revenue for brand promotion and marketing. The Group continues to invest in its brand building, with focus on official sponsorships for international large-scale sports events and Chinese national teams, it quickly elevates the international influence of its brand. Such strategy has received a favorable response and achieved the expected results. For example, the Group successfully sponsored the 16th Asian Games in Guangzhou in 2010, the 26th Summer Universiade in Shenzhen in 2011, the 2nd Youth Olympic Games in Nanjing in 2014, the 17th Asian Games in Incheon in 2014, the Rio Summer Olympics and Paralympic Games in 2016, the 18th Jakarta Asian Games in 2018, and the 19th Asian Games in Hangzhou to be sponsored in 2022. The Group's brand has gained considerable exposures in these world-class events, which significantly increased the worldwide influence of the Group's brand.

In addition to the sponsorship of large-scale sports events, the Group also closely followed the consumption trends when it conducted marketing campaigns, gearing brand communication more towards consumer preferences. It deployed resources for integrating fashion trends with professionalism and actively created the co-branded IP products that appealed to young consumers. For the first half of the year, the Group continued to cooperate with brands such as the famous The Three-Body Problem, Saint Seiya, Gundam, Initial D, Minions and Captain Tsubasa in launching co-branded products in line with consumer preferences. These products won new consumer groups, which enhanced the Group's brand image and popularity, and furthered the Group's move to project a youthful image as a brand. The collaboration between 361° and the owners of IP has been widely recognised within the industry. Such instances of collaboration in co-branding has won the Group some honors such as the Global Brand Development Award (Greater China) for the Best Licensee in the Fashion Category in 2020, the Effie Awards Greater China in 2020 and the Golden Wheat Awards in 2020. Its cooperation with QQ Speed in co-branding also won the Group the Silver Award in the 12th (2020-2021) Tiger Roar Award (IP Marketing Category) in early June 2021.

In addition, the Group continued its marketing campaign under the themes of "Support Cotton from Xinjiang (支援新疆棉)" in March 2021. In April, the Group joined hands with various brands in participating in the "China Power" (中國力量) campaign by reinforcing its image as a "Chinese brand" (國貨品牌) and a "national brand" (民族品牌) in the minds of consumers to enhance its brand image and boost sales growth. On 24 April 2021, 361°, as the first domestic sportswear brand to cooperate with the China Cotton Industry Alliance ("CCIA") in promoting domestic sporting goods, officially entered into a strategic cooperation agreement with CCIA in Urumchi, Xinjiang. Under the agreement about such in-depth cooperation between 361° and CCIA, CCIA will provide 361° with the exclusive prime cotton fields and the select high-quality cotton for the Group in its production. Both parties will give full play to their respective advantages in capacities as "producer" and "technology provider" to provide quality products for consumers, thereby further enhancing the international influence of the Chinese brands of cotton. At the signing ceremony, 361° also launched a special campaign for promoting new products manufactured with Chinese cotton under the theme of "Love for Xinjiang" (熱愛行疆). During such campaign, with the concept of "Quality Chinese Cotton for Quality Chinese Products" (用優質國棉製造優質國貨), a series of new Chinese cotton T-shirts with special designs were introduced to the market. New Chinese Cotton T-shirt elaborately integrated the Pamir Plateau image with the traditional Xinjiang auspicious pattern to create a new China-Chic product with regional characteristics. The 30 sets of clothing suits were presented by the spokesperson of 361°, Kyranbek MAKAN, to showcase the design concept of "Chinese Cotton Warm Our Hearts" (國棉在身·溫暖在心). In addition, the revenue from the sales of such new Chinese cotton product series in the first hour at the product launch event was donated to the China Youth Development Foundation to support the development of youth sports.

MANAGEMENT DISCUSSION AND ANALYSIS

361° actively appointed celebrity endorsers to deeply develop the resource for endorsement. On 16 June 2021, the Group announced GONG Jun (龔俊), a young actor, as the global endorser of the 361° brand. GONG Jun is one of the most popular male stars in the domestic entertainment industry with a healthy and sunny appearance while also having sporty and fashionable qualities. With his passion and enthusiasm for each of its starring roles, GONG Jun perfectly fits in with the brand spirit of 361°, namely “One Extra Degree of Passion”.

361° continues to develop and enrich its portfolio of basketball products with professionalism and enhance a sense of fashion. The Group signed a contract with Aaron GORDON, an international basketball superstar, and Kyranbek MAKAN, a well-known Chinese professional basketball player to promote its own basketball events, such as “A Fireball Plan” (燃球局計劃) and “Touch Down and Burn” (觸地即燃), with the aim of grooming the grassroots to be ball game players and teams, thereby exerting its influence in the sports community and building up its reputation as a brand of basketball products among sportspeople. On 26 June 2021, “Chan 3” (禪3), a basketball shoe of Aaron Gordon Series, was officially launched into the market. Since the release of the 361° Aaron Gordon I (AGI), a signature basketball shoe, the launch of every new pair of Aaron Gordon’s basketball shoes into the market has received a great deal of attention from the basketball fans and enthusiastic response.

In addition, the Group sponsors premium marathon events. For instance, it has signed contracts to sponsor China’s national triathlon team, such as the elite marathon runners and the winners of China and Asia Marathon Majors, LI Zicheng, and many other marathon runners including GUAN Siyang, MA Liangwu and ZHAO Na. The Group promoted and organised the “Track Three” (三號賽道), which was its own-branded event, in major cities in China. The move increased the member of running groups and continued to enhance the Group’s brand reputation among the runners. The Group also fully tapped the resources that included China’s national sports teams such as the national cycling team, national women’s water polo team and national triathlon team, and professional sports players such as XU Can, the WBA Featherweight World Boxing Champion and TEAM M23 which is China’s professional boxer training and agency team so as to strengthen the Group’s image as a brand of functional products for sports.

In the future, 361° will continue to concentrate its resources on the development of its core brand, and strengthen its brand positioning that manifests “professionalism, youthfulness and internationalisation” to make itself more attractive to the young people while also continuing to strengthen its core competitiveness through co-branding with IP owners, R&D, and the upgrading of its products. The Group expects to benefit from the boom in the industry and to achieve steady progress in scaling up its business and rapid growth in its financial results.



MANAGEMENT DISCUSSION AND ANALYSIS

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

Sponsorship period	Sporting event	Capacity
2020-2022	The 19th Asian Games in Hangzhou 2022	Official Partner
2020-2021	Xuzhou International Marathon, China	Top Partner
2021	Zaozhuang Marathon, China	Official Sponsor
2021	The 18th ISF Gymnasiade (School Summer Games)	Top Partner

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

Name of sporting team
China National Cycling Team
China National Women's Water Polo Team
TEAM M23, China Professional Boxer Training and Brokerage Team
China National Triathlon Team



MANAGEMENT DISCUSSION AND ANALYSIS

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

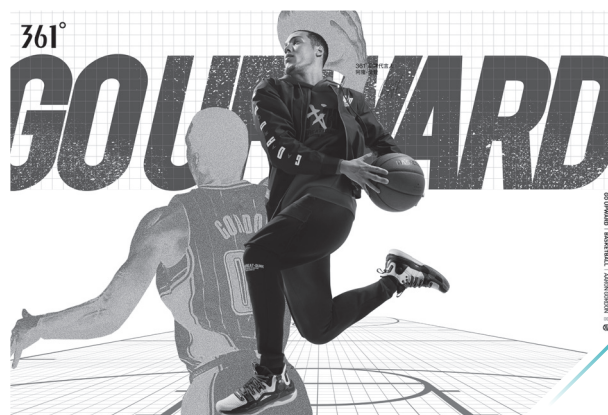
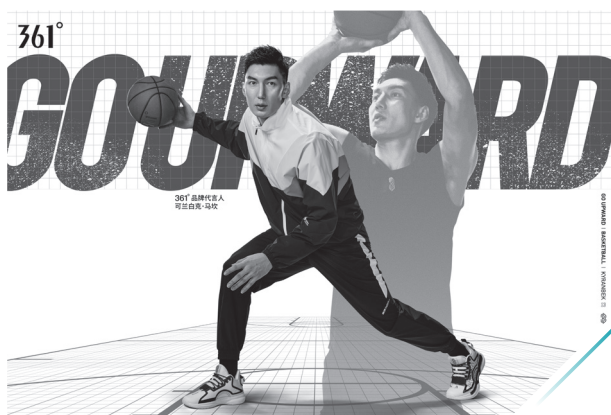
Athletes

Name of spokespersons	Sports	Key achievements in recent years
GUAN Siyang 關思楊	Running	2nd in Men in the 2021 Wuxi Marathon 2nd in Men in the 2020 Changzhou Marathon 2nd in Men in the 2020 Chengdu Marathon 3rd in Men in the 2020 Guangzhou Marathon
LI Zicheng 李子成	Running	1st in Men in the 2021 Wuxi Marathon 1st in Men in the 2020 Wuxi Marathon 1st in Men in the 2020 Chengdu Marathon 1st in Men of China in the 2019 Wuxi International Marathon 1st in Men of China in the 2019 Xiamen International Marathon 1st in Group Category of the 2019 Zhejiang Marathon Relay Awarded as the Top Athlete in Men's Competition Group at the award ceremony of the 2019 China Marathon Majors
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
QIAN Dingbin 錢鼎彬	Running	4th in Men in the 2020 Shaoxing Marathon 1st in Men of China in the 2019 Qingdao Marathon 1st in Men of China in the 2019 Zhengzhou Marathon
ZHAO Na 趙娜	Running	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



MANAGEMENT DISCUSSION AND ANALYSIS

Name of spokespersons	Sports	Key achievements in recent years
Aaron GORDON	Basketball	NBA top dunker Played for the Denver Nuggets
Kyranbek MAKAN	Basketball	Chinese professional basketball player
Ashton EATON	Decathlon	Champion in the 2016 Rio Olympics (retired)
Brianne Tyson EATON	Track and field	Canadian track and field athlete (retired) Bronze medalist of Rio 2016 Summer Olympics in Heptathlon Champion in the 2016 World Indoor Champion in Pentathlon
Donald HILLEBREGT	Triathlon	National champion in the 2019 NED Half Triathlon 3rd in the 2019 Rabat ATU Triathlon African Cup
Katie ZAFERES	Triathlon	3rd in the 2020 World Triathlon Series 2nd in the 2020 German Hamburg ITU Mixed Relay 1st in the 2019 ITU World Triathlon Series Champion in the 2019 Super League Triathlon
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
Quinty SCHOENS	Triathlon	6th in the U23 Age Group of the 2021 Kitzbühel ETU Triathlon Championships 4th in the 2019 NED Half Triathlon 4th in the 2019 Funchal ETU Triathlon Mixed Relay Championships



MANAGEMENT DISCUSSION AND ANALYSIS

Name of spokespersons	Sports	Key achievements in recent years
Rachel KLAMER	Triathlon	8th in the 2021 Lisbon World Triathlon Championships 7th in the 2020 Arzachena ITU Triathlon 8th in the 2020 Hamburg ITU Triathlon 8th in the 2019 ITU 6th in the 2019 World Triathlon Series 4th in the 2019 Lausanne ITU Triathlon World Championships
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
LI Bingjie 李冰潔	Swimming	Won 1 gold medal and 3 silver medals in the 2021 National Swimming Championships Won 3 silver medals in the 2019 National Swimming Championships Won 2 silver medals in the 2019 FINA Swimming Championships Won 1 gold medal and 1 bronze medal in the 2019 American Swimming Series Competition
XU Can 徐燦	Boxing	Won the Best Male Boxer of the "Grand Annual Fight of China's Belt and Road" WBA Featherweight World Boxing Champion
Celebrities		
GONG Jun 龔俊	N/A	A famous Chinese actor



MANAGEMENT DISCUSSION AND ANALYSIS

361° Kids

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

In May 2021, 361° Kids held a brand conference in Shanghai International Children Wear Expo where the brand and the 18th Jinjiang Gymnasiade jointly launched the “Youth Sports Promotion Plan”, and announced that it would be the title sponsor of the track and field events of the Gymnasiade. In the future, both parties will entice more teenagers to participate in sports through youth sports incentive plan, training plan and insurance plan.

361° Kids will continue to adhere to the product positioning of “new technology-driven China-Chic” (科技新國潮), constantly enrich the product portfolio and step up product innovation. 361° Kids fully taps into the needs of children and teenagers for sports apparel in various types of sporting and living scenarios such as running, football, basketball, outdoor activities and campus life by developing a comprehensive range of finely classified product categories.

As at 30 June 2021, there were 1,745 points-of-sale in total offering 361° Kids products, including the 388 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 70.77% of the points-of-sale were located in third-tier and lower-tier cities in China, while 7.34% and 21.89% were respectively located in first- and second-tier cities in China. As of 30 June 2021, there were 453 new fourth-generation retail outlets under the brand of 361° Kids, representing 25.96% of the brand’s total. Their overall design matches the current trends and increases the brand recognition. The combination of more distinctive thematic displays and reasonable routes for customers inside the stores enables consumers to have a more comfortable and enjoyable shopping experience.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	As at 30 June 2021		As at 31 December 2020	
	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⁾	278	15.9	295	17.3
Southern region ⁽²⁾	288	16.5	275	16.1
Western region ⁽³⁾	386	22.1	357	21.0
Northern region ⁽⁴⁾	793	45.5	776	45.6
Total	1,745	100	1,703	100

Notes:

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



MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, 361° Kids held two trade fairs, namely the 2021 Winter Trade Fair and the 2022 Spring Trade Fair, and achieved solid growth in sales.

361° proactively focuses on building its brand for kids' apparel and has successively launched co-branded products with Captain Tsubasa, Minions and The Three-Body Problem, etc. through the strong and powerful core brand spokespersons and IP resource integration in the first half of 2021, with the aim of further differentiating its 361° Kids brand. In addition, the Group also focused on expanding its presence strategically in the field of youth football training. As a partner of Shanghai Greenland Shenhua Football Club Youth Team, Beijing Zhonghe Guoan Junior Training and Shandong Luneng Taishan F.C. Youth Team, a strategic partner of Evergrande Football School, and a sponsor of sports equipment for the elite team of Evergrande Football School, the Group continued to make good use of the resources provided by the youth football in China, strengthened its linkage among youth football training systems, and comprehensively integrated the superior resources such as the most insightful and powerful football clubs and football schools in China.

361° Kids focuses on the practical needs of kids and teenagers during exercise. With the ergonomics as its theory and methods of experiment in human movement science, 361° Kids has successively launched innovative technologies such as dryness and FUNFOAM technology so as to meet the needs of youth sports clothing for different scenarios. Meanwhile, 361° Kids cooperated strategically with China State Shipbuilding Corporation in applying the "Zinc anti-microorganism" technology, which is developed by China State Shipbuilding Corporation for Chinese armed force, to kids' wear products, and then introduced such anti-microorganism products for kids to consumers. As a result, the brand realised the upgrading of its technological innovation to enable the Chinese teenagers to enjoy the healthiest and most comfortable experience of sports.

The design of the products of 361° Kids integrates childlike interest and fashion, highlighting fashion trend on the basis of the functionality of the sportswear. With the advent of space fever, 361° Kids cooperated with the owner of the "China Aerospace • Space Imagination" IP, which represents the power of China's science and technology, in launching a series of products. The products featuring a sense of future and a sense of science and technology and earned acclaims from the market.

During the period under review, 361° Kids contributed approximately 16.0% to the Group's total revenue, representing a year-on-year increase of 24.0%.

361° International

Since 2015, the Group has actively expanded its footholds in international markets with growth potential, so as to expand the geographical market coverage of the international business of 361° and enhance the brand's international reputation. In the post-pandemic era, the Group will largely focus on the steady development of overseas market. In addition to its existing core markets, the Group actively explored new markets with growth potential in the first half of 2021 and has successively entered new markets such as South Africa, Cameroon and Cambodia. Furthermore, the Group will proactively strengthen its market presence in the United States, Germany, Italy and Russia, to further increase its influence in overseas markets.



MANAGEMENT DISCUSSION AND ANALYSIS

361° is still a relatively young brand in the international market but its products have excellent performance comparable with a number of major international brands. The following table sets out key awards won by the 361° International products during the period under review:

Name	Award
361-FIERCE	Selected by Test 4 Outside, a professional review website in France, as the “Best Deal”
361-STRATA 4	Selected by the United States’ “Runner’s World” magazine as one of the 25 Top Picks for Running Shoes in 2021

Affected by the pandemic, as of 30 June 2021, the number of overseas points-of-sale of the Group was 917. The Group will appropriately adjust the strategy and pace of its overseas business development according to the progress in the control of the pandemic. During the period under review, the 361° International business contributed to approximately 1.3% to the Group’s total revenue, representing a year-on-year increase of 25.2%.

Modern E-Commerce

The Group conducts its e-commerce business mainly through renowned e-commerce platforms in China, including Tmall, Taobao, JD.com, Vip.com, and other platforms such as WeChat mini program “You Yan You Du” (有顏有度), Pinduoduo and Tik Tok. These online platforms are authorised to sell online-exclusive products, which are differentiated from the sales and marketing of the products sold at physical stores. Meanwhile, e-commerce platforms can also help the Group’s distributors and their authorised retailers to conduct clearance sale of the last items for certain sizes or out-of-season products. At present, with the launch of more high-premium and popular co-branded products on the e-commerce platforms, the Group’s e-commerce will develop in a more stable and reasonable manner.

361° successfully attracted a large number of young consumers with the official launch of its co-branded product series with IP on e-commerce platforms. It receives wider recognition as e-commerce platforms efficiently connect the brand with the Nijigen group, Z-generation group, basketball fan group and running group, etc. The co-branding conducted with IP owners has increased the exposure of products and successfully increased their publicity. The co-branding events reached the fans of the original IP, while also turning the brand into a hot topic quickly, increasing the products’ popularity, and creating opportunities for the brand to attract a younger and more diverse audience. In addition, the co-branded products were carefully designed with the IP elements integrated into them. This not only can add a premium to the products’ prices, but also can increase the profitability and contribute to the upgrading of the brand.

In 2021, through the continuous cooperation with owners of various well-known and prestigious IPs, co-branded products launched by 361° became a hot topic in the mainstream market and hot items on e-commerce platforms. The Group’s co-operation with Gundam, Saint Seiya, The Three-Body Problem, Initial D, Minions and Captain Tsubasa has increased young customers’ interest in 361° brand. This also enabled the brand to attract more attention on e-commerce platforms.

During the period under review, the Group continued to improve the efficiency of e-commerce platforms so as to foster them as a platform for the debut of new products and co-branded products. Meanwhile, 361° capitalised on the upsurge in marketing and sales of goods by means of live streaming. It successively carried out numerous live streaming shows with specific themes and rich content on well-known domestic live streaming platforms such as Tmall Live-streaming Room, Kuaishou, Tik Tok, Bilibili and Alipay Sports Living-streaming Room. In the first half of 2021, a daily normalised live streaming mode has been formed on mainstream online shopping platforms such as Tmall, effectively improving the efficiency of live streaming re-direction. By means of live streaming, the Group brought 361° brand’s fashionable, professional sports products to the core consumer groups quickly. This mode of recreational marketing drove the growth in sales and played a great role in brand promotion at the same time.



MANAGEMENT DISCUSSION AND ANALYSIS

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 jointly with Tmall; significantly upgrade the e-commerce teams for interface design and operation by recruiting high-calibre talent; and increase investment in the development, design and operation of online-exclusive products and the upgrade of the supply chain which is capable of timely responses.

During the period under review, revenue from the sales of online-exclusive products accounted for approximately 15.7% of the Group's total revenue, representing a year-on-year increase of 54.5%.

Production

During the period under review, there has been no change in the Group's production policy on striking a balance between in-house production and outsourcing to original equipment manufacturers ("OEMs") in terms of costs, production scheduling and intellectual property rights. For footwear products, the Group manufactures up to approximately 70% of its footwear products at its two factories at Jiangtou and Wuli in Jinjiang, Fujian Province, the PRC and outsources the remainder to a number of quality factories. The Jiangtou factory houses 14 production lines and has an annual production capacity of 12 million pairs of footwear products. The Wuli Industrial Complex in the Wuli Economic Zone houses nine 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 30% of the Group's products to meet market demand whilst the production of the remainder is outsourced to other factories.

Research and Development

The Group has been consistently strengthening its product innovation, enhancing its R&D capabilities, optimising product design and achieving product differentiation through technology so as to cater to the demands of different markets and consumers. Regarding the R&D of 361° products, the Group strives to continuously enhance the level of comfort, functionality and technological advantage of its products through scientific experiments in kinesiology with ergonomics as its theoretical basis, with a view to improving the workout performance of sports enthusiasts. The Group's research centre in Wuli Industrial Park, Jinjiang, Fujian Province, has advanced capabilities and equipment to carry out testing and has been awarded various titles such as a national advanced technology enterprise, national green factory, exemplary unit of the national sports industry, national industrial design centre and provincial technology centre. It can support the research and innovation experiments of intelligent sports equipment, structural sports equipment, functional sports equipment, functional material R&D.

The Group continued to focus on product R&D and innovation. On 9 April 2021, the 361° R&D team worked with LI Zicheng, a grand champion in Asian and Chinese marathons on developing the "Flying Flame" professional marathon carbon-plated running shoes, which became the IAAF certified carbon-plated running shoes. Once launched, the product has generated great customer demand on the e-commerce platforms and is proven to be popular with many professional runners who have good reviews about it. In April 2021, the "Lightspeed" suit won the German Red Dot Design Award in 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

At the end of 2020, 361° launched the new 3TECH product with the technologies of NFO, QUIKFOAM and QUIKBALANCE. The NFO materials, in particular, to which high-performance elastomer is added, has the elastic force that makes the shoes comfortable. The QUIKFOAM material features super flexibility and a high-level of vision while the TPU in QUIKBALANCE material transmits the pressure from the front to the rear of the feet while the embedded fiberglass board enables rapid response and resistance against twisting. The launch and application of 3TECH technology demonstrated the consistent R&D efforts made by 361° to improve the strengths of its products so as to meet the demands of different markets and consumers.

As of 30 June 2021, the Group obtained approval for 387 patents. It had a total of 675 technicians engaging in product R&D, including 272 footwear research staff, 349 apparel research staff and 54 kids wear and accessories research staff.

During the period under review, the Group's expenditure on R&D accounted for 3.6% of the Group's total revenue and is expected to increase due to the Group's intensifying efforts to carry out the product upgrading program for combining functionality and design, with the aim of creating more distinctive products.

FINANCIAL REVIEW

Revenue

During the period under review, the Group recorded a year-on-year increase of 15.7% in revenue to RMB3,107.1 million (for the six months ended 30 June 2020 ("1H2020"): RMB2,686.1 million) of which 16.0% and 0.9% (2020: 14.9% and 1.0%) of the total revenue were respectively contributed by the 361° Kids business and business grouped under Others (namely, sales of shoe soles). The remaining 83.1% (1H2020: 84.1%) of the revenue was mainly derived from the sales of the 361° core brand products and sales from the international businesses of 361°.



MANAGEMENT DISCUSSION AND ANALYSIS

Sales of the Group's two core products, namely footwear and apparel, increased by 22.5% year on year and 6.1% year on year respectively. Over 95% of the products for spring and summer of 2021 were delivered and the revenue from the sales was recognised during the period under review. In the second half of 2021, the products to be delivered will mainly be those for the fall and winter of 2021.

For the six months ended 30 June 2021, the proportion of footwear sales in the total revenue edged up from 42.0% to 44.4%, whereas the proportion of apparel sales slightly decreased from 41.0% to 37.6% compared to those in the same period of the previous year. Footwear and apparel products remained the major contributors of the Group's sales revenue during the period under review.

The average wholesale price (the "AWP") of footwear edged down by 1.4% year on year while that of apparel decreased by 15.2% year on year. Such decreases in footwear's and apparel's AWP were mainly due to the change in product mix as some of the winter products for 2019 which had a higher AWP were delayed to delivery in the first half of 2020 while no such situation occurred in the first half of 2021. Therefore, the AWP decreased as compared with that for the same period of the previous year. Given the epidemic has been successfully monitored and controlled by the government of PRC, which contributed to a significant growth of Chinese economy in the first half year of 2021. The Group adjusted the AWP of the distributors' footwear and apparel products to the normal level before the epidemic. However, the increment in the AWP was not sufficient to completely offset the decrease in AWP caused by the changes in the product mix. In addition, the sales volume of footwear and apparel products increased by 24.3% and 25.1% year on year respectively. This was mainly due to a recovery in the market and a more aggressive approach adopted by the distributors to place supplemental orders and take the goods on time in order to satisfy the market's strong demand for products made domestically, especially following the Group's campaign that advocated the use of cotton from Xinjiang during the period under review.

As to the accessories, this category of products can complement the footwear and apparel products, and thus can enrich the product mix. During the period under review, as a result of the improved market situation, both the sales volume and the AWP of the accessories increased by 10.9% and 9.9% year on year respectively. This led to a year-on-year increase of 21.1% in the revenue from the sales of accessories.

Revenue from the overseas business during the period under review increased by 25.2% year on year to RMB40.2 million (1H2020: RMB32.1 million) and accounted for approximately 1.3% of the total revenue of the Group.

The revenue from 361° Kids for the six months ended 30 June 2021 continued to grow, recording a year-on-year increase of 24.0% to RMB498.2 million (1H2020: RMB401.8 million), and accounted for approximately 16.0% (1H2020: 14.9%) of the Group's revenue during the period under review. The growth was mainly attributable to a year-on-year increase of 22.9% in the sale volume of apparel and footwear products and a year-on-year increase of 0.8% in their AWP as a result of the recovery in the market and the positive effect of the campaign that advocated the use of cotton from Xinjiang during the period under review.

The revenue from the sales of the Group's web-exclusive products at the e-commerce business increased by 54.5% year on year to RMB487.8 million (1H2020: RMB315.8 million) and accounted for approximately 15.7% (1H2020: 11.8%) of the total revenue during the period under review. The Group is confident that the e-commerce business will continue to play a significant role in contributing to the Group's revenue in view of the increasing trend for consumers to switch from the traditional offline to online shopping.

The revenue from the Group's businesses which are grouped under "Others" represented the revenue from the sales of shoe soles by the Group's 51%-owned subsidiary to independent third parties. During the period under review, around 68% of that subsidiary's products were sold to the Group and the remaining portion was sold to independent third parties. The revenue at that subsidiary for the six months ended 30 June 2021 was RMB25.7 million (1H2020: RMB27.5 million) and accounted for approximately 0.9% (1H2020: 1.0%) of the Group's total revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

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

	For the six months ended 30 June 2021		2020		Changes %
	RMB'000	% of Revenue	RMB'000	% of Revenue	
By Products					
Adults					
Footwear	1,380,542	44.4	1,127,245	42.0	22.5
Apparel	1,167,736	37.6	1,100,739	41.0	6.1
Accessories	34,982	1.1	28,890	1.1	21.1
361° Kids	498,186	16.0	401,800	14.9	24.0
Others ⁽¹⁾	25,663	0.9	27,452	1.0	-6.5
Total	3,107,109	100.0	2,686,126	100	15.7

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

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

	For the six months ended 30 June 2021		2020		Changes	
	Total units sold '000	Average wholesale selling price ⁽¹⁾ RMB	Total units sold '000	Average wholesale selling price ⁽¹⁾ RMB	Units sold (%)	Average wholesale selling price (%)
By Volume and the AWP						
Adults						
Footwear (pairs)	12,512	110.3	10,069	111.9	24.3	-1.4
Apparel (pieces)	17,320	67.4	13,846	79.5	25.1	-15.2
Accessories (pieces/pairs)	2,879	12.2	2,597	11.1	10.9	9.9
361° Kids	7,699	64.7	6,264	64.2	22.9	0.8

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



MANAGEMENT DISCUSSION AND ANALYSIS

Cost of Sales

Cost of sales of the Group for the first half of 2021 increased by 8.2% year on year to RMB1,807.4 million (1H2020: RMB1,670.4 million). During the period under review, the cost of internal production increased by 22.5% year on year and the cost of outsourced products decreased by 1.6% year on year. The overall increase in cost of sales was less than the increase in sales revenue. This was mainly due to the improvement of production efficiency and the adoption of a more stringent cost control which led to a reduction in average cost of production per piece of footwear and apparel products for both internally produced products and outsourced products.

The cost of outsourced products included an amount of RMB10.5 million which represented a provision for slow-moving inventories written back with respect to the products for the overseas market as the products were sold during the period under review (1H2020: a provision for slow-moving inventories amounted to RMB27.3 million, which was charged and grouped under the cost of outsourced products).

There was a change in the mix of the internally produced products and outsourced products: the portion of outsourced footwear products increased to 48.2% (1H2020: 45.3%) and the portion of apparel products for internal production increased to 33.0% (2020: 29.1%) during the period under review.

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

	For the six months ended 30 June				
	2021		2020		
	RMB'000	% of total costs of sales	RMB'000	% of total costs of sales	Changes %
Footwear & Apparel					
Internal Production					
Raw materials	547,099	30.3	417,325	25.0	31.1
Labour	98,869	5.5	86,418	5.1	14.4
Overheads	189,552	10.5	178,461	10.7	6.2
	835,520	46.3	682,204	40.8	22.5
Outsourced Products					
Footwear	399,996	22.1	359,608	21.5	11.2
Apparel	545,295	30.2	602,119	36.1	-9.4
Accessories	26,602	1.4	26,437	1.6	0.6
	971,893	53.7	988,164	59.2	-1.6
Cost of sales	1,807,413	100	1,670,368	100	8.2

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

The Group recorded a gross profit of RMB1,299.7 million during the period under review (1H2020: RMB1,015.8 million), representing a year-on-year increase of 4.0 percentage points in the gross profit margin to 41.8%.

During the period under review, the gross profit margins of footwear, apparel, accessories and 361° Kids products increased by 1.8, 5.2, 11.9 and 6.0 percentage points year on year respectively while that of the products of the “Others” business dropped by 2.4 percentage points year on year.

The gross profit margin of the footwear slightly increased from 41.3% to 43.1%. This was mainly due to an upward adjustment of the AWP charged to distributors back to the normal level in the situation before the pandemic happened in early 2020 in view of the improved market situation in China and an increase in the proportion of sales revenue generated from its e-commerce platform which conducted business at a higher gross profit margin than the sales made to distributors.

The gross profit margin of the apparel products during the period under review was 41.2% (1H2020: 36.0%), representing a year-on-year increase of 5.2 percentage points. This was mainly because the Group adjusted the AWP of the distributors’ footwear and apparel products to the normal level before the outbreak of epidemic. Other factors that contributed to an increase in the profit margin also included the decrease in production cost as a result of the improved production efficiency and the increase in proportion of sales revenue generated from its e-commerce platform as well as its higher gross profit margin.

As to the accessories, their gross profit margin increased by 11.9 percentage points year on year to 39.3%. This was mainly due to the upward adjustment of the AWP for distributors back to the normal level in the situation before the pandemic happened in early 2020.

The gross profit margin of the 361° Kids business increased from 36.0% to 42.0%. It was principally due to the upward adjustment of the AWP charged to distributors back to the normal level in the situation before the pandemic happened in early 2020 and the implementation of a more effective control over production and the increase in the proportion of sales revenue generated from its e-commerce platform which conducted business at a higher gross profit margin.

The gross profit margin of shoe soles, which was categorised under “Others”, was 2.3% (1H2020: 4.7%), down by a 2.4 percentage points year on year during the period under review. It was mainly due to the increase in the cost of raw materials.

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

	For the six months ended 30 June				Changes percentage point
	2021		2020		
	Gross profit	Gross profit	Gross profit	Gross profit	
	RMB'000	margin %	RMB'000	margin %	
Adults					
Footwear	594,477	43.1	465,582	41.3	1.8
Apparel	481,593	41.2	396,405	36.0	5.2
Accessories	13,731	39.3	7,910	27.4	11.9
361° Kids	209,306	42.0	144,585	36.0	6.0
Others ⁽¹⁾	589	2.3	1,276	4.7	-2.4
Total	1,299,696	41.8	1,015,758	37.8	4.0

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

MANAGEMENT DISCUSSION AND ANALYSIS

Other revenue

Other revenue of RMB110.1 million (1H2020: RMB90.7 million) mainly comprised of (i) interest income of RMB53.1 million (1H2020: RMB50.5 million) earned from bank deposits both in Hong Kong and the PRC; (ii) the discretionary government subsidies of RMB12.3 million (1H2020: RMB34.6 million) which was due to the Group's contribution to local economies; and (iii) the commission of RMB33.3 million (1H2020: RMB4.1 million) charged from the sales of distributors' inventories through the e-commerce business.

Other net gain

The other net gain of RMB3.7 million (1H2020: RMB26.8 million) mainly represented the net foreign exchange gain arising from the overseas business. For the period ended 30 June 2020, there was an unrealised exchange gain on the translation of senior unsecured US dollars notes into the Hong Kong dollars as a result of the appreciation of the Hong Kong dollars against the US dollars.

Selling and distribution expenses

For the six months ended 30 June 2021, selling and distribution expenses increased by 30.8% year on year to RMB461.7 million (1H2020: RMB352.9 million). The increase was mainly due to the commitment of more resources to an advertising and promotion program for the purpose of boosting sales and enhancing the 361° brand, in particular, more activities held via the e-commerce platform and the increase in sales revenue during the period under review, resulting in the increase of selling and distribution expenses.

Advertising and promotional expenses increased by 25.1% year on year to RMB247.3 million (1H2020: RMB197.7 million) and accounted for approximately 8.0% (1H2020: 7.4%) of the Group's revenue. In view of the strong recovery in the market during the period under review, the Group restarted some sponsorship programs and took a more aggressive approach for advertising and promotion activities to enhance both its market position and its brand.

The commission and other service fees paid to the e-platforms, e.g. Tmall and JD.com, were RMB49.4 million (1H2020: RMB26.4 million) and other expenses in relation to the running of this business amounted to RMB15.4 million (1H 2020: RMB14.4 million), totaling RMB64.8 million (1H 2020: RMB40.8 million). The major expenses incurred by the e-commerce operation increased by 58.8% year on year during the period under review. The increase was mainly due to the growth of e-commerce business during the period under review.

Administrative expenses

Administrative expenses increased by 15.3% year on year to RMB239.0 million for the six months ended 30 June 2021 (1H2020: RMB207.2 million) and represented approximately 7.7% (1H2020: 7.7%) of the Group's revenue. The increase was mainly due to the year-on-year increase of RMB4.3 million in the staff costs and the year-on-year increase of RMB9.1 million in office expenses during the period under review.

Research and development expenses were RMB110.4 million (1H2020: RMB101.9 million) and accounted for 3.6% (1H2020: 3.8%) of the revenue during the period under review. The Group continued to incur substantial capital to finance its R&D activities and maintained its R&D expenses in the range of 3-4% of the total revenue as the Group believes that R&D is of vital importance to the success of the Group and it would enhance the Group's product development and competitiveness in the market.

MANAGEMENT DISCUSSION AND ANALYSIS

Provision for Impairment Loss

As the pandemic still waxes and wanes in the world, the Group made an additional provision for impairment loss arising from trade receivables of RMB2.5 million (1H2020: RMB34.9 million) as a conservative measure during the period under review. The total provision for impairment loss arising from trade receivables as at 30 June 2021 amounted to RMB92.8 million (31 December 2020: RMB90.3 million) which represented 3.3% (31 December 2020: 4.0%) of the trade receivables before provision at the end of the period under review.

Finance costs

For the six months ended 30 June 2021, financing costs was RMB31.8 million (2020: RMB87.2 million) of which RMB4.6 million (2020: RMB2.9 million) was in relation to bank borrowings and the balance of RMB27.1 million (2020: RMB84.2 million) was mainly the relevant interest and cost in relation to the senior unsecured notes with an aggregate principal amount of US\$400,000,000 7.25% due 2021 (the “US Dollar Notes”) issued on 3 June 2016 and amortised over the period.

As at 30 June 2021, the Group had bank borrowings of RMB200 million for liquidity of two subsidiaries being run in the PRC and a mortgage bank loan of RMB8.6 million for financing the acquisition of an office in Hong Kong.

The finance cost of the US Dollar Notes charged for the period was RMB27.1 million (1H2020: RMB84.2 million) of which RMB26.2 million (1H2020: RMB78.5 million) was in relation to the interest charged for the period and RMB0.9 million (1H2020: RMB5.7 million) was the relevant cost incurred for the issuance of the US Dollar Notes amortised over the tenor of five years. The decrease in the interest expenses for the US Dollar Notes was mainly due to the reduction in the outstanding principal amount of the US Dollar Notes during the period under review through the repurchase the US Dollar Notes on the open market and the cancellation of the repurchased US Dollar Notes since 2019. The senior unsecured US Dollar Notes were fully redeemed by the Group at the maturity date on 3 June 2021.

Income tax expense

During the period under review, income tax expense of the Group amounted to RMB207.8 million (1H2020: RMB126.4 million) and the effective tax rate for the period was 30.7% (1H2020: 27.3%).

The Group’s operating subsidiaries are mainly based in China. One of the Group’s mainland China-based operating subsidiaries succeeded in obtaining a reduction in tax rate to 15% from a local tax authority in late 2019. Therefore, it was charged at a tax rate of 15%. The other major mainland China-based operating subsidiaries are still subject to the standard corporate income tax rate of 25%.

No provision has been made for profit tax paid by the Group’s subsidiaries in Hong Kong since no 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. Such finance costs were not allowed to be deducted from the taxable income of the Group’s China-based operating subsidiaries.

Furthermore, the Group has incurred withholding tax expenses amounting to RMB53.4 million resulted from the remittance of funds from its operating subsidiaries in China by way of dividends to its holding company for the redemption of the senior unsecured US Dollar Notes at the maturity date on 3 June 2021 during the period under review (1H2020: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS

Non-controlling interest

The increase in non-controlling interest was mainly due to an increase in profits from two non wholly-owned subsidiaries which engaged in the 361° Kids business and an increase in profits from a subsidiary which engaged in the e-commerce business. In addition, as a Partnership made the capital contribution in a subsidiary which engaged in the e-commerce business (further information can be referred to “Material acquisitions and disposals” on page 32) since the second half of 2020, a dilution effect on the Group’s interest in this e-commerce subsidiary occurred, resulting in an increase of the non-controlling interest in this subsidiary in 1H2021. Moreover, all capital contribution made by its the two independent third parties into the Partnership was completed during the period under review. Therefore, the Partnership also fully completed capital increase in this subsidiary which engaged in the e-commerce business. This has further resulted in a dilution effect on the Group’s interest and an increase of the non-controlling interest in this e-commerce subsidiary.

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

CAPITAL AND OTHER INFORMATION

Liquidity and financial resources

Net cash used in operating activities of the Group for the first half of 2021 amounted to RMB19.9 million. As at 30 June 2021, cash and cash equivalents, including bank deposits and cash in hands and fixed deposits with original maturities not exceeding three months, amounted to RMB2,966.1 million, representing a net decrease of RMB480.9 million compared to the position as at 31 December 2020.

	For the six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(19,909)	(96,645)
Payment for the purchase of property, plant and equipment	(380)	(3,947)
Interest paid	(33,424)	(81,333)
Dividends paid	–	(27,804)
Repurchase of US\$ Notes	(967,326)	(259,681)
Redemption of US\$ Notes	(752,005)	–
Decrease in pledged deposits	34,305	111,037
Proceeds from the new bank loan	–	201,032
Repayment of bank loans	(1,550)	(100,646)
Net uplift of deposits (with maturity over three months)	1,000,000	–
Capital injection by non-controlling interests of a subsidiary	199,950	–
Interest received	59,999	63,165
Other net cash outflow	(562)	(2,325)
Net decrease in cash and cash equivalents	(480,902)	(197,147)

MANAGEMENT DISCUSSION AND ANALYSIS

The net cash used in operating activities amounted to RMB19.9 million for the six months ended 30 June 2021 and this was mainly caused by the increase in operating profit, the decrease from inventories, increase in trade and bills receivable, increase in deposits, prepayments and other receivables and a slight decrease in trade and other payables during the period under review. The increase in trade and bills receivable was mainly due to the increase in sales revenue. The increase in deposits, prepayments and other receivables was mainly caused by the increase in deposit paid to subcontractors for the increase in purchase and subcontracting orders in order to fulfil its outstanding sales orders and the prepayments made to advertisers. The slight decrease in trade and other payables was mainly due to the decrease in bills payable issued by the Group.

During the six months ended 30 June 2021, capital expenditure amounted to RMB0.4 million (1H2020: RMB3.9 million) and it was mainly incurred for the maintenance of facilities in relation to production and staff accommodation in Wuli Industrial Park, Jinjiang. The interest of RMB33.4 million (1H2020: RMB81.3 million) paid for the period was mainly the interest for the US Dollar Notes. No dividend was paid during the six months ended 30 June 2021 (1H2020: RMB27.8 million). During the period under review, the Group repurchased and cancelled US\$149.8 million (1H2020: US\$38.5 million) worth of US Dollar Notes in principal amount by the use of RMB967.3 million (2020: RMB259.7 million) and fully redeemed the US Dollar Notes on the maturity date. The decrease of RMB34.3 million in pledged deposits was due to less amount of bills issued as at 30 June 2021 compared with those six months ago. The net decrease of RMB1.6 million in bank loans (1H2020: a net increase of RMB100.4 million in bank loans) represented the repayment of the principal of the mortgage in relation to the office in Hong Kong. The Group made a net withdrawal of RMB1,000 million of time deposit with maturity over three months to redeem the US Dollar Notes due (1H2020: Nil). The Group received the balance of RMB199.9 million from investors for the investment in the Group's e-commerce business which represented approximately a 2.88% equity interest in the Group's e-commerce business on a fully diluted basis (1H2020: Nil). The interest received amounted to RMB59.9 million (1H2020: 63.2 million) representing an interest income generated from the fixed deposit placed in the PRC and Hong Kong.

The Group's gearing ratio was 2.0% as at 30 June 2021 (As at 31 December 2020: 16.7%). Other than the bank borrowings and the mortgage, the Group has not used other debt instruments to finance its operations for the period of six months ended 30 June 2021.

Treasury policy and foreign exchange risk

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

The Group manages its foreign exchange risk by matching the currency of its loans and borrowings with the Group's functional currency of major cash receipts and underlying assets as far as possible. As at 30 June 2021, 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 minimise the interest rate exposure. Any substantial fluctuation in the exchange rate of foreign currencies against Renminbi may have a financial impact on the Group.

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

Pledge of assets

As at 30 June 2021, a property with a net book value of RMB39.0 million (As at 31 December 2020: RMB39.8 million) was pledged as security for a banking facility of the Group of RMB36.5 million (As at 31 December 2020: RMB36.8 million). The aforesaid banking facility was used to finance the acquisition of an office unit in Hong Kong. The office unit is for the Group's own use and not for any investment purpose. Bills payable as at 30 June 2021 were secured by pledged bank deposits of RMB28.3 million.

Working capital management

The average working capital cycle for the six months ended 30 June 2021 was 109 days (For the year ended 31 December 2020: 119 days). The decrease was mainly due to the shortening of the turnover cycles of the trade and bills receivable and inventory. The shortening of such cycles was partly offset by the decrease in the trade and bills payable turnover days.

MANAGEMENT DISCUSSION AND ANALYSIS

The average trade and bills receivable cycle was 146 days for the six months ended 30 June 2021 (for the year ended 31 December 2020: 159 days), representing a decrease of 13 days which reflected the improved market condition and the Group's success in its closer connection with distributors during the period under review. As at 30 June 2021, an aggregated amount of RMB2,571.1 million (94.0%) of trade receivables was within 180 days of which around 80.3% was within 90 days.

Although the trade and bills receivable turnover cycle was improved, the Group has made an additional provision for doubtful debts of RMB2.5 million (1H2020: RMB34.9 million) in view of the continuing uncertain market condition caused by the pandemic during the period under review. The Group will continue to closely monitor the situation of its trade and other receivables and stay in touch with all the distributors on a more frequently basis and believes that there will be further improvement in the collection of debts for the second half of this year.

The average inventory turnover cycle was 70 days for the six months ended 30 June 2021 (for the year ended 31 December 2020: 111 days). The improved inventory turnover cycle was mainly due to the recovery in the market and the distributors' more aggressive attitude on taking the delivery of the orders according to the expected timetable to meet the strong market demand. About 84.1% of the stock were finished goods and were mainly products for the summer and fall of 2021. 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.

As at 30 June 2021, prepayments to suppliers were RMB742.7 million, representing a 7.1% decrease compared with the RMB799.2 million as at 31 December 2020. The prepayments were deposits paid for raw materials and to outsourced suppliers for the acceptance of the orders for production of products at the 2021 fall and winter trade fairs. The balance of other prepayments, RMB194.5 million (as at 31 December 2020: RMB28.3 million), was mainly the payment in relation to the advertising and promotion contracts.

The average trade and bills payable cycle decreased by 44 days to 107 days for the six months ended 30 June 2021 (for the year ended 31 December 2020: 151 days). The decrease was mainly due to the shortening of the settlement period which was set for purpose of maintaining long-term relationships with suppliers and in exchange for better trade terms with the suppliers. The Group believes that the average trade and bills payable cycle will be maintained at approximately 110 days in the long run.

Senior unsecured notes

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

During the period under review, the Group has repurchased and cancelled an aggregate principal amount of US\$149.8 million of the US Dollar Notes on the open market and a relevant loss of RMB1.2 million was recorded. The Group has redeemed all the outstanding principal of the US Dollar Notes on the maturity date of 3 June 2021 in accordance with the terms of the Indentures.

Details of the above repurchase and redemption of the US Dollar Notes are set out in the announcements of the Company dated 4 January 2021, 13 January 2021, 18 January 2021 and 4 June 2021.

Contingent liabilities

For the period ended 30 June 2021, the Group did not have any material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Material acquisitions and disposals

For the period ended 30 June 2021, 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 during the period under review. Accordingly, the Group’s effective equity interest in Duoyidu Quanzhou was diluted from 72.13% to 69.25%. The decrease of the 2.88% effective equity interest in Duoyidu Quanzhou was recognised as a deemed disposal and accounted for as an equity transaction and recorded in “Other Reserve” during the period under review.

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 six months ended 30 June 2021, the Group had no significant investments.

As at the date of this report, the Group does not have any plan for material investment or capital assets for the year ending 31 December 2021.

Employees and emoluments

As at 30 June 2021, the Group employed a total of 6,697 full time employees in the PRC who included management staff, technicians, salespersons and workers. For the six months ended 30 June 2021, the Group’s total remuneration paid to employees was RMB270.1 million, representing 8.7% of the Group’s revenue. The Group’s emolument policies are based on the performance of individual employees and formulated to attract talent and retain quality staff. Apart from the mandatory provident fund scheme, which is operating in accordance with the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees and the state managed retirement pension scheme for the PRC-based employees and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance. The Group believes that its strength lies in the quality of its employees and has placed a great emphasis on fringe benefits. The Group also continuously offers comprehensive training to employees with the aim of fostering a learning culture that could enhance the employees’ professional knowledge and skills.

PROSPECT

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

MANAGEMENT DISCUSSION AND ANALYSIS

Driven by the steady economic recovery and the consumption upgrade, Chinese residents' spending power has been growing. This, along with the resumption of large-scale sports events at home and abroad, the rapidly growing trend of China-Chic and accelerating urbanisation, can form a strong driving force behind China's domestic sport consumption. In early August 2021, the State Council of PRC released "The National Fitness Plan (2021-2025)", which stipulated that priorities would be given to eight areas in promoting high-quality development of the sports industry, promoting integrated development of national fitness, etc., with a view to realise the total scale of the sports industry exceeding RMB5 trillion by 2025. It shows that the domestic sports industry in the PRC will continue to enjoy high prosperity in the future with strong policy support. In addition, the lingering effects of the pandemic will continue to induce changes in the Chinese residents' consumption habits. E-commerce platforms have become an important channel for people to shop for sporting goods. On the other hand, China's steadily growing middle-income population, the increasing trend towards the diversification and individualisation of the residents' sport consumption, and the maturing cutting-edge technologies such as 5G telecommunications technology and artificial intelligence have brought new opportunities for the development of the sports industry.

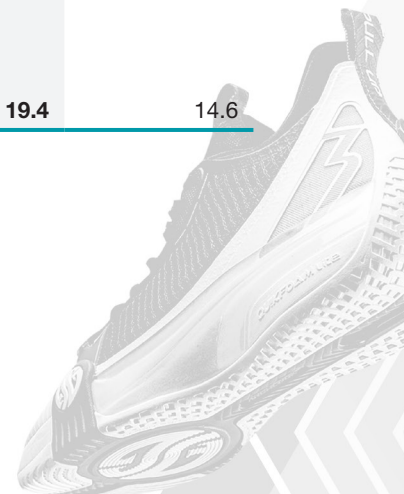
In the second half of 2021, the sports industry is expected to maintain momentum of steady growth. 361° will continue to prioritise consumer needs and concentrate resources on enhancing its core competitiveness, thereby reinforcing its positioning as a specialised, youthful and internationalised brand. In terms of core brand building, the Group will comprehensively integrate various resources, continue to optimise and improve its brand portfolio, step up its research and development and innovate in sales and marketing. It will also improve the functionality of its products for different types of sports and enhance their trendiness, thereby increasing the brand value. The Group's kids' wear business will focus on the kids' and youth sports markets, actively expanding its product lines, fully integrating superior resources, enhancing its competitive advantages that differentiate its brand from its peers' brands, and launching products that integrate functionality for different sports, health technology and the element of trendiness. All this are aimed at expanding its market share.

To adapt to growing trend towards the integration of online and offline consumption, 361° will continue to develop its e-commerce channels and press on with the digital transformation of its e-commerce platform. It will also seek to raise the efficiency of its online sales and marketing through precision marketing and leverage its e-commerce platform to boost the development of its brands efficiently. Just as important is the Group's move to enable its offline physical stores, e-commerce operation and new retail channels to reinforce each other with the aim of upgrading consumer experience and enhancing its brand recognition and influence. As the official partner for the Asian Games in Hangzhou 2022 and the top partner for the 18th ISF Gymnasiade (School Summer Games), the Group will continue to actively sponsor various large-scale sports events and seize the opportunities presented by the rising popularity of large-scale sports events so as to steadily develop its business and increase the influence of the 361° brand.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenue	3	3,107,109	2,686,126
Cost of sales		(1,807,413)	(1,670,368)
Gross profit		1,299,696	1,015,758
Other revenue	4	110,096	90,733
Other net gain	4	3,673	26,790
Selling and distribution expenses		(461,696)	(352,936)
Administrative expenses		(239,023)	(207,215)
Provision for impairment losses on trade receivables		(2,500)	(34,937)
Profit from operations		710,246	538,193
(Loss)/gain on repurchase of senior unsecured notes		(1,228)	11,264
Finance costs	5(a)	(31,763)	(87,253)
Profit before income tax	5	677,255	462,204
Income tax expense	6	(207,795)	(126,385)
Profit for the period		469,460	335,819
Attributable to:			
Equity shareholders of the Company		401,435	301,966
Non-controlling interests		68,025	33,853
Profit for the period		469,460	335,819
Earnings per share			
Basic and diluted (RMB cents)	7	19.4	14.6



CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Profit for the period	469,460	335,819
Other comprehensive income/(expense) for the period, net of income tax		
Item that will not be reclassified to profit or loss:		
Equity investments at fair value through other comprehensive income (non-recycling) – net movement in fair value reserve	502	2,036
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements	5,094	(29,854)
Total comprehensive income for the period, net of income tax	475,056	308,001
Attributable to:		
Equity shareholders of the Company	407,031	274,148
Non-controlling interests	68,025	33,853
Total comprehensive income for the period	475,056	308,001

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

	Notes	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	849,323	882,881
Right-of-use assets		106,843	109,767
		956,166	992,648
Other financial asset		18,779	18,188
Deposits and prepayments	9	88,952	88,890
Deferred tax assets		79,449	81,749
		1,143,346	1,181,475
Current assets			
Inventories	10	634,170	762,567
Trade receivables	9	2,681,842	2,184,190
Bills receivables	9	54,490	73,254
Deposits, prepayments and other receivables	9	1,012,989	906,117
Pledged bank deposits	11	28,323	62,628
Deposits with banks	11	2,000,000	3,000,000
Cash and cash equivalents	11	2,966,110	3,451,331
		9,377,924	10,440,087
Current liabilities			
Trade and other payables	12	1,707,108	1,756,055
Lease liabilities		934	2,156
Bank loans	13	208,593	210,222
Interest-bearing borrowings	14	–	1,726,570
Current taxation		339,734	346,214
		2,256,369	4,041,217
Net current assets		7,121,555	6,398,870

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

	Notes	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Total assets less current liabilities		8,264,901	7,580,345
Non-current liability			
Lease liabilities		–	73
Deferred tax liabilities		22,552	14,281
		22,552	14,354
Net assets		8,242,349	7,565,991
Capital and reserves			
Share capital	15(a)	182,298	182,298
Reserves		6,693,655	6,426,615
Total equity attributable to equity shareholders of the Company		6,875,953	6,608,913
Non-controlling interests		1,366,396	957,078
Total equity		8,242,349	7,565,991

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

Notes	Attributable to equity shareholders of the Company									Non-controlling interests RMB'000	Total equity RMB'000
	Share capital (note 15(a)) RMB'000	Other reserves RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Fair value reserve (non-recycling) RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total RMB'000			
Balance at 1 January 2020 (Audited)	182,298	418,491	805,295	(143,998)	15,495	-	5,044,924	6,322,505	336,509		6,659,014
Changes in equity for the six months ended 30 June 2020:											
Profit for the period (Unaudited)	-	-	-	-	-	-	301,966	301,966	33,853		335,819
Other comprehensive (expense)/income (Unaudited)	-	-	-	(29,854)	2,036	-	-	(27,818)	-		(27,818)
Total comprehensive income (Unaudited)	-	-	-	(29,854)	2,036	-	301,966	274,148	33,853		308,001
Dividends declared and paid during the period (Unaudited)	15(b)	-	-	-	-	-	(27,804)	(27,804)	-		(27,804)
Balance at 30 June 2020 (Unaudited)	182,298	418,491	805,295	(173,852)	17,531	-	5,319,086	6,568,849	370,362		6,939,211
Balance at 1 January 2021 (Audited)	182,298	228,115	836,710	(48,691)	9,711	-	5,400,770	6,608,913	957,078		7,565,991
Changes in equity for the six months ended 30 June 2021:											
Profit for the period (Unaudited)	-	-	-	-	-	-	401,435	401,435	68,025		469,460
Other comprehensive income (Unaudited)	-	-	-	5,094	502	-	-	5,596	-		5,596
Total comprehensive income (Unaudited)	-	-	-	5,094	502	-	401,435	407,031	68,025		475,056
Capital injection by non-controlling interests of subsidiary (Note)	-	(141,343)	-	-	-	-	-	(141,343)	341,293		199,950
Appropriation to statutory reserve	-	-	56,966	-	-	-	(56,966)	-	-		-
Equity-settled share option expense (Note 5)	-	-	-	-	-	1,352	-	1,352	-		1,352
Balance at 30 June 2021 (Unaudited)	182,298	86,772	893,676	(43,597)	10,213	1,352	5,745,239	6,875,953	1,366,396		8,242,349

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



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Operating activities		
Cash generated from operations	183,884	57,375
People's Republic of China income tax paid	(203,793)	(154,020)
Net cash used in operating activities	(19,909)	(96,645)
Investing activities		
Payment for the purchase of property, plant and equipment	(380)	(3,947)
Proceeds from disposal of property, plant and equipment	311	8
Decrease in pledged bank deposits	34,305	111,037
Placements of fixed deposits held at banks with maturity over three months	(2,000,000)	(2,200,000)
Uplift of fixed deposits held at banks with maturity over three months	3,000,000	2,200,000
Interest received	59,999	63,165
Net cash generated from investing activities	1,094,235	170,263
Financing activities		
Payment for repurchase of senior unsecured notes	(967,326)	(259,681)
Redemption of senior unsecured notes	(752,005)	–
Capital injection by non-controlling interests of subsidiary	199,950	–
Principal element of lease rentals paid	(845)	(2,221)
Interest element of lease rentals paid	(28)	(112)
Proceeds of new bank loans	–	201,032
Repayment of bank loans	(1,550)	(100,646)
Dividends paid	–	(27,804)
Interest paid	(33,424)	(81,333)
Net cash used in financing activities	(1,555,228)	(270,765)
Net decrease in cash and cash equivalents	(480,902)	(197,147)
Cash and cash equivalents at 1 January	3,451,331	3,422,295
Effect of foreign exchange rate changes	(4,319)	(19,143)
Cash and cash equivalents at 30 June	2,966,110	3,206,005

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. BASIS OF PREPARATION

These condensed consolidated financial statements for the six months ended 30 June 2021 (“interim financial statements”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and Hong Kong Accounting Standard (“HKAS”) 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). These interim financial statements was approved and authorised for issue by the Company’s board of directors on 17 August 2021.

The preparation of the interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those described in the consolidated financial statements for the year ended 31 December 2020.

The interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 31 December 2020. The interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), and should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2020.

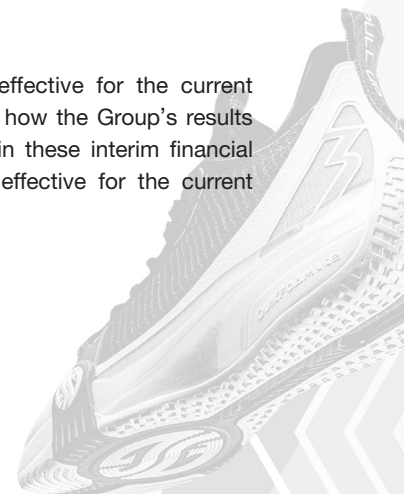
The financial information relating to the financial year ended 31 December 2020 that is included in the interim financial statements as comparative information does not constitute the Company’s consolidated financial statements for that financial year but is derived from those financial statements. Consolidated financial statements for the year ended 31 December 2020 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those consolidated financial statements in their report dated 23 March 2021.

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

2. CHANGES IN ACCOUNTING POLICIES

The accounting policies and method of computation adopted in preparing these interim financial statements were consistent with those adopted for the Group’s consolidated financial statements for the year ended 31 December 2020 other than changes in accounting policies resulting from adoption of the new or amendments to HKFRSs effective for the accounting periods beginning on or after 1 January 2021.

The HKICPA has issued a number of new or amendments to HKFRSs that are first effective for the current accounting period of the Group. None of the developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in these interim financial statements. The Group has not adopted any amendments to HKFRSs that is not yet effective for the current accounting period.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

3. REVENUE AND SEGMENT REPORTING

(a) Revenue

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

Disaggregation of revenue

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

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
– Footwear	1,582,282	1,299,319
– Apparel	1,456,273	1,322,609
– Accessories	42,891	36,746
– Others	25,663	27,452
	3,107,109	2,686,126

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

The Group's customer base is diversified and has included two (six months ended 30 June 2020: three) customers with whom transactions have exceeded 10% of the Group's revenues. During the six months ended 30 June 2021, revenues from sales of footwear, apparel and accessories to two (six months ended 30 June 2020: three) customers, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately RMB1,119,000,000 (six months ended 30 June 2020: RMB980,000,000).

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

(b) Segment reporting

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

3. REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

(i) Segment results

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

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

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2021 and 2020 is set out below.

	Adults Six months ended 30 June		Kids Six months ended 30 June		Total Six months ended 30 June	
	2021	2020	2021	2020	2021	2020
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Disaggregated by timing of revenue recognition						
Point in time	2,608,923	2,284,326	498,186	401,800	3,107,109	2,686,126
Revenue from external customers	2,608,923	2,284,326	498,186	401,800	3,107,109	2,686,126
Inter-segment revenue	13,913	20,103	–	–	13,913	20,103
Reportable segment revenue	2,622,836	2,304,429	498,186	401,800	3,121,022	2,706,229
Cost of sales	(1,532,161)	(1,432,856)	(288,880)	(257,445)	(1,821,041)	(1,690,301)
Reportable segment profit (gross profit)	1,090,675	871,573	209,306	144,355	1,299,981	1,015,928

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

3. REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenue		
Reportable segment revenue	3,121,022	2,706,229
Elimination of inter-segment revenue	(13,913)	(20,103)
Consolidated revenue (note 3(a))	3,107,109	2,686,126
Profit before income tax		
Reportable segment profit	1,299,981	1,015,928
Elimination of inter-segment profit	(285)	(170)
Reportable segment profit derived from the Group's external customers	1,299,696	1,015,758
Other revenue	110,096	90,733
Other net gain	3,673	26,790
Selling and distribution expenses	(461,696)	(352,936)
Administrative expenses	(239,023)	(207,215)
Impairment losses on trade receivables	(2,500)	(34,937)
(Loss)/gain on repurchase of senior unsecured notes	(1,228)	11,264
Finance costs	(31,763)	(87,253)
Consolidated profit before income tax	677,255	462,204

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

4. OTHER REVENUE AND OTHER NET GAIN

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Other revenue		
Interest income on financial assets measured at amortised cost	53,121	50,468
Government grants [#]	12,273	34,618
Commission income	33,259	4,113
Others	11,443	1,534
	110,096	90,733
Other net gain or (loss)		
Net foreign exchange gain	4,358	26,771
Loss on disposal of property, plant and equipment	(531)	–
Loss on termination of lease	(154)	–
Gain on lease modification	–	19
	3,673	26,790

Note:

[#] Government grants of approximately RMB12,273,000 (six months ended 30 June 2020: RMB34,618,000) were received from several local government authorities for the Group's contribution to local economies, of which the entitlement was unconditional and under the discretion of the relevant authorities.



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

5. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
(a) Finance costs:		
Interest on lease liabilities	28	112
Interest on bank and other borrowings	4,640	2,908
Finance charges on senior unsecured notes	27,095	84,233
Total interest expense on financial liabilities not carried at fair value through profit or loss	31,763	87,253
(b) Other items:		
Depreciation of property, plant and equipment	34,984	40,187
Depreciation of right-of-use assets	2,342	3,615
Staff costs	270,059	242,549
– Contributions to defined contribution retirement plans	7,053	4,659
– Equity settled share-based expense	571	–
– Salaries, wages and other benefits	262,435	237,890
Equity settled share-based expense (<i>Note a</i>)	1,352	–
– Staff (as above)	571	–
– Business partners	781	–
Expenses relating to short-term leases	1,968	2,213
Research and development costs (<i>Note b</i>)	110,446	101,934
Cost of inventories (<i>Note c</i>)	1,807,413	1,670,368

Notes:

- (a) On 21 June 2021, the Company granted 54,800,000 and 45,200,000 share options to the employees and business partners (collectively referred to as the "Grantees") respectively under the share option scheme. The options will entitle the Grantees to subscribe for a total of 100,000,000 new shares of HK\$0.10 each at an exercise price of HK\$4.1 per share. All the share options granted are exercisable from 21 December 2022 and expiring on 20 June 2023 (both dates inclusive). During the six months ended 30 June 2021, share-based payment expense of approximately RMB1,352,000 for the share option scheme was recognised in the consolidated profit or loss with a corresponding credit in share option reserve.
- (b) Research and development costs include approximately RMB41,634,000 (six months ended 30 June 2020: RMB40,952,000) relating to staff costs of employees in the research and development department and depreciation, which amounts are also included in the respective total amounts disclosed separately above. Research and development costs included in administrative expenses in the condensed consolidated statement of profit or loss.
- (c) Cost of inventories includes the reversal of written off of inventories of approximately RMB10,526,000 (six months ended 30 June 2020: written off of inventories of approximately RMB27,261,000), staff costs and depreciation of approximately RMB105,457,000 (six months ended 30 June 2020: RMB122,753,000), which amounts are also included in the respective amount disclosed separately above.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Current tax		
Provision for the period	197,313	114,872
– PRC income tax (<i>Note (ii)</i>)	143,880	114,872
– Withholding tax (<i>Note (iv)</i>)	53,433	–
Deferred tax	10,482	11,513
– Withholding tax	8,560	–
– Origination of temporary differences	1,922	11,513
	207,795	126,385

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands (six months ended 30 June 2020: nil).
- (ii) No provision has been made for Profits Tax in Hong Kong, Brazil, United States of America and the Netherlands as the Group did not earn any income subject to Profits Tax in Hong Kong, Brazil, United States of America and the Netherlands during the six months ended 30 June 2021 (six months ended 30 June 2020: nil).
- (iii) All PRC subsidiaries are subject to income tax at 25% (six months ended 30 June 2020: 25%) for the six months ended 30 June 2021 under the Enterprise Income Tax law ("EIT law"), except for one of the subsidiaries of the Company operating in the PRC which were approved to be a high and new technology enterprise ("HNTE"). Enterprise approved to be HNTE are entitled to enjoy a reduced enterprise income tax rate of 15% and additional 75% tax reduction based on the eligible research and development expenses with a validity period of three years from 30 November 2018 to 29 November 2021. The subsidiary was approved to be HNTE and enjoyed the preferential tax rate for HNTE for the six months ended 30 June 2021 (six months ended 30 June 2020: Same).
- (iv) The PRC tax law imposes a withholding tax at 5% for dividends declared by the PRC subsidiaries to its immediate holding company outside the PRC for remitted earnings. As at 30 June 2021, the deferred tax liabilities for withholding taxes have been provided on unremitted earnings (six months ended 30 June 2020: nil).



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of approximately RMB401,435,000 (six months ended 30 June 2020: RMB301,966,000) and the weighted average of 2,067,602,000 (six months ended 30 June 2020: 2,067,602,000) ordinary shares in issue during the six months ended 30 June 2021.

(b) Diluted earnings per share

For the six months ended 30 June 2021, no adjustment had been made to the basic earnings per share as the assumed conversion of potential ordinary shares in relation to the share option (Note 5) 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. For the six months ended 30 June 2020, the diluted earnings per share is the same as basic earnings per share as the Company did not have dilutive potential shares outstanding.

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group acquired and disposed items of property, plant and equipment of approximately RMB380,000 (six months ended 30 June 2020: approximately RMB3,947,000) and RMB311,000 (six months ended 30 June 2020: RMB8,000) respectively.

9. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Trade receivables	2,774,645	2,274,493
Less: Allowance for expected credit loss	(92,803)	(90,303)
Trade receivables, net of loss allowance	2,681,842	2,184,190
Bills receivables	54,490	73,254
Trade and bills receivables (Note c)	2,736,332	2,257,444
Deposits, prepayments and other receivables		
<i>Current</i>		
Deposits	975	151
Prepayments (Note a)	937,172	827,491
Other receivables (Note b)	74,842	78,475
	1,012,989	906,117
<i>Non-current</i>		
Deposits and prepayments	88,952	88,890

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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

Notes:

- (a) Included in prepayments are amounts prepaid to suppliers and advertisers of approximately RMB742,716,000 and RMB53,554,000 respectively (31 December 2020: RMB799,158,000 and RMB16,990,000).
- (b) Included in other receivables are the amounts due from non-controlling interests of a subsidiary and interest receivables of approximately RMBNil and RMB23,264,000 respectively (31 December 2020: RMB6,290,000 and RMB37,310,000).
- (c) Ageing analysis

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

	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Within 90 days	2,196,037	1,672,852
Over 90 days but within 180 days	375,030	385,969
Over 180 days but within 360 days	165,265	198,623
	2,736,332	2,257,444

Trade and bills receivables are due within 30 to 180 days (31 December 2020: 30 to 180 days) from the date of billing.

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



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

10. INVENTORIES

	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Raw materials	60,501	36,068
Work in progress	40,344	18,358
Finished goods	533,325	708,141
	634,170	762,567

11. CASH AND BANK DEPOSITS

	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Pledged bank deposits	28,323	62,628
Deposits with banks		
– More than three months to maturity when placed	2,000,000	3,000,000
Cash at bank and on hand	2,966,110	3,451,331
	4,994,433	6,513,959

Pledged bank deposits represent deposits are pledged to certain banks as security for certain banking facilities, bills payable and advertising contract.

At 30 June 2021, balances that were placed with banks or on hand in the PRC amounted to approximately RMB4,931,716,000 (31 December 2020: RMB6,464,026,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

12. TRADE AND OTHER PAYABLES

	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Trade payables	983,304	860,569
Bills payables	79,410	198,760
Contract liabilities	66,027	211,453
Other payables and accruals*	578,367	485,273
	1,707,108	1,756,055

* Included in other payables and accruals are the amounts due to non-controlling interests of a subsidiary of approximately RMB5,801,000 (31 December 2020: RMBNil).

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

	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Due within 1 month or on demand	179,033	396,860
Due after 1 month but within 3 months	322,241	344,790
Due after 3 months but within 6 months	561,440	317,679
	1,062,714	1,059,329

Bills payables were secured by pledged bank deposits as disclosed in Note 11 and guaranteed by certain subsidiaries of the Company.

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



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

13. BANK LOANS

	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Secured bank loans	8,593	10,222
Unsecured bank loans	200,000	200,000
	208,593	210,222
Non-current	7,878	8,664
Current	1,432	1,444
	9,310	10,108

As at 30 June 2021, certain bank loans and bills payables of the Group were secured by a property with carrying amount of approximately RMB39,038,000 (31 December 2020: RMB39,826,000) and pledged bank deposits of approximately RMB28,323,000 (31 December 2020: RMB62,628,000) (Note 11). As at 30 June 2021, bank loans and bills payables of the Group were also guaranteed by certain subsidiaries of the Company (31 December 2020: Same).

14. INTEREST-BEARING BORROWINGS

	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
At amortised cost:		
Senior unsecured notes due 2021	–	1,726,570
Current	–	1,726,570

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

The Group has partially repurchased the US\$ Notes in the open market since issuance and as at 31 December 2020, the outstanding principal amount was approximately US\$266,110,000 (equivalent to approximately RMB1,726,570,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

14. INTEREST-BEARING BORROWINGS (Continued)

During the six months ended 30 June 2021, the Company repurchased an aggregate principal amount of approximately US\$149,805,000 (equivalent to approximately RMB968,557,000) (six months ended 30 June 2020: US\$38,540,000 (equivalent to approximately RMB272,907,000)) in the open market, representing approximately 37.45% (six months ended 30 June 2020: 9.64%) 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 at the maturity date.

The difference between the carrying amount at amortised cost of approximately RMB966,098,000 (six months ended 30 June 2020: RMB270,945,000) and the payment of the repurchased notes of approximately RMB967,326,000 (six months ended 30 June 2020: RMB259,681,000) is recognised in consolidated profit or loss as loss on repurchase of the US\$ Notes of approximately RMB1,228,000 (six months ended 30 June 2020: gain on repurchase of the US\$ Notes of RMB11,264,000) for the six months ended 30 June 2021.

Details of the repurchase and redemption is set out in the announcements of the Company dated 4 January, 13 January, 18 January and 4 June 2021.

15. CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

	At 30 June 2021		At 31 December 2020	
	No. of shares '000	Amounts HK\$'000	No. of shares '000	Amounts HK\$'000
Authorised:				
Ordinary shares of HK\$0.1 each	10,000,000	10,000,000	10,000,000	1,000,000

	No. of shares '000	Amount HK\$'000	RMB'000
Ordinary shares, issued and fully paid:			
At 1 July 2019, 31 December 2019, 1 January 2020 and 30 June 2020	2,067,602	206,760	182,298



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

15. CAPITAL, RESERVES AND DIVIDENDS (Continued)

(b) Dividends

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

The interim and special dividend have not been provided in the interim financial statements during the period (six months ended 30 June 2020: Nil).

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

The board of directors of the Company has resolved to recommend the payment of the proposed final dividend of HK1.5 cents per ordinary share ("Proposed Final Dividend") subject to the approval of the shareholders at the annual general meeting (the "AGM"), in the annual results announcement for the financial year ended 31 December 2019 dated 17 March 2020.

Due to inadvertent oversight, the proposed resolution approving the declaration of the Proposed Final Dividend was omitted from the notice of the AGM dated 23 March 2020.

According to the announcement date on 28 April 2020, the board of directors of the Company resolved at its meeting held on 28 April 2020 to pay a 2019 special dividend of HK1.5 cents per ordinary share, being an amount identical to the Proposed Final Dividend, in substitution of the Proposed Final Dividend.

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Special dividend in respect of the previous financial year, approved and paid of nil cent (six months ended 30 June 2020: HK1.5 cents) per ordinary share	–	27,804
	–	27,804

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

16. MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions and balances with related parties

	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Amount due from non-controlling interest of a subsidiary (included in trade and other receivables) (note 9b)	–	6,290
Amount due to non-controlling interest of a subsidiary (included in trade and other payables) (note 12)	(5,801)	–

(b) Key management personnel remuneration

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Short-term employee benefits	17,316	15,497
Post-employment benefits	237	233
	17,553	15,730

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

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial assets measured at fair value

(i) Fair value hierarchy

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

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

(i) Fair value hierarchy (Continued)

Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value measurements categorised into			
	Fair value RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement:				
At 30 June 2021 (Unaudited)				
Financial asset:				
Unlisted equity security	18,779	–	–	18,779
At 31 December 2020 (Audited)				
Financial asset:				
Unlisted equity security	18,188	–	–	18,188

During the six months ended 30 June 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (six months ended 30 June 2020: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Information about Level 3 fair value measurements

The fair value of unlisted equity instruments is determined by adjusted net assets value approach. Under adjusted net assets value approach, total value of the equity was based on the sum of the net asset value, determined by marking every asset and liability on (and of) the investee's balance sheet to fair value. The fair value measurement is negatively correlated to the discount for lack of marketability. As at 30 June 2021, it is estimated that with all other variables held constant, a decrease/increase in discount for lack of marketability by 5% (31 December 2020: 5%) would have increased/decreased the Group's other comprehensive income by approximately RMB2,523,000 (31 December 2020: approximately RMB2,401,000).

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

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Balance at 1 January	18,188	24,992
Net unrealised gain recognised in other comprehensive income during the period	591	2,396
Balance at 30 June	18,779	27,388

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

18. COMMITMENTS

- (a) Contractual commitments outstanding at 30 June 2021 not provided for in the interim financial statements were as follows:

	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Advertising and marketing expenses	53,916	180,234

- (b) Capital commitments outstanding at 30 June 2021 not provided for in the interim financial statements were as follows:

	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Construction in progress	2,249	2,249

- (c) At 30 June 2021, the total future minimum lease payments under short-term lease as follows:

	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Within 1 year	355	776



CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

In the opinion of the directors of the Company, the Company had complied with the code provisions as set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2021.

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

As at 30 June 2021, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules, were as follows:

LONG AND SHORT POSITION IN THE COMPANY

Name of Director	Long/short position	Nature of interest	Note	Number of ordinary shares	Percentage
Mr. Ding Wuhao	Long	Beneficial owner		11,962,000	0.58%
		Interest in controlled corporation	(1)	340,066,332	16.45%
Mr. Ding Huihuang	Long	Beneficial owner		9,189,000	0.44%
		Interest in controlled corporation	(2)	327,624,454	15.85%
Mr. Ding Huirong	Long	Interest in controlled corporation	(3)	324,066,454	15.67%
Mr. Wang Jiabi	Long	Interest in controlled corporation	(4)	168,784,611	8.16%

Notes:

- (1) Mr. Ding Wuhao is deemed to be interested in 340,066,332 shares of the Company held by Dings International Company Limited by virtue of it being controlled by Mr. Ding Wuhao. He is the brother-in-law of both Mr. Ding Huihuang and Mr. Ding Huirong.
- (2) Mr. Ding Huihuang is deemed to be interested in 327,624,454 shares of the Company held by Ming Rong International Company Limited by virtue of it being controlled by Mr. Ding Huihuang. He is the elder brother of Mr. Ding Huirong and the brother-in-law of Mr. Ding Wuhao.
- (3) Mr. Ding Huirong is deemed to be interested in 324,066,454 shares of the Company held by Hui Rong International Company Limited by virtue of it being controlled by Mr. Ding Huirong. He is the younger brother of Mr. Ding Huihuang and the brother-in-law of Mr. Ding Wuhao.
- (4) Mr. Wang Jiabi is deemed to be interested in 168,784,611 shares of the Company held by Jia Wei International Co, Ltd. by virtue of it being controlled by Mr. Wang Jiabi.

Save as disclosed above, as at 30 June 2021, none of the Directors or chief executive of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION

SHARE OPTION SCHEME

Share Option Scheme

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

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

An option may be exercised in accordance with the terms of the Share Option Scheme any time during a period as determined by the board of Directors and not exceeding 10 years from the date of the grant under the Share Option Scheme. There is no minimum period for which an option must be held before it can be exercised. Eligible participants of the Share Option Scheme are required to pay the Company HK\$1.0 upon acceptance of the grant on or before 21 days after the offer date. The exercise price of the options is determined by the board of Directors in its absolute discretion and shall not be less than whichever is the highest of:

- (a) the nominal value of a share;
- (b) the closing price of the shares as stated in the Stock Exchange’s daily quotations sheets for trade in one or more board lots of the shares on the offer date; and
- (c) the average closing price of the shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from 18 May, 2021 after which no further options pursuant to the Share Option Scheme may be granted. Please refer to the circular of the Company dated 16 April 2021 for further details of the terms of the Share Option Scheme.



CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION

On 21 June, 2021, the Company granted a total of 100,000,000 share options to 118 eligible participants of the Group under the Share Option Scheme. Each option shall entitle the grantee to subscribe for one share upon exercise of such option at an exercise price of HK\$4.10 per Share (Note 1). None of the grantees is a director, chief executive or substantial shareholder of the Company or an associate of any of them. The following table discloses movements in the Company's share options during the six months ended 30 June 2021:

	Balance as at 1 January 2021	Granted during the period (Note 2)	Exercised during the period	Lapsed during the period	Cancelled during the period	Balance as at 30 June 2021
Employees of the Group	–	54,800,000	–	–	–	54,800,000
Other participants	–	45,200,000	–	–	–	45,200,000
	–	100,000,000	–	–	–	100,000,000

Notes:

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

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

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

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

CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION

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

As at 30 June 2021, the interests or short positions of the persons (other than a Director or chief executive of the Company) in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

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

Notes:

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

Save as disclosed above, as at 30 June 2021, no person (other than a Director or chief executive of the Company) had registered an interest or short position in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE AND ADDITIONAL INFORMATION

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2021, the Company had fully deemed the outstanding principal amount of the 7.25% senior unsecured notes (the “Notes”) which was due on 3 June 2021 and accordingly the Notes was delisted on the Stock Exchange (bond code: 5662) on the same date.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors’ securities transactions. Having made specific enquiry of all directors, the Company has confirmed with all directors of the Company that they had complied with the required standard set out in the Model Code throughout the six months ended 30 June 2021.

REVIEW OF INTERIM RESULTS BY THE AUDIT COMMITTEE

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

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim financial statements of the Group for the six months ended 30 June 2021. They considered that the unaudited interim financial statements of the Group for the six months ended 30 June 2021 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been made.

SHAREHOLDER INFORMATION

FINANCIAL CALENDAR

Announcement of interim results

17 August 2021

DIVIDENDS

The Board resolved not to declare an interim dividend for the six months ended 30 June 2021.

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
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Cayman Islands

HONG KONG SHARE REGISTRAR

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183 Queen's Road East
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INVESTOR RELATIONS CONTACT

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COMPANY INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

COMPANY SECRETARY

Li Yuen Fai Roger (李苑輝)
FCCA, HKICPA

AUTHORISED REPRESENTATIVES

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

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AUDITOR

Moore Stephens CPA Limited

LEGAL ADVISERS AS TO HONG KONG LAWS

Chiu & Partners

PRINCIPAL BANKERS

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

COMPANY WEBSITE

www.361sport.com

STOCK CODE

01361

DIVIDENDS

The Board resolved not to declare any interim dividend for the six months ended 30 June 2021.

PUBLICATION OF 2021 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.361sport.com), and the 2021 Interim Report containing all the information required by the Listing Rules will be dispatched to shareholders and published on the respective websites of the Company and the Stock Exchange in due course.

APPRECIATION

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

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

Hong Kong, 17 August 2021

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