IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE PERSONS OUTSIDE OF THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the offering memorandum. In accessing the offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE OR THE SOLICITATION OF AN OFFER TO BUY SECURITIES IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE ''SECURITIES ACT''), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS FORBIDDEN. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation and your representation: In order to be eligible to view this offering memorandum or make an investment decision with respect to the securities, investors must be persons outside the United States (as defined under Regulation S under the Securities Act). By accepting the e-mail and accessing this offering memorandum, you shall be deemed to have represented to us that (1) you and any customers you represent are persons outside the United States and that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and (2) that you consent to delivery of such offering memorandum by electronic transmission.

Within the United Kingdom, the offering memorandum is being directed solely at and may only be communicated to persons who: (i) fall within Article 19(5) or Article 49(2)(a)-(d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, (ii) are outside the United Kingdom, or (iii) are persons to whom an invitation or inducement to engage in an investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any securities may otherwise be lawfully communicated or caused to be communicated (all such persons collectively being referred to as ''Relevant Persons''). The offering memorandum is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this offering memorandum relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. The offering memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person. Any person who is not a Relevant Person should not act or rely on the offering memorandum or any of its contents.

You are reminded that this offering memorandum is confidential and has been delivered to you on the basis that you are a person into whose possession this offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of this offering memorandum to any other person. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where such offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchaser or any affiliate of the initial purchaser is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchaser or such affiliate on behalf of the issuer in such jurisdiction. This offering memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of Merrill Lynch International, any person who controls it or any of its directors, officers, employees or agents or affiliates accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the Sole Lead Manager.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

361 Degrees International Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1361)

US$400,000,000

7.25% Senior Notes due 2021

Issue Price: 99.055%

The 7.25% Senior Notes due 2021 (the "Notes") will bear interest from June 3, 2016 at 7.25% per annum payable semi-annually in arrears on June 3 and December 3 of each year, beginning December 3, 2016. The Notes will mature on June 3, 2021. The Notes are senior obligations of 361 Degrees International Limited (the "Company") and are guaranteed (the "Subsidiary Guarantees") by all of the Company's existing Subsidiaries (as defined herein) (1) other than those organized under the laws of the PRC, and (2) certain other subsidiaries specified in "Description of the Notes" (the "Subsidiary Guarantors").

At any time and from time to time on or after June 3, 2019, our Company may at its option redeem the Notes, in whole or in part, at a the redemption prices set forth in this Offering Memorandum, plus accrued and unpaid interest, if any, to (but not including) the redemption date. At any time and from time to time prior to June 3, 2019, our Company may, at its option, redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus a premium as set forth in this Offering Memorandum as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. At any time and from time to time prior to June 3, 2019, our Company may at its option redeem up to 35% of the aggregate principal amount of the Notes at a redemption price of 107.25% of their principal amount, plus accrued and unpaid interest, if any, to (but not including) the redemption date, using net cash proceeds from the sales of its capital stock. Upon the occurrence of a Change of Control Triggering Event (as defined herein), our Company must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to (but not including) the date of purchase.

The Notes will (i) rank at least *pari passu* with the 2014 Notes (as defined herein) and all other unsubordinated indebtedness of our Company (subject to any priority rights of such unsubordinated indebtedness pursuant to applicable law); (ii) be effectively subordinated to all existing and future obligations of our Company's Subsidiaries that are not Subsidiary Guarantors; (iii) rank senior in right of payment to any existing and future obligations of our Company expressly subordinated in right of payment to the Notes; and (iv) be effectively subordinated to all existing and future secured obligations of our Company and the Subsidiary Guarantors to the extent of the collateral securing such obligations. However, applicable law may limit the enforceability of the Subsidiary Guarantees. See "Risk Factors — Risks Relating to the Notes" and "Risk Factors — Risks Relating to the Subsidiary Guarantees."

The Notes will be issued only in fully registered form, without coupons, in minimum denomination of US$200,000 of principal amount and integral multiples of US$1,000 in excess thereof. For a more detailed description of the Notes, see the section headed "Description of the Notes" beginning on page 117.

Investing in the Notes involves certain risks. See "Risk Factors" beginning on page 17 for a discussion of certain factors to be considered in connection with the investment in the Notes.

Application will be made to The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for the listing of the Notes by way of debt issues to professional investors only (as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong). This document is for distribution to professional investors only. **Investors in Hong Kong should not purchase the Notes in the primary or secondary markets unless they are professional investors and understand the risks involved. The Notes are not suitable for retail investors in Hong Kong.**

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to professional investors only have been reproduced in this document. Listing of the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Notes or the Company and the Subsidiary Guarantors or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this document.

The Notes and the Subsidiary Guarantees have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and may not be offered or sold within the United States, except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. The Notes are being offered and sold only outside the United States in reliance on Regulation S under the Securities Act ("Regulation S"). For a description of certain restrictions of resale or transfer of the Notes, see the section headed "Transfer Restrictions" beginning on page 177.

The Notes will be evidenced by beneficial interests in a global certificate (the "Global Certificate") in registered form, without interest coupons attached, which will be registered in the name of a nominee of, and shall be deposited on or about June 3, 2016 with a common depositary for, Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking S.A. ("Clearstream"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their respective account holders. It is expected that delivery of the Notes will be made on or about June 3, 2016 through the book-entry facilities of Euroclear and Clearstream against payment therefor in immediately available funds.

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager

BofA Merrill Lynch

Offering Memorandum dated May 24, 2016

This Offering Memorandum does not constitute an offer to sell or a solicitation of an offer to buy any Note offered hereby in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this Offering Memorandum or that the information contained in this Offering Memorandum is correct as of any time after that date.

The distribution of this Offering Memorandum is limited to "professional investors" only, as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, being (a) for a person in Hong Kong, a professional investor as defined in Part 1 of Schedule 1 to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (excluding those prescribed by rules made under Section 397 of that Ordinance); or (b) for a person outside Hong Kong, a person to whom securities may be sold in accordance with a relevant exemption from public offer regulations in that jurisdiction.

IN CONNECTION WITH THIS OFFERING, MERRILL LYNCH INTERNATIONAL, AS STABILIZING MANAGER ON BEHALF OF THE INITIAL PURCHASER, OR ANY PERSON ACTING FOR THEM, MAY PURCHASE AND SELL THE NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE NOTES. AS A RESULT, THE PRICE OF THE NOTES MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME. THESE ACTIVITIES WILL BE UNDERTAKEN SOLELY FOR THE ACCOUNT OF THE INITIAL PURCHASER AND NOT FOR OR ON BEHALF OF THE COMPANY.

This Offering Memorandum includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to our Company and the Subsidiary Guarantors. Our Company and the Subsidiary Guarantors accept full responsibility for the accuracy of the information contained in this Offering Memorandum and confirm, having made all reasonable enquiries that to the best of their knowledge and belief there are no other matters the omission of which would make any statement herein misleading.

You should rely only on the information contained in this Offering Memorandum. We have not authorized anyone to provide you with information that is different from that contained in this Offering Memorandum. We are offering to sell, and seeking offers to buy, the Notes only in jurisdictions where offers and sales are permitted. The information contained in this Offering Memorandum is accurate only as of the date of this Offering Memorandum, regardless of the time of delivery of this Offering Memorandum or any sale of the Notes. Our business, financial condition, results of operations and prospects may have changed since that date.

This Offering Memorandum is highly confidential. This Offering Memorandum is personal to the offeree to whom it has been delivered and does not constitute an offer to any other person or to the public in general to subscribe for or otherwise acquire the Notes. We are providing it solely for the purpose of enabling you to consider a purchase of the Notes. You should read this Offering Memorandum before making a decision whether to purchase the Notes. You must not use this Offering Memorandum for any other purpose, or disclose any information in this Offering Memorandum to any other person.

We have prepared this Offering Memorandum and we are solely responsible for its contents. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Notes. By purchasing the Notes, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section headed "Transfer Restrictions" below.

No representation or warranty, express or implied, is made by the Initial Purchaser, DB Trustees (Hong Kong) Limited (the "Trustee") or the Agents (as defined in "Description of the Notes") or any of their respective affiliates or advisers as to the accuracy or completeness of the information set forth herein, and nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation, whether as to the past or the future. To the fullest extent permitted by law, none of the Initial Purchaser, the Agents or the Trustee accepts any responsibility for the contents of this Offering Memorandum or for any other statement in connection with the issue and offering of the Notes made or purported to be made by the Initial Purchaser, the Agents or the Trustee or on their behalf. The Initial Purchaser, the Agents and the Trustee accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which might otherwise have in respect of this Offering Memorandum or any such statement.

Each person receiving this Offering Memorandum acknowledges that: (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on the Initial Purchaser, the Trustee or the Agents or any person affiliated with the Initial Purchaser, the Agents or the Trustee or their respective advisers in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries and affiliates, the Notes or the Subsidiary Guarantees (other than as contained herein and information given by our duly authorized officers and employees in connection with investors' examination of our company and the terms of the offering of the Notes) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us, the Initial Purchaser, the Agents or the Trustee.

None of us and the Initial Purchaser is making an offer to sell the Notes in any jurisdiction except where an offer or sale is permitted. The distribution of this Offering Memorandum and the offering of the Notes may in certain jurisdictions be restricted by law. Persons into whose possession this Offering Memorandum comes are required by us, the Agents, the Trustee and the Initial Purchaser to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Notes and distribution of this Offering Memorandum, see "Transfer Restrictions" and "Plan of Distribution."

This Offering Memorandum summarizes certain material documents and other information, and we refer you to them for a more complete understanding of what we discuss in this Offering Memorandum. In making an investment decision, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved. None of us, the Initial Purchaser, the Agents and the Trustee is making any representation to you regarding the legality of an investment in the Notes by you under any legal, investment or similar laws or regulations. You should not consider any information in this Offering Memorandum to be legal, business or tax advice. You should consult your own attorney, business adviser and tax adviser for legal, business and tax advice regarding an investment in the Notes.

We reserve the right to withdraw the offering of the Notes at any time, and the Initial Purchaser reserves the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to any prospective purchaser less than the full amount of the Notes sought by such purchaser. The Initial Purchaser and certain related entities may acquire for their own account a portion of the Notes.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS OR EXEMPTION THEREFROM. YOU SHOULD BE AWARE THAT YOU MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. SEE "TRANSFER RESTRICTIONS."

The Initial Purchaser, the Agents and the Trustee have not independently verified the information contained herein. Accordingly, the Initial Purchaser, the Agents and the Trustee or their respective affiliates or advisers are not making any representation or warranty as to the accuracy or completeness of the information in this Offering Memorandum, and nothing contained in this Offering Memorandum is, or may be relied upon as, a promise or representation, whether as to the past, the present or the future. The Initial Purchaser, the Agents and the Trustee assume no responsibility for the accuracy or completeness of the information contained in this Offering Memorandum.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

We have prepared this Offering Memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms "we," "us," "our," "our Group" and words of similar import, we are referring to 361 Degrees International Limited itself, or to 361 Degrees International Limited and its subsidiaries, as the context requires. When we use the terms "Issuer" and "Company," we are referring to 361 Degrees International Limited.

Market data and certain industry forecast and statistics in this Offering Memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although we believe this information to be reliable, it has not been independently verified by us, the Agents, the Trustee or the Initial Purchaser or their respective affiliates and advisers, and none of us, the Agents, the Trustee, the Initial Purchaser or our or their respective affiliates and advisers make any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. This Offering Memorandum summarizes certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents. In making an investment decision, each investor must rely on its own examination of us and the terms of the offering and the Notes, including the merits and risks involved.

The statistics set forth in this Offering Memorandum relating to the PRC and the sportswear industry in the PRC were taken or derived from various government and private publications. None of the Initial Purchaser, the Agents and the Trustee or their respective affiliates or advisers makes any representation as to the accuracy of such statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly inconsistent collection methods and other problems, the statistics herein may be inaccurate and should not be unduly relied upon.

References to the "PRC" and "China" are to the People's Republic of China and, for the purposes of this Offering Memorandum, except where the context requires, do not include the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC ("Macau"), or Taiwan. "PRC government" or the "State" means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and organizations of such government thereof, or, where the context requires, any of them.

In this Offering Memorandum, "Initial Purchaser" refers to Merrill Lynch International.

Unless otherwise specified or the context requires, references herein to "Hong Kong dollars," "HK dollars" and "HK$" and "HK¢" are to the official currency of Hong Kong, references herein to "U.S. dollars" or "US$" are to the official currency of the United States of America and references herein to "Renminbi" or "RMB" are to the official currency of the PRC.

We have prepared audited consolidated financial statements for the financial years ended December 31, 2013, 2014 and 2015.

We record and publish our financial statements in Renminbi. Unless otherwise stated in this Offering Memorandum, all translations from Renminbi amounts to U.S. dollars were made at the rate of RMB6.4970 to US$1.00, which was the noon buying rate as certified for customs purpose by the H.10 weekly statistical release of the Federal Reserve Board for cable transfers for the Renminbi on May 6, 2016. All such translations in this Offering Memorandum are provided solely for your convenience and no representation is made that the RMB amounts referred to in this Offering Memorandum could have been or could be converted into Hong Kong dollars or U.S. dollars or vice versa at any particular rate or at all. For further information relating to the exchange rates, see "Exchange Rate Information" in this Offering Memorandum.

In this Offering Memorandum, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only.

FORWARD-LOOKING STATEMENTS

Our Company has made certain forward-looking statements in this Offering Memorandum. All statements other than statements of historical facts included in this Offering Memorandum, including, without limitation, those regarding our Group's financial position, future expansion plans, operations and business prospects, business strategy and the plans and objectives of our Group's management for its future operations (including development plans and objectives relating to our Group's operations), are forward-looking statements. These forward-looking statements are based on our Company's current expectations about future events. Although our Company believes that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions, including, among other things, risks associated with our Group's business activities; general economic and political conditions; availability and cost of financing; possible disruptions to commercial activities due to natural and human induced disasters, including terrorist activities and armed conflicts; fluctuations in foreign currency exchange rates; and those other risks identified in the "Risk Factors" section of this Offering Memorandum that could cause actual results to differ materially from our expectations.

The words "may," "should," "could," "would," "seek," "aim," "anticipate," "believe," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify a number of these forward-looking statements. Our Company undertakes no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Memorandum might not occur and our Company's or our Group's actual results could differ materially from those anticipated in these forward-looking statements. All forward-looking statements contained in this Offering Memorandum are qualified by reference to the cautionary statements set forth in this section.

DEFINITIONS

In this Offering Memorandum, unless the context otherwise requires, the following terms shall have the meanings set out below.

"2014 Notes"	The 7.5% senior notes due 2017, issued by our Company on September 12, 2014
"*361°* products" or "*361° Adults* products"	consist of the products of our *361°* brand and *Innofashion* sub-brand
"*361° Kids* business"	the design, manufacture, distribution and sale of children's sportswear, footwear, apparel and accessories, as currently conducted by 361 Degrees Kids Wear Holdings Limited, 361 Degrees Kids Wear Limited, 361 Degrees Kids Wear Investment Limited, 361 Degrees (HK) Investment Limited and 361 Degrees Children's Clothing Co. Limited under our Company's *361° Kids* brand, and reasonable extensions thereof
"ASP"	average wholesale selling price
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"authorized retail outlet(s)"	retail outlet(s) operated by (i) one of our authorized retailers upon the adoption of the new distributorship business model in 2008 under the *361°* and *361° Kids* brand names and *Innofashion* sub-brand name, selling exclusively our products; or (ii) one of our pre-2008 customers selling non-exclusively our products (as the case may be). Such retail outlet(s) is/are owned and operated by independent third party(ies)
"authorized retailer(s)"	retailer(s) authorized by our distributor with our consent upon the adoption of the new distributorship business model in 2008 or authorized by us prior to 2008 to sell our *361°* products to consumers in authorized retail outlets (as the case may be). Such retailer(s) is/are independent third party(ies)
"Board" or "Board of Directors"	the board of Directors of our Company
"business day"	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	the British Virgin Islands
"CAGR"	compound annual growth rate
"China" or "PRC"	the People's Republic of China excluding, for the purpose of this Offering Memorandum, Hong Kong, the Macau Special Administrative Region and Taiwan
"Cap. 32 Companies (WUMP) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the laws of Hong Kong prior to March 3, 2014), as amended and supplemented from time to time

"Cap. 622 Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) with effect from March 3, 2014 (known as the Companies Ordinance, Chapter 32 of the Laws of Hong Kong prior to March 3, 2014), as amended and supplemented from time to time
"Company" or "our Company"	361 Degrees International Limited (361度國際有限公司), an exempted company incorporated with limited liability under the laws of the Cayman Islands on August 1, 2008, which was formerly known as 361 International Ltd. and it changed its name on March 30, 2009
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Convertible Bonds"	the 4.5% convertible bonds due 2017, issued by our Company on April 3, 2012 and redeemed in full by our Company on December 4, 2014
"Dings International"	Dings International Company Limited (丁氏國際有限公司), a company incorporated in the BVI with limited liability on February 15, 2008, the entire issued share capital of which is owned by Mr. Ding Wuhao (丁伍號)
"Director(s)"	the director(s) of our Company
"EIT Law"	Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), promulgated by the National People's Congress of the PRC (全國人民代表大會) on March 16, 2007 and effective as of January 1, 2008
"ePOS"	electronic points-of-sale
"governmental authority"	any public, regulatory, taxing, administrative or governmental agency or authority (including, without limitation, the Hong Kong stock exchange, the SFC and the united States Securities And Exchange Commission), other authority and any court at the national, provincial, municipal or local level
"GDP"	gross domestic product
"GPS"	global positioning system
"Group," "our Group," "we" or "us"	our Company and its subsidiaries or, where the context so requires in respect of period before our Company became the holding Company of its present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
"HK$" and "cents"	Hong Kong dollars and cents respectively, the lawful currency for the time being of Hong Kong
"HIBOR"	Hong Kong inter-bank offer rate, the interest rate stated in Hong Kong dollars on the lending and borrowing between banks in the Hong Kong interbank market
"HKAS(s)"	Hong Kong Accounting Standards
"HKFRS(s)"	Hong Kong Financial Reporting Standard(s) (including HKASs and Interpretations) issued by HKICPA

"HKICPA"	Hong Kong Institute of Certified Public Accountants
"Hong Kong," "HKSAR" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hui Rong International"	Hui Rong international company limited (輝榮國際有限公司), a company incorporated in the BVI with limited liability on 15 February 2008, the entire issued share capital of which is owned by Mr. Ding Huirong (丁輝榮)
"Indenture"	the indenture governing the Notes, to be entered into by and among our Company, the Subsidiary Guarantors (as defined in "Description of the Notes") and the Trustee
"Initial Purchaser"	Merrill Lynch International
"IPO"	The initial public offering of our shares on the Hong Kong Stock Exchange
"Jia Chen International"	Jia Chen International Co., Ltd. (佳琛國際有限公司), a company incorporated in the BVI with limited liability on April 25, 2008, the entire issued share capital of which is owned by Mr. Wang Jiachen (王加琛)
"Jia Wei International"	Jia Wei International Co., Ltd. (佳偉國際有限公司), a company incorporated in the BVI with limited liability on April 25, 2008, the entire issued share capital of which is owned by Mr. Wang Jiabi (王加碧)
"Laws"	all laws, rules, statutes, ordinances, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees or rulings of any governmental authority and "law" includes any one of them
"LIBOR"	London inter-bank offer rate, the benchmark rate that some of the leading banks in London charge each other for short-term loans
"Listing Rules"	the rules governing the listing of securities on the Hong Kong Stock Exchange, as amended, supplemented or otherwise modified from time to time
"Ming Rong International"	Ming Rong International Company Limited (銘榕國際有限公司), a company incorporated in the BVI with limited liability on February 20, 2008, the entire issued share capital of which is owned by Mr. Ding Huihuang (丁輝煌)
"Noteholders"	the holders of the Notes
"PBOC"	The People's Bank of China (中國人民銀行), The Central Bank of China
"PRC government" or "State"	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof
"Regulation S"	Regulation S under the Securities Act

"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SAFE"	The State Administration of Foreign Exchange of the People's Republic Of China (中華人民共和國國家外匯管理局)
"Sanliuyidu China"	Sanliuyidu (China) Co., Ltd.* (三六一度 (中國)有限公司), a wholly foreign-owned enterprise incorporated under the laws of the PRC on April 21, 2005 and an indirect wholly-owned subsidiary of our Company
"Sanliuyidu Footwear"	Sanliuyidu (Fujian) Shoes and Plastics Technology Co., Ltd.* (三六一度(福建)鞋塑科技有限公司), a 51% indirect owned subsidiary of our Company and a wholly foreign owned enterprise incorporated under the laws of the PRC on April 20, 2010, which was jointly established by our Company and First Union International Industrial Ltd.
"Securities Act"	the United States Securities Act of 1933, as amended
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws Of Hong Kong)
"Share(s)"	ordinary share(s) with a nominal value of HK$0.10 each in the share capital of our Company, which are to be subscribed for and traded in Hong Kong dollars and listed on the Hong Kong Stock Exchange
"Shareholder(s)"	holder(s) of the share(s)
"SKU"	Stock-keeping unit
"subsidiary(ies)"	has the meaning ascribed thereto in section 2 of the Cap. 622 Companies Ordinance
"United States" or "U.S."	the United States of America within the meaning of Regulation S
"U.S. dollars" or "US$"	United States dollars, the lawful currency of the United States
"%"	per cent

In this Offering Memorandum, if there is any inconsistency between the Chinese names of the PRC entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail. The provision of English translation of company names in Chinese or another language which are marked with "" is for identification purposes only.*

ENFORCEMENT OF CIVIL LIABILITIES

We are an exempted company incorporated in the Cayman Islands with limited liability, and each Subsidiary Guarantor is also incorporated outside the United States, such as in the BVI, the Cayman Islands or Hong Kong. The Cayman Islands, the BVI and Hong Kong have different bodies of securities laws from the United States and protections for investors may differ.

All of our assets and assets of the Subsidiary Guarantors are located outside the United States. In addition, all of our directors and officers and the Subsidiary Guarantors' directors and officers are nationals or residents of countries other than the United States (principally in the PRC), and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us, any of the Subsidiary Guarantors or such persons or to enforce against us or any of the Subsidiary Guarantors or such persons judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

We and each of the Subsidiary Guarantors expect to appoint Law Debenture Corporate Service Inc. as our and their respective agent to receive service of process with respect to any action brought against us or the Subsidiary Guarantors in the United States federal courts located in the Borough of Manhattan, The City of New York under the federal securities laws of the United States or of any state of the United States or any action brought against us or the Subsidiary Guarantors in the courts of the State of New York in the Borough of Manhattan, The City of New York under the securities laws of the State of New York.

Conyers Dill & Pearman, our counsel as to Cayman Islands law, has advised us that the courts of the Cayman Islands would recognize as a valid judgment, a final and conclusive judgment in personam obtained in federal or state courts in the United States against our Company under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) or, in certain circumstances, an in personam judgment for non-monetary relief, and would give a judgment based thereon provided that (a) such courts had proper jurisdiction over the parties subject to such judgment; (b) such courts did not contravene the rules of natural justice of the Cayman Islands; (c) such judgment was not obtained by fraud; (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands; (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands; and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

Conyers Dill & Pearman, our counsel as to BVI law, has advised us that the courts of the BVI may recognise as a valid judgment, a final and conclusive judgment in personam obtained in the federal or state courts of the United States under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) and may give a judgment based thereon provided that (i) such courts had proper jurisdiction over the parties subject to such judgment; (ii) such courts did not contravene the rules of natural justice of the BVI; (iii) such judgment was not obtained by fraud; (iv) the enforcement of the judgment would not be contrary to the public policy of the BVI; (v) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the BVI; and (vi) there is due compliance with the correct procedures under the laws of the BVI.

We have been advised by Orrick, Herrington & Sutcliffe, our Hong Kong legal adviser, that Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. However, under Hong Kong common law, a foreign judgment (including one from a court in the United States predicated upon U.S. federal or state securities laws) may be enforced in Hong Kong by bringing an action in a Hong Kong court against the same parties on the strength of the foreign judgment, provided that the foreign judgment is for a debt or definite sum of money and is final and conclusive on the merits.

However, Hong Kong courts may refuse to recognize or enforce a foreign judgment if such judgment:

- was obtained by fraud;
- was rendered by a foreign court that lacked the appropriate jurisdiction at the time (as determined by Hong Kong jurisdictional rules);
- is contrary to public policy or natural justice;
- is for multiple damages;
- is based on foreign penal, revenue or other public law;
- falls within section 3(1) of the Foreign Judgments (Restriction on Recognition and Enforcement) Ordinance; or
- is inconsistent with a prior Hong Kong judgment or foreign judgment which is entitled to recognition in Hong Kong.

Since 1979, the PRC government has promulgated laws and regulations in relation to general economic matters such as foreign investment, corporate organization and governance, commerce, taxation, foreign exchange and trade, with a view towards developing a comprehensive system of commercial law. In particular, legislation over the past three decades has significantly enhanced the protections afforded to various forms of foreign investment in China. As a result of this activity to develop the legal system, the system of laws in China continues to evolve. However, even where adequate law exists, the enforcement of existing laws or contracts may be uncertain and sporadic. The PRC legal system is based on written statutes and their interpretation, and prior court decisions may be cited for reference but have limited weight as precedent. It may be difficult for investors to effect service of process upon us or our directors and officers. Further, we have been advised by the Initial Purchaser's PRC legal counsel, Jun He Law Offices, and our Cayman Islands legal counsel, Conyers Dill & Pearman, that there is uncertainty as to whether the courts of the PRC and the Cayman Islands, respectively, would (i) enforce judgments of the U.S. courts obtained against us or our directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States or the securities laws of any state or territory within the United States or (ii) entertain original actions brought in the courts of the PRC and the Cayman Islands, respectively, against us or our directors and officers predicated upon the federal securities laws of the United States or the securities laws of any state or territory within the United States.

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SUMMARY

This summary does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire Offering Memorandum, including the section entitled "Risk Factors" and the financial statements and related notes thereto, before making an investment decision.

Overview

We are a leading domestic sportswear enterprise in the PRC. We design, develop, manufacture and sell high performance, innovative and stylish sportswear products to cater to the active, athletic and casual sportswear needs of adults, young adults and children. We offer a wide array of products under our footwear, apparel and accessories product categories for a variety of sporting activities. In addition to our *361°* brand, we also market our sportswear products under our *361° Kids* brand and *Innofashion* sub-brand, both of which are designed for specific audiences.

Our main brand, *361°*, represents the 360 degrees of a complete circle plus one extra degree, symbolizing our goal of establishing our brand to provide complete satisfaction in athleticism and functionality, plus an added degree of innovation and creativity. It also represents our continuous commitment to always pursuing one more degree of management and operational excellence and highlights our goal of distinguishing *361°* from other competitors by this one degree.

We place great emphasis on brand building and promoting our products, including our *361°*, *361° Kids* and *Innofashion* product lines. We have established and maintain our *361°* brand and our *Innofashion* sub-brand, which aim to provide satisfaction in athleticism and functionality plus an added degree of innovation and creativity. We primarily target the fast-growing, up-and-coming consumer group comprised of sports-minded consumers between the ages of 18 and 30 for our *361°* and *Innofashion* branded products. We produce integrated, theme-based print, television and Internet advertising that promote the spirit of passion and individualism of *361°*. We also create influential co-marketing campaigns through a selection of top athletes as our spokespersons and the sponsorship of high quality, brand enhancing sporting events. We have separate and dedicated in-house design teams for our *361°* and *361° Kids* products. Through collaboration with external design agencies and institutes, our in-house design teams develop stylish and functional sportswear products to cater to consumer trends while echoing thematic elements from our integrated marketing campaigns to establish a unified image for our brand and products.

We also pride ourselves on creating high performance sportswear products for our consumers. Our research and development teams focus on developing new technologies and applications to enhance the quality and performance of our products. Key achievements of our research and development teams include patented sportswear technologies, such as our Lizard Claw Stability Tech soles, which have enhanced stability characteristics, our 3-D Geometric Lattice Tech soles, which have enhanced shock absorption characteristics, and the Quikfoam, an advanced technology that uses a casting polyurethane coating to envelope a blended foam midsole for additional footwear comfort and support. As of April 30, 2016, our Group held 72 footwear-related patents 54 apparel-related patents (such as patents for new fabrics and cloth designs) and eight accessories-related patents for our *361° Adult* products, and 17 footwear-related patents and 17 apparel-related patents for our *361° Kids* products.

We manufacture a majority of our own footwear products at our two production facilities, one of which is situated in the Jiangtou Industrial Park and the other in the Wuli Industrial Park, each located in Jinjiang City, Fujian Province, the PRC. We manufacture a portion of our apparel products at our production facility in the Wuli Industrial Park. As of December 31, 2015, we had a total of 23 footwear production lines with an aggregate production capacity of 21 million pairs of footwear per annum, and an apparel production facility with a production capacity of 10 million pieces per annum. To maintain an optimum production balance, we also outsource the manufacture of a portion of our footwear, the majority of our apparel and all of our accessories to third-party contract manufacturers.

We sell our products primarily to distributors, who in turn sell them to authorized retailers within the exclusive geographic areas assigned to them. As of March 31, 2016, the distribution network of our *361°* products, which include our *361°* and *Innofashion* products, consisted of 31 distributors who oversaw approximately 3,000 authorized retailers that in turn, owned and operated 7,102 authorized retail outlets. In addition, as of March 31, 2016, we had 2,471 *361° Kids* authorized retail outlets in our distribution network. Beginning in 2014, we improved our business model in the existing channels by establishing new and larger "2-in-1" outlets in the PRC, which include our *361°* and *361° Kids* merchandise, and "3-in-1" composite stores, which, in addition to our *361°* and *361° Kids* products, also include our *Innofashion*-branded merchandise. We continued to leverage the on-line sales channel by outsourcing our e-commerce activities through an independent third-party on-line distributor in Quanzhou, Fujian Province, the PRC. Meanwhile, we focused on expanding our overseas business, which include target markets such as the United States, South America, Southeast Asia and Europe, and have established branch offices in Taiwan and California, the United States. We intend to continue to expand the retail network for our products and to grow our market share through diversifying our sales and distribution channels.

We have grown since we launched our *361°* branded athletic footwear in January 2004. We believe our growth has been driven principally by the successful promotion of our brands, effective management of our authorized retail network, improved product designs, expansion of our range of product offerings, and our exclusive distributorship business model. Despite our initial growth, the PRC sportswear industry recently experienced significant over-supply and high inventory issues which resulted from the rapid and volume-driven expansion since the 2008 Beijing Olympics, which, along with China's slowing economic growth and dampened consumer demand for sports apparel and footwear products in 2012 and 2013, have resulted in a reduction in the orders we received from our trade fairs during these years. These factors, together with the higher costs of production and intense market competition, led to a deterioration of our revenue and gross profit margin. However, during the last quarter of 2014, China's sportswear industry experienced a modest recovery as the efforts to clear market over-supply and streamline the retail network began to yield results, which continued throughout 2015, primarily driven by the increased participation in sporting activities by the growing middle class in the PRC and the encouraging initiatives from the PRC government.

Our revenue for the financial years ended December 31, 2013, 2014 and 2015 was RMB3,583.5 million, RMB3,906.3 million and RMB4,458.7 million, respectively. Our net profit for the financial years ended December 31, 2013, 2014 and 2015 was RMB214.7 million, RMB405.2 million and RMB529.6 million, respectively.

Competitive Strengths

We believe the following are our key competitive strengths:

A leading sportswear brand in the PRC with a strong position in the industry

We are a leading sportswear brand in the PRC. We have been among the top four domestic sportswear players in China for the past six years in terms of retail value RSP (retail selling price), according to Euromonitor International Ltd, a London-based business intelligence and market research company ("Euromonitor International"). Our *361°* trademark is recognized as a "China Well-Known Trademark" (中國馳名商標) by the State Administration for Industry and Commerce of the PRC (中國國家工商行政管理總局), and we have received numerous other awards, recognitions and accolades for our sportswear products and our brand name, including, among others, the recognition as one of the top 500 private enterprises in China (中國民營500強) by China Federation of Private Enterprises (中國民營企業聯合會), China Statistical Association (中國統計協會) and Enterprise Development Research Center of China Academy of Management Science (中國管理科學研究學院企業發展研究中心) in 2015 and the reception of the 2016 CNGA Award (中國服裝協會大獎) for our *361° Adult* products and the award for the Best Children's Clothing Brand in China (中國最佳童裝品牌) for our *361° Kids* products by the China National Garment Association (中國服裝協會). We were also listed in the 10th annual election of "Top 500 Most Valuable Brands in China" (中國品牌價值500強) organized by Brand Observer Magazine (品牌觀察雜誌) in 2016.

Since we launched our *361°* branded athletic footwear in January 2004 and have expanded our product lines to include men's and women's footwear in 2004, apparel beginning in February 2005 and accessories beginning in September 2007. In March 2010 we began to distribute products for our children's sportswear collection under our *361° Kids* product line, and in April 2010, we commenced distribution of *361° Shine* products, a collection of sportswear primarily targeting young adults in their early twenties, which we subsequently renamed to *Innofashion* in 2013. In addition, in April 2014, we officially launched the *ONE WAY* brand in China through a joint venture we established with a Finnish premium sporting goods company, ONE WAY Sport Oy, in October 2013. We develop all of our internally manufactured products with a strong focus on high performance and technological innovation. We believe that our well-known brand name has created a strong brand following among our core consumer demographics, which include sports-minded and style-conscious adults and young adults as well as children, and has contributed to our growth over the period, in particular our *361° Kids* business, which continued to expand in 2015.

As a result of our brand name and reputation, we were appointed as a sportswear prestige partner for the 2010 Guangzhou Asian Games (廣州2010亞運會), the 2011 Shenzhen Summer Universiade (2011年第26屆夏季世界大學生運動會), the Second Asian Youth Games held in Nanjing in 2013 (2013年第二屆青年亞洲運動會) and the 2014 Nanjing Olympic Youth Games (2014年第二屆青年奧林匹克運動會). We have also secured the rights to sponsor China's national swimming and cycling teams and Sweden's national curling team, as well as the 17th Asian Games in Incheon, Korea (第17屆亞洲運動會), in 2014. Furthermore, in 2014, we were named as a Tier-2 official supporter of the Olympic and Paralympic Games in Rio de Janeiro, Brazil, in the summer of 2016 (2016年第31屆夏季奧林匹克運動會及2016 年夏季殘奧會).

Innovative design, strong product development capability and strong product positioning

Our brand integrates our product development experience in the PRC market with our product research and development capabilities to create high performance, innovative and stylish sportswear for our consumers.

We have established separate research and development and design teams dedicated to each of our footwear, apparel and accessories product categories, as well as for our *361° Kids* and *Innofashion* sportswear product lines which target specific audiences. We also have two laboratories for footwear and one laboratory for apparel, where we conduct quality control testing and performance data collection to assist our research and development teams in developing new technologies and applications. Our research and development teams in China include 135 professional staff for footwear and 147 professional staff for apparel, accessories and children's wear. We also have a research and development center in Taiwan. These teams collaborate with external design agencies and institutes to develop stylish and functional sportswear products that respond to developing trends in the sportswear market.

As of April 30, 2016, our Group held 72 footwear-related patents, 54 apparel-related patents (such as patents for new fabrics and cloth designs) and eight accessories-related patents for our *361° Adult* products, and 17 footwear-related patents and 17 apparel-related patents for our *361° Kids* products. These include patents for, among others, sportswear technologies such as our Lizard Claw Stability Tech soles, which have enhanced stability characteristics, our 3-D Geometric Lattice Tech soles, which have enhanced shock absorption characteristics, and the Quikfoam, which is an advanced technology that uses a casting polyurethane coating to envelope a blended foam midsole for additional footwear comfort and support. In addition, certain of our products have received recognition and/or commendations from reputable international sporting product magazines and publications. For instance, in 2015, we introduced our *361 Sensation* running shoes in the United States, which won industry awards for comfort, durability and value and were designated as "Best Buy" by Runner's World, a prestigious globally circulated monthly magazine for runners of all skill sets. Runner's World also made various recommendations on our *KgM2, Spire* and *Omni-Fit* running shoes. In 2015, we collaborated with Baidu to introduce the first children's smart shoes in the industry, which incorporate microchips with GPS features and data-tracking capability so that parents can track the whereabouts of their children. In addition, in 2015, we entered into strategic cooperation relationship with LeTV Sports pursuant to which we are collaborating with LeTV Sports to research and design music and data-related smart footwear products, among other things. We anticipate we will unveil our first smart footwear prototype during the third quarter of 2016.

Diversified brands with multiple growth engines

We offer a diversified portfolio of footwear and apparel products to cater to a broad customer base with different age groups, geographical locations and cultural and style preferences. In addition to our *361° Adult* products, we have also successfully launched and expanded our *361° Kids* business. Its revenue increased from RMB420.4 million for the year ended December 31, 2013 to RMB588.9 million for the year ended December 31, 2015, representing a CAGR of 18.4%. The *361° Kids* retail outlets also increased from 1,858 as of December 31, 2013 to 2,350 as of December 31, 2015, and further to 2,471 as of March 31, 2016. For the year ended December 31, 2015, the revenue from *361° Kids* represented approximately 13.2% of our total revenue for the year as compared to approximately 11.7% for the year ended December 31, 2013.

We have also focused on expanding our overseas business. Prior to 2014, we conducted sales of our products in selected overseas markets through a third party trading company based in the PRC. In 2014, we ended the distributorship relationship with such company and began to operate overseas sales internally. Besides our existing points of sales in numerous countries in the Middle East, South America and South East Asia, we have begun to expand the sales of our products at various points of sales in the United States and Brazil since 2014. Our overseas business is led by a Taiwanese general manager with a team of experienced professionals through our branch offices in Taiwan and California, the United States. As of March 31, 2016, we sold our products at 151 points of sales in the United States, 839 points of sales in Brazil and 34 points of sales in Europe.

Furthermore, in April 2014, we officially launched the *ONE WAY* brand in China through a joint venture we established with a Finnish premium sporting goods company, ONE WAY Sport Oy, in October 2013. We currently have a 70% equity interest in the joint venture, which holds the rights to the distribution and marketing of the *ONE WAY* brand in the PRC. We were able to leverage the reputation of *ONE WAY* as a global leader in the manufacturing of outdoor sporting goods, such as winter sports, cycling and extreme sports, to open 58 self-operated stores in 28 key cities across China as of March 31, 2016.

Well-developed, extensive sales channels and effective marketing and promotion strategies

We have established an extensive nationwide distribution network consisting 31 distributors covering specifically designated regions as of March 31, 2016, which has allowed us to expand across the PRC and penetrate our core markets. Our distributors oversee approximately 3,000 authorized retailers who in turn own and operate authorized retail outlets. As of March 31, 2016, we had 7,102 *361°* authorized retail outlets in China (excluding *361° Kids* outlets). These authorized retail outlets include store counters in department stores in most major cities in the PRC. Since 2014, we have been encouraging our authorized retailers to establish new and larger "2-in-1" and "3-in-1" composite stores in the PRC, which carry multiple product lines of our Group. As of March 31, 2016, 1,504 of our 7,102 retail outlets nationwide were composite stores. Our exclusive distributorship business model encourages our distributors to expand our market share by continuing to increase our retail presence, providing an improved and enjoyable purchasing experience to consumers and contributing to the promotion and marketing of our products. We believe that our distributorship model has enabled us to establish a strong presence in all of our core markets. We collaborate closely with our exclusive distributors in developing a structured expansion plan, requiring each distributor to establish an agreed number of new outlets during the term of the distributorship agreement.

In addition to our retail sales channels, we also outsource our e-commerce activities to an independent on-line distributor in Quanzhou, which, besides selling our products through various third-party on-line platforms (such as www.tmall.com and www.jd.com), also helps our retail distributors and authorized retailers sell their slow-moving or obsolete stock at discounted retail prices. Through this business arrangement, our on-line distributor is able to effectively manage the inventory levels of our retail distributors to reduce potential losses.

Moreover, we utilize innovative multimedia marketing and promotion strategies to highlight *361°* as a leading sportswear brand. In addition to traditional mass media marketing, we cross-promote ourselves through integrated media advertising, appointment of spokespersons, special events, product promotion and marketing, trade fairs and in-store promotions that maximize our exposure and create a uniform and well-respected brand image. We have developed creative integrated marketing campaigns through our sponsorship of high quality, brand enhancing sporting events. This allows us to develop product tie-ins that are cross-marketed during the events' promotional campaigns and, in turn, promote sales of our products. For example, we selected top national and international athletes as spokespersons for our products, including Mr. Stephon Marbury, who plays for the Beijing Ducks of the Chinese Basketball Association, Mr. Dexter Lee, a Jamaican sprinter who specializes in 100 meter and 200 meter races, Mr. Sun Yang (孫楊), an Olympic swimming champion, as well as his teammates Mr. Ning Zetao (寧澤濤) and Ms. Ye Shiwen (葉詩文), and Mr. Yang Xu (楊旭), a striker of China's national football team, for endorsement of our products and brand image.

To enhance our market penetration and appeal, we have adopted marketing strategies to promote our products among our target markets. Besides designs, colors and materials we usually use in our *361° Kids* product line, we have also sought to promote our children's sportswear collection by collaborating with major entertainment companies to feature popular comics or movie icons on our children's apparel. We believe that such collaborative and promotional activities will enable us to enhance the appeal of our products to specific audiences.

Strong financial performance and prudent financial and accounting policies

We have achieved relatively strong growth since 2014 when the market began to recover from the over-supply of sportswear products as a result of the economic slowdown in China in recent years and a consequent decrease in consumer appetite for sportswear apparel and footwear products. For the years ended December 31, 2013, 2014 and 2015, our revenue was RMB3,583.5 million, RMB3,906.3 million and RMB4,458.7 million, respectively, representing a CAGR of 11.5%. For the same years, revenue of our *361° Adult* footwear, apparel, accessories products grew at a CAGR of 11.3%, 9.7% and 15.9%, respectively, and revenue of our *361° Kids* products grew at a CAGR of 18.4%. For the years ended December 31, 2013, 2014 and 2015, our net profit was RMB214.7 million, RMB405.2 million and RMB529.6 million, respectively, representing a CAGR of 57.1%. In addition, we were able to maintain our gross profit margin at relatively stable levels for the years ended December 31, 2013, 2014 and 2015 at 39.5%, 40.9% and 40.9%, respectively.

In order to sustain long-term profitability, we have implemented prudent financial and accounting policies. For example, through our efforts to proactively manage our distributors to collect their payments, our average trade and bills receivables turnover day decreased from 205 days for the year ended December 31, 2013 to 167 days for the year ended December 31, 2014 and further to 160 days for the year ended December 31, 2015. We also continued to effectively utilize the extended credit period offered by our OEM suppliers so that our average trade and bills payables turnover days increased from 158 days as of December 31, 2013 to 169 days as of December 31, 2015. Furthermore, we were able to maintain relatively healthy leverage ratios (calculated as our total borrowings divided by total assets) of 11.0%, 17.6% and 17.1% as of December 31, 2013, 2014 and 2015, respectively, which we believe were comparable to our peers. We believe our strong financial performance and prudent financial policies differentiate us from our competitors.

Experienced and professional management team

Our professional management team has extensive experience in sportswear marketing, manufacturing and management. Our president, Mr. Ding Wuhao(丁伍號), has over 15 years of experience in sportswear operations and management and has devoted himself to the implementation of our business development strategies and expansion plans to achieve rapid growth. In addition, other members of our senior management also have substantial relevant experience in their respective fields. For example, Mr. Ding Huihuang (丁輝煌), one of our executive directors, has over 15 years of experience in the PRC sportswear industry; Mr. Chen Yongling (陳永靈), our vice president of capital markets, has over 15 years of experience in finance, operation and business management; Mr. Lu Ning (盧寧), our executive vice president in charge of our footwear business, has over 20 years of experience in management internally renowned sportswear brands; Ms. Choi Mun Duen (蔡敏端), our chief financial officer and company secretary, has over 20 years in auditing, finance and accounting; Mr. Lin Bing Huang (林炳煌), the general manager of our international business department who manages our overseas business, has over 30 years of experience managing internationally renowned sportswear brands; Mr. Chen Jian Ci (陳建次), vice president of our supply chain management center, has over 15 years of experience in information systems; and Ms. Zhan Xiao Xiao (詹瀟瀟), our vice president of investor relations, has over 10 years of experience in corporate finance, investor relations, corporate governance and management. We have also recruited employees from other PRC sportswear businesses to leverage their operational and management experience to contribute to the success of our brand.

We have created stand-alone management departments for various business units to enable optimal operational efficiency, and have tightly integrated our core functions, such as supply chain and brand management. We believe that we have created a management system with strong operational transparency, which has enabled us to effectively execute our business strategies and rapidly increase our market share. We have independent management teams for each of our brands and sub-brands including *361° Kids*, *Innofashion* and *ONE WAY*.

Business Strategies

We aim to become one of the leading sportswear brands in the world in terms of brand recognition and market share and to maximize shareholder value. The following sets forth our key business strategies which we expect to implement to meet our overall goal of increasing market share in the PRC sportswear market:

Optimize our sales channel management and improve same store profitability

We plan to optimize our sales channel management to create one of the strongest sportswear distribution networks in the PRC. We believe our success will depend on our ability to effectively manage our existing sales network and strategically strengthen our market position by enhancing our presence in second to fourth-tier cities in Eastern and Southern China, and further expanding into Southwestern and Northern China. By prudently maintaining our distribution coverage, we can more effectively penetrate our target consumer markets and further establish our brand as one of the leading sportswear brands in the PRC.

As part of our sales channel management, we continue to recruit experienced regional sales managers who have an intimate understanding of local consumer demand and spending patterns. Through our regional sales managers who are responsible for periodically conducting on-site inspections of randomly-selected authorized retail outlets and visiting our distributors in their respective geographic regions, we are able to monitor the performance of our distributors, assist them in developing new authorized retail outlets and entering into new markets, and provide them with appropriate sales and marketing strategy education and merchandising training. To optimize the overall management of our sales channels, we intend to continue strengthening our collaboration with our distributors and the authorized retailers and to enhance the training programs and guidelines that we offer to the authorized retailers.

To manage our distribution network prudently, we maintained a relatively stable number of our authorized retail outlets. As of March 31, 2016, we had a total of 7,102 retail outlets. We consider a store count of approximately 7,000 to be optimal for the foreseeable future. Consequently, instead of expanding our sales network, we aim to continue to enhance same store sales and profitability by encouraging our authorized retailers to establish new and larger "2-in-1" and "3-in-1" composite stores in the PRC, which carry multiple product lines of our Group, in order to increase customer foot traffic and same store revenue.

Increase our market share by further increasing the awareness of our brands and enhancing and expanding our product lines

We intend to continue to expand the market share of our products by improving our brand awareness and further developing our product lines. We will refine our brand strategy and improve our brand positioning to better target our consumer base. We continue to expand our retail channel management department and collaborate with external marketing consultants to research our consumers' spending patterns, product preferences and demographics in order to obtain first hand and intimate knowledge of our customer base. We believe that this enables us to further fine-tune our marketing and product development programs to improve brand loyalty, reputation and recognition. Leveraging our current sports sponsorship programs, we plan to continue to identify additional sports categories that align with our brand value to further increase brand awareness among consumers. We also plan to continue exploring endorsement opportunities with international sports teams or well-known athletes to further enhance our brand value. To solidify and expand our market position, we aim to continue to increase the overall competitiveness of our products to differentiate our products from those of our competitors, such as through technological innovation, quality and price.

As we establish ourselves as a leader in the PRC sportswear market, we plan to continue to build our product lines by leveraging our brand awareness so that we can better distinguish and align our products with the needs of our target consumers. To that end, we began to distribute products for a new children's sportswear collection under our *361° Kids* product line in March 2010, and in April 2010, we began to distribute *361° Shine* products, a collection of sportswear primarily targeting young adults in their early twenties, which we subsequently renamed to *Innofashion* in 2013. We plan to continue developing both product lines to capture the attractive growth prospects of these product collections. We intend to identify opportunities to develop additional product lines with higher average selling prices for specific audiences where we believe there is significant potential for growth. We will also continue to focus on technological advances and maintain high value-added and high quality standards in our products, so that our end-consumers will continue to associate our brand with quality and performance.

In order to expand our product lines and develop a niche market for premium sporting goods, we formed a joint venture with a Finnish premium sporting goods company, ONE WAY Sport Oy, in October 2013. We own a 70% equity interest in the joint venture, which holds the rights to the distribution and marketing of the *ONE WAY* brand in the greater China region. We officially launched the brand in China in April 2014. Our *361° ONE WAY* joint venture had 58 self-operated stores in 28 key cities across China as of March 31, 2016. We intend to leverage the internationally recognized Finnish brand, which experienced exceptional success in the recent Sochi Winter Olympics where athletes used its products in a podium finish on more than 30 occasions, to expand into the premium sporting goods segment in China. We believe this strategy will enable us to further enhance our overall competitiveness.

Increase investment in product research and development in order to focus on product innovation

In order to maintain our position as a leading sportswear brand that offers products with high quality performance, we have increased our product research and development funding and recruited additional employees to expand our product research and development capabilities. Through our *361°* Asian Design Center in Guangzhou and the high-performance sports apparel design center that we opened in collaboration with the Beijing Institute of Fashion Technology, we plan to continue to enhance our research and development efforts and develop innovative technologies that can be applied to our sportswear products. We believe that by continually improving our research and development, we will be able to strengthen and expand our product portfolio and maintain our competitiveness. For the year ended December 31, 2015, our research and development expenses amounted to RMB139.6 million, representing approximately 5.3% of our total cost of sales for the same year.

We also plan to continue to use the sponsorship of sporting events as our product development platform, such as our designated partnership with the *361°* China University Basketball Super League from 2007 to 2013, to develop customized sportswear products for players. We secured the rights to sponsor the 2014 Incheon Asian Games and also served as a sportswear prestige partner for the 2013 Second Asian Youth Games in Nanjing and the 2014 Nanjing Olympic Youth Games, where we were the primary sportswear sponsor for the event. Moreover, we secured the rights to sponsor China's national swimming and cycling teams and Sweden's national curling team, as well as the 17th Asian Games in Incheon, Korea, in 2014. In 2014, we have been named as a Tier-2 official supporter of the Olympic and Paralympic Games in Rio, Brazil, in the summer of 2016. In addition to product category expansion and extension, we intend to incorporate the latest technological innovations to enhance performance attributes of our products. These include patents for sportswear and footwear technologies, such as our Lizard Claw Stability Tech soles, 3-D Geometric Lattice Tech soles and the Quikfoam, among other patented innovations.

Diversify our product offerings and expand into different domestic market segments

We plan to diversify our product offering by continuing to focus on the development of products with particular functionalities. For example, we have identified smart shoes as a niche segment of the market that has significant potential for growth. Accordingly, in 2015, we collaborated with Baidu to introduce the first children's smart shoes in the industry equipped with GPS features and data-tracking capabilities so that parents can track the whereabouts of their children. In addition, we are collaborating with LeTV Sports to research and design music and data-related smart footwear products. We anticipate we will introduce our first smart footwear prototype during the third quarter of 2016. We intend to continue to devote substantial research and development resources and efforts to develop different types of smart shoes and other sportswear products with special functionalities to enhance our customers' overall sporting experience.

Expand our overseas and e-commerce businesses to increase sustainable profitability

We plan to continue to expand our presence in the overseas markets in order to capture the growth potential in such markets and sustain our profitability in the long term. We believe that expansion into overseas markets will enhance our global reputation. While we sold our products to several overseas markets as of December 31, 2015, including the Middle East, South America and South East Asia, we intend to explore opportunities to tap into new markets, broaden our customer base and expand our sales network. To strengthen our overseas presence, we established branch offices in Taiwan and California, the United States, and are in the process of expanding our sales into the United States, Brazil and Europe. For the financial year ended December 31, 2015, approximately 1.0% of our total revenue was generated from overseas sales.

Currently, all of our e-commerce activities are outsourced to an independent on-line distributor in Quanzhou. In addition to selling our products on-line through various platforms (such as www.tmall.com and www.jd.com), this e-commerce company also helps our retail distributors and authorized retailers sell their slow-moving or obsolete stock at discounted retail prices. Going forward, we intend to operate the e-commerce business in-house and to focus more resources and efforts on marketing or expansion of our on-line sales as we believe that the e-commerce sales channel will enable us to capture additional domestic and overseas sales opportunities. For the financial year ended December 31, 2015, approximately 6.0% of our total revenue was generated from e-commerce, which is expected to continue to grow over time.

Corporate Information

We were incorporated in the Cayman Islands on August 1, 2008, as an exempted company with limited liability. Our shares have been listed on the Hong Kong Stock Exchange since June 30, 2009 and we had a market capitalization of approximately HK$4.7 billion as of August 29, 2014. Our principal place of business in the PRC is at *361°* Building, Huli High-Technology Park, Xiamen, Fujian Province, China. Our place of business in Hong Kong is at Room 1609, 16/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong. Our registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Our website is www.361sport.com. Information contained on our website does not constitute part of this Offering Memorandum.

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary consolidated financial information of our Group as of and for the periods indicated.

The summary consolidated financial information of our Group for the financial years ended December 31, 2013, 2014 and 2015 set forth below are derived from our Company's published audited consolidated financial statements and should be read in conjunction with such published consolidated financial statements and the notes thereto, which are included elsewhere in this Offering Memorandum.

Our Company's consolidated financial statements are prepared and presented in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions.

Summary Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Revenue	3,583,477	3,906,286	4,458,701
Cost of sales	(2,166,378)	(2,309,490)	(2,635,738)
Gross profit	1,417,099	1,596,796	1,822,963
Other revenue	83,766	112,870	154,893
Other net gain/(loss)	5,101	(12,987)	27,279
Selling and distribution expenses	(729,300)	(769,245)	(712,895)
Administrative expenses	(424,456)	(203,269)	(377,571)
Profit from operations	352,210	724,165	914,669
Net change in fair value of derivatives embedded to convertible bonds	41,841	51,661	—
Loss on repurchase of convertible bonds	—	(76,118)	—
Finance costs	(79,127)	(92,235)	(125,510)
Profit before taxation	314,924	607,473	789,159
Income tax	(100,193)	(202,261)	(259,540)
Profit for the year	214,731	405,212	529,619
Attributable to:			
Equity shareholders of the Company	211,261	397,642	517,639
Non-controlling interests	3,470	7,570	11,980
Profit for the year	214,731	405,212	529,619
Earnings per share			
Basic (cents)	10.2	19.2	25.0
Diluted (cents)	10.2	19.2	25.0
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements	6,696	(5,567)	(34,700)
Total comprehensive income for the year	221,427	399,645	494,919
Attributable to:			
Equity shareholders of the Company	217,957	392,075	482,939
Non-controlling interests	3,470	7,570	11,980
Total comprehensive income for the year	221,427	399,645	494,919

Summary Consolidated Statement of Financial Position

	For the year ended December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Non-current assets			
— Property, plant and equipment	974,627	1,050,676	1,174,446
— Interests in leasehold land held for own use under operating leases	97,602	95,450	119,260
	1,072,229	1,146,126	1,293,706
Other financial asset	17,550	17,550	17,550
Deposits and prepayments	121,148	96,691	92,080
Deferred tax assets	92,256	49,971	28,537
	1,303,183	1,310,338	1,431,873
Current assets			
Inventories	409,358	570,058	551,957
Trade debtors	1,831,184	1,524,240	2,017,676
Bills receivable	84,780	132,013	235,510
Deposits, prepayments and other receivables	636,873	891,951	641,385
Pledged bank deposits	37,900	175,895	122,026
Deposits with banks	321,747	1,800,000	1,500,000
Cash and cash equivalents	2,494,280	2,130,237	2,286,225
	5,816,122	7,224,394	7,354,779
Current liabilities			
Trade and other payables	1,469,179	1,851,099	1,659,426
Bank loans	15,898	15,311	15,116
Current taxation	120,576	146,374	255,907
	1,605,653	2,012,784	1,930,449
Net current assets	4,210,469	5,211,610	5,424,330
Total assets less current liabilities	5,513,652	6,521,948	6,856,203
Non-current liabilities			
Deferred tax liabilities	5,432	133	351
Interest-bearing borrowings	767,539	1,484,869	1,489,395
Net Assets	4,740,681	5,036,946	5,366,457
Capital and Reserves			
Share capital	182,298	182,298	182,298
Reserves	4,494,048	4,782,743	5,100,274
Total equity attributable to equity shareholders of the Company	4,676,346	4,965,041	5,282,572
Non-controlling interests	64,335	71,905	83,885
Total Equity	4,740,681	5,036,946	5,366,457

Summary Consolidated Cash Flow Statement

	For the year ended December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Net cash generated from operating activities	323,156	911,184	245,433
Net cash (used in)/generated from investing activities	347,551	(1,665,190)	193,459
Net cash generated from/(used in) financing activities	(281,618)	386,726	(280,554)
Net increase/(decrease) in cash and cash equivalents	389,089	(367,280)	158,338
Cash and cash equivalents at the beginning of the year	2,107,018	2,494,280	2,130,237
Effect of foreign exchange rate changes	(1,827)	3,237	(2,350)
Cash and cash equivalents at the end of the year	2,494,280	2,130,237	2,286,225

Non-HKFRS Measures and Key Financial Ratios

The following table sets forth our EBITDA and certain related financial data for the periods indicated.

	For the year ended December 31,		
	2013	2014	2015
	RMB	RMB	RMB
	(in thousands, except percentages and ratios)		
Other financial data:			
EBITDA[1]	461,645	766,900	981,249
EBITDA margin[2]	12.9%	19.6%	22.0%
Total debt[3]/EBITDA	1.7	2.0	1.5
EBITDA/finance costs	5.8	8.3	7.8

Notes:

(1) EBITDA consists of profit before income tax expense, depreciation and amortization and finance costs. EBITDA is not a standard measure under HKFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to profit, cash flows or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated from operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and tax expenses. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that EBITDA as presented above may be calculated differently from Consolidated EBITDA as defined and used in the indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the indenture governing the Notes. Set forth below is a reconciliation of EBITDA to the most directly comparable HKFRS measure, profit for the year.

	For the year ended December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Profit for the year	214,731	405,212	529,619
Add:			
Depreciation and amortization	67,594	67,192	66,580
Finance costs	79,127	92,235	125,510
Income tax	100,193	202,261	259,540
EBITDA	461,645	766,900	981,249

(2) EBITDA margin is calculated by dividing EBITDA by revenue.

(3) Total debt includes our bank loans and interest-bearing borrowings.

THE OFFERING

Phrases used in this summary and not otherwise defined shall have the meanings given to them in "Description of the Notes."

Company	361 Degrees International Limited.
Issue	US$400,000,000 aggregate principal amount of 7.25% Senior Notes due 2021 (the "Notes").
Issue Price	99.055% of the principal amount of the Notes.
Maturity Date	June 3, 2021
Interest	The Notes will bear interest from and including June 3, 2016 at the rate of 7.25% per annum payable on a semi-annual basis in arrears.
Interest Payment Dates.	Interest payment date on or nearest to June 3 and December 3 of each year, commencing on December 3, 2016.
Ranking of the Notes	The Notes are: ● general obligations of our Company; ● senior in right of payment to any existing and future obligations of our Company expressly subordinated in right of payment to the Notes; ● at least *pari passu* in right of payment with the 2014 Notes and all other unsecured, unsubordinated Indebtedness of our Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law); ● guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described in "Description of the Notes — The Subsidiary Guarantees" and in "Risk Factors — Risks Relating to the Subsidiary Guarantees"; ● effectively subordinated to all existing and future secured obligations, if any, of our Company and the Subsidiary Guarantors, to the extent of the value of the assets serving as security therefor; and ● effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined in "Description of the Notes").
Subsidiary Guarantees	Each of the Subsidiary Guarantors will, jointly and severally, guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. A Subsidiary Guarantee may be released in certain circumstances. See "Description of the Notes — Release of the Subsidiary Guarantees."

The initial Subsidiary Guarantors will consist of all of the Restricted Subsidiaries other than those Restricted Subsidiaries organized under the laws of the PRC.

Most of the initial Subsidiary Guarantors are holding companies that do not have significant operations.

Any future Restricted Subsidiary, as defined in "Description of the Notes — Certain Definitions" (other than subsidiaries organized under the laws of the PRC), will provide a guarantee of the Notes as soon as practicable and in any event within 10 business days after becoming a Restricted Subsidiary.

Ranking of Subsidiary Guarantees . . . . The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and
- ranks at least *pari passu* with respect to their guarantee obligations relating to the 2014 Notes and all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law).

Use of Proceeds . . . . We intend to use the proceeds from this offering for general working capital purposes, including, but not limited to, the repayment of certain of our existing indebtedness.

We may adjust the foregoing plans in response to changing market conditions, and therefore, reallocate the use of the proceeds. Pending application of the net proceeds of this offering, we intend to invest such net proceeds in Temporary Cash Investments as defined in "Description the Notes."

Optional Redemption . . . . At any time and from time to time on or after June 3, 2019, our Company may at its option redeem the Notes, in whole or in part, at the redemption prices set forth in "Description of the Notes — Optional Redemption," plus accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time and from time to time prior to June 3, 2019, our Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium (as defined in "Description of the Notes") as of, and accrued and unpaid interest, if any, to (but not including) the redemption date, as set forth in "Description of the Notes — Optional Redemption."

	At any time and from time to time prior to June 3, 2019, our Company may at its option redeem up to 35% of the initial aggregate principal amount of the Notes with the Net Cash Proceeds (as defined in "Description of the Notes") of one or more sales of Common Stock (as defined in "Description of the Notes") of our Company in an Equity Offering (as defined in "Description of the Notes") at a redemption price equal to 107.25% of the principal amount, plus accrued and unpaid interest, if any, to (but not including) the redemption date, subject to certain conditions as set forth in the section headed "Description of the Notes — Optional Redemption."
Repurchase of Notes Upon a Change of Control Triggering Event	Upon the occurrence of a Change of Control Triggering Event (as defined in "Description of the Notes"), our Company will make an offer to repurchase all outstanding Notes at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the date of purchase.
Redemption for Taxation Reason	Subject to certain exceptions and as more fully described in "Description of the Notes," our Company may, at its option, redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amount (as defined in "Description of the Notes")), if any, to the date fixed by our Company for redemption, if our Company or a Subsidiary Guarantor would become obligated to pay the Additional Amounts as a result of certain changes in specified tax laws. See "Description of the Notes — Redemption for Taxation Reasons."
Final Redemption	Unless previously redeemed or purchased and cancelled pursuant to the provisions set forth in the "Description of the Notes," the Notes will be redeemed at their principal amount at maturity.
Covenants	The Notes, the Indenture governing the Notes and the Subsidiary Guarantees will limit our Company's ability and the ability of its Restricted Subsidiaries to, among other things: • incur or guarantee additional indebtedness and issue disqualified or preferred stock; • declare dividends on its capital stock or purchase or redeem capital stock; • make investments or other specified restricted payments; issue or sell capital stock of Restricted Subsidiaries; guarantee indebtedness of Restricted Subsidiaries; • sell assets; • create liens; • enter into sale and leaseback transactions;

- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- effect a consolidation or merger.

These covenants are subject to a number of important qualifications and exceptions described in "Description of the Notes — Certain Covenants."

Form, Denomination and Registration	The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US$200,000 of principal amount and integral multiples of US$1,000 in excess thereof and will be initially evidenced by the Global Certificate deposited with a common depositary and registered in the name of the common depositary or its nominee. Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, the records maintained by Euroclear and Clearstream.
Book-Entry Only	The Notes will be issued in book-entry form through the facilities of Euroclear and Clearstream. For a description of certain factors relating to clearance and settlement, see "Description of the Notes — Book-Entry; Delivery and Form."
Delivery of the Notes	Our Company expects to make delivery of the Notes, against payment in same-day funds on or about June 3, 2016, which our Company expects will be the seventh business day following the date of this Offering Memorandum referred to as "T+7." You should note that initial trading of the Notes may be affected by the T+7 settlement. See "Plan of Distribution."
Trustee	DB Trustees (Hong Kong) Limited
Rights and Obligations of the Trustee	The Trustee has certain rights and obligations under the Indenture. For details on such rights and obligations, please refer to the section headed "Description of the Notes — Certain Covenants — Events of Default" and "Description of the Notes — Concerning the Trustee, the Paying Agent and Transfer Agent."
Principal Paying and Transfer Agent	Deutsche Bank AG, Hong Kong Branch
Registrar	Deutsche Bank AG, Hong Kong Branch
Security Codes	ISIN: XS1415758991 Common Code: 141575899
Governing Law	The Notes, the Subsidiary Guarantees and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York.

Transfer Restrictions	The Notes and the Subsidiary Guarantees will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See "Transfer Restrictions."
Listing	Application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes by way of debt issues to professional investors and high net worth individuals.
Risk Factors	For a discussion of certain factors that should be considered in evaluating an investment in the Notes, see "Risk Factors."

RISK FACTORS

The risks described below should be carefully considered before making an investment decision. The risks described are not the only ones relevant to our Company or the Notes. Additional risks not presently known to our Company or that we currently deem immaterial may also impair our business operations. Our businesses, financial condition and/or results of operations could be materially adversely affected by any of these risks, which may, as a result, affect our Company's ability to repay the Notes. Prospective investors should also read the detailed information set out elsewhere in this Offering Memorandum and reach their own views prior to making any investment decision.

RISKS RELATING TO OUR BUSINESS

We rely heavily on our *361°* and *361° Kids* brands. Failure to effectively promote or maintain our *361°* and *361° Kids* brands may materially and adversely affect our future success.

We sold most of our products under our *361°* and *361° Kids* brands from which we derived substantially all of our revenue during the financial years ended December 31, 2013, 2014 and 2015. Our *361°* and *361° Kids* brands are therefore critical for our success. If we are unsuccessful in promoting our *361°* and *361° Kids* brands or fail to maintain our brand position, market perception and consumer acceptance of our *361°* and *361° Kids* brands may be eroded, and our business, financial condition, results of operations and prospects may be materially and adversely affected. In addition, as we promote our *361°* brand and image through the endorsement of athletes, we are dependent on market perception, consumer acceptance and sports performance of these athletes, over which we have no control. Any negative publicity or disputes regarding our *361°* and *361° Kids* brands and related sub-brand, products, athletes who endorse our *361°* brand or our management, or the loss of any accreditation associated with our *361°* brand or products, such as the recognition as one of the top 500 private enterprises in China by China Federation of Private Enterprises, China Statistical Association and Enterprise Development Research Center of China Academy of Management Science in 2015, the reception of the 2016 CNGA Award for our *361° Adult* products and the award for the Best Children's Clothing Brand in China for our *361° Kids* products by the China National Garment Association, and the recognition as one of the "Top 500 Most Valuable Brands in China" by Brand Observer Magazine in May 2016, may have a material and adverse effect on our business, reputation, results of operations and prospects.

We rely primarily on a small number of third-party distributors for sales of our products.

Since 2008, we have sold our products primarily to distributors under distributorship agreements, which generally have a term of one year. As of March 31, 2016, we had engaged 31 distributors. Our five largest customers accounted for approximately 32%, 31% and 33% of our total revenue for the financial years ended December 31, 2013, 2014 and 2015, respectively, and our largest customer accounted for approximately 11%, 11% and 10% of our total revenue for the same periods, respectively. As we do not have long-term agreements with our distributors, it is possible that, upon their expiration, our distributorship agreements will not be renewed on acceptable terms to us or at all. If any of our distributors terminates or does not renew its distributorship agreement with us, we may not be able to replace such distributor with a new and effective distributor in a timely manner or on terms acceptable to us, or at all. Any new replacement distributor may not be able to effectively oversee the same network of authorized retailers or any network of authorized retailers on a similar scale to the replaced distributor. In addition, if our distributors do not place orders at historical levels or at all, or if any major distributor substantially reduces its volume of purchases from us or ceases its business relationship with us, our business, financial condition, results of operations and prospects could materially suffer.

As each of our distributors has exclusive distribution rights over a certain geographic area in the PRC, the failure by such distributor to perform its obligations under its distributorship agreement with us may result in a material adverse effect on the business of the authorized retailers in such area. Most of our distributors are either granted exclusivity over one province, autonomous region or municipality, or one or more areas within a province. However, certain distributors are granted exclusivity over more than one province, autonomous region or municipality due to their local resources and business network in those provinces or areas. If any of our distributors becomes unable or unwilling to supply our products to authorized retailers in the geographic area over which such distributor has exclusive distribution rights, our products may not be available to consumers for purchase in such area, which in turn may materially and adversely affect our reputation, brand, image, future prospects and results of operations

Furthermore, sales levels may fluctuate for each distributor and authorized retailer at each retail outlet. The number of retail outlets through which our distributors and authorized retailers can distribute our products may also vary from time to time. This may increase the level of volatility in our results of operations and create difficulties for us in terms of production planning.

Our *361°* brand has a limited history in the branded sportswear industry and our recently and newly launched product lines may not be successful.

Our *361°* brand, which was first introduced to the market in January 2004, has a limited history, and we have a limited operating history in the branded sportswear industry. Moreover, we recently commenced the design, development and sale of sportswear for children and young adults. In March 2010, we began to distribute *361° Kids* products, a collection that focuses on children's sportswear. We operate *361° Kids* as separate businesses independent from our other collections, with dedicated outlets, trade fairs, distributors, product design teams and subcontractors. In April 2010, we commenced distribution of our *361° Shine* products, which we subsequently renamed to *Innofashion* in 2013. In addition, in April 2014, we officially launched the *ONE WAY* brand in China after forming a 70%-owned joint venture with ONE WAY Sports Oy, a Finnish premium sporting Goods Company, and introduced the products to our distributors and retailers for the first time in the country. Prior to introducing *361° Kids*, *Innofashion* and *ONE WAY* products, we did not have any experience in the design, development or sale of sportswear or premium sportswear for children or young adults. We cannot assure you that our recently and newly launched products will be well-received by our target markets. Our recent and new product lines may not achieve anticipated growth, or could even fail, due to intensive competition from the established sportswear brands or our lack of understanding of the target customers' demands and preferences. We also may not be able to successfully integrate such product lines into our existing operations or launch other new product lines in the future to maintain our growth momentum. If we are unable to successfully address the foregoing risks, difficulties and challenges, our business, financial condition, results of operations and prospects could be materially and adversely affected. Furthermore, maintenance of our existing brand and the launch and development of new product lines involves considerable time and resources. Lack of resources or management focus may damage our brand image and curtail our business growth. Moreover, we only began to sell ONE WAY products at self-operated stores in the PRC recently and otherwise had no prior significant experience operating our own stores. You should consider our business and prospects in light of such risks, difficulties and challenges we face with our limited operating history in the branded sportswear industry, and should not rely on our past results as an indication of our future performance.

Consumer sales of our products are conducted by authorized retailers over whom we have no direct control.

We sell our products primarily to our distributors, who in turn sell them to authorized retailers. The authorized retailers then sell our products to consumers at various retail outlets. While we do not have any interest in, or operate, any of the authorized retailers, or have direct contractual relationships with authorized retailers, our distributors enter into separate agreements with authorized retailers and require them to comply with our standard operating procedures or policies, which include guidelines on the design and layout of our authorized retail outlets, product pricing and customer service. As we have no direct control over the authorized retailers, our ability to ensure their adherence to our policies, such as operational requirements, exclusivity, customer service, store image and pricing, is limited. If our distributors are not effective in enforcing our operating procedures or policies on the authorized retailers, the public's perception of our brands and our reputation may be materially and adversely affected. While we may control the risk of non-compliance and poor or inappropriate service by choosing not to renew or by terminating our distributorship agreements with the relevant distributor, we cannot assure you that we will always be able to identify problems and take remedial actions in a timely manner, or at all. If our authorized retailers fail to comply with our operating procedures or policies by taking such steps as aggressively discounting the retail prices of our products for various reasons, or we fail to take timely and effective remedial actions, we may experience the erosion of goodwill, a decrease in the market value of our brands and an unfavorable public perception of our brands and the quality of our products, which in turn would have a material adverse effect on our business, financial condition, results of operations and prospects.

A decrease in consumer demand may negatively impact our revenue growth and profitability, which may adversely affect our business and results of operations.

Due to the economic slowdown in China in recent years, consumer appetite for sportswear apparel and footwear products has decreased, which resulted in an over-supply of such products in the marketplace. Our revenue was negatively impacted by such decrease in consumer demand for the year ended December 31, 2013. Consequently, the number of authorized retail outlets decreased from 8,082 for the year ended December 31, 2012 to 7,299 for the year ended December 31, 2013. We may not be able to maintain our authorized retail network, or alternatively, increase our comparable store sales, improve our margins or reduce costs as a percentage of sales. We may also fail to achieve revenue growth if we are unable to sustain our brand recognition and a positive public perception of our brand or if we fail to continue to expand the internal manufacturing capacity and distribution network of our products. While the sportswear industry in China began to gradually show signs of growth beginning in the second half of 2014, which continued throughout 2015, there is no guarantee that we will be able to maintain our revenue growth in the event of any industry-wide volatility or decreased consumer demand. Moreover, although our gross profit margin has recovered to 40.9% in 2014 as compared to 39.5% in 2013, it may nevertheless be materially and adversely affected if we must, in the face of increasing competition, provide more favorable terms to our distributors in the future, such as higher sales discounts.

Our ability to accurately track the sales and inventory levels at our distributors and the authorized retail outlets may be limited.

Our ability to track the sales by our distributors to authorized retailers and the ultimate retail sales by our authorized retail outlets, and consequently their respective inventory levels, may be limited. Our distributorship agreements require our distributors to provide us with operating data at our request. Our distributors in turn track the sales and inventory levels at our authorized retail outlets. Our regional sales managers regularly conduct on-site inspections at randomly selected our authorized retail outlets and provide us with local market condition reports from time to time. Historically, we did not have any effective, comprehensive enterprise resource planning (ERP) system in place, but we began to install a new ePOS ERP system for our supply chain starting in June 2010. This ePOS system allows for direct, real-time data flow through the supply chain which facilitates efficient gathering of operational information from our distributors and retail channels. However, the ePOS system does not cover all of our distributors and our authorized retail outlets, and as of March 31, 2016, our ePOS linkage was extended to 5,198 out of 7,102 *361°* authorized retail outlets and to 1,645 out of 2,471 *361° Kids* retail outlets. As such, we have had to continue to rely on the traditional inventory reporting and inspection mechanism in a number of distribution regions, which is less efficient and less reliable in verifying the accuracy of inventory information. We may not be able to ensure the accuracy of the data provided by our distributors or collected by us even in distribution regions where the ePOS system has been installed, if retailers do not or are reluctant to share sales information with us. There are also infrastructural challenges regarding the right level of support from service providers in some distant areas for operation and maintenance of ePOS system. Due to the above reasons, we may not be able to accurately track the sales and inventory levels of our distributors and the authorized retail outlets and gather financial and operational information at the authorized retail outlets, or to identify or prevent any excessive accumulation of inventory at our authorized retail outlets, which may impair our ability to allocate our in-house and outsourced production capacity among our products, and tailor our marketing and advertising strategies. Any build-up of inventory at the distributor level may adversely affect the volumes of our distributors' future orders and thus have a negative impact on our sales. If we fail to improve or upgrade our ePOS system at our authorized retail outlets, continue improving the design and development our products, or adjust our marketing strategies for different distribution regions based on the true and accurate inventory, financial and operating information, our sales growth may be hindered and our distributors' future orders of our products may be reduced, which would materially and adversely affect our future business, financial condition, results of operations and prospects.

We may fail to execute our growth strategy.

The expansion of our business will impose significant additional responsibilities on our management, including the need to identify, recruit, train and integrate additional employees, and oversee the expansion of our production facilities and distribution network of our products. In addition, rapid and significant growth may place a strain on our administrative and operational infrastructure, in particular on our internal accounting and financial reporting processes and systems. As our operations expand, we expect that additional resources will be required to manage new relationships with additional distributors and to oversee an increasing number of authorized retailers, as well as other third parties, including contract manufacturers, raw material suppliers, equipment providers, consultants and others. Furthermore, in April 2014, we launched the *ONE WAY* brand under our 70%-owned joint venture with ONE WAY Sport Oy and introduced the products to our distributors and retailers for the first time in China. Our *361° ONE WAY* joint venture had 58 self-operated stores in 28 key cities across China as of March 31, 2016. Operating these stores, which are different from our existing distributorship model, would require us to dedicate additional resources, such as expenditures to be incurred for the leasing of new store space and the training of our sales staff and customer service representatives, as well as costs for higher quality rack display and store decoration.

Our ability to manage our operations and growth will require us to continue to improve our operational, financial and management control, reporting systems and procedures. However, as we have limited experience in conducting in-house apparel manufacturing operations and in managing and overseeing the expansion of megastores, as well as in operating proprietary retail outlets, we may not be successful in the execution of these new business plans. If we are unable to effectively manage our growth, including the gradual increase of our production capacity and establishment of self-operated stores, it may be difficult for us to execute our growth strategy. As a result, our business, financial condition, results of operations and prospects could be materially and adversely affected.

In addition, our future growth depends on various factors, including, but not limited to, (i) continued market demand for our products; (ii) our ability and effectiveness in researching and developing attractive brands, models and product lines for our targeted markets; (iii) our ability to attract new distributors to open more retail outlets; (iv) sufficient and timely supply of raw materials; (v) our ability to systematically manage and control our costs and supply and distribution chains within an enlarged operations; and (vi) our ability to manage our product capacity and effectively monitor retail inventory levels. As many factors affecting our future growth are beyond our control, we may not be able to achieve or maintain our historical growth rate.

We may fail to anticipate or respond to changes in consumer preferences and fashion trends in China in a timely manner.

We operate in an industry that is subject to rapid changes in consumer tastes and preferences and fashion trends that are difficult to predict. Our sales depend on the popularity of our brands and related sub-brand and the market perception and consumer acceptance of our products, which are, in large part, dependent on our ability to cater to different consumer tastes. The success and popularity of our products depends on our ability to anticipate, identify and respond to such changes in a timely manner and to design marketable and appealing products accordingly. As a result, design and development efforts are crucial to our future success and competitiveness. If we misjudge fashion trends and consumer preferences, or fail to anticipate or respond to higher consumer demand for design and quality, our sales and operating profits may be adversely affected. Similarly, if we fail to appreciate the extent of any anticipated increase of consumer demand for our products, we may experience a loss of sales opportunities, or if we underestimate any anticipated decrease in consumer demand, we may suffer losses, both scenarios may negatively impact on our profitability.

We are dependent on third-party contract manufacturers for the manufacturing of a portion of our footwear and most of our apparel and all of accessories.

We outsource a portion of the manufacturing of our footwear products, a majority of our apparel products, and all of the manufacturing of accessories products to third-party contract manufacturers. For the financial years ended December 31, 2013, 2014 and 2015, we outsourced the manufacture of approximately 23.3%, 18.3% and 20.9% of our footwear, respectively, by percentage of total costs of sales. Prior to commencing our in-house apparel manufacturing operations, we outsourced the manufacture of all apparel. We began to manufacture a portion of our apparel products after commencing production at our production facility in the Wuli Industrial Park in the first half of 2010. For the financial years ended December 31, 2013, 2014 and 2015, the procurement costs of our outsourced apparel products accounted for approximately 42.7%, 35.0% and 39.2% of our total cost of sales, respectively. We rely principally on third-party contract manufacturers for our footwear, apparel and accessories outsourced manufacturing. As we continue to grow, our reliance on third-party contract manufacturers may also grow, as any increases and added efficiencies in our own production capacity may not be sufficient to keep pace with the increased production requirements driven by our growth. We may not be able to find sufficient additional third-party contract manufacturers to manufacture our products on the same or similar terms as our existing third-party contract manufacturers. In addition, while we have historically engaged third-party contract manufacturers from time to time after each trade fair, our existing third-party contract manufacturers may determine not to accept our purchase orders on the same or similar terms, or at all in the future. If any of our major third-party contract manufacturers rejects all or part of our purchase orders or terminates or alters its business relationship with us in a manner which is adverse to us, our financial condition and results of operations may be materially and adversely affected. Furthermore, as we do not have exclusive contracts with our third-party contract manufacturers and some of them also manufacture products for other companies that compete with us, our third-party contract manufacturers may not treat our purchase orders as a priority when allocating their production capacity to their various customers. Difficulties or delays in the production facilities or process of our contract manufacturers could also result in delays or failures in delivery of products to us. If such events occur, we may not be able to deliver products to our distributors on a timely basis or at all. Moreover, if the cost of subcontracting increases and we are unable to pass on such higher costs to our customers, our profit margin may be significantly reduced, thereby adversely affecting our financial condition and results of operation.

Our reliance on third-party contract manufacturers also exposes us to certain risks over which we have limited control, such as our lack of ability to control the quality of finished product and delivery schedules. If our third-party contract manufacturers fail to perform adequate quality control and testing of their products, or fail to deliver finished products in a timely manner, we could experience increased production costs for product repair and replacement or breach the distribution agreements in respect of delivery schedules, and our revenue, profitability and reputation would suffer. Moreover, defects in products that are not discovered in the quality assurance process could damage customer relationships and result in product returns or product liability claims, each of which could have a material adverse effect on our business, financial condition, results of operation and reputation.

We may seek additional financing or incur substantial indebtedness in the future, which could adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. Our operating cash flow may not be sufficient to meet our anticipated operating expenses and to service our outstanding debt obligations, including the Notes, as they become due. If we are unable to service our outstanding indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our existing indebtedness, or seeking debt or equity financing.

The global capital and credit markets have remained volatile following the recent global financial crisis and economic downturn as well as European sovereign debt crisis, which may affect our ability to raise additional funds or refinance upon maturity of our borrowings. Moreover, our ability to raise additional capital depends on other factors, including the financial success of our current business, the successful implementation of our key strategic initiatives, as well as financial, economic and market conditions, some of which are beyond our control. We therefore cannot assure you that we will be successful in raising the required capital at favorable terms and the required times, or at all in the future. Any substantial indebtedness we incur could have important consequences to the prospective investors of the Notes. For example, it could:

- limit our ability to satisfy our obligations under the Notes and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds; and
- increase the cost of additional financing.

Our ability to meet our financial covenants arising from the indebtedness or other financings may be affected by events beyond our control. We cannot assure you that we will be able to meet these covenants. Any of these consequences or any failure of us to meet such financial covenants could materially and adversely affect our ability to satisfy our obligations under the Notes and other debt. In addition, we may not be successful in raising any required capital on reasonable terms and at required times, or at all. As a result, our business operations and our ability to expand the production facilities and distribution network may be materially and adversely impacted, with similar effects on our results of operations and financial condition.

We are dependent on certain of our key personnel. Our inability to attract, retain and motivate qualified key personnel could materially and adversely affect our business and prospects.

Our success and ability to expand our operations depend heavily on our ability to attract, retain and motivate qualified key personnel. In particular, we rely on the continued services of our president Mr. Ding Wuhao (丁伍號), among others, for their expertise in developing business strategies, product design and development, business operations and sales and marketing. Most of our key personnel have been part of our management team since the inception of our business. Members of our key personnel may terminate their employment with us at will. There is no assurance that we can retain such key personnel for their future services, nor can we assure that qualified personnel can be found to replace any potential loss of such personnel. Furthermore, we do not maintain insurance with respect to the loss of any our key personnel. If we lose the services of any of these key personnel without securing adequate replacement in a timely manner, such event could limit our competitiveness and our business and prospects may be materially and adversely affected.

We rely on third-party suppliers for certain raw materials. Unfavorable fluctuations in the price, availability and quality of raw materials could cause material production delays and materially increase in our production costs.

Our suppliers include raw material suppliers and contract manufacturers to whom we outsource the manufacturing of certain of our products. The principal raw materials used in the production of our footwear and apparel products are leather, synthetic leather, fabrics, rubber, soles, plastics, and terylene, nylon and cotton. We obtain all of these materials from domestic suppliers in the PRC. Most of our suppliers are located in the Fujian Province, the PRC. For the financial years ended December 31, 2013, 2014 and 2015, our five largest suppliers accounted for approximately 19%, 22% and 26%, respectively, and our largest supplier accounted for approximately 4%, 5% and 7%, respectively, of the aggregate amounts of raw materials that we purchased from our suppliers, which include our raw material suppliers and contract manufacturers. We do not enter into long-term agreements with our suppliers and generally procure the raw materials that we require through purchase orders issued by us from time to time which set out the terms regarding the price, purchase quantity, delivery terms and settlement terms, amongst others. If any of our suppliers terminates or does not renew its supply agreements with us, we may not be able to replace such supplier in a timely manner or on terms acceptable to us, or at all. If our suppliers fail to supply us with raw materials of consistently high or comparable quality, our business, financial condition and results of operations could materially suffer. Fluctuations in the costs of our principal raw materials and our inability to pass on any increases in raw material costs to our customers by increasing the suggested retail prices of our products or increasing the sale price to our distributors may materially and adversely affect our cost of sales and our gross profit margins.

Prices of our products are subject to factors beyond our control.

The prices at which our distributors or consumers are willing to purchase our products are driven mainly by various factors such as internal and outsourcing production costs, our competitors' pricing strategies, consumers' purchasing power in the PRC and general economic conditions in the PRC, many of which are beyond our control. Further, the distributorship agreements entered into with our distributors by us do not impose a minimum purchase price at which they must purchase our products. Under our distributorship business model, we sell our products to all of our distributors at a uniform discount to the suggested retail price of the products. Our distributors then sell our products to their respective authorized retailers at a uniform discount to the suggested retail price which has been approved by us. If we are unsuccessful in implementing the suggested retail pricing system or if we are unable to maintain selling prices of our products at desired levels, the market value of our brands and sub-brand could be eroded and the public perception of our brand may deteriorate, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Any significant damage to our administrative or production facilities could have a material adverse effect on our results of operations.

Our ability to meet demands of, and our contractual obligations with, our distributors and our ability to grow our business are heavily dependent on efficient, proper and uninterrupted operations at our facilities. Power failures or disruptions, the breakdown, failure or substandard performance of equipment, the improper installation or operation of equipment and the destruction of buildings, equipment and other facilities due to fire or natural disasters such as hurricanes, severe winter storms or earthquakes would severely affect our ability to continue our operations. We do not carry any business interruption insurance and our insurance policies may not be sufficient to compensate us for the actual cost of replacing such buildings, equipment and infrastructure. Any such events and any losses or liabilities that are not covered by our current insurance policies could have a material adverse effect on our business, financial condition, results of operations and prospects.

If our distributors do not pay us for their purchases in a timely manner or at all, our financial condition and results of operations could be materially and adversely affected.

We sell our products primarily to our distributors, from which we derived substantially all of our revenue during the financial years ended December 31, 2013, 2014 and 2015. We generally grant our distributors a credit period of between 30 and 180 days, the exact terms of which are determined based on such factors as past sales performance, credit history and their expansion plans. In addition, there were instances when we granted payment extensions to certain of our customers, which resulted in payments being made to us more than 180 days after the date of delivery of our products.

We have experienced a difficult time in 2013, during which, coupled with an increase in rental of the authorized retail outlets, we were forced to increase the retail discounts on our on and off season products due to a significant increase in market competition and reduction in consumer demand as reflected in significant decreases in trade fair orders. Under these circumstances, we have agreed to extend the credit period for distributors that opened new retail outlets or upgraded existing retail outlets in 2013.

As of December 31, 2013, 2014 and 2015, approximately 26.9%, 13.0% and 5.9% of our trade and bill receivables were past due as they exceeded their respective credit periods. We perform ongoing credit evaluations of our distributors' financial condition and generally require no collateral from them to secure their payment obligations. As our sales increase, the amount of accounts receivable from our distributors is expected to increase. Our average trade and bills receivable turnover days were 205 days, 167 days and 160 days as of December 31, 2013 and 2014 and 2015, respectively. Our average trade and bills receivable turnover days were higher in 2013 was primarily due to poor market conditions in 2013 relating to the sportswear industry in the PRC, which resulted in longer payment cycles from our distributors. We review our trade and other receivables at each reporting period end to determine whether objective evidence of impairment exists. Impairment losses are recognized are recorded using an allowance account unless we determine that recovery of the amounts is remote, in which case the impairment will be written off against trade debtors and bills receivables. As of December 31, 2013, 2014 and 2015, our trade and bills receivables of RMB191.5 million, RMB80.2 million and RMB80.2 million, respectively, were individually determined to be impaired. We may continue to extend credit terms to our distributors when they open new retail outlets or upgrade existing retail outlets to help our distributors and authorized retailers to withstand increasing competitive pressure. If any distributor does not pay us for its purchases in a timely manner or at all, our financial condition and results of operations could be materially and adversely affected.

The registrations in the PRC of certain patents are still pending and may not be approved.

We have obtained licenses from the State Intellectual Property Office of the PRC (國家知識產權局) for various patents which are under application. We are currently in the process of applying for registration of certain patents. However, our registration of these patents under application may not be successful, and the continued use of the patents may infringe upon the intellectual property rights of third parties. If we fail to secure the registration of any of the patents under application or are held by any court or tribunal to be infringing or to have infringed upon any patents or intellectual property rights of others, our reputation and brand image could be damaged and we may be forced to license the intellectual property from third parties at a high cost, which could in turn materially and adversely affect our business, financial condition, results of operations and prospects.

We may not be able to adequately protect our intellectual property rights, which could harm our brands and our business.

We believe our trademarks and other intellectual property rights are crucial to our success. Our principal intellectual property rights include our trademarks for our *361°* and *361° Kids* brands and *Innofashion* sub-brand, as well as patents for certain technologies. As of December 31, 2015, we were in the process of applying for the registration of certain trademarks for a number of logos and patents for certain technologies. The success of these applications depends upon a number of factors, and we may not be successful in registering trademarks and obtaining patents for technologies currently under application or which we may develop in the future. We depend, in large part, on PRC laws to protect our trademarks, patents and other intellectual property rights. Although we rely on the registration of trademarks and patents to protect our intellectual property, this measure may not be sufficient to prevent any misappropriation of our intellectual property or to prevent our competitors from independently developing designs and technologies that are substantially similar to ours. The legal framework governing intellectual property in the PRC is still evolving and the level of protection of intellectual property rights in the PRC differs from those in other more developed jurisdictions such as the United

States and the United Kingdom. Third parties may infringe upon our intellectual property rights. We have discovered counterfeit versions of our products on the market, and have in the past had to, and may in the future have to, initiate legal or administrative proceedings in order to safeguard our intellectual property rights. Our efforts to enforce or defend our intellectual property rights may not be adequate, may require significant attention from our management and may be costly. The outcome of any legal actions to protect our intellectual property rights is uncertain. If we are unable to adequately protect or safeguard our intellectual property rights, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our business could be materially and adversely affected by claims of third parties for possible infringement of their intellectual property rights.

We may face claims from time to time that our products infringe upon the intellectual property rights of third parties, including our competitors. If any legal proceeding brought against us for infringement of intellectual property rights is successful, if we are unable to obtain a license to use such intellectual property on acceptable terms or at all, or if we are unable to design around such intellectual property right, we may be prohibited from manufacturing or selling products which are dependent on the usage of such intellectual property. In such case, we may experience a material adverse effect on our business and reputation, and any legal proceeding and its consequences could divert management's attention from our business, all of which could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our interests may conflict with our joint venture partners and disputes with joint venture partners may adversely affect our business.

In January 2010, we formed a joint venture with First Union International Industrial Ltd. to establish Sanliuyidu Footwear, which specializes in the production of soles for our footwear. Sanliuyidu Footwear commenced operations in August 2010 and supplied to us the soles required for the production of our footwear products. As of December 31, 2015, this joint venture had a production capacity of 14 million soles. In October 2013, we formed a 70%-owned joint venture with ONE WAY Sports Oy to distribute *ONE WAY* branded products in China. As we continue to grow, we may acquire interests in or jointly establish additional companies in the PRC and overseas to execute our business plans by utilizing our partners' skills, experiences and resources. Certain material matters relating to a joint venture, including increase or reduction of the registered capital of the joint venture, amendments to its articles of association, merger or division of the joint venture, and termination and dissolution of the joint venture, may require our joint venture partners' consents.

In addition, joint ventures involve risks that our joint venture partners may:

- have economic or business interests or goals that are inconsistent with or adverse to ours;
- take actions contrary to our instructions or requests or contrary to our policies or objectives;
- be unable or unwilling to fulfill their obligations under the relevant joint venture agreements;
- have financial difficulties; or
- have disputes with us as to the scope of their responsibilities and obligations.

Our present or future joint venture projects may not be successful. We cannot assure you that we will not have disputes or encounter other problems with respect to our present or future joint venture partners or that we will be able to resolve such disputes and solve such problems in a timely manner, or at all. Any failure of us to address these potential disputes or conflict of interests effectively could have a material adverse effect on our business, financial condition, and results of operations.

We may experience labor shortages, increases in labor costs or labor disputes, any of which could have a material adverse effect on our business and operations.

We rely on labor resources for our manufacturing operations. As such, any shortage in labor could have a material adverse effect on our results of operations. Labor costs in the PRC have increased in recent years and if they continue to do so, we may experience a rise in operating costs, which would have an adverse effect on our business, financial condition and results of operations. In addition, labor disputes, work stoppages or slowdowns at any our production facilities or any of our contract manufacturers or raw material suppliers, as well as any construction or engineering firms engaged to construct our facilities, could significantly disrupt our operations or our expansion plans. Delays caused by any such disruptions could materially and adversely affect our operations or projections for increased capacity, production and revenue, which could have a material adverse effect on our business and results of operations.

We may be exposed to product liability, property damage or personal injury claims, which may materially and adversely affect our reputation and business.

As of March 31, 2016, we sold our products primarily in the PRC and, to a lesser extent, in targeted overseas markets, such as the Middle East, South America, South East Asia, the United States and Europe. We may be exposed to product liability claims and we may, as a result, have to expend significant financial and managerial resources to defend against such claims. We believe that such product liability claim risks will increase as legal concepts in product liability claims begin to develop and mature in the PRC and in other countries and regions where our products have been sold and may be sold in future. We may not have effective or sufficient control over the quality of our products, and we cannot give assurance that our business, financial condition, results of operations and prospects will not be materially and adversely affected by a successful product liability claim against us. We do not maintain any product liability insurance. In addition, we do not maintain third-party liability insurance against claims for property damage, personal injury or environmental liabilities. Regardless of the ultimate merits of a claim or dispute, we may face significant costs and expenses to defend against such claims or enter into settlement agreements, and we may suffer serious damage to our reputation, be subject to material monetary damages and be subject to government investigations. In such cases we may be fined or sanctioned, which could materially and adversely affect our reputation, business, prospects, financial condition and results of operations. Any losses or liabilities that are not covered by our current insurance policies may have a material adverse effect on our business, financial condition results of operations and prospects.

We may be exposed to various risks related to our outsourced e-commerce activities, which may negatively affect our reputation, business and results of operations.

All of our e-commerce activities have been outsourced to an independent on-line distributor in Quanzhou, which sells our products through various third-party on-line platforms, such as www.tmall.com and www.jd.com. This e-commerce company also helps our retail distributors and authorized retailers sell their slow-moving or obsolete stock at discounted retail prices. Even though our on-line sales only contributed approximately 6.0% our total revenue as of December 31, 2015, we may focus more resources and efforts on marketing or expansion of our on-line sales in the future as we intend to operate our e-commerce business in-house. However, we do not have any prior experience in the marketing and sale of our products through this channel on our own. Our existing e-commerce operations are exposed to numerous risks, including, among other things, unanticipated operating problems of the third party e-commerce provider, reliance on third-party e-commerce platforms, and the lack or the ineffectiveness of procedures to ensure the accuracy of sales reporting by such third-party e-commerce provider. Moreover, using our own resources to operate our e-commerce business would involve other risks that could have an impact on our business and results of operations, including, but not limited, to the diversion of sales from our retail outlets, rapid technological change, liability for on-line content, credit card fraud and risks related to the failure of the computer systems that operate the website and its related support systems, which may have a material adverse effect on our reputation and business. There can be no assurance that our on-line sales will continue to increase or achieve profitability growth or even remain at their current levels.

We may be exposed to various risks related to overseas sales, which may materially and negatively affect our expansion plan, business and results of operations.

In 2011, we commenced sales of our products in select overseas markets through a third party trading company based in the PRC. In order to explore overseas opportunities, broaden our customer base and expand our sales network, we established branch offices in Taiwan and California, the United States to operate our overseas business. Our overseas sales are subject to a wide range of risks, which may vary from country to country or region to region. These risks generally include, among other things, export and import duties, changes to import and export regulations, political and economic instability, issues arising from cultural or language differences, compliance with trade and technical standards in a variety of jurisdictions, difficulties enforcing our intellectual property rights, especially in those foreign countries that do not respect and protect intellectual property rights to the same extent as the more developed countries. In recent years, certain countries in the Middle East have witnessed a period of unusual political unrest, and the situation in such countries has even deteriorated and resulted in military confrontation. Any political and economic instability may cause sales in our overseas markets to decrease or discontinue. To the extent that we successfully execute our strategy of expanding into new geographic areas, these and similar risks may increase, which may materially and negatively affect our expansion plan, business and results of operation. We cannot assure you that our overseas sales will grow or even remain at their current levels.

We operate in a highly competitive market and the intense competition we face may result in a decline in our market share and lower profit margins.

The sportswear industry in the PRC is highly competitive. Participants in the sportswear industry in the PRC market include international and domestic brands which compete in, among other things, brand loyalty, product variety, product design, product quality, marketing and promotion, distribution network coverage, price and the ability to meet delivery commitments to distributors and authorized retailers. This competition has led to leading brands, including international brands that have recently increased their marketing campaigns, to continue to gain market share at the expense of less established, lower-end brands. We may not be able to compete effectively against competitors who may have greater financial resources, greater scales of production, superior technology, better brand recognition and a wider, more diverse and established distribution network. To compete effectively and maintain our market share, we may be forced to, among other actions, reduce prices, provide more sales incentives to our distributors and increase capital expenditures, which may in turn materially and adversely affect our profit margins and other results of operations.

In addition, the PRC's accession to the World Trade Organization may result in further changes to and developments in our industry, such as the lowering of or removal of entry barriers for international brands so that foreign-invested enterprises may engage in the retail business and import tariffs may be reduced significantly. Significant changes in international distribution channels or in the pricing of imported competing products could materially and adversely affect our business, financial condition, results of operations and prospects.

Our sales are subject to seasonality and weather conditions, which could cause our results of operations to fluctuate.

Our industry has historically experienced the effects of seasonality, which we expect will continue. Our products typically achieve higher sales when we sell our products for the spring and summer seasons to our distributors due to seasonality of demand for sportswear and the lower average wholesale selling price of spring and summer products as compared to autumn and winter products. We generally sell and distribute our spring and summer seasonal products from October to June, and our autumn and winter seasonal products from May to January. Consumer sales are also affected by seasonal shopping patterns during the Chinese New Year in early spring, the National Labor Day holiday in early May, the summer months, the National Day holiday in early October and other PRC national holidays. In addition, weather conditions, such as unusual weather or temperatures, may affect our sales. As such, our quarterly results of operations may fluctuate from period to period, subject to consumer demand, the seasonality of consumer spending on sportswear products and occurrence of unusual weather conditions at times. Therefore, any comparison of our results of operations between interim and annual results may not be meaningful. Our results of operations are likely to continue to fluctuate due to seasonality.

Fluctuations in consumer spending caused by changes in economic conditions in the Europe, the United States and elsewhere, and macroeconomic conditions in the PRC may significantly affect our business, financial condition, results of operations and prospects.

We generate almost all of our revenue from the sales of our products in the PRC. Our sales and growth are dependent on consumer consumption and the continued improvement of macroeconomic conditions in the PRC, which in turn are affected by global economic conditions and their impact on levels of consumer spending. In late 2008 and 2009, the United States, Europe and certain countries in Asia, including China, experienced economic slowdowns. The current global economic environment continues to be uncertain. If macroeconomic conditions continue to deteriorate, the demand for our products will be materially and adversely affected. A number of other factors can affect the level of consumer spending in the PRC, including but not limited to interest rates, currency exchange rates, recession, inflation, deflation, political uncertainty, taxation, stock market performance, unemployment level and general consumer confidence. These conditions may make it difficult for our customers to accurately plan future business activities and could cause our customers to terminate their relationships with us or could cause end-consumers to slow or reduce their spending on sportswear products. In addition, we believe that our historical growth rates were largely dependent on the general growth of the PRC economy. In 2015, the PRC GDP grew at 6.9%, which was the lowest growth rate in China during the last decade. The failure of the PRC to continue to grow at historical or anticipated rates, or at all, and any slowdowns or declines in the PRC economy or consumer spending, may materially and adversely affect our business, financial condition, results of operations and prospects.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Substantially all of our assets are located in the PRC and all of our revenue is derived from our operations in the PRC. As a result, our assets and operations are subject to significant political, economic, legal and other uncertainties associated with doing business in the PRC, which are discussed in more detail below.

Changes in the laws, regulations and policies adopted by the PRC government, including in relation to the environment, labor and taxation, may materially and adversely affect our business, financial condition, results of operations and prospects.

The political, economic and social conditions in the PRC differ from those in more developed countries in many respects, including structure, government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment, allocation of resources, rate of inflation and trade balance position. For the past three decades, the PRC government has implemented economic reform and measures emphasizing the utilization of market forces in the development of the PRC economy. Although these economic reforms and measures could have a positive effect on the PRC's overall and long-term development, the resulting changes also may have a material adverse effect on our current or future business, financial condition, results of operations and prospects. Despite these economic reforms and measures, the PRC government continues to play a significant role in regulating industrial development, the allocation of natural resources and production, pricing and management of currency, and there can be no assurance that the PRC government will continue to pursue a policy of economic reform or that the direction of reform will continue to be market friendly.

Our ability to successfully expand our business operations in the PRC depends on a number of factors, including macroeconomic and other market conditions and credit availability from lending institutions. Stricter lending policies in the PRC may affect our ability to obtain external financing, which may reduce our ability to implement our expansion strategies. We cannot give assurance that the PRC government will not implement any additional measures to tighten lending standards or that, if any such measure is implemented, it will not materially and adversely affect our future results of operations or profitability.

Demand for our products and our business, financial condition, results of operations and prospects may be materially and adversely affected by the following factors:

- political instability or changes in social conditions of the PRC;
- changes in laws, regulations, and administrative directives or the interpretation thereof;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation; and
- reduction in tariff protection and other import and export restrictions.

These factors are affected by a number of variables which are beyond our control.

Restrictions on foreign exchange and payments of dividends may limit our operating subsidiaries' ability to remit payments to us.

At present, the Renminbi is not freely convertible to other foreign currencies, and the conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. Under current PRC laws and regulations, payments of current account items including profit distributions, interest payments and operation-related expenditures may be made in foreign currencies without prior approval from SAFE, but are subject to procedural requirements including presenting relevant documentary evidence of such transactions and conducting such transactions at financial institutions within China that are engaged in settlement or sale of foreign exchange business. Strict foreign exchange control continues to apply to capital account transactions. These transactions must be approved by or registered with SAFE, and repayment of loan principal, distribution of return on direct capital investment and investment in negotiable instruments are also subject to restrictions. Under our current structure, our source of funds will primarily consist of dividend payments by our subsidiaries in the PRC denominated in Renminbi. We cannot give any assurance that we will be able to meet all of our foreign currency obligations or to remit profit out of China. If our subsidiaries are unable to obtain SAFE approval to repay loans to us or if future changes in relevant regulations were to place restrictions on the ability of the subsidiaries to remit dividend payments to us, our liquidity and ability to satisfy its third-party payment obligations and its ability to distribute dividends in respect of the shares could be materially and adversely affected.

We are a holding company that heavily relies on dividend payments from our subsidiaries for funding.

We are a holding company incorporated in the Cayman Islands and operate our core business through our subsidiaries in the PRC. Therefore, the availability of funds to us to pay dividends to our shareholders depends upon dividends received from these subsidiaries. If our subsidiaries incur debt or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends will be restricted. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRSs and International Financial Reporting Standards. PRC laws also require foreign invested enterprises to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to provide capital or declare dividends to us and our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our shareholders.

Fluctuations in foreign exchange rates may materially and adversely affect our financial condition and results of operations.

The value of Renminbi against other foreign currencies is subject to changes in the PRC government's policies and international economic and political developments. Under the unified floating exchange rate system, the conversion of Renminbi into foreign currencies, including Hong Kong dollars U.S. dollars, has been based on rates set by the PBOC, which have generally been stable. However, the PRC government reformed the exchange rate regime on July 21, 2005 by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. As a result, Renminbi appreciated against the Hong Kong dollars and U.S. dollars by approximately 2.0% on the same date. On September 23, 2006, the PRC government widened the daily trading band for Renminbi against non-U.S. dollar currencies from 1.5% to 3.0% to improve the flexibility of the new foreign exchange system. In June 2010, the PRC government announced its plan to further increase the flexibility of Renminbi exchange rate. Further, the PBOC increased the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar to 1.0% and 2.0% on April 16, 2012 and March 17, 2014, respectively. On August 11, 2015, the PBOC announced an adjustment to the mechanism of determining the midpoint price of Renminbi against the U.S. dollar to make the exchange rate of Renminbi more market-based. This modified mechanism allows traders to consider the closing exchange rate in the previous trading day when they quote the midpoint price of Renminbi against U.S. dollar. As a result, the midpoint price of Renminbi against U.S. dollar decreased by 4.78% from August 10 to August 27, 2015, and further fluctuated in January 2016. There can be no assurance that such exchange rate will not fluctuate against U.S. dollar, the Hong Kong dollar or any foreign currency in the future.

There has been pressure from foreign countries on the PRC recently to adopt a more flexible currency system that could lead to further appreciation of the Renminbi. Renminbi may be revalued further against the U.S. dollar or other currencies or may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of the Renminbi against the U.S. dollar or other currencies. It is uncertain if the exchange rates of Hong Kong dollars and U.S. dollars against Renminbi will further fluctuate. Any appreciation of the Renminbi may subject us to increased competition from imported sportswear products. Also, since our revenue and profit are denominated in Renminbi, any depreciation of Renminbi would materially and adversely affect our financial position and the value of, and any dividends payable on, our shares in foreign currency terms, as well as our ability to service any of our foreign currency obligations.

Any change in our tax treatment, including an unfavorable change in preferential enterprise income tax rates in the PRC, may have a material adverse impact on our financial condition and results of operations.

On March 16, 2007, the National People's Congress of the PRC (全國人民代表大會) promulgated the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the "New Tax Law"), which came into effect on January 1, 2008 and supersedes both the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC (中華人民共和國外商投資企業和外國企業所得稅法) and the Provisional Regulations on Enterprise Income Tax of the PRC (中華人民共和國企業所得稅暫行條例) (the "Old Tax Regime"). The New Tax Law consolidates the two separate tax regimes for domestic enterprises and foreign-invested enterprises and imposes a unified enterprise income tax rate of 25% for both types of enterprises.

Under the New Tax Law, foreign-invested enterprises that enjoyed a preferential tax rate prior to the New Tax Law's promulgation will gradually transit to the new tax rate over five years from January 1, 2008. Foreign-invested enterprises that enjoyed a tax rate of 24% will have their tax rate increased to 25% in 2008. Enterprises which enjoyed a fixed period of tax exemption and reduction prior to the New Tax Law's promulgation will continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced before due to lack of profit, such preferential tax treatment will commence from January 1, 2008.

Under the New Tax Law, Sanliuyidu China is exempted from the enterprise income tax for its first two profitable years commencing from January 1, 2008 and thereafter is entitled to a 50% reduction in the phased-in enterprise income tax rate of 25% for the subsequent three years until December 31, 2012. The tax rate applicable to Sanliuyidu China has been changed to the standard enterprise income tax rate of 25% since 2013.

Under the New Tax Law, if an enterprise incorporated outside the PRC has its "effective management" located within the PRC, such enterprise may be recognized as a PRC tax resident enterprise and be subject to the unified enterprise income tax rate of 25% for its worldwide income. Our members that are not incorporated in the PRC may in the future be recognized as a PRC tax resident enterprise according to the New Tax Law by the PRC taxation authorities. According to the New Tax Law, dividends received by a qualified PRC tax resident from another PRC tax resident are exempted from enterprise income tax. However, given the limited history of the New Tax Law, it remains unclear as to the detailed qualification requirements for such exemption and whether dividends declared and paid by our members in the PRC to their overseas holding companies will be exempted from enterprise income tax if they are recognized as PRC tax residents. Our financial performance will be materially and adversely affected if such dividends are subject to PRC enterprise income tax.

The PRC legal system is not fully developed and has inherent uncertainties regarding the interpretation and enforcement of PRC laws and regulations which could limit the legal protections available to investors.

Substantially all of our operations are conducted in the PRC. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference and are non-binding. Since 1979, the PRC government has been developing a comprehensive system of laws, rules and regulations in relation to economic matters, such as foreign investment, corporate organization and governance, commerce, taxation and trade. PRC governmental authorities, including the National Development and Reform Commission, have from time to time issued amendments and new interpretations of laws, rules and regulations, and the scope, application and consequences for non-compliance with respect to some of these amendments and new interpretations have not always been clear. As these laws and regulations have not yet been fully developed and because of the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations involve some degree of uncertainty, which may lead to additional restrictions and uncertainty for our business and uncertainty with respect to the outcome of any legal action investors may take against us in the PRC.

Changes in existing laws and regulations or additional or stricter laws and regulations on environmental protection in the PRC may cause us to incur additional capital expenditures.

Our business operation in the PRC is subject to the environmental laws and regulations issued by the PRC government. The relevant environmental laws and regulations may be revised by the PRC government from time to time to reflect the latest environmental needs or policies. Further, our production facilities at the Jiangtou Industrial Park, the Wuli Industrial Park, as well as the footwear soles production facilities operated by Sanliuyidu Footwear, our joint venture enterprise, are all subject to PRC environmental protection laws and regulations. These laws and regulations require enterprises engaged in manufacturing that may create environmental waste to adopt effective measures to control and properly dispose of this waste. If we fail to comply with such laws or regulations, the administrative department for environmental protection may impose levy fines on us. Moreover, the PRC government has the discretion to cease or close any operation if the failure to comply with such laws or regulations is serious. The PRC government, in addition, may impose additional or stricter laws or regulations in the future. Compliance with any of these additional or stricter laws or regulations may cause us to incur additional material capital expenditure, the cost of which we may be unable to pass on to our customers through higher prices for our products.

Natural disasters, acts of war, political unrest and epidemics, which are beyond our control, may cause damage, loss or disruption to our business.

Natural disasters, acts of war, political unrest and epidemics, which are beyond our control, may materially and adversely affect the economy, infrastructure and livelihood of the people of the PRC. Some cities in the PRC are particularly susceptible to floods, earthquakes, sandstorms, snowstorms and droughts. Our business, financial condition, results of operations and prospects may be materially and adversely affected if such natural disasters occur in places where we operate or indirectly sell our products, such as the earthquakes with magnitudes of 8.0, 7.1 and 6.5 striking certain parts of Sichuan, Qinghai and Yunnan provinces on May 12, 2008, April 14, 2010 and August 3, 2014, respectively, which negatively affected our retail operations at six of the *361°* authorized retail outlets located in the Sichuan Province. Political unrest, acts of war and terrorists attacks may cause damage or disruption to us, our employees, our facilities, the distribution channels operated by our distributors or their authorized retailers and our markets, any of which could materially and adversely affect our sales, cost of sales, overall results of operations and financial condition. The potential for war or terrorists attacks may also cause uncertainty and cause our business to suffer in ways that we cannot currently predict. In addition, certain Asian countries, including the PRC, have encountered epidemics, such as SARS or incidents of the avian flu. Past occurrences of epidemics have caused different degrees of damage to the national and local economies in the PRC. A recurrence of an outbreak of SARS, avian flu or any other similar epidemic such as the H1N1 flu (swine flu) could cause a slowdown in the levels of economic activity generally, which could in turn materially and adversely affect our results of operations and the price of our shares.

You may experience difficulty in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on foreign laws against us, our directors and our senior management.

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, the substantial majority of our directors and senior management reside within, and substantially all of our assets and the assets of such persons are located in, China. As a result, it may not be possible for investors to effect service of process outside China upon the substantial majority of our directors and senior management. Moreover, China does not have treaties with the United States, the United Kingdom or many other countries providing for the reciprocal recognition and enforcement of the judgment awarded by courts. As a result, recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

Labor laws in the PRC may materially and adversely affect our results of operations.

As of December 31, 2015, we employed a total of 9,566 full time employees in the PRC. On June 29, 2007, the PRC government promulgated a new labor law, namely the Labor Contract Law of the PRC (中華人民共和國勞動合同法) (the "Labor Law"), which became effective on January 1, 2008, and on December 28, 2012, the Labor Law was revised by the Standing Committee of the Eleventh National People's Congress, which became effective on July 1, 2013. The Labor Law imposes more stringent requirements on employers in relation to various matters, including, among the others, fixed term employment contracts, hiring of temporary employees and dismissal of employees. A minimum wages requirement has also been incorporated into the Labor Law. In addition, under the newly promulgated Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which also became effective on January 1, 2008, employees who have worked continuously for more than one year are entitled to a paid vacation ranging from five to 15 days, depending on the length of the employees' years of services. Employees who waive such vacation time at the request of employers shall be compensated for three times their normal daily salaries for each vacation day being waived. Compliance with the relevant laws and regulations may substantially increase our labor costs, as a result of which our historical labor costs may not be indicative of our labor costs going forward. Increase in our costs may materially and adversely affect our financial condition and results of operations.

RISKS RELATING TO THE NOTES

We are primarily a holding company and payments with respect to the Notes are structurally subordinated to liabilities and obligations of each of our subsidiaries.

We are primarily a holding company with no material operations and our ability to make payments in respect of the Notes depends largely upon the receipt of dividends, distributions, interests or advances from our subsidiaries or affiliates. The ability of our subsidiaries and affiliates to pay dividends and other amounts to us may be subject to their profitability and to applicable laws. Payments under the Notes are structurally subordinated to all existing and future liabilities and obligations of each of our subsidiaries or affiliates, other than the Subsidiary Guarantors. Claims of creditors of such companies will have priority to the assets of such companies over the claims of the holders of the Notes.

As of December 31, 2015, we had an outstanding bank loan of RMB15.1 million, which is secured by a mortgage over a building in Hong Kong. The Notes and the Indenture permit us, the Subsidiary Guarantors and our non-guarantor subsidiaries to incur additional indebtedness and issue additional guarantees, subject to certain limitations. Our secured creditor(s) or those of any Subsidiary Guarantor would have priority as to our assets securing the related obligations over claims of the holders of the Notes.

The terms of the Notes permit us to make investments in Unrestricted Subsidiaries and minority owned joint ventures.

We may make investments in joint ventures (including joint ventures in which we may own less than a 50% equity interest) and such joint ventures may or may not be Restricted Subsidiaries. Although the Indenture restricts us and our Restricted Subsidiaries from making investments in Unrestricted Subsidiaries or minority joint ventures, these restrictions are subject to important exceptions and qualifications.

Our substantial indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under the Notes and our other debt. In addition, the Indenture allows us to conduct certain other corporate transactions, which may materially and adversely affect the interest of the Noteholders.

We now have, and will continue to have after the offering of the Notes, a substantial amount of indebtedness. Our total bank borrowings as of December 31, 2013, 2014 and 2015 were RMB15.9 million, RMB15.3 million and RMB15.1 million, respectively. We have also issued the 2014 Notes in an aggregate principal amount of RMB1,500.0 million in September 2014.

Our substantial indebtedness could have important consequences to you. For example, it could:

- limit our ability to satisfy our obligations under the Notes, the 2014 Notes and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds; and
- increase the cost of additional financing.

In the future, we may from time to time incur substantial additional indebtedness and contingent liabilities. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and service our debt obligations as they become due. However, there is no assurance that we will be able to generate sufficient cash flow for these purposes. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all.

In addition, the terms of the indentures governing the 2014 Notes and the Notes prohibit us from incurring additional indebtedness unless (i) we are able to satisfy certain financial ratios or (ii) we are able to incur such additional indebtedness pursuant to any of the exceptions to the financial ratio requirements, and meet any other applicable restrictions. Our ability to meet our financial ratios may be affected by events beyond our control. We cannot assure you that we will be able to meet these ratios. Certain of our financing arrangements also impose operating and financial restrictions on our business. See the section entitled "Description of Material Indebtedness and Other Obligations." Such restrictions in the Notes and the 2014 Notes and our other financing arrangements may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund required capital expenditures, or withstand a continuing or future downturn in our business or the general economy. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Notes, the 2014 Notes and other debt.

Furthermore, the Indenture allows us to conduct certain corporate transactions through which a subsidiary designated as a Restricted Subsidiary (as defined in the section headed "Description of the Notes") may become an Unrestricted Subsidiary (as defined in the section headed "Description of the Notes"). As a result of such transaction, the Unrestricted Subsidiary would no longer be subject to the terms and conditions of the Indenture. In the event this occurs, the interest of the Noteholders could be materially and adversely affected.

Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries.

As a holding company, we depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Notes. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders (including us) is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association and debt agreements of our subsidiaries, applicable laws and restrictions contained in the debt instruments or agreements of such subsidiaries. In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such equity securities would not be available to us to make payments on the Notes. These restrictions could reduce the amounts that we receive from our subsidiaries, which would restrict our ability to satisfy our obligations under the Notes.

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations and such profits differ from profits determined in accordance with HKFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends. In addition, dividends paid by our PRC subsidiaries to their non-PRC parent companies are subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated, which specifically exempts or reduces such withholding tax. Pursuant to an avoidance of double taxation arrangement between Hong Kong and the PRC, if the non-PRC parent company is a Hong Kong resident and directly holds a 25% or more interest in the PRC enterprise, such restrictions tax rate may be lowered to 5%. As a result of such restrictions, there could be timing limitations on payments from our PRC subsidiaries to meet payments required by the Notes, and there could be restrictions on payments required to redeem the Notes at maturity or as required for any early redemption.

Furthermore, although we currently do not have any offshore shareholder loan to our PRC subsidiaries, we may resort to such offshore lending in the future, rather than equity contribution, to our PRC subsidiaries to finance their operations. In such events, the market interest rates that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The interest rates on shareholder loans paid by our subsidiaries, therefore, are likely to be lower than the interest rate for the Notes. Our PRC subsidiaries are also required to pay a 10% (or 7% if the interest is paid to a Hong Kong resident) withholding tax on our behalf on the interest paid under any shareholder loan. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries (as foreign-invested enterprises in China) must present evidence of payment of the withholding tax on the interest payable on any such shareholder loan and evidence of registration with SAFE, as well as any other documents that SAFE or its local branch may require.

As a result of the foregoing, we cannot assure you that we will have sufficient cash flow from dividends or payments on intercompany loans or advances from our subsidiaries to satisfy our obligations under the Notes.

Investment in the Notes may subject investors to foreign exchange rate risks.

We conduct substantially all of our business in China and consequently, we generate most of our revenue in Renminbi. The value of the Renminbi against the U.S. dollar and other foreign currencies fluctuates and is affected by changes in the PRC and international political and economic conditions and by many other factors. The Notes are denominated and payable in U.S. dollars. An investment in the Notes entails foreign exchange related risks, including possible significant changes in the value of Renminbi relative to U.S. dollars. For instance, in August 2015, the midpoint price of Renminbi against U.S. dollar decreased by 4.78% from August 10 to August 27, 2015, and further fluctuated in January 2016 after the PBOC announced an adjustment to the mechanism of determining the midpoint price of Renminbi against the U.S. dollar to make the exchange rate of Renminbi more market-based. Thus, depreciation of Renminbi against such currency could make it more expensive for us to make interest payments on, or repay, the Notes, and thereby materially and adversely affect our ability to do so.

PRC regulation of loans to and direct investments in PRC entities by offshore holding companies may delay or prevent us from using the proceeds of this offering to make loans or additional capital contributions to our PRC operating subsidiaries.

According to the existing PRC rules and regulations relating to supervision of foreign debt, loans by foreign companies to their subsidiaries in China, such as our PRC subsidiaries established as foreign-invested enterprises in China, are considered foreign debt, and such loans must be registered with the relevant local branches of SAFE. Such rules and regulations also provide that the total outstanding amount of such foreign debt borrowed by any foreign-invested enterprise may not exceed the difference between its total investment and its registered capital, each as approved by the relevant PRC authorities. In April 28, 2013, SAFE issued Administrative Measures for Foreign Debt Registration, which became effective from 13 May 2013. Equity contributions by us and our non-PRC subsidiaries to our PRC subsidiaries will require approvals from the commerce department of the local government and filing with MOFCOM and the local branch of SAFE, which may take considerable time and result in delays of receiving the contribution. This may in turn adversely affect the financial condition of the PRC subsidiaries and cause delays to the development undertaken by such PRC subsidiaries. We might not be able to obtain necessary approvals for our PRC subsidiaries at all.

The PRC government may introduce new policies that could further restrict our ability to use funds raised outside China. Our borrowings from sources outside of China as a percentage of our total borrowings have been increasing and may continue to increase in the future. Due to restrictions imposed by the PRC laws and regulations, we may not be able to use all or any of the funds that we raise outside of China, including the net proceeds from the current offering, as we contemplated, which may have a material and adverse effect on our business, results of operations, financial condition and prospects.

We may not be able to repurchase the 2014 Notes upon a Change of Control or the Notes upon a Change of Control Triggering Event.

We must offer to purchase all outstanding 2014 Notes upon the occurrence of a Change of Control or the Notes upon a Change of Control Triggering Event, as the case may be, at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See the section headed "Description of the Notes."

The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have sufficient available funds at the time of the occurrence of any Change of Control to make purchases of outstanding 2014 Notes or any Change of Control Triggering Event to make purchases of outstanding Notes, as the case may be. Our failure to make the offer to purchase or to purchase the outstanding the 2014 Notes or the Notes would constitute an Event of Default under the 2014 Notes or the Notes, as the case may be. The Event of Default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase or otherwise satisfy our obligations under the 2014 Notes and the Notes and repay the debt.

In addition, the definition of a Change of Control for purposes of the indentures governing the 2014 Notes and the Notes does not necessarily afford protection for the holders of the 2014 Notes or the Notes, as the case may be, in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancing, restructurings or other recapitalizations. These types of transactions could, however, increase our indebtedness or otherwise affect our capital structure or credit ratings. The definition of Change of Control for purposes of the indentures governing the 2014 Notes and the Notes also includes a phrase relating to the sale of "all or substantially all" of our assets. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the 2014 Notes or the Notes and the ability of a holder of the 2014 Notes or the Notes, as the case may be, to require us to purchase its notes pursuant to the offer as a result of a highly leveraged transaction or a sale of less than all of our assets may be uncertain.

Interest payable by us to our foreign investors and gain on the sale of the Notes may be subject to withholding taxes under PRC tax laws.

Under the EIT Law, if our Company is deemed a PRC resident enterprise, the interest payable on the Notes may be considered to be sourced within China. In that case, PRC income tax at the rate of 10% will be withheld from interest paid by us to investors that are "non-resident enterprises" so long as such "non-resident enterprise" investors do not have an establishment or place of business in China or, if despite the existence of such establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China. Any gain realized on the transfer of the Notes by such investors will be subject to a 10% PRC income tax if such gain is regarded as income derived from sources within China. It is uncertain whether we will be considered a PRC "resident enterprise." If we are required under the EIT Law to withhold PRC income tax on our interest payable to our foreign noteholders that are "non-resident enterprises," we will be required to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Notes, and could have a material adverse effect on our ability to pay interest on, and repay the principal amount of, the Notes, as well as our profitability and cash flow. In addition, if you are required to pay PRC income tax on the transfer of our Notes, the value of your investment in our Notes may be materially and adversely affected. It is unclear whether, if we are considered a PRC "resident enterprise," holders of our Notes might be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas.

The Notes are subject to our optional redemption, which may adversely impact their market value.

We are entitled to redeem the Notes prior to their stated maturity. An optional redemption feature of the Notes may limit their market value. During any period when we may elect to redeem the Notes, the market value of the Notes may not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

We may also be expected to redeem the Notes when our cost of borrowing is lower than the interest rate on the Notes. At those times, an investor may not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

If we are unable to comply with the restrictions and covenants in our debt agreements or the indentures governing the 2014 Notes or the Notes, as applicable, there could be a default under the terms of these agreements or the Indenture, which could cause repayment of our debt to be accelerated.

If we are unable to comply with the restrictions and covenants in the Indenture or our current or future debt obligations and other agreements (including the indentures governing the 2014 Notes and the Notes), there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the indentures governing the 2014 Notes and the Notes, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the 2014 Notes and the Notes, or result in a default under our other debt agreements, including the indentures governing the 2014 Notes and the Notes. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

Our operations are restricted by the terms of the 2014 Notes and the Notes, which could limit our ability to plan for or to react to market conditions or meet our capital needs, which could increase your credit risk.

The indentures governing the 2014 Notes and the Notes include a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our Restricted Subsidiaries, to:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of Restricted Subsidiaries;
- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- engage in any business other than permitted business;

- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;

- enter into transactions with shareholders or affiliates; and

- effect a consolidation or merger.

These covenants could limit our ability to plan for or react to market conditions or to meet our capital needs. Our ability to comply with these covenants may be affected by events beyond our control, and we may have to curtail some of our operations and growth plans to maintain compliance.

An active market for the Notes may not develop, which may cause the price of the Notes to fall.

The Notes are a new issue of securities for which there is currently no trading market. There is no existing market for the Notes, and there can be no assurance regarding the future development of a market for the Notes, the ability of Noteholders to sell their Notes or the price at which Noteholders may be able to sell their Notes. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See the section headed "Transfer Restrictions." No assurance can be given that an active trading market for the Notes will develop or as to the liquidity or sustainability of any such market, the ability of holders to sell their Notes or the price at which holders of the Notes will be able to sell their Notes. If an active market for the Notes fails to develop or be sustained, the trading price of the Notes could fall. If an active trading market were to develop, the Notes could trade at prices that may be lower than their initial offering price. Whether or not the Notes will trade at lower prices depends on many factors, including:

- prevailing interest rates and the markets for similar securities;

- general economic conditions and the condition of the sportswear industry; and

- our financial condition, historical financial performance and future prospects.

In addition, the Sole Lead Manager is not obliged to make a market in the Notes and any such market making, if commenced, may be discontinued at any time at the discretion of the Sole Lead Manager.

The ratings assigned to the Notes may be lowered or withdrawn in the future.

The Notes are expected to be rated "BB" by S&P Global Ratings, acting through Standard & Poor's Hong Kong Limited and "BB" by Fitch (Hong Kong) Limited. The ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. Additionally, we have been rated "BB" with a "Stable" outlook by S&P Global Ratings, acting through Standard & Poor's Hong Kong Limited and "BB" with a "Stable" outlook by Fitch (Hong Kong) Limited. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

The liquidity and price of the Notes following the offering may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenue, earnings and cash flows, proposals for new investments, strategic alliances and acquisitions, changes in interest rates, fluctuations in price for comparable companies, government regulations and changes thereof applicable to our industry and general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes.

There may be less publicly available information about us than is available in certain other jurisdictions.

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, the financial information in this Offering Memorandum has been prepared in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions, or other GAAPs, which might be material to the financial information contained in this Offering Memorandum. We have not prepared a reconciliation of our consolidated financial statements and related footnotes between HKFRS and other GAAPs. In making an investment decision, you must rely upon your own examination of us, the terms of the offering and our financial information. You should consult your own professional advisers for an understanding of the differences between HKFRS and other GAAPs and how those differences might affect the financial information contained in this Offering Memorandum.

The laws of the Cayman Islands may provide less protection to Noteholders than the laws of other jurisdictions.

We are an exempted company incorporated in the Cayman Islands with limited liability and the laws of the Cayman Islands may differ in some respects from those of other jurisdictions where investors may be located. As a result, the rights of Noteholders may not enjoy the same level of protection as pursuant to the laws of other jurisdictions.

The insolvency laws of the PRC and other local insolvency laws may differ from U.S. bankruptcy law or those of other jurisdiction with which the Noteholders are familiar.

We are incorporated under the laws of Cayman Islands and our principal assets are located in the PRC. An insolvency proceeding relating to us, even if brought in the United States, would likely involve Cayman Islands and PRC insolvency laws. The procedural and substantive provisions of these insolvency laws may differ from the laws of the United States or other jurisdictions with which the Noteholders are familiar.

The Trustee may request that the Holders provide an indemnity and/or security and/or pre-funding to its satisfaction.

The Trustee may (at its sole discretion) request the Noteholders to provide an indemnity and/or security and/or pre-funding to its satisfaction before it takes any action on behalf of Noteholders. The Trustee shall not be obliged to take any such action if not indemnified and/or secured and/or pre-funded to its satisfaction. Negotiating and agreeing to any indemnity and/or security and/or pre-funding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or pre-funding to it, in breach of the terms of the Indenture (as defined in "Description of the Notes") or in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable laws and regulations, it will be for the Noteholders to take such action directly.

We may issue additional Notes in the future.

Subject to the Indenture, we may, from time to time, and without prior consultation with the holders of the Notes create and issue further Notes or otherwise raise additional capital through such means and in such manner as we may consider necessary. There can be no assurance that such future issuance of Notes or capital raising activity will not adversely affect the market price of the Notes.

RISKS RELATING TO THE SUBSIDIARY GUARANTEES

Certain of our initial Subsidiary Guarantors do not currently have significant operations.

We conduct substantially all of our business operations through our PRC subsidiaries. No future subsidiaries that are organized under the laws of PRC will provide a guarantee of the Notes at any time in the future. As a result, the Notes will be effectively subordinated to all existing and future debt and other obligations, including contingent obligations and trade payables, of our PRC subsidiaries.

Certain of the initial Subsidiary Guarantors that will guarantee the Notes are holding companies that do not have significant operations. We cannot assure you that these initial Subsidiary Guarantors or any subsidiaries that may become guarantors in the future will have the funds necessary to satisfy our financial obligations under the Notes if we are unable to do so.

The Subsidiary Guarantees may be challenged under applicable financial assistance, insolvency, corporate benefit or fraudulent transfer or unfair performance laws, which could impair the enforceability of the Subsidiary Guarantees.

Under bankruptcy laws, fraudulent transfer laws, insolvency laws and unfair preference or similar laws in the BVI and Hong Kong and other jurisdictions where future Subsidiary Guarantors may be established or where insolvency proceedings may be commenced with respect to any such Subsidiary Guarantor, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things and where applicable, the guarantor, at the time it incurred the indebtedness evidenced by, or when it gives, its guarantee:

- incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;

- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;

- was insolvent or rendered insolvent by reason in the incurrence of such guarantee;

- was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or

- intended to incur, or believe that it would incur, debts beyond its ability to pay such debts as they mature.

The measure of insolvency for purposes of the foregoing will vary depending on the laws of the applicable jurisdiction. Generally, however, a guarantor would be considered insolvent at a particular time if it were unable to pay its debts as they fell due or if the sum of its debts was then greater than all of its properties at a fair valuation or if the present fair salable value of its assets was then less than the amount that would be required to pay its probable liabilities in respect of its existing debts as they became absolute and matured.

In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantor. In such case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder were incurred for less than reasonably equivalent value or fair consideration.

In an attempt to limit the applicability of insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees will be limited to the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the guarantee, as it relates to such Subsidiary Guarantor, voidable under such applicable insolvency or fraudulent transfer laws.

If a court voids a Subsidiary Guarantee, subordinates such guarantee to other indebtedness of the Subsidiary Guarantor or holds such guarantee unenforceable for any other reason, holders of the Notes would cease to have a claim against that Subsidiary Guarantor based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such Subsidiary Guarantor, and would solely be creditors of us and any Subsidiary Guarantors whose guarantees have not been voided or held unenforceable. We cannot assure you that, in such an event, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Notes.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the underwriting discounts and commissions and other estimated expenses payable in connection with this offering, will be approximately US$390.1 million, which we plan to use for general working capital purposes, including, but not limited to, the repayment of certain of our existing indebtedness.

We may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of the proceeds. Pending application of the net proceeds of this offering, we intend to invest the net proceeds in Temporary Cash Investments (as defined in "Description of the Notes — Definitions").

EXCHANGE RATE INFORMATION

China

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the markets during the prior day. The PBOC also takes into account other factors such as the general conditions existing in the international foreign exchange market.

On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. The PRC government has since made and in the future may make further adjustments to the exchange rate system. The PBOC authorized the China Foreign Exchange Trading Center, effective since January 4, 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi at 9:15 AM each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over the counter exchange rate for that business day. On May 18, 2007, the PBOC enlarged, effective on May 21, 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate. This allowed the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the People's Bank of China. On June 19, 2010, the PBOC announced that in view of the recent economic situation and financial market developments in China and abroad, and the balance of payments situation in China, it has decided to proceed further with reform of the Renminbi exchange rate regime and to enhance the Renminbi exchange rate flexibility. According to the announcement, the exchange rate floating bands will remain the same as previously announced but PBOC will place more emphasis to reflecting the market supply and demand with reference to a basket of currencies. On April 16, 2012, the PBOC enlarged the previous floating band of the trading prices of the Renminbi against the U.S. dollar in the inter-bank spot foreign exchange market from 0.5% to 1% in order to further improve the managed floating Renminbi exchange rate regime based on market supply and demand with reference to a basket of currencies. On March 17, 2014, in order to adapt to the continued development of the global foreign exchange market, the PBOC further enlarged the floating band for the trading prices in the inter-bank spot foreign exchange market for Renminbi against US dollar from 1% to 2%. On August 11, 2015, the PBOC announced an adjustment to the mechanism of determining the midpoint price of Renminbi against the U.S. dollar to make the exchange rate of Renminbi more market-based. This modified mechanism allows traders to consider the closing exchange rate in the previous trading day when they quote the midpoint price of Renminbi against U.S. dollar. On November 30, 2015, the executive board of the International Monetary Fund decided to add Renminbi to the basket of currencies with special drawing rights ("SDR"), and thereby expanding the SDR currency basket to five types of currency: the US dollar, euro, Renminbi, yen and the British pound. The new SDR currency basket will become effective on October 1, 2016, and Renminbi is expected to weigh approximately 10.92% of the basket.

Although the PRC governmental policies have been introduced in recent years to reduce restrictions on the convertibility of the Renminbi into foreign currency for current account items, conversion of the Renminbi into foreign currency for capital items, such as foreign direct investment, loans or security, requires the approval of the State Administration of Foreign Exchange or its branches and other relevant authorities.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon buying rate[1]			
Period	**Period end**	**Average[2]**	**High**	**Low**
	(RMB per US$1.00)			
2008	6.8225	6.9193	7.2946	6.7800
2009	6.8259	6.8295	6.8470	6.8176
2010	6.6000	6.7696	6.8330	6.6000
2011	6.2939	6.4630	6.6364	6.2939
2012	6.2301	6.3088	6.3879	6.2221
2013	6.0537	6.1478	6.2438	6.0537
2014	6.2046	6.1620	6.2591	6.0504
2015	6.4778	6.2578	6.4896	6.1870
2016				
January	6.5752	6.5726	6.5932	6.5219
February	6.5525	6.5501	6.5795	6.5154
March	6.4480	6.5027	6.5500	6.4480
April	6.4738	6.4754	6.5004	6.4571
May (through May 6)	6.4970	6.4917	6.5032	6.4738

Notes:

(1) Exchange rates between the Renminbi and the U.S. dollar for the periods before December 31, 2008 represent the noon buying rates for U.S. dollar in New York City for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. Exchange rates between the Renminbi and the U.S. dollar beginning on January 1, 2009 represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

(2) Determined by averaging the rates on the last business day of each month during the relevant period, except for the average rates in 2016, which are determined by averaging the daily rates during the respective periods.

Hong Kong

The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China (the "Basic Law"), which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK$7.80 to US$1.00. The central element in the arrangements which gave effect to the link is that by agreement between the Hong Kong government and the three Hong Kong banknote issuing banks (The Hong Kong and Shanghai Banking Corporation Limited, Standard Chartered Bank and the Bank of China), certificates of indebtedness, which are issued by the Hong Kong Government Exchange Fund to the banknote issuing banks to be held as cover for their banknote issues, are issued and redeemed only against payment in U.S. dollars at the fixed exchange rate of HK$7.80 to US$1.00. When the banknotes are withdrawn from circulation, the banknote issuing banks surrender the certificates of indebtedness to the Hong Kong Government Exchange Fund and are paid the equivalent U.S. dollars at the fixed rate.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK$7.80 to US$1.00. The Hong Kong government has indicated its intention to maintain the link at that rate. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. The Hong Kong government has also stated that it has no intention of imposing exchange controls in Hong Kong and that the Hong Kong dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Hong Kong government will maintain the link at HK$7.80 to US$1.00 or at all.

The following table sets forth the noon buying rate for the U.S. dollar in New York City for cable transfers in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon buying rate[1]			
Period	**Period end**	**Average[2]**	**High**	**Low**
	(RMB per US$1.00)			
2008	7.7499	7.7814	7.8159	7.7497
2009	7.7536	7.7513	7.7618	7.7495
2010	7.7810	7.7692	7.8040	7.7501
2011	7.7663	7.7841	7.8087	7.7634
2012	7.7507	7.7569	7.7699	7.7439
2013	7.7539	7.7565	7.7654	7.7503
2014	7.7531	7.7545	7.7669	7.7495
2015	7.7507	7.7524	7.7686	7.7495
2016				
January	7.7876	7.7812	7.7962	7.7505
February	7.7763	7.7829	7.7969	7.7700
March	7.7563	7.7604	7.7745	7.7531
April	7.7570	7.7556	7.7537	7.7570
May (through May 6)	7.7605	7.7607	7.7618	7.7591

Notes:

(1) Exchange rates between the Hong Kong dollar and the U.S. dollar for the periods before December 31, 2008 represent the noon buying rates for U.S. dollar in New York City for cable transfers in Hong Kong dollar as certified for customs purposes by the Federal Reserve Bank of New York. Exchange rates between the Hong Kong dollar and the U.S. dollar beginning on January 1, 2009 represent the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

(2) Determined by averaging the rates on the last business day of each month during the relevant period, except for the average rates in 2016, which are determined by averaging the daily rates during the respective periods.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our consolidated cash and bank balances, current and non-current loans and bank borrowings, total equity and capitalization as of December 31, 2015, presented:

- on an actual basis; and
- on an adjusted basis to reflect the net proceeds from this offering.

	As of December 31, 2015			
	Actual		As adjusted[1]	
	(RMB'000)	(US$'000)	(RMB'000)	(US$'000)
Cash and cash equivalents	2,286,225	351,889	4,711,079	725,116
Current interest-bearing borrowings				
Current secured interest-bearing borrowings	15,116[2]	2,327	15,116	2,327
Non-current portion of interest-bearing borrowings				
Interest-bearing borrowings	1,489,395[3]	229,243	1,489,395	229,243
The Notes to be issued[4]	—	—	2,534,454	390,096
Equity				
Share capital	182,298	28,059	182,298	28,059
Reserves	5,100,274	785,020	4,990,674	768,151
Total equity attributable to equity shareholders of the Company	5,282,572	813,079	5,172,972	796,210
Non-controlling interests	83,885	12,911	83,885	12,911
Total equity	5,366,457	825,990	5,256,857	809,121
Total capitalization[5]	6,855,852	1,055,233	9,280,706	1,428,460
Total current portion of interest-bearing borrowings and capitalization	6,870,968	1,057,560	9,295,822	1,430,787

Notes:

(1) Gives effect to a dividend in the amount of RMB109.6 million paid to the shareholders of our Company in May 2016.

(2) Represents a short-term bank loan from China Citic Bank International, which bears an interest rate of 2.78% below prime rate per annum and is secured by a property in Hong Kong.

(3) Represents the outstanding amount of the 7.5% senior notes due 2017 issued by our Company on September 12, 2014.

(4) As adjusted as of December 31, 2015 to give effect of the issue of US$400.0 million (approximately RMB2,598.8 million) aggregate principal amount of the Notes at the issue price of 99.055% and the net proceeds of our Company is expecting to receive from the issue of the Notes (after deducting commissions and estimated expenses of approximately US$6.1 million (approximately RMB39.6 million) payable by our Company in connection with the issue of the Notes).

(5) Total capitalization represents the sum of non-current portion of interest-bearing borrowings and total equity.

Other than as disclosed above, there has been no significant additional bank borrowing or other loan incurred by our Group since December 31, 2015.

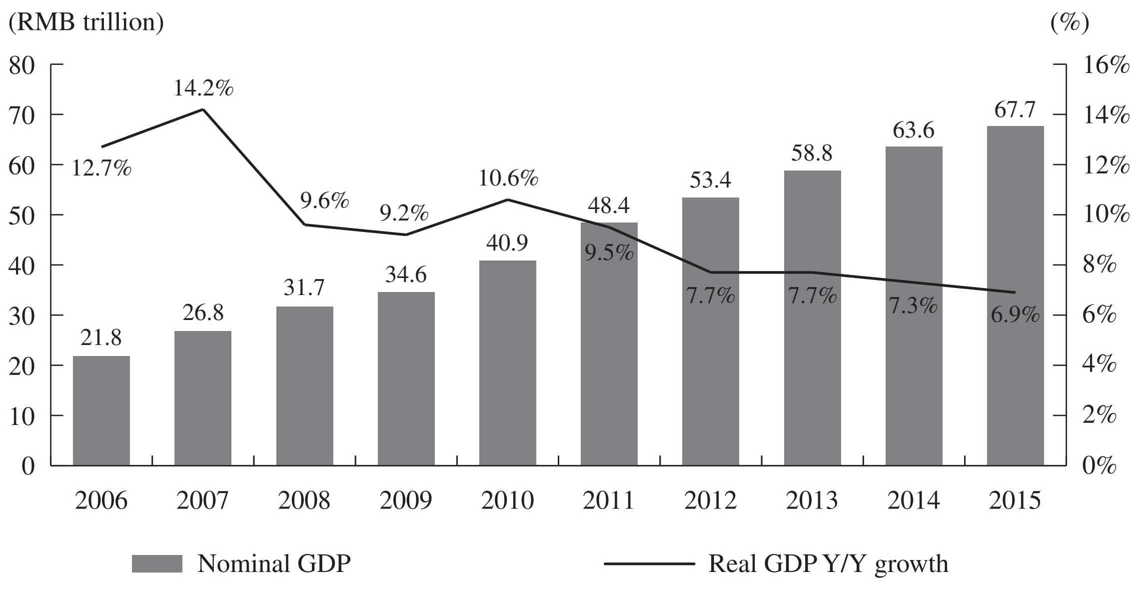
Certain information and statistics set out in this section have been extracted from various official government publications, as well as publicly available documents and reports prepared by third parties, including without limitation information on China's sportswear industry from independent market research carried out by Euromonitor International Ltd — Apparel and Footwear 2016 Edition. No independent verification has been carried out on the information and statistics contained in such official government publications or publicly available documents and reports. The information and statistics have not been independently verified by our Company or the Initial Purchaser or their respective directors and advisors, and neither our Company, the Initial Purchaser nor their respective directors and advisors make any representation as to the accuracy or completeness of the information and statistics. Such information and statistics may not be consistent with other information compiled within or outside the PRC, and they should not be unduly relied on.

OVERVIEW OF THE PRC ECONOMY

Growth of the PRC Economy

Since the introduction of economic reforms in the late 1970s, China has experienced rapid economic growth. Since that time, the PRC government has placed increasing emphasis on raising productivity and improving personal income through market-oriented reforms and has focused on foreign trade as a key driver of economic growth. China is now one of the world's fastest growing economies, with real GDP growth of over 9.0% each year from 2006 to 2011. According to CEIC Data Company Ltd. ("CEIC"), in 2010, China surpassed Japan to become the second largest economy in the world. In addition, according to CEIC, China achieved an average annual GDP growth of 7.3% during the period from 2011 to 2015. The chart below sets forth China's nominal GDP and year-on-year growth in real GDP from 2006 to 2015. The following chart illustrates the real GDP growth in China from 2006 to 2015.

Real GDP Growth of the PRC

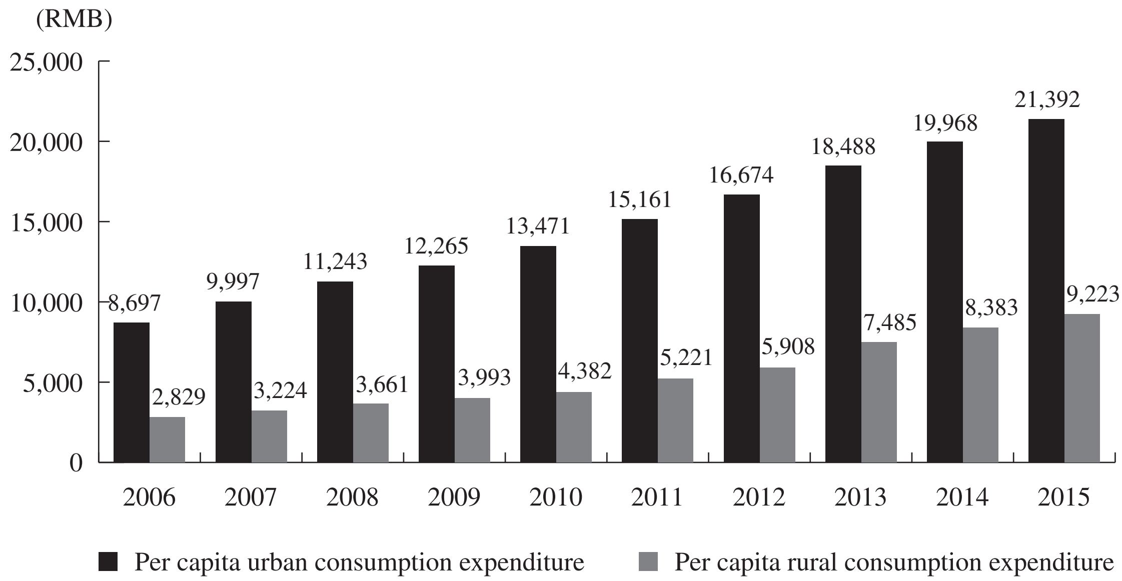


Source: CEIC

Increasing Consumption Levels in the PRC

Increases in the disposable income of urban and rural households have contributed to the growth in consumption in the PRC. According to CEIC, urban household disposable income has increased from RMB11,760 in 2006 to RMB31,195 in 2015, representing a CAGR of 11.4% while rural household disposable income has increased from RMB3,587 in 2006 to RMB10,772 in 2015, representing a CAGR of 13.0%. Consumption expenditures in China have increased for both urban and rural populations, consistent with the increases in disposable income. According to CEIC, per capita urban consumption expenditures have increased from RMB8,697 in 2006 to RMB21,392 in 2015, representing a CAGR of 10.5%. Per capital rural consumption expenditures have increased from RMB2,829 in 2006 to RMB9,223 in 2015, representing a CAGR of 14.0%. The chart below sets forth the per capita consumption expenditures of PRC urban and rural areas for the periods indicated.

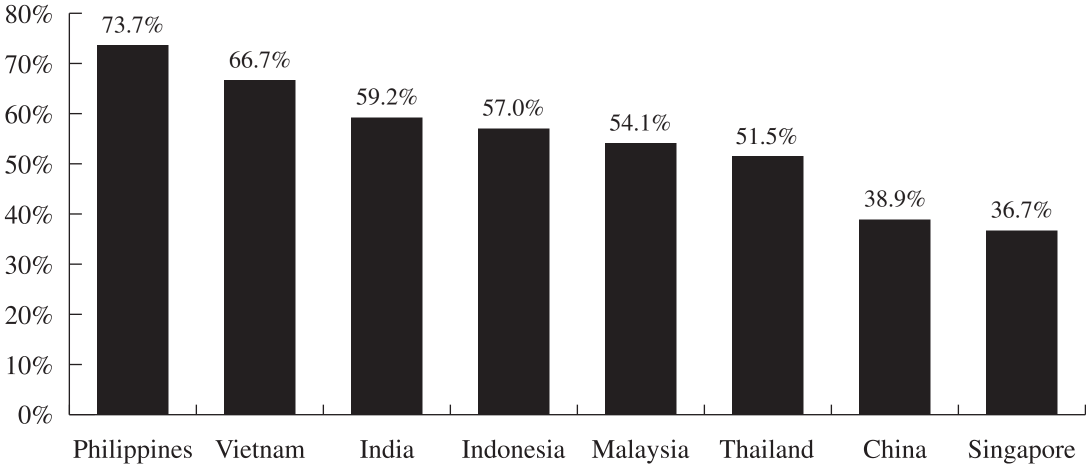
Per Capita Consumption Expenditure in the PRC



Source: CEIC

Despite the rapid growth of consumption, according The Economist Intelligence Unit ("EIU"), consumption levels as a percentage of GDP in China remain relatively low as compared to certain Asian countries, which indicates there is a room for future consumption growth in China. The chart below illustrates the household final consumption expenditure as a percentage of China's total GDP in 2015.

Household Final Consumption Expenditure as % of Total GDP in 2015



Source: EIU

FACTORS IMPACTING GROWTH AND KEY TRENDS IN THE PRC SPORTSWEAR INDUSTRY

As China's economy continues to grow, there are a number of key trends and factors that may impact the future growth of the PRC sportswear industry, which are set forth below.

Increases in Urban Population and Disposable Income

Continued economic development and growing affluence in China have increased consumer spending power and driven the demand for sportswear products. In particular, healthier lifestyles and the emphasis on body health have made consumption of sportswear products much more popular. China's sportswear consumption is low compared to other countries, which suggests the market can achieve high growth potential. In addition, in 2015, the PRC government terminated the national "one-child" policy and adopted the universal "two-child" policy, which is likely to increase the urban population of children in China. As a result, we can anticipate such policy to positively influence the demand for children's sportswear.

Rising Demand for Sportswear Products

The Chinese consumers' buying behavior has become increasingly sophisticated and most consumers do not view sportswear simply as fashion, but focus more on the functionality of sportswear for specific exercise activities (for examples, running, football, basketball and gym activities). There is an increasing consumer awareness on sportswear, driven by a larger number of sporting events hosted in China as well as TV broadcast of sporting events. Sports participation rate also grew as a result of the increasing number of participants in marathon and other sporting activities. The primary driver for such growth was the increasing level of participation in sporting activities by the growing middle class in China, who recognizes the importance of fitness that will likely lead to more healthy lifestyle and help them achieve better work/life balance.

Favorable Government Policies and Initiatives

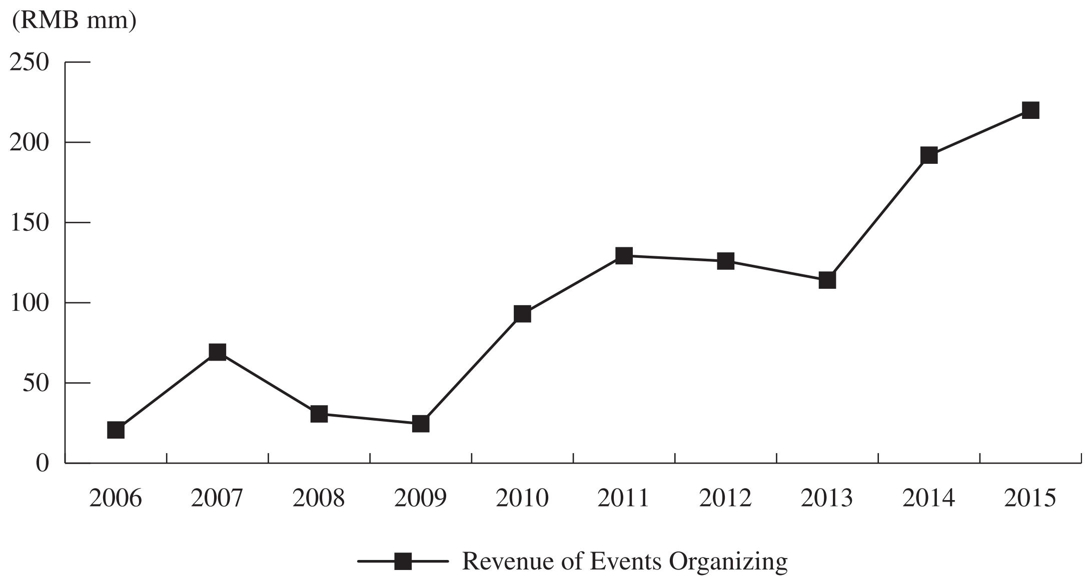
The consumer demand in sportswear has been fueled by encouraging policies or initiatives from the PRC government. These policies or initiatives include the following: In 2014, the State Council of the PRC passed Opinions on Accelerating the Development of the Sports Industry and Promoting Sports Consumption, pursuant to which the PRC government set certain goals by 2025, including, among others: (i) the PRC sports industry will reach RMB 5 trillion in size; (ii) 500 million people are expected to regularly participate in sporting activities; and (iii) building new stadiums and gyms with an aggregate space of 1.1 billion square meters. Moreover, China adopted the China Football Sports Reform Program (中國足球改革整體方案) in March 2015, through which football is expected to have a greater importance in the future as children's interest in football will increase due to the growing establishment of football-specific schools and increasing participation in football training. Specifically, the Chinese Football Association (中國足協) is expected to become independent from the General Administration of Sports of China (中國體育總局), so that it would achieve more operational and financial independent. In addition, the program sets forth plans to construct 20,000 and 50,000 new football training schools across China over the next five and 10 years, respectively. In April 2016, the PRC National Development and Reform Commission (中國國家發展和改革委員會) issued Medium- and Long-Term Development Guidelines for Football in China (中國足球中長期發展規劃) (the "Football Guidelines"), which set short-term targets of over 30 million elementary and high school students and over 50 million PRC residents who will regularly play football, and a medium-term target of more than 70,000 football fields in the country. The PRC government announced the goals and targets for the development of the PRC sports sector under the 13th Five Year Plan (十三五規劃) (the "13th Five Year Plan") in May 2016, which include the following key points: (i) the PRC government will continue to restructure the PRC sports industry where the PRC government will cease directly managing sports associations to allow the market to play a more active role; (ii) the size of the PRC sports industry is expected to exceed RMB3 trillion by 2020; (iii) increasing the participation in sports activities to approximately 435.0 million people by 2020; and (iv) the PRC government will continue to execute the Football Guidelines and strongly promote winter sports in China.

To achieve these targets, the PRC government intends to encourage professional sporting events, improve sporting facilities, develop stadium facilities and training agencies, as well as to promote mass sports, such as football, basketball and volleyball. Additionally, the government's promotion of winter sports as a result of Beijing having won the rights to host the Winter Olympic Games in 2022 and the 13th Five Year Plan is expected to contribute to an increase in the overall demand for sportswear. As a result of these favorable government policies or initiatives, total sales value the PRC sportswear industry has increased substantially from approximately RMB130 billion in 2010 to approximately RMB165 billion in 2015, according to Euromonitor International, which is expected to reach RMB247 billion in 2020.

Increasing Number of Sporting Events in China

An increasing number of sporting events being hosted in China suggests an increasing enthusiasm for sports, which is likely to drive sports participation rate. China Sports Industry Group Co., Ltd (SH.600158) is controlled by the fund of State Sports General Administration and is the largest sporting event organizer in China. The follow graph illustrates the movement in revenue of the sports industry in China from 2006 to 2015.

Revenue of China Sports Industry Group



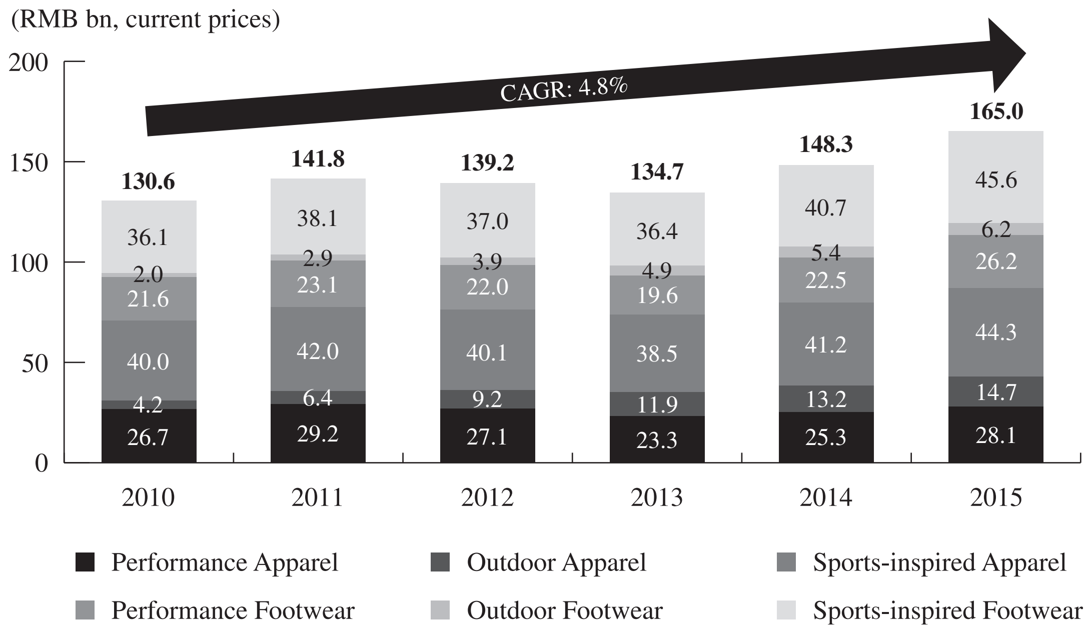
Source: Company filings

SPORTSWEAR MARKETS IN PRC

Prospects

The PRC sportwear market, which was valued at RMB165 billion as of the end of 2015, is projected to experience a CAGR of 8.0% over the forecast period (from 2016 to 2020), according to Euromonitor International, driven by increasing disposable incomes, rising awareness and pursuit of healthy lifestyles as well as realizing future potential from lower-tier areas. A major proportion of the potential demand for sportswear will come from replacement sales and consumers trading up to higher-end products or brands associated with professional sportswear for different occasions such as running, basketball and outdoor sports. As China advances further in its economic development, spending on sportswear and sports equipment will rise disproportionately, as a more affluent society becomes increasingly health conscious and sporting activities evolve to become part of people's daily lives. The following graph illustrates the sales value of sportswear in the PRC from 2010 to 2015.

2010–2015 Sales Value of Sportswear in the PRC

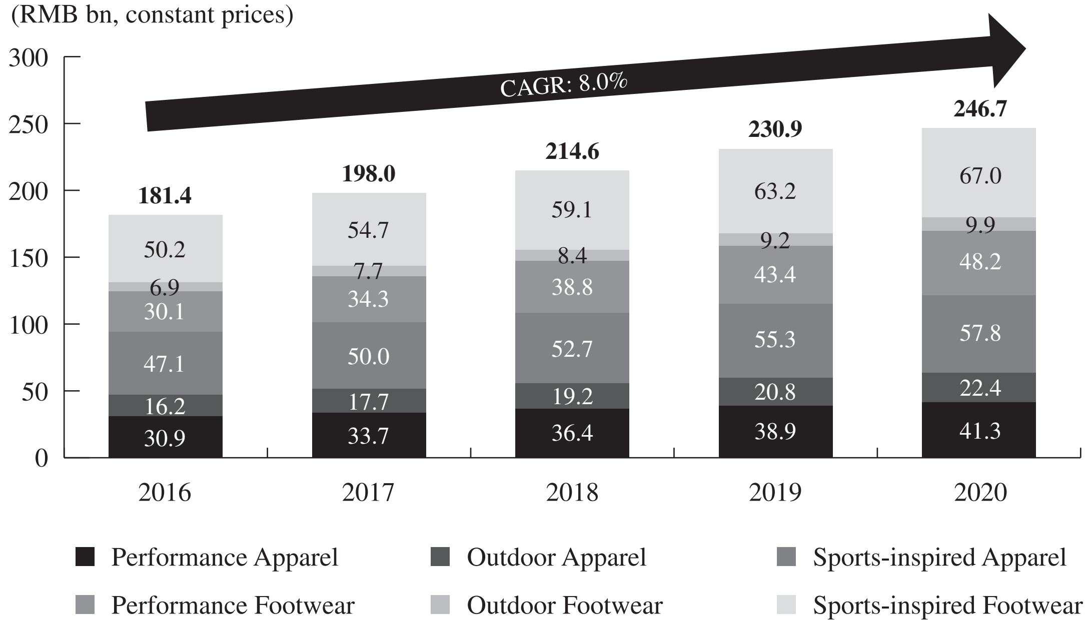


Source: Euromonitor International

However, forecast retail value growth is expected to grow at a steady pace. In addition to the economic downturn, the growing maturity of the sportswear industry in China is considered a major negative impact on the market. In addition, lack of innovation and popular design could lead to further challenges resulting in slower growth over the forecast period.

Over the forecast period, physical exercise is likely to see a continuous increase in popularity in China with rising health awareness among consumers, especially among the wealthy population and the middle class. In addition, there has been increased participation in sports by women. With a rising number of women now working full time, their spending power increases and their desire to stay fit and healthy may be stronger than their male counterparts. Outdoor sports are proving some of the most popular activities with a rapidly growing number of outdoor sports lovers, who will provide the major purchasing power over the forecast period. Meanwhile, outdoor sports manufacturers' huge investment in marketing campaigns such as sponsorship of teams and events will also help to educate consumers and improve brand awareness. Last but not least, consumers' rising preference for purchasing outdoor apparel and footwear for daily use, due to products' particular features, such as innovative technologies, comfort and warmth, will strongly underpin future growth. As a consequence, outdoor apparel and outdoor footwear are expected to record value CAGRs of 8.4% and 9.4%, respectively, at constant 2015 prices over the forecast period (from 2016 to 2020). The following graph illustrates the sportswear sales value forecast from 2016 to 2020.

2016–2020 Forecast Sales Value of Sportswear



Source: Euromonitor International

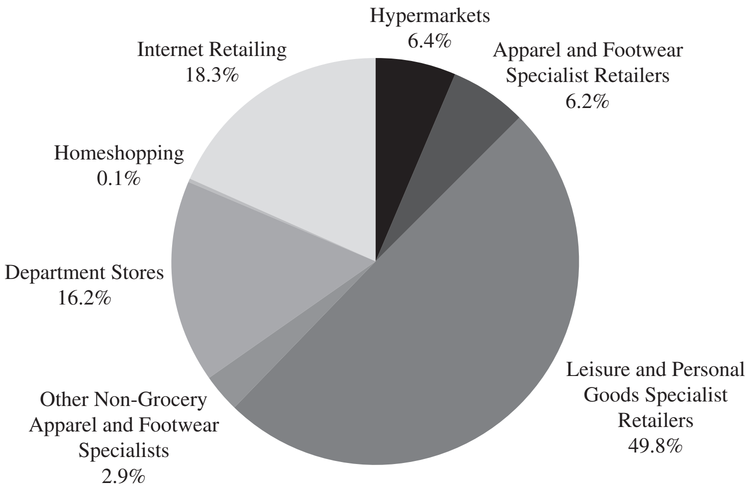
With competition expected to intensify and the sportswear market expected to mature, especially in higher-tier cities, manufacturers are likely to focus more on rural areas with greater potential demand so players will focus on the expansion of retail outlets in these areas. In the meantime, they will not neglect the booming development and importance of internet retailing to better serve consumers where they have not opened retail stores. Furthermore, to cater to various demands and tastes, companies are likely to put efforts into segmented market positioning by different brands. The following table sets forth the distribution value of sportswear by format for the periods indicated.

2010–2015 Distribution Value of Sportswear by Format

% Retail Value RSP	2010	2011	2012	2013	2014	2015
Store-Based Retailing	99.1	96.5	92.4	89.3	85.7	81.6
Grocery Retailers	6.0	6.5	7.0	7.2	6.9	6.4
Modern Grocery Retailers	6.0	6.5	7.0	7.2	6.9	6.4
Hypermarkets	6.0	6.5	7.0	7.2	6.9	6.4
Non-Grocery Specialists	70.4	66.7	63.0	60.5	60.2	58.9
Apparel and Footwear Specialist Retailers	3.2	3.7	4.5	5.7	6.0	6.2
Leisure and Personal Goods Specialist Retailers	49.3	49.7	50.4	50	50.4	49.8
Sports goods stores	49.3	49.7	50.4	50	50.4	49.8
Other Non-Grocery Apparel and Footwear Specialists	17.9	13.3	8.1	4.8	3.8	2.9
Mixed Retailers	22.8	23.4	22.5	21.6	18.6	16.2
Department Stores	22.8	23.4	22.5	21.6	18.6	16.2
Non-Store Retailing	0.9	3.4	7.5	10.7	14.3	18.4
Homeshopping	0.1	0.1	0.1	0.1	0.1	0.1
Internet Retailing	0.8	3.3	7.4	10.6	14.2	18.3
Total	100	100	100	100	100	100

Source: Euromonitor International

Breakdown of Distribution of Sportswear by Format in 2015



Source: Euromonitor International

Store-Based Retailing Still Dominates While Internet Retailing Records Strong Growth

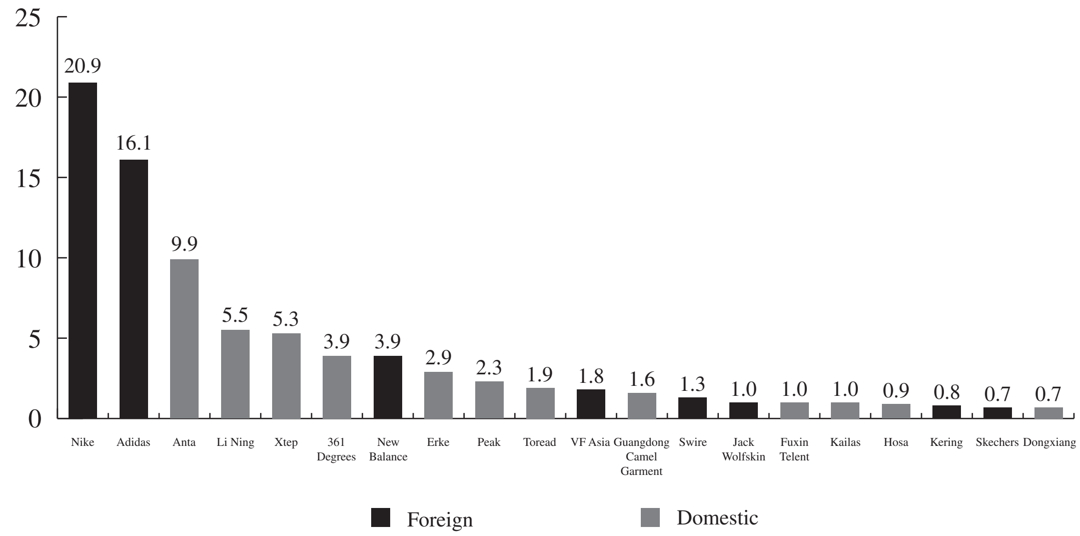
Store-based retailers such as department stores and apparel specialist stores still dominate the market due to the large numbers of retail outlets and consumers' traditional shopping habits. However, more consumers are shopping via the internet which normally provides a wider range of products with more reasonable prices and convenient delivery services. With more internet retailers launching easy return policies, consumers have fewer concerns about size and quality issues of apparel and footwear products, which has also helped drive market development.

Internet retailing of apparel and footwear experienced explosive retail value growth over the review period, benefiting from the increasing on-line shopping consumer base, a wide range of choices, comparatively attractive pricing and convenient home delivery services. Therefore, internet retailing of apparel and footwear in China enjoyed remarkable sales growth over the review period. Many brands have entered internet retailing and taken advantage of this fast-growing alternative distribution channel.

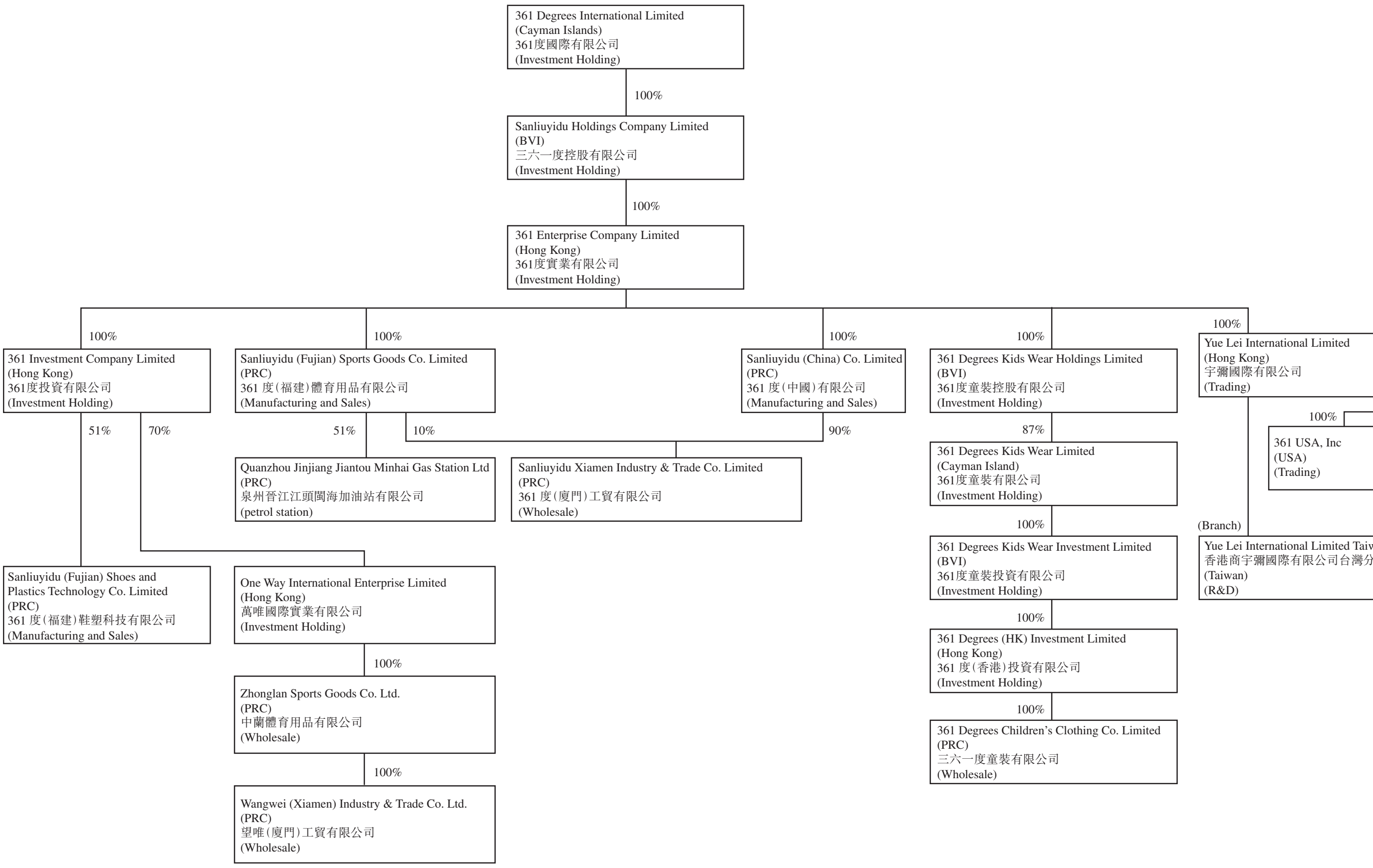
Chinese Sportswear Companies Continue to Gain Market Share in Mid to Low-end Markets

According to Euromonitor International, in terms of retail value RSP, domestic sportswear companies continue to gain market share in mid to low-end sportswear markets in China. International sportswear companies, including Nike and Adidas, remain the market leader in China with market shares of 20.9% and 16.1%, respectively, in terms of retail value RSP for sportswear companies in China. Nevertheless, domestic brands, including Anta, Li Ning, Xtep, 361 Degrees and Erke, followed closely with market shares of 9.9%, 5.5%, 5.3%, 3.9% and 2.9%, respectively. In the past six years, we have been one of the top four domestic brands in China in terms of retail value RSP. The following graph illustrates the top 20 sportswear brands in China in 2015.

Top 20 Sportswear Companies in China (2015)



Source: Euromonitor International


361 Degrees International Limited
(Cayman Islands)
361度國際有限公司
(Investment Holding)
100%
Sanliuyidu Holdings Company Limited
(BVI)
三六一度控股有限公司
(Investment Holding)
100%
361 Enterprise Company Limited
(Hong Kong)
361度實業有限公司
(Investment Holding)
100%
361 Investment Company Limited
(Hong Kong)
361度投資有限公司
(Investment Holding)
100%
Sanliuyidu (Fujian) Sports Goods Co. Limited
(PRC)
361 度(福建)體育用品有限公司
(Manufacturing and Sales)
100%
Sanliuyidu (China) Co. Limited
(PRC)
361 度(中國)有限公司
(Manufacturing and Sales)
100%
361 Degrees Kids Wear Holdings Limited
(BVI)
361度童裝控股有限公司
(Investment Holding)
100%
Yue Lei International Limited
(Hong Kong)
宇彌國際有限公司
(Trading)
51%
70%
51%
10%
90%
87%
100%
Quanzhou Jinjiang Jiantou Minhai Gas Station Ltd
(PRC)
泉州晉江江頭閩海加油站有限公司
(petrol station)
Sanliuyidu Xiamen Industry & Trade Co. Limited
(PRC)
361 度(廈門)工貿有限公司
(Wholesale)
361 Degrees Kids Wear Limited
(Cayman Island)
361度童裝有限公司
(Investment Holding)
361 USA, Inc
(USA)
(Trading)
100%
(Branch)
361 Degrees Kids Wear Investment Limited
(BVI)
361度童裝投資有限公司
(Investment Holding)
Yue Lei International Limited Taiv
香港商宇彌國際有限公司台灣分
(Taiwan)
(R&D)
Sanliuyidu (Fujian) Shoes and
Plastics Technology Co. Limited
(PRC)
361 度(福建)鞋塑科技有限公司
(Manufacturing and Sales)
One Way International Enterprise Limited
(Hong Kong)
萬唯國際實業有限公司
(Investment Holding)
100%
361 Degrees (HK) Investment Limited
(Hong Kong)
361 度(香港)投資有限公司
(Investment Holding)
100%
100%
Zhonglan Sports Goods Co. Ltd.
(PRC)
中爤體育用品有限公司
(Wholesale)
361 Degrees Children's Clothing Co. Limited
(PRC)
三六一度童裝有限公司
(Wholesale)
100%
Wangwei (Xiamen) Industry & Trade Co. Ltd.
(PRC)
望唯(廈門)工貿有限公司
(Wholesale)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We are a leading domestic sportswear enterprise in the PRC. We design, develop, manufacture and sell high performance, innovative and stylish sportswear products to cater to the active, athletic and casual sportswear needs of adults, young adults and children. We offer a wide array of products under our footwear, apparel and accessories product categories for a variety of sporting activities. In addition to our *361°* brand, we also market our sportswear products under our *361° Kids* brand and *Innofashion* sub-brand, both of which are designed for specific audiences.

Our main brand, *361°*, represents the 360 degrees of a complete circle plus one extra degree, symbolizing our goal of establishing our brand to provide complete satisfaction in athleticism and functionality, plus an added degree of innovation and creativity. It also represents our continuous commitment to always pursuing one more degree of management and operational excellence and highlights our goal of distinguishing *361°* from other competitors by this one degree.

We manufacture a majority of our own footwear products at our two production facilities, one of which is situated in the Jiangtou Industrial Park and the other in the Wuli Industrial Park, each located in Jinjiang City, Fujian Province, the PRC, and we manufacture a portion of our apparel products at our production facility in the Wuli Industrial Park. As of December 31, 2015, we had a total of 23 footwear production lines with an aggregate production capacity of 21 million pairs of footwear per annum, and an apparel production facility with a production capacity of 10 million pieces per annum. We outsource the manufacture of a portion of our footwear, the majority of our apparel and all of our accessories to third-party contract manufacturers.

We sell our products primarily to distributors, who in turn sell our products to authorized retailers within the exclusive geographic areas assigned to them. As of March 31, 2016, the distribution network of our *361°* products, which include our *361°* and *Innofashion* products, consisted of 31 distributors who oversaw approximately 3,000 authorized retailers that in turn, owned and operated 7,102 authorized retail outlets. In addition, we had 2,471 *361° Kids* retail outlets in our distribution network as of March 31, 2016.

Our revenue for the financial years ended December 31, 2013, 2014 and 2015 were RMB3,583.5 million, RMB3,906.3 million and RMB4,458.7 million, respectively. Our net profit for the financial years ended December 31, 2013, 2014 and 2015 were RMB214.7 million, RMB405.2 million and RMB529.6 million, respectively.

FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our financial condition and results of operations have been and will continue to be affected by a number of factors, including those factors discussed below, some of which are beyond our control.

Consumer Demand for Sportswear in the PRC

Consumer demand in the PRC for sportswear is one of the key drivers of our revenue from sales of our products and depends in large part on the general economic conditions in the PRC, the growth in disposable income of residents of the PRC and consumption patterns in the PRC. The increase in the purchasing power of PRC residents is expected to drive in part sentiment towards the purchase of sportswear products that bear a well-recognized brand, which may positively affect our results of operations. According to the PRC General Administration of Sport, there is a general correlation between increasing income levels and the rising popularity of sports.

Our growth also depends on the existence and the continuation of consumer spending preferences in the PRC for sportswear products. For example, due to China's slowing economic growth in 2012 and 2013, consumer demand for sportswear during those years also dampened, which resulted in reduced orders we received from our recent trade fairs and over-supply of such products in the marketplace.

However, beginning in the fourth quarter of 2014, as the level of participation in sporting activities increased among the growing middle class in China, who recognizes the benefits of fitness and health, the sportswear industry in China began to experience growth, which continued throughout 2015. Thus, changes in consumption patterns in the PRC or a decrease in consumer spending for sportswear products may materially and adversely affect our financial condition and results of operations.

Our Ability to Continuously Maintain and Enhance Our Brand Recognition

Our financial condition and results of operations is affected by our ability to continuously maintain and enhance recognition of our *361°* and *361° Kids* brands and *Innofashion* sub-brand. In particular, we believe that our success will depend on our ability to implement our innovative multimedia marketing and promotion strategies and improve our authorized retail outlets in terms of size, location and layout. For the financial years ended December 31, 2013, 2014 and 2015, our advertising and promotional expenses accounted for approximately 16.2%, 16.7% and 12.8% of our total revenue for each of those years, respectively. We intend to incur advertising and marketing expenditure to continue to strengthen our brand and market position in line with our business strategies and as appropriate opportunities arise. If we are unsuccessful in promoting our brands or fail to maintain our brand position, market perception and consumer acceptance of our brands may be eroded, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our Ability to Maintain Our Competitive Strengths that Differentiate Us from Our Competitors

The demand for sportswear in the PRC is generally in line with the economic growth of the PRC. We believe that the PRC sportswear industry is highly competitive and will continue to be so for the near future. Participants in the PRC sportswear industry include international and domestic brands, which compete in, among other things, brand loyalty, product variety, product design, product quality, marketing and promotion, distribution network coverage, price and the ability to meet delivery commitments to distributors and authorized retailers. This competition has led to leading brands continuing to gain market share at the expense of less established, lower-end brands. We must continue to meet these competitive challenges by maintaining our competitive strengths, such as our extensive distribution network, innovative design and product development capabilities and effective marketing and promotion strategies, as well as our experienced management team, to offer customers high quality products in the PRC and to differentiate ourselves from our competitors.

Pricing of Our Products

The brand power of our *361°* and *361° Kids* brands and *Innofashion* sub-brand is a significant factor that we take into consideration in determining the suggested retail prices of our products. Our ability to continue to price our products at current levels is important to our financial performance. We require our distributors and authorized retailers to comply with our uniform retail prices, which we determine based on various factors, such as our internal and outsourcing production costs, our competitors' pricing strategies, consumers' purchasing power and general economic conditions in the PRC. We market our products to the fast-growing, up-and-coming consumer group comprised of sports-minded consumers between the ages of 18 and 30 and the general public with a unique sporting experience who, we believe, are willing to pay a relatively higher price for sportswear products with athletic functionality, innovation and creativity. Going forward, our ability to continue to attract consumers by offering sportswear products with athletic functionality, and innovation and creativity that are differentiated from those of our competitors should have a direct impact on the pricing of our products.

Our Product Mix

We offer a wide range of sportswear products for both men and women, including footwear, apparel and accessories. We continuously monitor our product mix and develop new products that we believe will generate higher customer demand, as part of our efforts to maximize sources of our revenue. Although we believe that revenue contributions from our *361° Adults* segment, which include products of our *361°* brand and *Innofashion* sub-brand, and *361° Kids* segment as a percentage of total revenue will remain relatively stable in the near future, we will continue to adjust our product mix within each segment and enhance our product positioning in an effort to increase our revenue and gross profit. As we adjust our product mix, our gross profit will be affected both by any change in revenue attributable to, and any change in the gross profit margin of, each of our product segments.

Cost of Raw Materials for Our Products

The principal raw materials used in the production of our footwear products are leather, synthetic leather, fabrics, rubber, plastics and soles. For the financial years ended December 31, 2013, 2014 and 2015, the cost of our raw materials accounted for approximately 18.9%, 24.6% and 19.2%, respectively, of our total cost of sales. We do not include in our cost of raw materials the cost of raw materials incurred by our contract manufacturers to whom we outsourced the production of some of our footwear and apparel and all of our accessories during these periods. It is important for us to obtain from our suppliers sufficient quantities of quality raw materials in a timely manner and at competitive prices for our internal production of footwear. The cost of some of our key raw materials is affected by several factors, such as fluctuations in commodity prices (including oil), purchase volume and availability of substitute materials. We do not enter into long-term agreements with our raw material suppliers. Fluctuations in the costs of our principal raw materials and our inability to pass on any increases in raw material costs to our customers by increasing the suggested retail prices of our products or increasing the sale price to our distributors may materially and adversely affect our cost of sales and our gross profit margins. See "we rely on third-party suppliers for certain raw materials. Unfavorable fluctuations in the price, availability and quality of raw materials could cause material production delays and materially increase in our production costs" in the section headed "Risk Factors — Risks Relating to Our Business" in this Offering Memorandum.

Our Ability to Maintain and Develop Our Distribution Network

Under our current business model, most of the sales of our products are made to our distributors. Our financial condition and results of operations will be affected by our ability to work closely with our distributors to increase and improve our marketing programs, our ability to expand and optimize our network of distributors, and the ability of our distributors and authorized retailers to further enhance the network of our authorized retail outlets being operated within their exclusive geographic regions. If we fail to expand and develop the distribution network of our products, our financial condition and results of operations may be materially and adversely affected. See "Risk Factors — We rely primarily on a small number of third-party distributors for sales of our products."

Ability to Maintain Production Flexibility through Internal and External Production

As of December 31, 2015, we operated 23 footwear production lines with an aggregate production capacity of 21 million pairs of footwear products per annum. We also manufacture a portion of our apparel production with an annual production capacity of 10 million pieces. We try to maintain an optimum balance between in-house and outsourced production, taking into consideration various factors such as costs of production and labor and market competition for skilled workers. Until we find it cost-efficient to increase our internal production capacity, we expect to continue to rely on external production as our sales increase in the near future. If our contract manufacturers are unable to meet our production requirements on time, or at all, our ability to grow our business will be adversely affected. Our financial condition and results of operations will be significantly affected by our ability to maintain strong production capability and our flexibility in making effective use of our internal production and contract manufacturers.

Seasonality

Our results of operations are subject to the effects of seasonality. Our products typically achieve higher sales when we sell our products for the spring and summer seasons to our distributors due to seasonality of demand for sportswear and increased volume of products sold, which was attributable in part to the lower average selling price of spring and summer products as compared to autumn and winter products. We generally sell and distribute our spring and summer seasonal products from February to August, and our autumn and winter seasonal products from September to January. Unexpected and abnormal changes in climate may affect the sales of our products that are timed for release during a particular season. For example, due to the late arrival of the winter season in 2014, we delayed the delivery of certain of our winter products to our distributors to the beginning of 2015, which resulted in higher revenue for the two months ended February 28, 2015, as compared to the same period in 2016 when a large portion of our winter products were sold in December 2015 due to the colder weather for this past winter. As a result, we believe that comparisons of our operating results and net income over any interim periods may not be meaningful and such comparisons may not be an accurate indicator of our future performance.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Our significant accounting policies, which are important for an understanding of our financial condition and results of operation, are set forth in detail in Note 1 to our consolidated financial statements included in this Offering Memorandum. Some of our accounting policies require subjective or complex judgments by our management, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Certain accounting estimates are particularly sensitive because of their significance to our consolidated financial statements. When reviewing our consolidated financial statements, you should consider (i) our selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe involve the most significant estimates and judgments used in the preparation of our consolidated financial statements.

Revenue Recognition

Revenue is measured at fair value of the consideration received or receivable. Provided that it is probable the economic benefits will flow to our Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

- Sale of goods — Revenue is recognized when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and goods return;

- Interest income — Interest income is recognized as it accrues using the effective interest method; and

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

Impairment of Assets

Impairment on investments in equity securities and other receivables

We review investments in equity securities and other current and non-current receivables that are stated at cost or amortized cost at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that come to our attention about one or more of the following loss events:

- significant financial difficulty of the debtor;

- a breach of contract, such as a default or delinquency in interest or principal payments;

- it is becoming probable that the debtor will enter bankruptcy or other financial reorganization;

- significant changes in the technological, economic or legal environment that have an adverse effect on the debtor; and

- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognized as follows:

- for unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment loss for equity securities carried at cost are not reversed; and

- for trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. The assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to collective group.

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade debtors and bills receivable whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When our Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

Impairment of other assets

We also review internal and external sources of information at the end of each reporting period to identify indications that property, plant and equipment, interests in leasehold land held for own use under operating leases, non-current deposits and prepayments and investment in subsidiary may be impaired or an impairment loss previously recognized no longer exists or may have decreased. If any such indication exists, the asset's recoverable amount is estimated.

Calculation of recoverable amount

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

Recognition of impairment losses

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

Reversals of impairment losses

An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

Inventories

Inventories are carried at the lower of cost and net realizable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

Interest-bearing Borrowings

Interest-bearing borrowings are recognized at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fee payable, using the effective interest method.

Impairment Losses on Trade Debtors and Bills Receivables

We recognize impairment losses on doubtful debts based on an assessment of the recoverability of trade debtors and bills receivable. Impairments are applied to trade debtors and bills receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debts expenses in the period in which such estimate has been changed.

RESULTS OF OPERATIONS

Selected Consolidated Statement of Profit or Loss and Other Comprehensive Income

The selected consolidated financial information of our Group for the financial years ended December 31, 2013, 2014 and 2015 set forth below are derived from our Company's published audited consolidated financial statements and should be read in conjunction with such published consolidated financial statements and the notes thereto, which are included elsewhere in this Offering Memorandum.

	For the year ended December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Revenue	3,583,477	3,906,286	4,458,701
Cost of sales	(2,166,378)	(2,309,490)	(2,635,738)
Gross profit	1,417,099	1,596,796	1,822,963
Other revenue	83,766	112,870	154,893
Other net gain/(loss)	5,101	(12,987)	27,279
Selling and distribution expenses	(729,300)	(769,245)	(712,895)
Administrative expenses	(424,456)	(203,269)	(377,571)
Profit from operations	352,210	724,165	914,669
Net change in fair value of derivatives embedded to convertible bonds	41,841	51,661	—
Loss on repurchase of convertible bonds	—	(76,118)	—
Finance costs	(79,127)	(92,235)	(125,510)
Profit before taxation	314,924	607,473	789,159
Income tax	(100,193)	(202,261)	(259,540)
Profit for the year	214,731	405,212	529,619
Attributable to:			
Equity shareholders of the Company	211,261	397,642	517,639
Non-controlling interests	3,470	7,570	11,980
Profit for the year	214,731	405,212	529,619
Earnings per share			
Basic (cents)	10.2	19.2	25.0
Diluted (cents)	10.2	19.2	25.0
Other comprehensive income for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements	6,696	(5,567)	(34,700)
Total comprehensive income for the year	221,427	399,645	494,919
Attributable to:			
Equity shareholders of the Company	217,957	392,075	482,939
Non-controlling interests	3,470	7,570	11,980
Total comprehensive income for the year	221,427	399,645	494,919

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

All of our revenue is derived from sales of our products, consisting of footwear, apparel and accessories. We derive revenue from trading adult sporting goods and children's sporting products. Revenue represents the value of goods sold, less returns, discounts and value-added taxes and other sales tax. The following table sets forth a breakdown of our revenue for the periods indicated:

	For the year ended December 31,					
	2013		2014		2015	
	RMB'000	%	RMB'000	%	RMB'000	%
Revenue						
361° Products — Adults						
Footwear	1,521,031	42.5	1,554,280	39.8	1,884,788	42.3
Apparel	1,575,784	44.0	1,753,929	44.9	1,895,915	42.5
Accessories	66,286	1.8	90,574	2.3	89,069	2.0
361° Products — Kids	420,376	11.7	507,503	13.0	588,929	13.2
Total	3,583,477	100.0	3,906,286	100.0	4,458,701	100.0

The sales of our products depend primarily on the successful promotion of our *361°* and *361° Kids* brands and *Innofashion* sub-brand, maintenance of our retail network, efficiency of our exclusive distributorship business model, improved product design and expansion of our range of product offerings. Despite China's economic slowdown in recent years, which resulted in a reduction of market demand for sportswear products in 2012 and 2013, the market conditions began to recover during the fourth quarter of 2014 and this trend continued throughout 2015. As a result, our revenue increased for the year ended December 31, 2014 as compared to the year ended December 31, 2013. We believe future economic growth will drive consumer demand and spending on sportswear, and our brands are well-positioned in the PRC sportswear industry. To maintain our competitive edge, we have broadened our product mix to accommodate the active, athletic and casual needs of adults, young adults and children.

The following table sets forth the number of units sold and the average wholesale selling prices of our products for the periods indicated:

	For the year ended December 31,					
	2013		2014		2015	
	Total units sold	Avg. wholesale selling price(1)	Total units sold	Avg. wholesale selling price(1)	Total units sold	Avg. wholesale selling price(1)
	'000	RMB	'000	RMB	'000	RMB
361° Products — Adults						
Footwear	16,226	93.7	17,996	86.4	20,018	94.2
Apparel	23,213	67.9	23,876	73.5	23,805	79.6
Accessories	5,304	12.5	5,749	15.8	7,929	11.2
361° Products — Kids	7,114	59.1	7,931	64.0	8,953	65.8

Note:

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

In the past, we have relied on third-party distributors to sell our products in the overseas market. Target markets such as the United States, South America, Southeast Asia and Europe. In 2014, we have started to develop our own overseas business instead of relying on third-party distributors. For the year ended December 31, 2015, revenue generated from our overseas business was approximately RMB44.7 million, which accounted for approximately 1.0% of our total revenue. The following table sets forth our revenue by regions for the financial years ended December 31, 2013, 2014 and 2015.

	For the year ended December 31,					
	2013		2014		2015	
	RMB'000	%	RMB'000	%	RMB'000	%
By Regions						
Eastern region[(1)]	932,893	26.0	876,405	22.4	1,052,906	23.6
Southern region[(2)]	764,421	21.3	930,161	23.8	1,037,086	23.2
Western region[(3)]	801,792	22.4	732,675	18.8	838,660	18.8
Northern region[(4)]	1,084,371	30.3	1,290,785	33.0	1,487,023	33.4
Overseas region[(5)]	—	—	76,260	2.0	43,026	1.0
Total	3,583,477	100.0	3,906,286	100.0	4,458,701	100.0

Notes:

(1) Eastern region includes Jiangsu, Zhejiang, Hubei, Hunan, Shanghai and Jiangxi.

(2) Southern region includes Guangdong, Fujian, Guangxi and Hainan.

(3) Western region includes Sichuan, Yunnan, Guizhou, Shannxi, Xinjiang, Gansu, Chongqing, Qinghai, Ningxia and Tibet.

(4) Northern region includes Shandong, Beijing, Liaoning, Heilongjiang, Hebei, Henan, Shanxi, Jilin, Tianjin and Inner Mongolia.

(5) Overseas region includes countries in the Middle East, South America, the United States and South East Asia.

Cost of Sales

All of our cost of sales is incurred in the sales of our products, consisting of footwear, apparel and accessories. The following table sets forth a breakdown of our cost of sales for our products for the periods indicated:

	For the year ended December 31,					
	2013		2014		2015	
	RMB'000	%	RMB'000	%	RMB'000	%
361° Products						
Footwear and apparel (internal production)						
Raw materials	408,465	18.9	568,555	24.6	507,314	19.2
Labor	112,001	5.2	142,699	6.2	168,042	6.4
Overheads	174,324	8.0	307,847	13.3	315,137	12.0
Subtotal	694,790	32.1	1,019,101	44.1	990,493	37.6
Footwear (outsourced)	504,168	23.3	423,246	18.3	550,947	20.9
Apparel (outsourced)	925,567	42.7	808,284	35.0	1,034,508	39.2
Accessories (outsourced)	41,853	1.9	58,859	2.6	59,790	2.3
Cost of sales for *361°* products	2,166,378	100.0	2,309,490	100.0	2,635,738	100.0

Our cost of sales for our products primarily consists of internal production costs and outsourced production costs. Internal production costs include raw materials costs, labor costs and manufacturing costs incurred in the self-production of a majority our footwear products and a portion of our apparel products. Raw materials costs refer to costs of procuring raw materials used in the internal production of our footwear and apparel products, such as leather, synthetic leather, fabrics, rubber, plastics and soles. Labor costs consist of salaries paid to production staff. Overheads mainly include salaries, bonuses and other compensation expenses paid to administrative staff involved in the manufacturing process, depreciation of production facilities, costs associated with operating our facilities, such as electricity, water and maintenance costs, the processing fees we paid to some of our contract manufacturers, sales tax and other miscellaneous costs associated with our manufacturing operations. Outsourced production cost refers to the costs of procuring finished footwear, apparel and accessories, which represent amounts paid to third-party contract manufacturers. We outsource the production of all of our *361° Kids* products whereas we outsource the production of a portion of our *361° Adults* products.

Gross Profit and Gross Profit Margin

All of our gross profit relates to sales of our products, consisting of footwear, apparel and accessories. Gross profit for our products is our revenue from sales of our products for the relevant period less the cost of sales for our products for the same period. The following table sets forth a breakdown of our gross profit and gross profit margin for our *361°* products for the periods indicated:

	For the year ended December 31,					
	2013		2014		2015	
	RMB'000	%	RMB'000	%	RMB'000	%
361° Products — Adults						
Footwear	623,654	41.0	600,504	38.6	771,040	40.9
Apparel	600,763	38.1	754,648	43.0	776,793	40.9
Accessories	27,967	42.2	35,014	38.7	33,793	37.9
361° Products — Kids	164,715	39.2	206,630	40.7	241,337	41.0
Total	1,417,099	39.5	1,596,796	40.9	1,822,963	40.9

Other Revenue

Our other revenue primarily consists of government grants from the PRC government and bank interest income. Government grants from the PRC government refer to non-recurring government grants received from the PRC government authorities, such as the Financial Services Bureau of Jinjiang City, the Fujian Provincial Economic and Trade Commission and the Federation of Trade Union of Chendai Town, Jinjiang City, as recognition for our contribution to the local economy through the development of our brands and technology. Such government grants are available to any enterprise which meets the requirements stipulated by the relevant government authorities. There are no continuing obligations or requirements for us or conditions in relation to the government grants. The amount of government grants received by us varied for the periods indicated, primarily due to changes in the aggregate amount of government grants available for all enterprises, as well as the amount of government grants that we were qualified for, which in turn primarily depended on the underlying government policies during the financial years ended December 31, 2013, 2014 and 2015. Bank interest income is derived from interest received from bank deposits.

Other Net Gain or Loss

Other net gain or loss mainly relates to (i) a net foreign exchange gain of RMB5.1 million for the year ended December 31, 2013; (ii) a net foreign exchange loss of RMB13.0 million for the year ended December 31, 2014; and (iii) a net foreign exchange gain of RMB27.2 million for the year ended December 31, 2015.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of advertising and promotional expenses, rack subsidies provided to authorized retail outlets, costs associated with conducting our trade fairs, costs of certain packaging materials, such as shoe boxes and shopping bags with the *361°* logo that we provided to our distributors for use by authorized retailers in connection with sales of our *361°* products, and salary and travelling expenses for our marketing and sales staff. Advertising and promotional expenses include rack subsidies, fees paid for television advertising and advertising billboards, fees paid to marketing consultants and sponsorship fees.

For the financial years ended December 31, 2013, 2014 and 2015, selling and distribution expenses were RMB729.3 million, RMB769.2 million and RMB712.9 million, respectively, representing 20.4%, 19.7% and 16.0% of our total revenue, respectively.

Administrative Expenses

Administrative expenses primarily consist of salary for administrative staff (other than those involved in the production process), research and development expenses, welfare and other benefits for all employees (including production staff), legal and professional fees, allowance for doubtful debts, entertainment expenses and depreciation expenses for our fixed assets. Salary for administrative staff includes wages, bonus and travelling expenses. Welfare and other benefits expenses include dormitory costs, training costs and the cost of other benefits for our employees.

For the financial years ended December 31, 2013, 2014 and 2015, administrative expenses were RMB424.5 million, RMB203.3 million and RMB377.6 million, respectively, representing 11.8%, 5.2% and 8.5% of our total revenue, respectively.

Net Change in Fair Value of Derivatives Embedded to the Convertible Bonds

Net change in fair value of derivatives embedded to the Convertible Bonds represents the change in fair value of the redemption call, redemption put and conversion option relating to the Convertible Bonds at the end of each reporting period. For the financial years ended December 31, 2013, 2014 and 2015, net change in fair value of derivatives embedded to the Convertible Bonds was RMB41.8 million, RMB51.7 million and nil, respectively.

Loss on Repurchase of the Convertible Bonds

Loss on repurchase of the Convertible Bonds represents the difference between the net book value of the Convertible Bonds we repurchased and the total consideration paid. We redeemed all of the outstanding the Convertible Bonds in December 2014. For the financial year ended December 31, 2014, we incurred a loss on repurchase of the Convertible Bonds of RMB76.1 million.

Finance Costs

Our finance costs consist of interest on bank borrowings and finance charges on the Convertible Bonds and 2014 Notes. For the financial years ended December 31, 2013, 2014 and 2015, finance costs were RMB79.1 million, RMB92.2 million and RMB125.5 million, respectively.

Income Tax

Income tax represents amounts of corporate income tax paid by us. No provision for Hong Kong profits tax has been made as we did not generate any assessable profit arising in Hong Kong for the periods indicated. We were also not subject to any tax in the Cayman Islands and the BVI for the periods indicated. However, our PRC subsidiaries were subject to PRC enterprise income tax, which was 25% for each of the years ended December 31, 2013, 2014 and 2015.

The following table sets forth a reconciliation between our actual tax credit or expense and our profits before taxation for the periods indicated:

	For the year ended December 31,		
	2013	**2014**	**2015**
	RMB'000	**RMB'000**	**RMB'000**
Profit before taxation	314,924	607,473	789,159
National tax on profit before taxation, calculated at the rates applicable in the jurisdictions concerned	91,909	188,283	218,907
Tax effect of non-deductible expenses	13,119	21,595	24,290
Tax effect of non-taxable income	(1,549)	(1,750)	(3,659)
Under/(over) provision in prior years	(3,286)	(5,867)	10,886
Withholding tax on dividends	—	—	9,116
Actual tax expense	100,193	202,261	259,540

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Financial Year ended December 31, 2015 Compared to Financial Year Ended December 31, 2014

Revenue

Our revenue increased by RMB552.4 million, or 14.1%, from RMB3,906.3 million for the year ended December 31, 2014. The increase was primarily due to 11%, 16% and 18% increase in the orders we received at the spring/summer, autumn and winter trade fairs in 2015, respectively.

Sales of 361° Adults Products. Revenue from the sales of our *361° Adults* footwear increased by 21.3% from RMB1,554.3 million for the year ended December 31, 2014 to RMB1,884.8 million for the year ended December 31, 2015, while revenue from the sales of our apparel products increased by 8.1% from RMB1,753.9 million for the year ended December 31, 2014 to RMB1,895.9 million for the year ended December 31, 2015. The increase in the revenue from the sales of our footwear and apparel products was primarily due to increased orders we received at the 2015 trade fairs as market conditions continued to improve in the PRC, which resulted in higher revenue and an increase in the ASP. Revenue from the sales of our accessories decreased slightly by 0.2% in 2015 as compared to 2014 as we intentionally offered more low-priced items to induce higher sales volume, thereby resulting in an increase in the volume sold by 37.9% and a decrease in the ASP by 29.1%. The sales volume of our *361° Adults* footwear recorded an increase of 11.2% from 18.0 million pairs for the year ended December 31, 2014 to 20.0 million pairs for the year ended December 31, 2015, and apparel recorded a slight decrease by 0.3% from 23.9 million pieces for the year ended December 31, 2014 to 23.8 million pieces for year ended December 31, 2015. The decrease was primarily due to more intense competition in the apparel retail market and distributors were cautious when placing orders at our trade fairs. However, ASP of our apparel products increased by 8.3% in 2015 as we introduced various types of functionality products during the year.

Sales of 361° Kids Products. Revenue from the sales of our *361° Kids* products increased by 16.0% from RMB507.5 million for year ended December 31, 2014 to RMB588.9 million for the year ended December 31, 2015, primarily due to (i) an increase in the number of retail outlets in the *361° Kids* distribution network, which increased from 2,142 as of December 31, 2014 to 2,350 as of December 31, 2015, resulting in the expansion of our customer base; and (ii) an increase in ASP of 2.8%. The sales volume of *361° Kids* increased by 12.9% from 7.9 million pieces for the year ended December 31, 2014 to 9.0 million pieces for the year ended December 31, 2015.

Cost of Sales

Our cost of sales increased by RMB326.2 million, or 14.1%, from RMB2,309.5 million for the year ended December 31, 2014 to RMB2,635.7 million for the year ended December 31, 2015, primarily due to an increase in the procurement cost of outsourced products as (i) we outsourced the production of more footwear products while keeping the price per unit relatively stable; and (ii) the procurement cost of outsourced apparel products increased due to improved quality and functionality of apparel materials and the need to meet rigid standard requirements in apparel manufacturing. The increase in procurement cost of outsourced products was partially offset by a decrease in the cost of self-produced footwear and apparel products, primarily due to the continuous decline in the price of certain key raw materials and petrochemicals.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by RMB226.2 million, or 14.2%, from RMB1,596.8 million for the year ended December 31, 2014 to RMB1,823.0 million for the year ended December 31, 2015. Our gross profit margin, however, remained relatively stable at 40.9% for the year ended December 31, 2015, primarily due to (i) an increase in the gross profit margin of footwear products as a result of an increase in ASP through the introduction of new products with high-tech materials and a decrease in the price of certain key raw materials used for our self-produced products; and (ii) a slight increase in the gross profit margin of our *361° Kids* products mainly due to a small improvement in the gross profit margin of our *361° Kids* footwear products, partially offset by a decrease in the gross profit margin of our apparel products, primarily due to higher material costs associated with the introduction of new models as we faced increasingly stiff competition in the PRC sports apparel market in 2015.

Other Revenue and Other Net Gain

Other revenue for the year ended December 31, 2015 increased by RMB42.0 million, or 37.2%, from RMB112.9 million for year ended December 31, 2014 to RMB154.9 million for the year ended December 31, 2015, which was primarily a result of an increase in bank interest income and government grants received. We had other net gain of RMB27.2 million in other net gain or loss for the year ended December 31, 2015 as compared to other net loss of RMB13.0 million for the year ended December 31, 2014, primarily due to foreign exchange gains between Renminbi and Hong Kong dollars.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by RMB56.3 million, or 7.3%, from RMB769.2 million for year ended December 31, 2014 to RMB712.9 million for the year ended December 31, 2015, primarily due to a reduction in advertising and promotional expenses. Beginning in 2015, we included rack subsidies as one of the categories under our advertising and promotional expenses. We reduced our advertising and promotional expenses (including rack subsidies) from RMB653.0 million for the year ended December 31, 2014 to RMB570.5 million for the year ended December 31, 2015, primarily as we become more selective in our promotional projects. Therefore, the advertising and promotional expenses as a proportion of our total revenue also decreased from 16.7% for the year ended December 31, 2014 to 12.8% for the year ended December 31, 2015.

Administrative Expenses

Our administrative expenses increased by RMB174.3 million, or 85.7%, from RMB203.3 million for the year ended December 31, 2014 to RMB377.6 million for the year ended December 31, 2015, primarily because (i) there was no addition in the provision of impairment losses during the year as compared to RMB111.4 million reversal of impairment losses recognized in 2014; and (ii) there was an increase in the cost incurred for research and development purposes from RMB95.7 million for the year ended December 31, 2014 to RMB139.6 million for the year ended December 31, 2015 as we continued to invest in both internal and external research and development teams to enhance our product development and competitiveness. Research and development expenses accounted for 3.1% of our total revenue for the year ended December 31, 2015 as compared to 2.4% for the year ended December 31, 2014.

Finance Costs

Our finance costs increased by RMB33.3 million, or 36.1%, from RMB92.2 million for the year ended December 31, 2014 to RMB125.5 million for year ended December 31, 2015. This increase was primarily due to RMB123.9 million of related interest and costs associated with the 2014 Notes issued by our Company in September 2014 and amortized over the year.

Income Tax

Our income tax expense increased by RMB57.2 million, or 28.3%, from RMB202.3 million for the year ended December 31, 2014 to RMB259.5 million for the year ended December 31, 2015. Our effective tax rate decreased slightly from 33.3% for the year ended December 31, 2014 to 32.9% for the year ended December 31, 2015. Since the 2014 Notes were issued and listed in Hong Kong, the related interest and costs was accrued and paid by our Company. Such finance cost was not deductible from the taxable income of our PRC-based operating subsidiaries, and therefore, the effective tax rate at our Group level was higher than the PRC standard corporate income tax rate of 25%.

Profit for the Year

As a result of the foregoing, our profit for year ended December 31, 2015 increased by RMB124.4 million, or 30.7%, to RMB529.6 million from RMB405.2 million for the year ended December 31, 2014.

Financial Year ended December 31, 2014 Compared to Financial Year Ended December 31, 2013

Revenue

Our revenue increased by RMB322.8 million, or 9.0%, from RMB3,583.5 million for the year ended December 31, 2013 to RMB3,906.3 million for the year ended December 31, 2014. The increase was primarily due to an increase in the orders placed with us at our 2014 winter trade fair by our distributors, as a result of improving market conditions in the PRC sportswear industry and delayed deliveries of our 2013 winter products in the beginning of 2014 due to the late arrival of winter season in 2013.

Sales of 361° Adults Products. Revenue from the sales of our *361° Adults* footwear, apparel and accessories products increased by 2.2%, 11.3% and 36.6% from RMB1,521.0 million, RMB1,575.8 million and RMB66.3 million for the year ended in December 31, 2013, respectively, to RMB1,554.3 million, RMB1,753.9 million and RMB90.6 million for the year ended December 31, 2014, respectively. The percentage increase in revenue from the sales of our *361° Adults* footwear was smaller compared to that from the sales of *361° Adults* apparel and accessories products mainly because (i) we offered larger wholesale discounts to our distributors at our trade fairs in 2014 compared to 2013 in light of the market conditions; and (ii) a larger volume of 2013 winter apparel and accessories was delivered in the first half of 2014, which increased our revenue and ASP for the year. The sales volume of our *361° Adults* footwear, apparel and accessories recorded an increase of 10.9%, 2.9% and 8.4% from 16.2 million pairs, 23.2 million pieces and 5.3 million pieces for the year ended December 31, 2013, respectively, to 18.0 million pairs, 23.9 million pieces and 5.7 million pieces for the year ended December 31, 2014, respectively, primarily due to an increase in the orders we received from our distributors in 2014. The percentage increase in apparel products sold in 2015 was less than that of footwear mainly because of higher competition in the apparel retail market and the fact that distributors were more conservative with their orders.

Sales of 361° Kids Products. Revenue from the sales of our *361° Kids* products increased by 20.7% from RMB420.4 million for the year ended December 31, 2013 to RMB507.5 million for the year ended December 31, 2014, primarily due to the increased revenue generated from the continued expansion of the retail network for our *361° Kids* products. Sales volume of our *361° Kids* products increased by 8.3% from 7.1 million pieces for the year ended December 31, 2013 to 7.9 million pieces for the year ended December 31, 2014, primarily as a result of an increase in the number of retail outlets for our *361° Kids* products, which increased from 1,858 as of December 31, 2013 to 2,142 as of December 31, 2014.

Cost of Sales

Our cost of sales increased by RMB143.1 million, or 6.6%, from RMB2,166.4 million for the year ended December 31, 2013 to RMB2,309.5 million for the year ended December 31, 2014, primarily due to an increase in our internal production costs for a majority of our footwear products and a portion of our apparel products, partially offset by a decrease in our outsourced costs of procuring finished footwear, apparel and accessories products from third-party contract manufacturers. Our internal production costs increased notwithstanding our efforts to streamline the number of SKUs we offered at each of our trade fairs primarily due to higher material costs and overhead, some of which cannot be immediately transferred to our customers, as we continued to focus on innovation involving new models and designs of footwear, which has led to us using more expensive materials with higher quality and functionality. Our outsourced production costs decreased primarily due to reduced cost of outsourced footwear and apparel products because of (i) the excess capacity in the OEM market, which allowed us to procured outsourced products at lower prices, and (ii) improved internal approval manufacturing efficiency.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by RMB179.7 million, or 12.7%, from RMB1,417.1 million for the year ended December 31, 2013 to RMB1,596.8 million for the year ended December 31, 2014. Our gross profit margin increased from 39.5% for the year ended December 31, 2013 to 40.9% for the year ended December 31, 2014, primarily due to the reduction of cost (i) by successfully negotiating bargain prices with third-party manufacturers and (ii) through more mature in-house apparel production, despite the fact that we offered higher discount adjustments to our distributors at trade fairs.

Other Revenue and Other Net Loss

Other revenue for the year ended December 31, 2014 increased by RMB29.1 million, or 34.7%, which was primarily a result of an increase in bank interest income and government grants. Other net loss was approximately RMB13.0 million for the year ended December 31, 2014 as compared to other net gain of RMB5.1 million, primarily as a result of foreign exchange loss between Renminbi and Hong Kong dollars.

Selling and Distribution Expenses

Our selling and distribution expenses increased by RMB39.9 million, or 5.5%, from RMB729.3 million for the year ended December 31, 2013 to RMB769.2 million for the year ended December 31, 2014, primarily because (i) the rack subsidies we provided to authorized retail outlets as a proportion of our total revenue increased from 4.8% in 2013 to 5.5% in 2014 and (ii) we increased our advertising and promotional expenses by 8.3% in 2014 as compared to 2013. We increased rack subsidies in order to provide direct assistance to our authorized retailers to upgrade the presentation of their authorized retail outlets and enhance their competitiveness. For the years ended December 31, 2014, we provided rack subsidies to 2,125 authorized retail outlets in our network and amounted to RMB214.1 million as compared to RMB170.4 million in 2013. In the meantime, advertising and promotional expenses (including rack subsidies) increased by RMB77.4 million from RMB575.6 million for the year ended December 31, 2013 to RMB653.0 million for the year ended December 31, 2014, as we enhanced our promotional and marketing activities in line with the recovery of consumer demand for sportswear products in the PRC by entering into a license agreement with Walt Disney Company (Shanghai) Ltd and by becoming an official supporter for the 2016 Summer Olympic and Paralympic Games in Rio de Janeiro, Brazil.

Administrative Expenses

Our administrative expenses decreased by RMB221.2 million, or 52.1%, from RMB424.5 million for the year ended December 31, 2013 to RMB203.3 million for the year ended December 31, 2014, primarily because no impairment loss had been recognized in 2014 as compared to a RMB152.0 million of impairment losses recognized during 2013 for our aged trade and other receivables mainly as a result of poor market conditions in the PRC sportswear industry in 2013 which led to longer payment cycles from our customers. We had written back approximately RMB111.4 million of provision for impairment losses, which accounted for 58.1% of the provision made in previous year. Beginning in 2013, we adopted an accounting policy that 50% of all trade and other receivables aged over 180 days would be recognized as an impairment loss. If the provision for impairment loss is made by our management, we typically account for such provision as an administrative expense. For the year ended December 31, 2014, our research and development expenses were RMB95.7 million, representing 2.4% of our total revenue, which increased from RMB85.8 million for the year ended December 31, 2013 as we continue to devote resources in this area to enhance our competitiveness. Administrative salaries also increased by 54.0% to RMB45.5 million for the year ended December 31, 2014, mainly due to additional provisions of staff salaries from our newly established overseas business.

Finance Costs

Our finance costs increased by RMB13.1 million, or 16.6%, from RMB79.1 million for the year ended December 31, 2013 to RMB92.2 million for the year ended December 31, 2014. This increase was primarily due to an increase in interest expenses, and amortized cost of accrued interest incurred in relation to the issuance of the Convertible Bonds in April 2012 and the 2014 Notes in September 2014. We began to repurchase the Convertible Bonds in 2014 and fully redeemed them through a tender offer in December 2014. The net change in fair value of derivatives embedded to the Convertible Bonds for the year ended December 31, 2014 of RMB51.7 million, the loss on the repurchase of the Convertible Bonds in the amount of RMB76.1 million, and the related interest and costs were all fully recognized and accrued for the year.

Income Tax

Our income tax expense increased significantly by RMB102.1 million from RMB100.2 million for the year ended December 31, 2013 to RMB202.3 million for the year ended December 31, 2014. This increase was primarily due to an increase of our profit before taxation. Our effective tax rate remained relatively stable in 2014 as compared to 2013. All of our four PRC operating subsidiaries were subject to standard corporate income tax rate of 25% whereas all of our subsidiaries in Hong Kong are not subject to taxation, and accordingly, interest of the Convertible Bonds and 2014 Notes that was paid by one of our subsidiaries in Hong Kong was not allowed to be deducted from taxable income of our PRC subsidiaries. The amount of profit before taxation used for calculating effective tax rate excluded the net change in fair value of the derivatives embedded to the Convertible Bonds and net loss on repurchase of the Convertible Bonds.

Profit for the Year

As a result of the foregoing, our profit for the year ended December 31, 2014 increased by RMB190.5 million, or 88.7%, to RMB405.2 million from RMB214.7 million for the year ended December 31, 2013.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are for payment of purchases from suppliers and contract manufacturers, our various operating expenses and capital expenditure needs. We have historically financed our liquidity requirements primarily through proceeds from our IPO, bank loans and the proceeds from the offering of the Convertible Bonds. There have been no material changes in our underlying drivers of the sources and uses of cash for the periods indicated. It is our policy to monitor regularly our liquidity requirements and compliance with debt covenants (if any) to ensure that we maintain sufficient resources of cash and adequate debt or equity financing. We have not experienced and do not expect to experience any difficulties in meeting our obligations as they become due.

The following table is a condensed summary of our combined cash flow statements for the periods indicated:

	For the year ended December 31,		
	2013	**2014**	**2015**
	RMB'000	**RMB'000**	**RMB'000**
Net cash generated from operating activities	323,156	911,184	245,433
Net cash (used in)/generated from investing activities	347,551	(1,665,190)	193,459
Net cash generated/(used in) from financing activities	(281,618)	386,726	(280,554)
Net increase/(decrease) in cash and cash equivalents	389,089	(367,280)	158,338
Cash and cash equivalents at end of the year/period	2,494,280	2,130,237	2,286,225

Cash Flow from Operating Activities

We derive our cash generated from operating activities principally from the receipt of payments sales of our products. Our cash used in operating activities is principally for purchases of raw materials, payment of outsourcing fees, salary payments, advertising and promotional expenses and other operating expenses.

For the year ended December 31, 2015, our net cash generated from operating activities amounted to RMB245.4 million, primarily reflecting our profit before taxation of RMB789.2 million, as positively adjusted primarily by (i) a RMB256.6 million decrease in deposits, prepayments and other receivables; and (ii) RMB125.5 million in finance costs, partially offset by (i) a RMB493.4 million increase in trade debtors and (ii) a RMB152.2 million decrease in trade and other payables.

For the year ended December 31, 2014, our net cash generated from operating activities amounted to RMB911.2 million, primarily reflecting our profit before taxation of RMB607.5 million, as positively adjusted primarily by (i) a RMB418.3 million decrease in trade debtors; (ii) a RMB458.1 million increase in trade and other payables; and (iii) RMB92.2 million in finance costs, partially offset by (i) a RMB243.3 million increase in deposits, prepayments and other receivables; (ii) a RMB160.7 million increase in inventories; and (iii) 111.4 million reversal of impairment loss on trade debtors.

For the year ended December 31, 2013, our net cash generated from operating activities amounted to RMB323.2 million, primarily reflecting our profit before taxation of RMB314.9 million, as positively adjusted primarily by (i) a RMB152.0 million impairment loss on trade receivables; (ii) a RMB98.7 million decrease in bills receivables; and (iii) RMB79.1 million in finance costs, partially offset by (i) a RMB97.4 million decrease in trade and other payables; (ii) a RMB85.6 million increase in deposits, prepayments and other receivables; and (iii) a RMB55.1 million increase in trade debtors.

Cash Flow from Investing Activities

We derive our cash generated from investing activities principally from interest received on bank deposits. Our cash used in investing activities is principally for purchasing fixed assets and making pledged time deposits relating to our bills payable which requires that we have on deposit with our banks a certain percentage of the bills payable that are issued by them at our request.

For the year ended December 31, 2015, our net cash generated in investing activities amounted to RMB193.5 million, reflecting cash inflows primarily due to (i) a RMB300.0 million increase in deposits with banks, which primarily consisted of short-term bank deposits such as certificates of deposit, mainly because we received payments from our customers which we subsequently deposited into banks as short-term bank deposits; (ii) RMB92.5 million in interest we received from bank deposits; and (iii) a RMB53.9 million decrease in pledged bank deposits, which was principally used for the issuance of bills payable to our suppliers, partially offset by RMB253.3 million payment incurred in connection with the construction in progress of our new headquarters in Xiamen, Fujian Province, the PRC, and the administrative building and research and development center in Wuli Industrial Park, Jinjiang.

For the year ended December 31, 2014, our net cash used in investing activities amounted to RMB1,665.2 million, reflecting cash outflows primarily due to (i) a RMB1,478.3 million increase in deposits with banks, which primarily consisted of proceeds we received from the issuance of the 2014 Notes; (ii) RMB138.0 million increase in pledged bank deposits, which was principally used for the issuance of bills payable to our suppliers; and (iii) a RMB135.0 million payment incurred in connection with the construction in progress of our new headquarters in Xiamen and the administrative building in Wuli Industrial Park, partially offset by RMB65.5 million interest we received from bank deposits.

For the year ended December 31, 2013, our net cash generated from investing activities amounted to RMB347.6 million, reflecting cash inflows primarily due to (i) a RMB261.9 million decrease in deposits with banks, (ii) a RMB57.8 million decrease in pledged bank deposits and (iii) RMB53.0 million in interest received, partially offset by RMB44.0 million in payment for the purchase of fixed assets, such as capital expenditure for the construction of our new headquarters in Xiamen.

Cash Flow from Financing Activities

We derive our cash generated from financing activities principally from proceeds from new bank loans, shareholder loans and proceeds from capital injection. Our cash used in financing activities is principally for repayment of bank loans and interest payments.

For the year ended December 31, 2015, our net cash used in financing activities amounted to RMB280.6 million, reflecting cash outflows primarily due to (i) RMB165.4 million of dividends paid; and (ii) RMB114.1 million of interest paid in connection with the 2014 Notes.

For the year ended December 31, 2014, our net cash generated from financing activities amounted to RMB386.7 million, reflecting cash inflows primarily due to RMB1,463.9 million in proceeds we received from the issuance of the 2014 Notes, partially offset by (i) RMB944.4 million in payment for the repurchase of the Convertible Bonds; and (ii) RMB103.4 million of dividends paid.

For the year ended December 31, 2013, our net cash used in financing activities amounted to RMB281.6 million, reflecting cash outflows primarily due to (i) RMB227.4 million of dividends paid, (ii) RMB41.8 million of finance charges for the Convertible Bonds and (iii) RMB26.4 million of repayment of bank loans, partially offset by RMB16.2 million of capital contribution received by a non-wholly owned subsidiary from our non-controlling shareholders.

CAPITAL EXPENDITURES

We have historically funded our capital expenditures from our IPO proceeds, bank loans and proceeds from the offering of the Convertible Bonds and 2014 Notes. Our capital expenditures have principally consisted of expenditures on property, plant, equipment, and land use rights. We expect to continue to make capital expenditures for the financial year ending December 31, 2015 for the construction of our new headquarters in Xiamen. The following table sets forth a breakdown of our capital expenditures for the periods indicated:

	For the year ended December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	43,965	135,046	227,354
Interest in leasehold land held for own use under operating leases	—	—	25,962
Total	43,965	135,046	253,316

Our capital expenditures incurred for the financial years ended December 31, 2013 primarily related to purchase of an office building and construction in progress of our new headquarters in Xiamen. Our capital expenditures incurred for the financial year ended December 31, 2014 primarily related to construction in progress of our new headquarters in Xiamen and the administrative building in our Wuli Industrial Park in Jinjiang. Moreover, our capital expenditures incurred for the financial year ended December 31, 2015 primarily related to construction in progress of our new headquarters in Xiamen, the administrative building and research and development center in our Wuli Industrial Park in Jinjiang.

Contractual Obligations

For the financial years ended December 31, 2013, 2014 and 2015, we leased a number of properties under operating leases, including office buildings and warehouses. These leases are typically negotiated and fixed for terms ranging from one to eight years, at the end of which period all terms will be renegotiated. The tables below sets forth our outstanding commitments in respect of non-cancellable operating leases as of the dates indicated:

	As of December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Within 1 year	14,041	11,517	4,474
After 1 year but within 5 years	12,010	5,716	2,294
After 5 years	1,380	863	380
Total	27,431	18,096	7,148

In addition to operating leases, we also entered into contracts for advertising and marketing activities. The following table sets forth our contractual obligations as of the dates indicated:

	As of December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Contracted for commitment in respect of:			
Advertising and marketing expenses	409,118	206,730	120,526

Our advertising and marketing expenses decreased from RMB409.1 million as of December 31, 2013 to RMB206.7 million as of December 31, 2014, and further to RMB120.5 million as of December 31, 2015, primarily because we became more selective in the number and type of promotional events we were involved in.

Off-balance Sheet Arrangements

As of the date of this Offering Memorandum, we have not entered into any off-balance sheet transaction.

NET CURRENT ASSET POSITION

Details of our current assets and liabilities as of the end of each reporting period for the periods indicated are as follows:

	As of December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Current assets			
Inventories	409,358	570,058	551,957
Trade debtors	1,831,184	1,524,240	2,017,676
Bills receivable	84,780	132,013	235,510
Deposits, prepayments and other receivables	636,873	891,951	641,385
Pledged bank deposits	37,900	175,895	122,026
Deposits with banks	321,747	1,800,000	1,500,000
Cash and cash equivalents	2,494,280	2,130,237	2,286,225
	5,816,122	7,224,394	7,354,779
Current liabilities			
Trade and other payables	1,469,179	1,851,099	1,659,426
Bank loans	15,898	15,311	15,116
Current taxation	120,576	146,374	255,907
	1,605,653	2,012,784	1,930,449
Net current assets	4,210,469	5,211,610	5,424,330

Our net current assets increased from RMB5,211.6 million as of December 31, 2014 to RMB5,424.3 million as of December 31. 2015. This increase was primarily due to an increase in current assets and a decrease in current liabilities. The increase in current assets mainly included (i) an increase of RMB493.4 million in trade debtors; and (ii) an increase of RMB156.0 million in cash and cash equivalents, partially offset by (i) a decrease of RMB300.0 million in deposits with banks and (ii) a decrease of RMB250.6 million in deposits, prepayments and other receivables. The decrease in current liabilities mainly included a decrease of RMB191.7 million in trade and other payables, partially offset by an increase RMB109.5 million in current taxation as a result of an increase in our profit before taxation.

Our net current assets increased from RMB4,210.5 million as of December 31, 2013 to RMB5,211.6 million as of December 31, 2014. This increase was primarily due to an increase in current assets, partially offset by an increase in current liabilities. The increase in current assets mainly included (i) an increase of RMB1,478.3 million in pledged bank deposits as a result of the proceeds we received from the issuance of the 2014 Notes in September 2014; (ii) an increase of RMB255.1 million in deposits, prepayments and other receivables; and (iii) an increase of RMB138.0 million in pledged bank deposits. The increase in current liabilities mainly included an increase of RMB381.9 million in trade debtors, partially offset by an increase of RMB25.8 million in current taxation.

INVENTORY ANALYSIS

The value of our inventories accounted for approximately 7.0%, 7.9% and 7.5% of our total current assets as of December 31, 2013, 2014 and 2015, respectively. We conduct physical stock counts at the end of each financial year and we record a specific provision if the estimate of the net realizable value of any inventory is below the corresponding cost of such inventory, as a result of, among other things, being obsolete or damaged. We generally procure a majority of raw materials and commence mass production of the majority of our products upon confirmation of purchase orders with our customers. The following table is a summary of our balance of inventories, which was stated at cost, as of the end of each reporting period for the periods indicated:

	As of December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Raw materials	18,530	30,943	19,860
Work in progress	75,710	85,600	21,330
Finished goods	315,118	453,515	510,767
Total	409,358	570,058	551,957

Our inventories decreased by 3.2% from RMB570.1 million as of December 31, 2014 to RMB552.0 million as of December 31, 2015, which consisted primarily of finished products for the 2016 autumn trade fair. Inventories increased approximately 39.3% from RMB409.4 million as of December 31, 2013 to RMB570.1 million as of December 31, 2014, primarily due to an increase in the new orders we received at our trade fairs.

The following table sets forth our average inventory turnover days for periods indicated:

	For the year ended December 31,		
	2013	2014	2015
Average inventory turnover days(1)	73	77	78

Note:

(1) Average inventory turnover days is equal to the average of the starting and ending inventory balances of the period divided by cost of sales and multiplied by 365 days for the years ended December 31, 2013, 2014 and 2015.

Our inventory turnover days increased from 73 days as of December 31, 2013 to 77 days as of December 31, 2014, primarily due to new arrangement of delivery schedule for the Chinese Lunar New Year as a large amount of finished goods produced by third-party contractors were delivered and received by us during such time. It increased slightly further to 78 days for the year ended December 31, 2015.

TRADE AND OTHER RECEIVABLES ANALYSIS

The following table sets forth the aging analysis of our trade and other receivables for the periods indicated:

	As of December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Trade and bills receivables			
Within 90 days	947,799	1,035,171	1,704,642
Over 90 days but within 180 days	775,818	621,082	548,544
Over 180 days but within 365 days	192,347	—	—
Subtotal	1,915,964	1,656,253	2,253,186
Deposits, prepayments and other receivables	636,873	891,951	641,385
Total	2,552,837	2,548,204	2,894,571

Deposits, prepayments and other receivables as of December 31, 2013, 2014 and 2015 were RMB636.9 million, RMB892.0 million and RMB641.4 million, respectively, primarily consisting of deposits and prepayments we made to our raw material suppliers and OEM suppliers.

We generally provide our distributors a credit period between 30 and 180 days, the exact term of which is determined based on such factors as past sales performance, credit history and their expansion plans. As a matter of policy, we do not grant credit periods of over 180 days to any of our customers. However, there may be instances when we grant payment extensions to certain of our customers, which will result in payments being made to us more than 180 days after the date of delivery of our products. We grant these extensions on an ad hoc basis, usually in instances when we believe that the greater liquidity afforded to the distributor or customer by the credit extension would assist the distributor or customer in opening new *361°* authorized retail outlets and expanding the *361°* retail network. We also maintain an overall credit limit with respect to each of our distributors, the amount of which varies depending on the particular distributor. Furthermore, we require distributors with balances that are more than one year from the date of billing to settle all outstanding balances before we grant them any further credit. Specific credit terms and repayment schedules are determined on a case by case basis with each distributor and with respect to each order of our products. Please see "Risk Factors — Risks Relating to Our Business — If our distributors do not pay us for their purchases in a timely manner or at all, our financial condition and results of operations could be materially and adversely affected."

The following table sets forth our average trade and bills receivables turnover days for the periods indicated:

	For the year ended December 31,		
	2013	2014	2015
Average trade and bills receivables turnover days(1)	205	167	160

Note:

(1) Average trade and bills receivables turnover days is equal to the average of the starting and ending inventory balances of the period divided by cost of sales and multiplied by 365 days for the years ended December 31, 2013, 2014 and 2015.

Our average trade and bills receivables turnover day decreased from 205 days for the year ended December 31, 2013 to 167 days for the year ended December 31, 2014 and further to 160 days for the year ended December 31, 2015, primarily reflecting our continued effort to collect payments from our customers.

Impairment of Trade and Bills Receivables

We review trade and other receivables that are carried at amortized cost as of each reporting period end to determine whether objective evidence of impairment exists as of such date. If objective evidence of impairment exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. Impairment losses recognized in respect of trade and bills receivables the recovery of which is considered doubtful but not remote are recorded using an allowance account, unless we are satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivables directly. Even if a provision for impairment loss is made, we would continue with our efforts to collect past due payments from our customers.

The movement in the allowance for doubtful debts for the periods indicated is as follows:

	As of December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
At the beginning of the year	39,520	191,521	80,155
(Reversal of impairment loss)/impairment loss recognized	152,001	(111,366)	—
At the end of the year	191,521	80,155	80,155

As of December 31, 2013, 2014 and 2015, our trade and bills receivables of RMB191.5 million, RMB80.2 million and RMB80.2 million, respectively, were individually determined to be impaired. The individually impaired receivables related to a number of our customers and based on the criteria described above, management assessed that these receivables were considered doubtful. Consequently, allowances for doubtful debts were recognized as of December 31, 2013, 2014 and 2015. We do not hold any collateral over these balances. Our allowance for doubtful debts decreased significantly from RMB191.5 million as of December 31, 2013 to RMB80.2 million as of December 31, 2014. Such decrease was primarily a result of the reversal of impairment loss of RMB111.4 million. Our allowance for doubtful debts remained the same as of December 31, 2015.

TRADE AND OTHER PAYABLES ANALYSIS

The following table sets forth the aging analysis of our trade and other payables for the periods indicated:

	As of December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Trade and bills payable			
Due within one month or on demand	409,598	381,032	356,921
Due after one month but within three months	227,810	418,663	271,120
Due after three months but within six months	197,792	506,989	513,137
Subtotal	835,200	1,306,684	1,141,178
Other payables, accruals and receipts in advance			
Receipts in advance	7,289	19,352	38,782
Other payables and accruals	515,371	525,063	479,466
Derivative financial instruments	111,319	—	—
Total	1,469,179	1,851,099	1,659,426

Our trade and other payables primarily related to the purchase of raw materials from our raw material suppliers and outsourced products from contract manufacturers, and are non-interest-bearing with credit terms of 30 to 180 days. We may also be required to make deposits and advance payments to our suppliers. Purchases by us from our raw material suppliers are settled by wire transfer or cash upon acceptance by us of such raw materials.

Our other payables and accruals primarily consist of accrued expenses, other payables, wages payable and other tax payables. They were RMB479.5 million as of December 31, 2015, a decrease of RMB45.6 million, or 8.7%, from RMB525.1 million as of December 31, 2014, primarily due to a decrease in accrued expenses of advertising contracts. Our other payables and accruals increased RMB9.7 million from RMB515.4 million as of December 31, 2013 to RMB525.1 million as of December 31, 2014, mainly due to an increase in the amount of accrued salaries for a new member of senior management in connection with our overseas business and certain accrued construction cost.

Receipts in advance consist of prepayments received from our customers in relation to their orders placed with us. Our receipts in advance increased from RMB7.3 million as of December 31, 2013 to RMB19.4 million as of December 31, 2014, and further to RMB38.8 million as of December 31, 2015, mainly as a result of the time difference between the time delivery of our products was made to the time we collect payment from our customers. Derivative financial instruments mainly consist of the embedded derivatives of the Convertible Bonds, all of which were redeemed in December 2014.

The following table sets forth our average trade and bills payables turnover days for the periods indicated:

	As of December 31,		
	2013	**2014**	**2015**
Average trade and bills payables turnover days [(1)]	158	169	169

Note:

(1) Average trade and bills payables turnover days is equal to the average of the starting and ending trade and bills payables balances of the period divided by cost of sales and multiplied by 365 days for the years ended December 31, 2013, 2014 and 2015, respectively.

Our average trade and bills payables turnover days increased from 158 days as of December 31, 2013 to 169 days as of December 31, 2014, primarily due to our ability to more effectively utilize the extended credit period offered by our OEM suppliers. Our average trade and bills payables turnover days remained relatively stable as of December 31, 2015.

INDEBTEDNESS

Borrowings

Our borrowings primarily consist of loans from commercial banks and other financial institutions. As of December 31, 2015, we had aggregate bank borrowings of approximately RMB15.1 million, which consisted of a short-term bank loan that was denominated in Hong Kong dollars and was secured by a property in Hong Kong. Our bank borrowings bear an interest rate of 2.47% below prime rate per annum.

The following table sets forth our indebtedness as of the end of each reporting period for the periods indicated:

	As of December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Current borrowings			
Bank loans-secured	15,898	15,311	15,116
Total current borrowings	15,898	15,311	15,116
Non-current borrowings			
Convertible Bonds	767,539	—	—
2014 Notes	—	1,484,869	1,489,395
Total non-current borrowings	767,539	1,484,869	1,489,395

The following table sets forth the maturity profile of our bank loans as of each of the balance sheet dates for the periods indicated:

	As of December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Analyzed into:			
Bank loans repayable within one year	15,898	15,311	15,116

Convertible Bonds

On April 3, 2012, we issued an aggregate principal amount of US$150.0 million of the Convertible Bonds for general corporate development and working capital purposes. We subsequently redeemed all of the Convertible Bonds through a tender offer in December 2014.

2014 Notes

On September 12, 2014, we issued an aggregate principal amount of RMB$1,500.0 million of the 2014 Notes to refinance our existing indebtedness and for general working capital purposes.

Contingent Liabilities

As of December 31, 2015, we had no material contingent liabilities. We are not involved in any current material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we were involved in such material legal proceedings, we would record any loss contingencies when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Interest Rate Risk

Our interest rate risk primarily arises from bank loans, the 2014 Notes, pledged bank deposits and cash and cash equivalents. Both fixed and variable rate borrowings expose us to fair value interest rate risk and cash flow interest rate risk, respectively. We do not use any financial derivatives to hedge against interest rate risk.

Foreign Currency Risk

We mainly operate in the PRC with most of the transactions settled in RMB. We are exposed to currency risk primarily through bank deposits and the 2014 Notes that are denominated in currencies other than the functional currency of our Group. The currencies giving rise to this risk are primarily Hong Kong dollars and U.S. dollars.

Credit Risk

It is our policy that all customers who wish to trade on credit terms are subject to credit evaluation procedures. These evaluations focus on the customers' past credit history and current ability to pay. Credit terms are generally 30 to 180 days from the date of billing and customers with balances that are more than one year from the date of billing are required to settle all outstanding balances before any further credit is granted. In addition, receivable balances are monitored on an ongoing basis and we generally require no collateral from our customers to secure their payment obligations.

The credit risk of certain of our other financial assets, including cash and cash balances, pledged bank deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments after deducting any impairment allowance. We do not provide any guarantees that would expose our Group or our Company to credit risk.

As of December 31, 2013, 2014 and 2015, approximately 18%, 14% and 13% of our total trade receivables were due from our largest customer, respectively, and approximately 44%, 44% and 45% of the total trade receivables were due from our five largest customers, respectively.

Commodity Price Risk

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

Liquidity Risk

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. We do not have any significant exposure to liquidity risk as we were in a net current asset position as of December 31, 2013, 2014 and 2015.

Effects of Inflation

The inflation rate in China has been subject to an upward trend since 2007. Although there can be no assurance as to the impact in future periods, inflation has not had a significant effect on our business for the periods indicated. As of the date of this Offering Memorandum, our business has not been materially affected by any inflation or deflation.

OVERVIEW

We are a leading domestic sportswear enterprise in the PRC. We design, develop, manufacture and sell high performance, innovative and stylish sportswear products to cater to the active, athletic and casual sportswear needs of adults, young adults and children. We offer a wide array of products under our footwear, apparel and accessories product categories for a variety of sporting activities. In addition to our *361°* brand, we also market our sportswear products under our *361° Kids* brand and *Innofashion* sub-brand, both of which are designed for specific audiences.

Our main brand, *361°*, represents the 360 degrees of a complete circle plus one extra degree, symbolizing our goal of establishing our brand to provide complete satisfaction in athleticism and functionality, plus an added degree of innovation and creativity. It also represents our continuous commitment to always pursuing one more degree of management and operational excellence and highlights our goal of distinguishing *361°* from other competitors by this one degree.

We place great emphasis on brand building and promoting our products, including our *361°*, *361° Kids* and *Innofashion* product lines. We have established and maintain our *361°* brand and our *Innofashion* sub-brand, which aim to provide satisfaction in athleticism and functionality plus an added degree of innovation and creativity. We primarily target the fast-growing, up-and-coming consumer group comprised of sports-minded consumers between the ages of 18 and 30 for our *361°* and *Innofashion* branded products. We produce integrated, theme-based print, television and Internet advertising that promote the spirit of passion and individualism of *361°*. We also create influential co-marketing campaigns through a selection of top athletes as our spokespersons and the sponsorship of high quality, brand enhancing sporting events. We have separate and dedicated in-house design teams for our *361°* and *361° Kids* products. Through collaboration with external design agencies and institutes, our in-house design teams develop stylish and functional sportswear products to cater to consumer trends while echoing thematic elements from our integrated marketing campaigns to establish a unified image for our brand and products.

We also pride ourselves on creating high performance sportswear products for our consumers. Our research and development teams focus on developing new technologies and applications to enhance the quality and performance of our products. Key achievements of our research and development teams include patented sportswear technologies, such as our Lizard Claw Stability Tech soles, which have enhanced stability characteristics, our 3-D Geometric Lattice Tech soles, which have enhanced shock absorption characteristics, and the Quikfoam, an advanced technology that uses a casting polyurethane coating to envelope a blended foam midsole for additional footwear comfort and support. As of April 30, 2016, our Group held 72 footwear-related patents, 54 apparel-related patents (such as patents for new fabrics and cloth designs) and eight accessories-related patents for our *361° Adult* products, and 17 footwear-related patents and 17 apparel-related patents for our *361° Kids* products.

We manufacture a majority of our own footwear products at our two production facilities, one of which is situated in the Jiangtou Industrial Park and the other in the Wuli Industrial Park, each located in Jinjiang City, Fujian Province, the PRC. We manufacture a portion of our apparel products at our production facility in the Wuli Industrial Park. As of December 31, 2015, we had a total of 23 footwear production lines with an aggregate production capacity of 21 million pairs of footwear per annum, and an apparel production facility with a production capacity of 10 million pieces per annum. To maintain an optimum production balance, we also outsource the manufacture of a portion of our footwear, the majority of our apparel and all of our accessories to third-party contract manufacturers.

We sell our products primarily to distributors, who in turn sell them to authorized retailers within the exclusive geographic areas assigned to them. As of March 31, 2016, the distribution network of our *361°* products, which include our *361°* and *Innofashion* products, consisted of 31 distributors who oversaw approximately 3,000 authorized retailers that in turn, owned and operated 7,102 *361°* authorized retail outlets. In addition, as of March 31, 2016, we had 2,471 *361° Kids* authorized retail outlets in our distribution network. Beginning in 2014, we improved our business model in the existing channels by establishing new and larger "2-in-1" outlets in the PRC, which include our *361°* and *361°*

Kids merchandise, and "3-in-1" composite stores, which, in addition to our *361°* and *361° Kids* products, also include our *Innofashion*-branded merchandise. We continued to leverage the on-line sales channel by outsourcing our e-commerce activities through an independent third-party on-line distributor in Quanzhou, Fujian Province, the PRC. Meanwhile, we focused on expanding our overseas business, which include target markets such as the United States, South America, Southeast Asia and Europe, and have established branch offices in Taiwan and California, the United States. We intend to continue to expand the retail network for our products and to grow our market share through diversifying our sales and distribution channels.

We have grown since we launched our *361°* branded athletic footwear in January 2004. We believe our growth has been driven principally by the successful promotion of our brands, effective management of our authorized retail network, improved product designs, expansion of our range of product offerings, and our exclusive distributorship business model. Despite our initial growth, the PRC sportswear industry recently experienced significant over-supply and high inventory issues which resulted from the rapid and volume-driven expansion since the 2008 Beijing Olympics, which, along with China's slowing economic growth and dampened consumer demand for sports apparel and footwear products in 2012 and 2013, have resulted in a reduction in the orders we received from our trade fairs during these years. These factors, together with the higher costs of production and intense market competition, led to a deterioration of our revenue and gross profit margin. However, during the last quarter of 2014, China's sportswear industry experienced a modest recovery as the efforts to clear market over-supply and streamline the retail network began to yield results, which continued throughout 2015, primarily driven by the increased participation in sporting activities by the growing middle class in the PRC and the encouraging initiatives from the PRC government.

Our revenue for the financial years ended December 31, 2013, 2014 and 2015 were RMB3,583.5 million, RMB3,906.3 million and RMB4,458.7 million, respectively. Our net profit for the financial years ended December 31, 2013, 2014 and 2015 were RMB214.7 million, RMB405.2 million and RMB529.6 million, respectively.

COMPETITIVE STRENGTHS

We believe the following are our key competitive strengths:

A leading sportswear brand in the PRC with a strong position in the industry

We are a leading sportswear brand in the PRC. We have been among the top four domestic sportswear players in China for the past six years in terms of retail value RSP (retail selling price), according to Euromonitor International. Our *361°* trademark is recognized as a "China Well-Known Trademark" by the State Administration for Industry and Commerce of the PRC, and we have received numerous other awards, recognitions and accolades for our sportswear products and our brand name, including, among others, the recognition as one of the top 500 private enterprises in China by China Federation of Private Enterprises, China Statistical Association and Enterprise Development Research Center of China Academy of Management Science in 2015 and the reception of the 2016 CNGA Award for our *361° Adult* products and the award for the Best Children's Clothing Brand in China) for our *361° Kids* products by the China National Garment Association. We were also listed in the 10th annual election of "Top 500 Most Valuable Brands in China" organized by Brand Observer Magazine in 2016.

Since we launched our *361°* branded athletic footwear in January 2004 and have expanded our product lines to include men's and women's footwear in 2004, apparel beginning in February 2005 and accessories beginning in September 2007. In March 2010 we began to distribute products for our children's sportswear collection under our *361° Kids* product line, and in April 2010, we commenced distribution of *361° Shine* products, a collection of sportswear primarily targeting young adults in their early twenties, which we subsequently renamed to *Innofashion* in 2013. In addition, in April 2014, we officially launched the *ONE WAY* brand in China through a joint venture we established with a Finnish premium sporting goods company, ONE WAY Sport Oy, in October 2013. We develop all of our internally manufactured products with a strong focus on high performance and technological innovation. We believe that our well-known brand name has created a strong brand following among our core consumer demographics, which include sports-minded and style-conscious adults and young adults as well as children, and has contributed to our growth over the period, in particular our *361° Kids* business, which continued to expand in 2015.

As a result of our brand name and reputation, we were appointed as a sportswear prestige partner for the 2010 Guangzhou Asian Games, the 2011 Shenzhen Summer Universiade, the Second Asian Youth Games held in Nanjing in 2013 and the 2014 Nanjing Olympic Youth Games. We have also secured the rights to sponsor China's national swimming and cycling teams and Sweden's national curling team, as well as the 17th Asian Games in Incheon, Korea, in 2014. Furthermore, in 2014, we were named as a Tier-2 official supporter of the Olympic and Paralympic Games in Rio de Janeiro, Brazil, in the summer of 2016.

Innovative design, strong product development capability and strong product positioning

Our brand integrates our product development experience in the PRC market with our product research and development capabilities to create high performance, innovative and stylish sportswear for our consumers.

We have established separate research and development and design teams dedicated to each of our footwear, apparel and accessories product categories, as well as for our *361° Kids* and *Innofashion* sportswear product lines which target specific audiences. We also have two laboratories for footwear and one laboratory for apparel, where we conduct quality control testing and performance data collection to assist our research and development teams in developing new technologies and applications. Our research and development teams in China include 135 professional staff for footwear and 147 professional staff for apparel, accessories and children's wear. We also have a research and development center in Taiwan. These teams collaborate with external design agencies and institutes to develop stylish and functional sportswear products that respond to developing trends in the sportswear market.

As of April 30, 2016, our Group held 72 footwear-related patents and 54 apparel-related patents (such as patents for new fabrics and cloth designs) and eight accessories-related patents for our *361° Adult* products, and 17 footwear-related patents and 17 apparel-related patents for our *361° Kids* products. These include patents for, among others, sportswear technologies such as our Lizard Claw Stability Tech soles, which have enhanced stability characteristics, our 3-D Geometric Lattice Tech soles, which have enhanced shock absorption characteristics, and the Quikfoam, which is an advanced technology that uses a casting polyurethane coating to envelope a blended foam midsole for additional footwear comfort and support. In addition, certain of our products have received recognition and/or commendations from reputable international sporting product magazines and publications. For instance, in 2015, we introduced our *361 Sensation* running shoes in the United States, which won industry awards for comfort, durability and value and were designated as "Best Buy" by Runner's World, a prestigious globally circulated monthly magazine for runners of all skill sets. Runner's World also made various recommendations on our *KgM2, Spire* and *Omni-Fit* running shoes. In 2015, we collaborated with Baidu to introduce the first children's smart shoes in the industry, which incorporate microchips with GPS features and data-tracking capability so that parents can track the whereabouts of their children. In addition, in 2015, we entered into strategic cooperation relationship with LeTV Sports pursuant to which we are collaborating with LeTV Sports to research and design music and data-related smart footwear products, among other things. We anticipate we will unveil our first smart footwear prototype during the third quarter of 2016.

Diversified brands with multiple growth engines

We offer a diversified portfolio of footwear and apparel products to cater to a broad customer base with different age groups, geographical locations and cultural and style preferences. In addition to our *361° Adult* products, we have also successfully launched and expanded our *361° Kids* business. Its revenue increased from RMB420.4 million for the year ended December 31, 2013 to RMB588.9 million for the year ended December 31, 2015, representing a CAGR of 18.4%. The *361° Kids* retail outlets also increased from 1,858 as of December 31, 2013 to 2,350 as of December 31, 2015, and further to 2,471 as of March 31, 2016. For the year ended December 31, 2015, the revenue from *361° Kids* represented approximately 13.2% of our total revenue for the year as compared to approximately 11.7% for the year ended December 31, 2013.

We have also focused on expanding our overseas business. Prior to 2014, we conducted sales of our products in selected overseas markets through a third party trading company based in the PRC. In 2014, we ended the distributorship relationship with such company and began to operate overseas sales internally. Besides our existing points of sales in numerous countries in the Middle East, South America and South East Asia, we have begun to expand the sales of our products at various points of sales in the United States and Brazil since 2014. Our overseas business is led by a Taiwanese general manager with a team of experienced professionals through our branch offices in Taiwan and California, the United States. As of March 31, 2016, we sold our products at 151 points of sales in the United States, 839 points of sales in Brazil and 34 points of sales in Europe.

Furthermore, in April 2014, we officially launched the *ONE WAY* brand in China through a joint venture we established with a Finnish premium sporting goods company, ONE WAY Sport Oy, in October 2013. We currently have a 70% equity interest in the joint venture, which holds the rights to the distribution and marketing of the *ONE WAY* brand in the PRC. We were able to leverage the reputation of *ONE WAY* as a global leader in the manufacturing of outdoor sporting goods, such as winter sports, cycling and extreme sports, to open 58 self-operated stores in 28 key cities across China as of March 31, 2016.

Well-developed, extensive sales channels and effective marketing and promotion strategies

We have established an extensive nationwide distribution network consisting 31 distributors covering specifically designated regions as of March 31, 2016, which has allowed us to expand across the PRC and penetrate our core markets. Our distributors oversee approximately 3,000 authorized retailers who in turn own and operate authorized retail outlets. As of March 31, 2016, we had 7,102 *361°* authorized retail outlets in China (excluding *361° Kids* outlets). These authorized retail outlets include store counters in department stores in most major cities in the PRC. Since 2014, we have been encouraging our authorized retailers to establish new and larger "2-in-1" and "3-in-1" composite stores in the PRC, which carry multiple product lines of our Group. As of March 31, 2016, 1,504 of our 7,102 retail outlets nationwide were composite stores. Our exclusive distributorship business model encourages our distributors to expand our market share by continuing to increase our retail presence, providing an improved and enjoyable purchasing experience to consumers and contributing to the promotion and marketing of our products. We believe that our distributorship model has enabled us to establish a strong presence in all of our core markets. We collaborate closely with our exclusive distributors in developing a structured expansion plan, requiring each distributor to establish an agreed number of new outlets during the term of the distributorship agreement.

In addition to our retail sales channels, we also outsource our e-commerce activities to an independent on-line distributor in Quanzhou, which, besides selling our products through various third-party on-line platforms (such as www.tmall.com and www.jd.com), also helps our retail distributors and authorized retailers sell their slow-moving or obsolete stock at discounted retail prices. Through this business arrangement, our on-line distributor is able to effectively manage the inventory levels of our retail distributors to reduce potential losses.

Moreover, we utilize innovative multimedia marketing and promotion strategies to highlight *361°* as a leading sportswear brand. In addition to traditional mass media marketing, we cross-promote ourselves through integrated media advertising, appointment of spokespersons, special events, product promotion and marketing, trade fairs and in-store promotions that maximize our exposure and create a uniform and well-respected brand image. We have developed creative integrated marketing campaigns through our sponsorship of high quality, brand enhancing sporting events. This allows us to develop product tie-ins that are cross-marketed during the events' promotional campaigns and, in turn, promote sales of our products. For example, we selected top national and international athletes as spokespersons for our products, including Mr. Stephon Marbury, who plays for the Beijing Ducks of the Chinese Basketball Association, Mr. Dexter Lee, a Jamaican sprinter who specializes in 100 meter and 200 meter races, Mr. Sun Yang (孫楊), an Olympic swimming champion, as well as his teammates Mr. Ning Zetao

(寧澤濤) and Ms. Ye Shiwen (葉詩文), and Mr. Yang Xu (楊旭), a striker of China's national football team, for endorsement of our products and brand image. We have also developed basketball shoes in connection with the *361°* China University Basketball Super League.

To enhance our market penetration and appeal, we have adopted marketing strategies to promote our products among our target markets. Besides designs, colors and materials we usually use in our *361° Kids* product line, we have also sought to promote our children's sportswear collection by collaborating with major entertainment companies to feature popular comics or movie icons on our children's apparel. We believe that such collaborative and promotional activities will enable us to enhance the appeal of our products to specific audiences.

Strong financial performance and prudent financial and accounting policies

We have achieved relatively strong growth since 2014 when the market began to recover from the over-supply of sportswear products as a result of the economic slowdown in China in recent years and a consequent decrease in consumer appetite for sportswear apparel and footwear products. For the years ended December 31, 2013, 2014 and 2015, our revenue was RMB3,583.5 million, RMB3,906.3 million and RMB4,458.7 million, respectively, representing a CAGR of 11.5%. Specifically, for the same years, the revenue of our *361° Adult* footwear, apparel, accessories products grew at a CAGR of 11.3%, 9.7% and 15.9%, respectively, and the revenue of our *361° Kids* products grew at a CAGR of 18.4%. For the years ended December 31, 2013, 2014 and 2015, our net profit was RMB214.7 million, RMB405.2 million and RMB529.6 million, respectively, representing a CAGR of 57.1%. In addition, we were able to maintain our gross profit margin at relatively stable levels for the years ended December 31, 2013, 2014 and 2015 at 39.5%, 40.9% and 40.9%, respectively.

In order to sustain long-term profitability, we have implemented prudent financial and accounting policies. For example, through our efforts of proactively managing our distributors to collect payments, our average trade and bills receivables turnover day decreased from 205 days for the year ended December 31, 2013 to 167 days for the year ended December 31, 2014 and further to 160 days for the year ended December 31, 2015. We also continued to effectively utilize the extended credit period offered by our OEM suppliers so that our average trade and bills payables turnover days increased from 158 days as of December 31, 2013 to 169 days as of December 31, 2015. Furthermore, we were able to maintain relatively healthy leverage ratios (calculated as our total borrowings divided by total assets) of 11.0%, 17.6% and 17.1% as of December 31, 2013, 2014 and 2015, respectively, which we believe were comparable to our peers. We believe our strong financial performance and prudent financial policies differentiate us from our competitors.

Experienced and professional management team

Our professional management team has extensive experience in sportswear marketing, manufacturing and management. Our president, Mr. Ding Wuhao (丁伍號), has over 15 years of experience in sportswear operations and management and has devoted himself to the implementation of our business development strategies and expansion plans to achieve rapid growth. In addition, other members of our senior management also have substantial relevant experience in their respective fields. For example, Mr. Ding Huihuang (丁輝煌), one of our executive directors, has over 15 years of experience in the PRC sportswear industry; Mr. Chen Yongling (陳永靈), our vice president of capital markets, has over 15 years of experience in finance, operation and business management; Mr. Lu Ning (盧寧), our executive vice president in charge of our footwear business, has over 20 years of experience in management internally renowned sportswear brands; Ms. Choi Mun Duen (蔡敏端), our chief financial officer and company secretary, has over 20 years in auditing, finance and accounting; Mr. Lin Bing Huang (林炳煌), the general manager of our international business department who manages our overseas business, has over 30 years of experience managing internationally renowned sportswear brands; Mr. Chen Jian Ci (陳建次), vice president of our supply chain management center, has over 15 years of experience in information systems; and Ms. Zhan Xiao Xiao (詹瀟瀟), our vice president of investor relations, has over 10 years of experience in corporate finance, investor relations, corporate governance and management. We have also recruited employees from other PRC sportswear businesses to leverage their operational and management experience to contribute to the success of our brand.

We have created stand-alone management departments for various business units to enable optimal operational efficiency, and have tightly integrated our core functions, such as supply chain and brand management. We believe that we have created a management system with strong operational transparency, which has enabled us to effectively execute our business strategies and rapidly increase our market share. We have independent management teams for each of our brands and sub-brands including *361° Kids*, *Innofashion* and *ONE WAY*.

BUSINESS STRATEGIES

We aim to become one of the leading sportswear brands in the world in terms of brand recognition and market share and to maximize shareholder value. The following sets forth our key business strategies which we expect to implement to meet our overall goal of increasing market share in the PRC sportswear market:

Optimize our sales channel management and improve same store profitability

We plan to optimize our sales channel management to create one of the strongest sportswear distribution networks in the PRC. We believe our success will depend on our ability to effectively manage our existing sales network and strategically strengthen our market position by enhancing our presence in second to fourth-tier cities in Eastern and Southern China, and further expanding into Southwestern and Northern China. By prudently maintaining our distribution coverage, we can more effectively penetrate our target consumer markets and further establish our brand as one of the leading sportswear brands in the PRC.

As part of our sales channel management, we continue to recruit experienced regional sales managers who have an intimate understanding of local consumer demand and spending patterns. Through our regional sales managers who are responsible for periodically conducting on-site inspections of randomly-selected authorized retail outlets and visiting our distributors in their respective geographic regions, we are able to monitor the performance of our distributors, assist them in developing new authorized retail outlets and entering into new markets, and provide them with appropriate sales and marketing strategy education and merchandising training. To optimize the overall management of our sales channels, we intend to continue strengthening our collaboration with our distributors and the authorized retailers and to enhance the training programs and guidelines that we offer to the authorized retailers.

To manage our distribution network prudently, we maintained a relatively stable number of our authorized retail outlets. As of March 31, 2016, we had a total of 7,102 retail outlets. We consider a store count of approximately 7,000 to be optimal for the foreseeable future. Consequently, instead of expanding our sales network, we aim to continue to enhance same store sales and profitability by encouraging our authorized retailers to establish new and larger "2-in-1" and "3-in-1" composite stores in the PRC, which carry multiple product lines of our Group, in order to increase customer foot traffic and same store revenue.

Increase our market share by further increasing the awareness of our brands and enhancing and expanding our product lines

We intend to continue to expand the market share of our products by improving our brand awareness and further developing our product lines. We will refine our brand strategy and improve our brand positioning to better target our consumer base. We continue to expand our retail channel management department and collaborate with external marketing consultants to research our consumers' spending patterns, product preferences and demographics in order to obtain first hand and intimate knowledge of our customer base. We believe that this enables us to further fine-tune our marketing and product development programs to improve brand loyalty, reputation and recognition. Leveraging our current sports sponsorship programs, we plan to continue to identify additional sports categories that align with our brand value to further increase brand awareness among consumers. We also plan to continue exploring endorsement opportunities with international sports teams or well-known athletes to further enhance our brand value. To solidify and expand our market position, we aim to continue to increase the overall competitiveness of our products to differentiate our products from those of our competitors, such as through technological innovation, quality and price.

As we establish ourselves as a leader in the PRC sportswear market, we plan to continue to build our product lines by leveraging our brand awareness so that we can better distinguish and align our products with the needs of our target consumers. To that end, we began to distribute products for a new children's sportswear collection under our *361° Kids* product line in March 2010, and in April 2010, we began to distribute *361° Shine* products, a collection of sportswear primarily targeting young adults in their early twenties, which we subsequently renamed to *Innofashion* in 2013. We plan to continue developing both product lines to capture the attractive growth prospects of these product collections. We intend to identify opportunities to develop additional product lines with higher average selling prices for specific audiences where we believe there is significant potential for growth. We will also continue to focus on technological advances and maintain high value-added and high quality standards in our products, so that our end-consumers will continue to associate our brand with quality and performance.

In order to expand our product lines and develop a niche market for premium sporting goods, we formed a joint venture with a Finnish premium sporting goods company, ONE WAY Sport Oy, in October 2013. We own a 70% equity interest in the joint venture, which holds the rights to the distribution and marketing of the *ONE WAY* brand in the greater China region. We officially launched the brand in China in April 2014. Our *361° ONE WAY* joint venture had 58 self-operated stores in 28 key cities across China as of March 31, 2016. We intend to leverage the internationally recognized Finnish brand, which experienced exceptional success in the recent Sochi Winter Olympics where athletes used its products in a podium finish on more than 30 occasions, to expand into the premium sporting goods segment in China. We believe this strategy will enable us to further enhance our overall competitiveness.

Increase investment in product research and development in order to focus on product innovation

In order to maintain our position as a leading sportswear brand that offers products with high quality performance, we have increased our product research and development funding and recruited additional employees to expand our product research and development capabilities. Through our *361°* Asian Design Center in Guangzhou and the high-performance sports apparel design center that we opened in collaboration with the Beijing Institute of Fashion Technology, we plan to continue to enhance our research and development efforts and develop innovative technologies that can be applied to our sportswear products. We believe that by continually improving our research and development, we will be able to strengthen and expand our product portfolio and maintain our competitiveness. For the year ended December 31, 2015, our research and development expenses amounted to RMB139.6 million, representing approximately 5.3% of our total cost of sales for the same year.

We also plan to continue to use the sponsorship of sporting events as our product development platform, such as our designated partnership with the *361°* China University Basketball Super League from 2007 to 2013, to develop customized sportswear products for players. We secured the rights to sponsor the 2014 Incheon Asian Games and also served as a sportswear prestige partner for the 2013 Second Asian Youth Games in Nanjing and the 2014 Nanjing Olympic Youth Games, where we were the primary sportswear sponsor for the event. Moreover, we secured the rights to sponsor China's national swimming and cycling teams and Sweden's national curling team, as well as the 17th Asian Games in Incheon, Korea, in 2014. In 2014, we have been named as a Tier-2 official supporter of the Olympic and Paralympic Games in Rio, Brazil, in the summer of 2016. In addition to product category expansion and extension, we intend to incorporate the latest technological innovations to enhance performance attributes of our products. These include patents for sportswear and footwear technologies, such as our Lizard Claw Stability Tech soles, 3-D Geometric Lattice Tech soles and the Quikfoam, among other patented innovations.

Diversify our product offerings and expand into different domestic market segments

We plan to diversify our product offering by continuing to focus on the development of products with particular functionalities. For example, we have identified smart shoes as a niche segment of the market that has significant potential for growth. Accordingly, in 2015, we collaborated with Baidu to introduce the first children's smart shoes in the industry equipped with GPS features and data-tracking capabilities so that parents can track the whereabouts of their children. In addition, we are collaborating with LeTV Sports to research and design music and data-related smart footwear products. We anticipate we will introduce our first smart footwear prototype during the third quarter of 2016. We intend to continue to devote substantial research and development resources and efforts to develop different types of smart shoes and other sportswear products with special functionalities to enhance our customers' overall sporting experience.

Expand our overseas and e-commerce businesses to increase sustainable profitability

We plan to continue to expand our presence in the overseas markets in order to capture the growth potential in such markets and sustain our profitability in the long term. We believe that expansion into overseas markets will enhance our global reputation. While we sold our products to several overseas markets as of December 31, 2015, including the Middle East, South America and South East Asia, we intend to explore opportunities to tap into new markets, broaden our customer base and expand our sales network. To strengthen our overseas presence, we established branch offices in Taiwan and California, the United States, and are in the process of expanding our sales into the United States, Brazil and Europe. For the financial year ended December 31, 2015, approximately 1.0% of our total revenue was generated from overseas sales.

Currently, all of our e-commerce activities are outsourced to an independent on-line distributor in Quanzhou. In addition to selling our products on-line through various platforms (such as www.tmall.com and www.jd.com), this e-commerce company also helps our retail distributors and authorized retailers sell their slow-moving or obsolete stock at discounted retail prices. Going forward, we intend to operate the e-commerce business in-house and to focus more resources and efforts on marketing or expansion of our on-line sales as we believe that the e-commerce sales channel will enable us to capture additional domestic and overseas sales opportunities. For the financial year ended December 31, 2015, approximately 6.0% of our total revenue was generated from e-commerce, which is expected to continue to grow over time.

OUR PRODUCTS

We offer a wide array of high-quality, fashionable and functional sportswear products to satisfy the active, athletic and casual needs of adults, young adults and children under three main product categories: footwear, apparel and accessories.

The following table sets forth our sales by product category for the periods indicated:

	For the year ended December 31,					
	2013		2014		2015	
	RMB'000	%	RMB'000	%	RMB'000	%
Revenue						
361° Products — Adults						
Footwear	1,521,031	42.5	1,554,280	39.8	1,884,788	42.3
Apparel	1,575,784	44.0	1,753,929	44.9	1,895,915	42.5
Accessories	66,286	1.8	90,574	2.3	89,069	2.0
361° Products — Kids	420,376	11.7	507,503	13.0	588,929	13.2
Total	3,583,477	100.0	3,906,286	100.0	4,458,701	100.0

OUR BRANDS

Our main brand, *361°*, represents the 360 degrees of a complete circle plus one extra degree, symbolizing our goal of establishing our brand to provide complete satisfaction in athleticism and functionality, plus an added degree of innovation and creativity. It also represents our continuous commitment to always pursuing one more degree of management and operational excellence and highlights our goal of distinguishing *361°* from other competitors by this one degree. We market our brands through slogans that characterize our brand philosophy and highlight our products' theme, thereby personifying our brand attitude with which consumers can easily associate. Since 2011, we used the slogan "One Extra Degree of Passion" with a view to exemplify our core brand value of "Excellence." We market our sportswear products under *361°* and *361° Kids* brands and our *Innofashion* sub-brand. In April 2014, we officially launched the *ONE WAY* brand in China through a joint venture we established with a Finnish premium sporting goods company, ONE WAY Sport Oy in October 2013.

For the financial years ended December 31, 2013, 2014 and 2015, the aggregate revenue from sales of our *361° Adults* products, which consisted of *361°* and *Innofashion* products, accounted for 88.3%, 87.0% and 86.8%, respectively, of our total revenue. For the corresponding periods, revenue from sales of our *361° Kids* products accounted for 11.7%, 13.0% and 13.2%, respectively, of our total revenue.

361°

We focus our *361°* brand on adult sportswear collections, combining functionality, innovation and advanced technologies in our products to provide sports-minded consumers between the ages of 18 and 30 and the general public with a unique sporting experience. We have separate teams dedicated to the design and development of each of our product categories for our adult sportswear collections.

361° Kids

Leveraging our *361°* brand, we began to distribute products from our children's collection under the *361° Kids* product line in March 2010. Our *361° Kids* collection caters to children between the ages five and 12 and focuses on children's sportswear, including children's footwear, apparel and accessories. We have a separate team dedicated to the design and development of functional, modern, and comfortable children's wear. This team is also responsible for procurement, out sourcing and marketing for our *361° Kids* collection. In 2014, we have appointed three ambassadors to our *361° Kids* products, namely Barna Kuyliri (拜爾娜), Jasmyn Asin Gioro (愛新覺羅•媚) and Zhou Zhang Chi (周張弛), who are well-known child stars in the PRC.

Innofashion

In April 2010, we began to distribute *361° Shine* products, a collection of sportswear primarily targeting urban and more sophisticated consumers, which we subsequently renamed to *Innofashion* in 2013. The collection combines fashion and sport to serve as a comprehensive lifestyle brand for active, confident and energetic young adults who seek unique look and distinctive style. The collection features colorful, youthful designs under the slogan "Living a New Active Life" and further targets different sub-groups of the young adult category based on their functional needs, such as workplace, campus or urban street wear clothing. Our *Innofashion* products are primarily sold in our *361°* authorized retail outlets.

MARKETING AND PROMOTION

Our marketing strategy integrates all aspects of our products and strives to communicate the spirit of our brand to consumers, as well as showcase the functionality, technological innovation and design of our products. Our marketing strategy has included theme-based marketing promotions, such as sponsorships of national sporting and entertainment events. We aim to develop different images, preferences and styles of the brands to appeal to a diverse group of consumers, through different marketing channels.

Sponsorships of Sports Events and Top Athletes as Spokespersons

We develop creative, integrated marketing campaigns through our multi-year sponsorship of high quality, brand-enhancing sporting events and our selection of top athletes as our spokespersons. For each event, we create promotional campaigns to generate market awareness and build momentum for the event and for our brands. We develop customized products that are cross-marketed during the event's promotional campaigns, and also advertise our products in each event's promotional materials at the authorized retail outlets to maximize cross-selling opportunities.

We believe our sponsorship activities and product tie-ins better position us as a leading provider of products for these sporting events and, in turn, promote the in-store sales of our products.

Our cross-marketing activities in the past and present include the following:

- we entered into contracts with the Chinese Taipei Road Running Association (中華臺北路跑協會) and Xiamen Television Broadcast Development Limited (廈門廣播電視產業發展有限公司) to be a global top cooperative partner and the sole designated sportswear sponsor of the Jinmen Marathon (金門馬拉松) from 2014 until 2018;

- we secured the rights to sponsor China's national swimming team and cycling team, as well as Sweden's national curling team;

- we obtained rights to be the designated apparel sponsor of World Men's Curling Championship and World Women's Curling Championship from 2013 to 2017;

- we became the sole title sponsor of *361°* Men/Women's National Volley Tournament Series from 2010 to 2015;

- we secured the rights to sponsor the 2014 Incheon Asian Games;

- we obtained exclusive rights to be the sportswear sponsor for the Second Asian Youth Games held in Nanjing in 2013 and the Second Youth Olympic Games held in Nanjing in 2014; and

- in 2014, we were named as a Tier-2 official supporter of the 2016 Olympic and Paralympic Games in Rio de Janeiro, Brazil.

To enhance the attractiveness of our brands in the PRC consumer market, we have focused on signing up top athletes to be the spokespersons of our products, such as Mr. Stephon Marbury, who plays for the Beijing Ducks of the Chinese Basketball Association, Mr. Dexter Lee, a Jamaican sprinter who specializes in 100 and 200 meter races, Mr. Sun Yang, an Olympic swimming champion, as well as his teammates Mr. Ning Zetao and Ms. Ye Shiwen. We have also signed Mr. Yang Xu, a striker of China's national football team, for endorsement of our products and brand image.

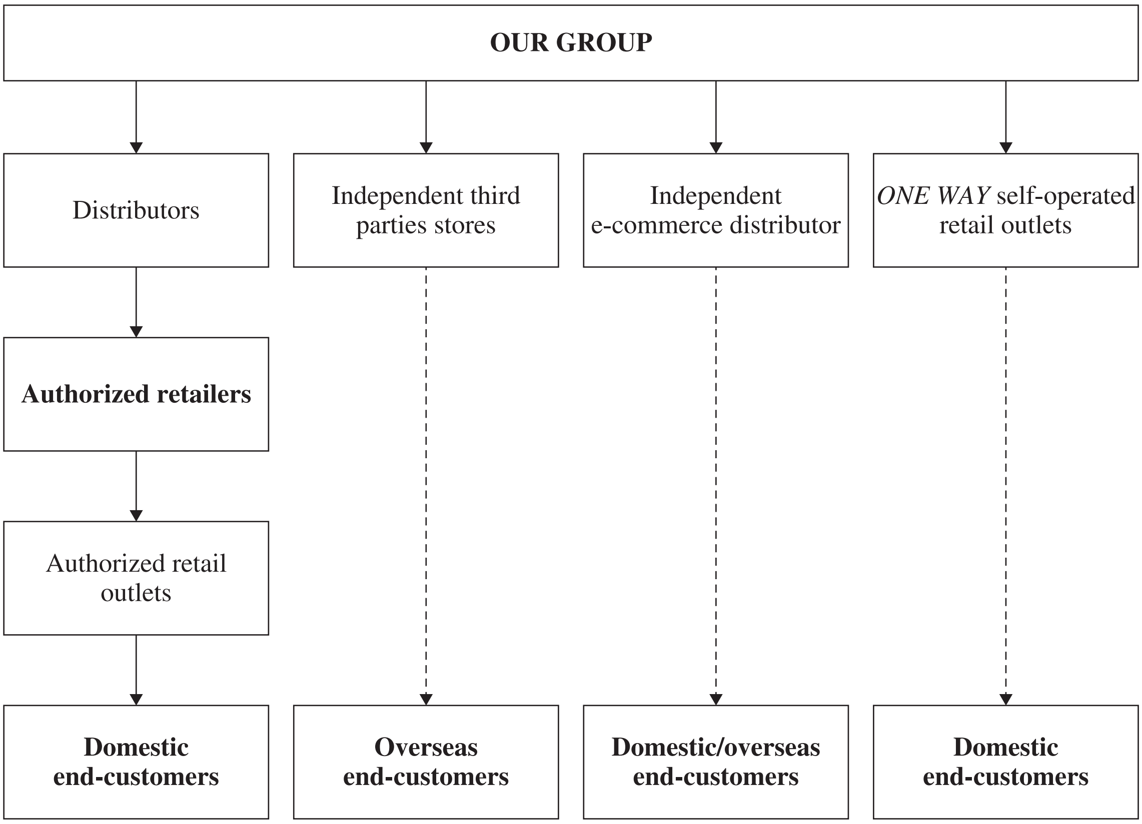
Media Advertising

In addition to the broad media coverage provided to us by our sponsorship activities, we also strategically select other forms of advertising for our brand that we believe match our brand's image and market position. For example, we sign agreements to buy advertising space from leading PRC-based sports magazines and newspapers. Our distributors also contribute to the marketing and promotion of our brand by conducting local promotions within their geographic areas.

Our advertising and promotional expenses for the financial years ended December 31, 2013, 2014 and 2015 represented approximately 16.2%, 16.7% and 12.8% of our total revenue, respectively.

SALES NETWORK

We believe that we have succeeded in building a sportswear retail chain with an extensive geographic reach throughout China. We primarily sell our products through a network of domestic distributors, who oversee the authorized retailers that in turn own and operate the individual authorized retail outlets in China. We also sell a portion of our products to overseas markets through an independent third party, as well as domestically and overseas through on-line e-commerce platforms. The following diagram illustrates the structure of our sales network:



Distributors

As of March 31, 2016, we distributed our products via a network of 31 distributors, all of whom were independent third parties that did not engage in any business other than being our distributors. Our distributors oversaw approximately 3,000 authorized retailers, all of whom were, to the best of our knowledge, independent third parties. They owned and managed a total of 7,102 *361°* authorized retail outlets as of March 31, 2016, as compared to a total of 7,299, 7,319 and 7,208 *361°* authorized retail outlets for the years ended December 31, 2013, 2014 and 2015, respectively. We also had 2,471 *361° Kids* retail outlets across the PRC as of March 31, 2016, as compared to 1,858, 2,142 and 2,350 retail outlets as of December 31, 2013, 2014 and 2015, respectively.

The Distribution Network of Our Products

As of December 31, 2015, the distribution network of our products in the PRC covered four main geographical regions, consisting of Jiangsu, Zhejiang, Hubei, Anhui, Hunan, Shanghai and Jiangxi in the Eastern region, Guangdong, Fujian, Guangxi and Hainan in the Southern region, Sichuan, Yunnan, Guizhou, Shaanxi, Xinjiang, Gansu, Chongqing, Qinghai, Ningxia and Tibet in the Western region and Shandong, Beijing, Liaoning, Heilongjiang, Hebei, Henan, Shanxi, Jilin, Tianjin and Inner Mongolia in the Northern region.

Commencing in 2014, we encouraged our authorized retailers to include *361° Kids* products in new stores as part of the new "2-in-1" store format to increase foot traffic and bring better visibility to the *361° Kids* brand. We also advise our retailers to open new and larger "3-in-1" composite stores in the PRC with average floor area of over 180 square meters, which carry all three product lines of our Group. These new store formats were re-organized from standalone stores to improve our operating efficiency. These "2-in-1" and "3-in-1" composite stores accounted for approximately 21.2% or 1,504 out of our 7,102 retail outlets nationwide, of our retail outlets as of March 31, 2016.

Criteria for Selection of Distributors

In addition to other criteria, we strategically select our distributors based on their:

- capital resources and financial stability;
- experience in the sportswear industry and retail sales;
- management capabilities;
- sales channels, local recognition and business network; and
- sales performance.

Distributorship Agreements

We enter into an annual distributorship agreement with each of our distributors. These annual distributorship agreements generally include the following principal terms:

- Duration — The agreement has a term of one year;
- Geographical exclusivity — Each distributor is exclusively authorized to sell our *361°* products within a specific geographic area;
- Product exclusivity — Our distributors are prohibited from distributing or selling any products that compete with our *361°* products;
- Sales channel and network — Without our permission, our distributors are not allowed to sell our products through e-commerce platforms developed by themselves or any third parties;
- Undertakings — Our distributors are required to comply with our sales policies, adhere to our pricing policies, and enforce our standardized outlet design and layout in the authorized retail outlets within their exclusive geographic area;
- Pricing — We agree to sell our products to our distributors at a uniform price across all distributors;
- Protection of our intellectual property rights — Our distributors are only allowed to use our intellectual property in connection with the sale of our *361°* products and we require our distributors not to participate or assist in any activities that may infringe upon our intellectual property rights;
- Renewal — Negotiations for renewal of the distributorship agreements will usually take place 60 days prior to their expiry date;
- Transportation insurance — Our distributors are responsible for making their own delivery arrangements with the risk of loss of or damage to products during transport being borne by the distributors;

- Returned goods arrangements — Our distributors will only be able to return the goods we sold to them if there are quality issues;

- Termination rights — We are entitled to terminate the agreement in certain circumstances (such as, for breach of the agreement by the distributors, sale by the distributors of pirated products and material damages to our brand image caused by the distributors). Our distributors do not have termination rights under the agreements; and

- Return of profit — Distributors who breach any of the first four terms above must return all of the relevant profit to us with an additional fine of RMB1.0 million.

Pursuant to the distributorship agreements, our distributors are entitled to authorize a person to become a retailer, sell our *361°* products and use the *361°* logo in our authorized retail outlets. Distributors then enter into separate agreements with our authorized retailers for the sale and purchase of our *361°* products and other aspects of their commercial relationship. While we do not have direct contractual relationships with the authorized retailers, the distributorship agreements entered into between us and our distributors require that distributors receive our consent prior to approving any person as an authorized retailer. Our distributors are responsible for ensuring that authorized retailers comply with our standard operating procedures, including guidelines on the design and layout of the authorized retail outlets, product pricing and customer service, as well as ensuring that authorized retailers do not sell our *361°* products outside of their respective territories. Authorized retailers breaching any of the terms stipulated in their separate agreements with our distributors will be subject to penalties, such as monetary fines or the termination of their authorization to sell our *361°* products.

As of the date of this Offering Memorandum we were not aware of any of our distributors committing any material breach of the distributorship agreements with us.

Seasonal Trade Fairs and Sales Cycle

We generally hold previews for our new products with our distributors approximately one month in advance of trade fairs, at which selected distributors and authorized retailers can preview and evaluate our new products. During the month following the internal preview, distributors will work with their respective authorized retailers to estimate the approximate volume of products they intend to purchase.

We formally introduce new products to our distributors and authorized retailers at our trade fairs, which have historically been held four times a year, usually in March, July, September and December, approximately four to six months before the new products for the winter, spring, summer and autumn seasons, respectively, are introduced to consumers. We determine the locations of the seasonal trade fairs based on our marketing strategies, taking into account such factors as availability of convenient transportation and the performance of distributors and authorized retailers in the proposed region. We currently conduct our trade fairs at our 20,000 square meter exhibition center in our Wuli Industrial Park in Jinjiang, Fujian Province.

We provide extensive training and guidance to our distributors and authorized retailers on how to make ordering decisions at our trade fairs. After collecting indicative orders from their respective authorized retailers, our distributors submit to us their intended purchase volume for our products. We use this information to determine production schedules and quantities of products for the applicable season. We review and cancel the sale of certain products if the aggregate volume of purchases for such products fails to reach a minimum threshold to justify production. Formal orders from our distributors are generally required to be confirmed within one week following a trade fair. We do not permit our distributors to cancel, reduce or increase their orders after they have been placed and confirmed with us. Finished products are periodically delivered to our distributors from our warehouse based on previously agreed delivery schedules, and our distributors in turn deliver these products to their respective authorized retailers for sale to retail consumers.

Management of Distributorship Sales Network

We believe that the effective management of our sales network is an integral element to our success. Our retail channel management department, marketing department and brand management department are responsible for the overall management of our sales network.

Our regional sales managers under our marketing department are responsible for covering all of our 31 distributors and periodically conducting on-site inspections of randomly-selected authorized retail outlets in their respective geographic regions to ensure that our distributors comply with the terms set out in the distributorship agreements and that the authorized retailers adhere to our standardized design and layout guidelines, pricing policies and customer service requirements set by our retail channel management department. All distributors must obtain the approval from our retail channel management department prior to authorizing the opening of new outlets by the authorized retailers, and our retail channel management department works closely with our distributors to choose locations that have high retail traffic flow and exposure to the public in order to enhance recognition of our brands and sales of our products. We organize training programs several times a year for our distributors, authorized retailers and our authorized retail outlets. In addition, our brand management and retail management departments coordinate with our distributors on various marketing, promotional and advertising campaigns and programs for our sportswear products to enhance our brands. We believe that working closely with our distributors and authorized retailers enables us to gauge market trends and to control our production and inventory management systems more efficiently.

Pricing Policies

In determining our pricing policies, we take into account various factors such as internal and outsourcing production costs, our competitors' pricing strategies, purchasing power of consumers in the PRC and general economic conditions in the PRC. We have adopted a suggested retail pricing system that is applied nationwide to all of our authorized retailers, to maintain our brand image and avoid price competition amongst our authorized retailers. Under our distributorship business model, we sell our products to all of our distributors at a uniform discount to the suggested retail price of the products. Our distributors then sell our products to their respective authorized retailers at a uniform discount to the suggested retail price which has been approved by us.

An authorized retailer with excess inventory at the end of a season may sell such excess inventory through regular and special end-of-season sales, whereby products may be sold at a discount from the suggested retail price. The authorized retailer may also sell such excess inventory to a seasonal discount store if a seasonal discount store is being operated in such authorized retailer's province. All stores labeled as seasonal discount stores under the *361°* and *361° Kids* brand names are operated by authorized retailers or distributors, and generally sell our products from previous seasons at discounts approved by us that are greater than the discounts offered by our authorized retail outlets.

Payment Terms and Credit Control

Our distributors are invoiced upon delivery of our products and we recognize revenue from the sales of goods to them when our products leave our warehouse because at that time such distributor has accepted the related risks and rewards of ownership. We generally provide our distributors a credit period between 30 and 180 days, with the exact term determined by factors such as past sales performance, credit history and their expansion plans. As a matter of policy, we generally do not grant credit periods of over 180 days to any of our customers, except where we believe that the greater liquidity afforded to the distributor or customer by the credit extension would assist the distributor or customer in opening new authorized retail outlets and expanding our retail network. We work closely with our distributors and generally require payments from them on a weekly basis to reduce their accounts payable to us. We perform ongoing credit evaluations of our distributors' financial condition and generally do not require collateral from them to secure their payment obligations. We monitor our receivable balances from each distributor on a weekly basis and will make appropriate assessments in a timely manner as to whether or not an allowance for doubtful debts will need to be made.

Sales Return Policies

Our sales return policies only permit our distributors to return products to us due to material quality defects. Distributors should inspect the products and, where defective products are found, report the alleged defect to us within three days of delivery. We inspect all returned products and are not responsible for defects caused by improper storage by the distributors or improper use by consumers. Furthermore, the standard operating procedures that we impose on our distributors, which they in turn impose on authorized retailers, state that claims for defective products from consumers should be handled in accordance with applicable consumer protection laws in the PRC, which generally require defective products to be accepted for return or exchange if claimed within a certain prescribed time period. For the financial years ended December 31, 2013, 2014 and 2015, there were no returned goods from our customers.

Overseas Sales

Beginning in the first half of 2011, we commenced sales of our products in select overseas markets through a third party trading company based in the PRC. In 2014, we ended the distributorship relationship with this company and began to operate overseas sales directly. Our overseas business is headed by a Taiwanese general manager with an independent unit who directly reports to the president of our Group. As of December 31, 2015, we have established branch offices in Taiwan and California, the United States, and sold our products to several overseas markets, including the Middle East, South America and South East Asia, and we have begun to expand into new markets, including Brazil, the United States and Europe. We intend to broaden our customer base and expand our sales network as we continue to focus on the growth of our overseas business. For the year ended December 31, 2015, approximately 1.0% of our total revenue was generated from overseas sales.

E-commerce Sales

Since the second half of 2011, we have expanded our e-business by outsourcing all of our e-commerce activities to an independent on-line distributor based in Quanzhou, Fujian Province. This company sells our products through various third-party on-line platforms, such as www.tmall.com and www.jd.com. It also helps our retail distributors and authorized retailers to sell their slow-moving or obsolete inventory at discounted retail prices to reduce potential losses. Going forward, we plan to operate the e-commerce business in-house. For the year ended December 31, 2015, we generated approximately 6.0% of our total revenue through e-commerce sales to such on-line distributor.

OUR CUSTOMERS

We primarily sell our products on a wholesale basis to distributors, who are exclusive distributors of our products. We sell the remainder of our products to independent third parties who resell these products on e-commerce websites or to retailers in select overseas markets. Our five largest customers accounted for approximately 32%, 31% and 33% of our total revenue for the financial years ended December 31, 2013, 2014 and 2015, respectively, and our largest customer accounted for approximately 11%, 11% and 10% of our total revenue for the same periods, respectively. We believe our relationships with our customers have been stable, as many of these customers, or their predecessors or affiliates, have established a business relationship of more than seven years with us as of December 31, 2015. All of our customers were independent third parties during the years ended December 31, 2013, 2014 and 2015.

None of our Directors, our chief executive, or any person who, (to the knowledge of our Directors), owns more than 5% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our customers during the financial years ended December 31, 2013, 2014 and 2015.

RESEARCH AND DEVELOPMENT AND PRODUCT DESIGN

Research and Development

As a sportswear enterprise, we work to develop high performance, innovative and stylish sportswear products that will meet the functional needs of our target consumers, which we believe can be achieved through technological innovation. One of our core competitive strengths is our ability to create the innovative technologies we use in our sportswear products. We have independent research and development and design centers dedicated to footwear, apparel and accessories, including one center in Jinjiang, the *361°* Asian Design Center in Guangzhou which opened in September 2010, and a high-performance sports apparel design center in Beijing opened in collaboration with the Beijing Institute of Fashion Technology in April 2011. We also have a research and development center in Taiwan. In addition, we maintain two laboratories for footwear and one laboratory for apparel for quality control testing and performance data collection, to assist our research and development teams in developing new technologies and applications. Each laboratory is equipped with advanced equipment and adheres to stringent testing standards for footwear and apparel product testing. In 2015, we commenced construction of a research and development center in our Wuli Industrial Park in Jinjiang, Fujian Province, which is expected to be completed in 2016.

As of December 31, 2015, our footwear research and development team in China included 135 professional staff for footwear, and our apparel and accessories research and development team included 147 professional staff for apparel, accessories and children's wear. Our total expenditures for research and development amounted to approximately RMB85.8 million, RMB95.7 million and RMB139.6 million for the financial years ended December 31, 2013. 2014 and 2015, respectively. We conduct research and development to ensure that our products have the desired function and application, utilize advanced technology and raw materials, and are responsive to market developments. Our research and development teams have also focused on improving the manufacturing process to increase our production efficiency.

We believe our future success depends on our ability to deliver new technologies, as well as applying existing technologies in our products. We will continue to conduct research and development on technologies and raw materials to enable our products to meet and exceed the expectations of our target consumers. As of April 30, 2016, our research and development teams have developed and yielded 168 patented technologies that are currently in use in our products, including, among others:

- Nanometer Particle Sportswear Layer Tech — We use a layer of mineral nanoparticles in combination with other composite materials to create a lightweight clothing outer layer to block against water, wind, sweat and other natural elements;

- Protective Sportswear with Assembling and Dismantling Operational Function — We add protective pockets to clothing, which can house soft protective films that can be used to protect the elbows during exercises. These protective pockets can be easily assembled or disassembled to maintain desired utility and comfort;

- Mosquito Repellent Sportswear Layer Tech — We use a removable clothing layer that can be coated by the wearer with mosquito repellent before use, and then reinserted into outerwear and other sportswear;

- Trouser Fabric Tech — We use a waterproof and ultra-breathable clothing outer layer for trousers;

- Flexible Groove Tech Sole — We use an extra flexible and bendable shoe sole embedded with small grooves between six and seven millimeters deep to reduce resistance and better adapt to the shape of the foot;

- 3-D Geometric Lattice Tech Soles — We use a 3-D lattice structure within the shoe sole to enhance shock absorption and enable rapid response to ground pressure;

- Lizard Claw Stability Tech Soles — We embed an imitation lizard claw structure in the midsole to form a five-part suction cup structure that replicates the gripping structure of a lizard claw to provide increased stability and lightness;

- Magnetic and Air Suspension Shock Absorption Tech Soles — We combine magnetic suspension and air suspension technologies in the soles to enhance shock absorption;

- Ultra-thin Thermal Insulation Glove Tech — We use ultra-thin fabric that allows for comfort and flexible hand movement while maintaining effective heat insulation; and

- Quikfoam — We use a casting polyurethane coating to envelope a blended foam midsole for additional comfort and support.

Product Design

We believe that product design has been one of the keys to our sustained success and will continue to play an important factor in our continued success and growth. The design process for our products requires careful consideration of not only specific products, but of how they will embody and enhance the image of our brands.

Consistency of Brand Image

In keeping with our belief that the maintenance of our brand image and the public's perception of our brand are critical to our success, we focus on brand image when designing our products. In order to promote increased brand recognition, we implement an integrated marketing strategy focused on the development of themes that recur in all aspects of our operation, including product design, advertising and retail promotion.

Product Concept

We have a separate in-house design team dedicated to each of our three product categories, namely footwear, apparel and accessories. We also have a separate design team for each of our *361° Kids* and *Innofashion* sportswear collections.

We believe that our product design teams have a proven track record in identifying and responding to sportswear market trends in the PRC, who collaborate with a third-party professional color theme adviser and external sportswear design agencies to create product designs reflecting the message of the brand. In April 2011, we entered into a ten-year partnership with the Beijing Institute of Fashion Technology to open a high-performance sports apparel design center in Beijing. The center provides our product design teams with extensive resources and expertise regarding scientific research and innovation relating to high-technology fabrics, and includes facilities for product concept prototyping and product testing for athletes.

Product Testing and Improvement

Once a design concept is solidified, our product design teams refine their design ideas by considering the functionality and features of the products, as well as the materials used in production. We also collect information and feedback from all regional markets to assist the design teams in creating and improving their designs. Our prototype products reflecting initial designs undergo our internal and final product assessments, which include input from distributors, internal laboratory testing personnel and other professional advisers, who provide comments towards design improvements.

Integrated Marketing

Once a product has received final approval, we turn to our integrated marketing strategy to promote the product. The product can be tied into the theme around which it was designed and incorporated into an advertising campaign (print, billboard, bus, Internet and television), retail sales and promotions, and promotional events and activities.

MANUFACTURING

In-house Manufacturing

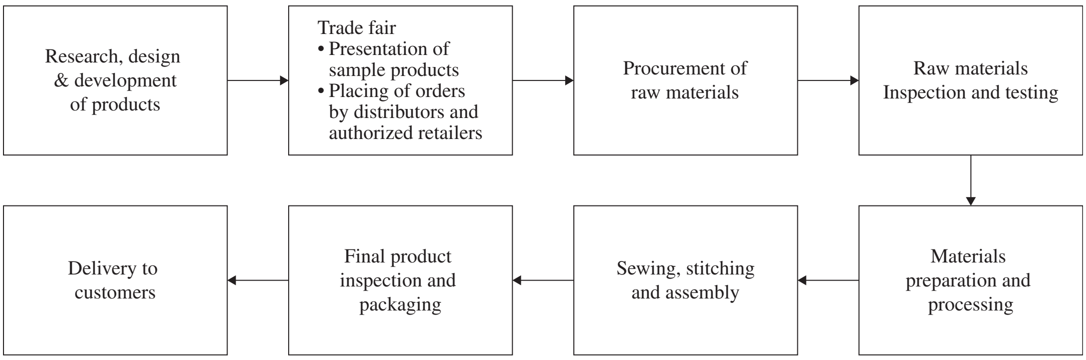
Our Production Facilities

As of December 31, 2015, we owned and operated two production facilities, one of which is situated in the Jiangtou Industrial Park and the other in the Wuli Industrial Park, each located in Jinjiang City, Fujian Province, the PRC. As of December 31, 2015, we operated 23 footwear production lines with an aggregate production capacity of 21 million pairs of footwear per annum.

We commenced production at our all-new production facilities in the Wuli Industrial Park in the first half of 2010. This production facility has also enabled us to manufacture a portion of our apparel in-house. We had an apparel production capacity of approximately 10 million pieces per annum for as of December 31, 2015. Prior to commencing our in-house apparel manufacturing operations, we had outsourced the manufacture of all of our apparel products to third party contract manufacturers. We expect to continue to outsource the majority of our apparel manufacturing to third-party contract manufacturers, as we do not plan to engage in large-scale apparel production.

Footwear Manufacturing

The following diagram outlines our in-house production process for footwear:

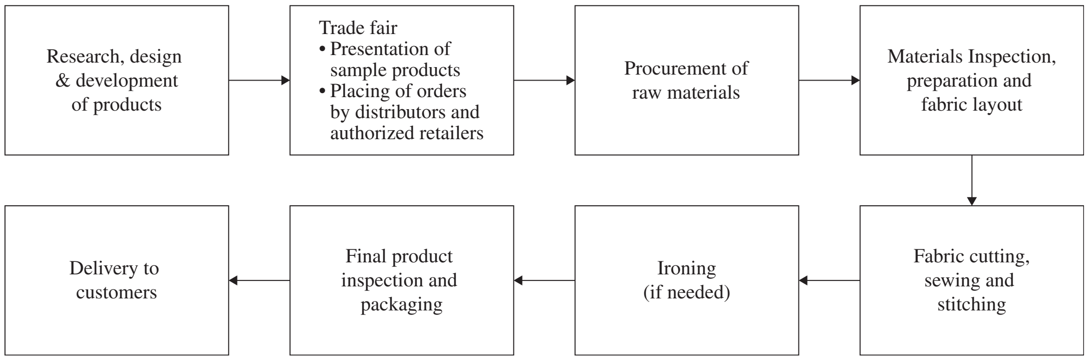


Note: We outsource some of the processing steps to our contract manufacturers. For more details, see the section headed "Outsourced Manufacturing" below.

Raw materials are generally inspected and tested before use in production, with leather, synthetic leather, fabrics, rubber, soles and plastics being the main raw materials used in our footwear production. Following inspection, the raw materials are cut and trimmed to the desired shape and size by various cutting, molding and trimming machines. Logos and embroidery are affixed to the components, and then the various components are sewn and stitched together, after which the top and sole are formed together to create the shoe. The finished footwear products are randomly sampled to undergo rigorous quality control inspections in order to ensure that our products meet our stringent quality standards. The products are then packed for delivery to our customers.

Apparel Manufacturing

The following diagram outlines our in-house production process for apparel:



Note: We outsource a majority of the processing steps and production to our contract manufacturers. For more details, see the section headed "Outsourced Manufacturing" below.

Raw materials are generally inspected and tested before use in production, with fabric and thread being the main raw materials used in our apparel production. Following inspection, the raw materials are processed through several steps. Depending on the particular apparel product being manufactured, these steps generally include cutting, sewing and stitching. The finished apparel products are randomly sampled to undergo rigorous quality control inspections in order to ensure that our products meet our stringent quality standards. The products are then packed for delivery to our customers.

Outsourced Manufacturing

We outsource a portion of the manufacture of our footwear products, a majority of our apparel products and all of the accessories products to third-party contract manufacturers. For the financial years ended December 31, 2013, 2014 and 2015, the procurement costs of our outsourced footwear products accounted for approximately 23.3%, 18.3% and 20.9% of our total costs of sales, respectively. Prior to commencing our in-house apparel manufacturing operations, we outsourced the manufacture of all apparel. We began to manufacture a portion of our apparel products after commencing production at our production facility in the Wuli Industrial Park in the first half of 2010. For the financial years ended December 31, 2013, 2014 and 2015, the procurement costs of our outsourced apparel products accounted for approximately 42.7%, 35.0% and 39.2%, respectively, of our total costs of sales.

Most of our contract manufacturers are located in Fujian Province, the PRC. We engage their services on a contractual basis after obtaining purchase orders during our trade fairs. For each order, we enter into separate purchase contracts, which set out the terms regarding the price, purchase quantity, delivery terms and settlement terms, among others.

We provide the designs and specifications of our products to contract manufacturers. To prevent any leakage of such information by the contract manufacturers, which is considered proprietary, contract manufacturers are generally obliged under the purchase contracts not to disclose such information to third parties or use the same for their own products or any other purposes. In addition, we require the contract manufacturers to return any documents and information incidental to the designs and specifications of our products when the purchase contracts expire.

Our agreements with our contract manufacturers generally require them to manufacture products in accordance with the specifications that we provide them, and to deliver the products within a certain period of time after we give them notice, failing which they are typically required to pay certain damages and penalties.

Our contract manufacturers are carefully selected by us, and we require each of them to satisfy certain criteria. We evaluate the contract manufacturers' performance, financial strength, experience, reputation, ability to produce high-quality products and quality control effectiveness in determining whether to continue using their services. In addition, our contract manufacturers are required to undergo quality tests by an independent quality testing institute.

INFORMATION SYSTEMS

We believe that computerized systems are critical to improving our efficiency in supply chain management, quality and inventory control, logistics and sales. We currently use a computerized sales system and an inventory management system, which is also a category of enterprise resource planning (ERP) system, developed by Shanghai Baison Software Co., Ltd. (上海百勝軟件有限公司), which allows us to monitor our sales volume and track the movement of our products at our warehouses. We also utilize a computerized ordering system at our trade fairs, which allows us to efficiently manage the ordering process. The data made available to us from these systems is shared with our production, inventory, procurement and finance departments.

In order to support our business needs and better manage our distribution network of our products, we introduced and implemented an ePOS system in June 2010 that allows for the integration of operating information between us, our distributors and the authorized retail outlets. We have steadily increased the number of retail outlets linked to the system. As of March 31, 2016, our ePOS linkage was extended to 5,198 out of 7,102 *361°* authorized retail outlets and to 1,645 out of 2,471 *361°* Kids retail outlets. The ePOS system allows for direct, real-time data flow through the supply chain to decrease production lead time, reduce logistics bottlenecks, enable more efficient financial and operational information gathering from our distributors and retail channels, and further improve our merchandising and product ordering processes. See "Risks relating to our Business — Our ability to accurately track the sales and inventory levels at our distributors and the authorized retail outlets may be limited."

INVENTORY MANAGEMENT

We strive to reduce excess levels of raw materials and finished goods in our inventory while still being able to meet the supply demands of our customers. We are able to manage our inventory levels by procuring the majority of raw materials and commencing production upon confirmation of purchase orders with our customers. We typically commence production of a portion of the indicated purchase volume of certain products when we received high purchase volume indications from our distributors during their preview of prototype products, which usually takes place approximately one month prior to our trade fairs that follow. We believe that this production schedule allows us to control production costs and manage delivery schedules. To further minimize the risk of accumulating excess inventory, we regularly review our inventory levels.

Our distributorship agreements require our distributors to provide us with an inventory report every month. Our regional sales managers currently provide us with local market condition reports from time to time and conduct periodic on-site inspections of our distributors and the authorized retail outlets to track their inventory levels. We encourage our distributors to clear their past-season inventory, as we believe that accumulation of inventory by distributors will adversely affect the volume of orders that they will order from us in the future. By tracking the inventory levels of our distributors, we are also able to gather information and data regarding the market acceptance of our products, both in the PRC generally as well as in particular regions, so that we can reflect consumer preferences in the design and development of our products for future seasons.

In the wake of high inventory and weaker consumer demand in the PRC sportswear industry in 2013, we took a two-pronged approach to manage our inventory. First, we streamlined our product offerings at our trade fairs in 2013 to focus on high-margin and best-selling products and worked with our distributors to control the volume of orders for our products. Second, we continued to provide assistance to our authorized retailers to boost sales in 2013 by increasing wholesale discounts for our distributors, who, in turn, would pass on the discounted pricing to retailers. These efforts helped us navigate through the market turbulence and positioned us well for the recovery of the PRC sportswear industry, which began during the last quarter of 2014 and continued throughout 2015. We plan to continue to streamline and control our inventory in light of the improved market.

QUALITY MANAGEMENT SYSTEM

We adhere to a strict system of quality control throughout our operation, extending from raw material procurement, to production and delivery processes, to the careful selection and inspection of raw materials, as well as regular production equipment inspection and maintenance. We maintain three laboratories for quality control testing, where our quality control team monitors every stage of our production processes and ensures consistent product quality that meets our internal quality standards and policies, and our customers' stringent requirements. We have applied the standards of ISO 9001:2008 throughout our quality control system and obtained ISO 9001:2008 certifications for the quality management systems of all of our production plants. The ISO certification process involves subjecting our manufacturing processes and quality management systems to annual reviews. We believe this certification process provides independent verification to our customers regarding the quality control employed in our production processes.

RAW MATERIALS AND SUPPLIERS

The principal raw materials used in the production of our footwear products are leather, synthetic leather, fabrics, rubber, soles and plastic. We obtain all of these materials from domestic suppliers in the PRC.

Many of our raw material suppliers are located in Jinjiang City, Fujian Province, the PRC, where our production facilities are also located. We believe such proximity of these suppliers offers convenience and helps us to improve procurement efficiency. We have developed solid and steady relationships with many of our key suppliers, as they have been supplying to us for a few years. Given our solid and steady relationships with our suppliers, we believe that our suppliers generally make supplying to us a priority and we did not experience any material delays in receiving supplies from our suppliers during the financial years ended December 31, 2013, 2014 and 2015.

In January 2010, we formed a joint venture with First Union International Industrial Ltd. to establish Sanliuyidu Footwear, which specializes in the production of soles for our footwear products. First Union International Industrial Ltd. is an affiliated company of a company based in Taiwan, which has more than 30 years of experience in designing and manufacturing rubber soles for sports footwear. The factory of Sanliuyidu Footwear is operated and managed by First Union International Industrial Ltd., but we own 51% equity interest in this subsidiary and have power to appoint or remove a majority of the board members. Sanliuyidu Footwear commenced operation in August 2010 and as of December 31, 2015, it had an annual production capacity of 14 million soles. We believe that this joint venture is important to helping us secure a stable supply of high-quality soles for our footwear products.

Our suppliers include raw material suppliers and contract manufacturers to whom we outsource the manufacturing of our footwear, apparel and accessories. We have been granted credit periods of between 30 to 180 days by our suppliers. We may also be required to make deposits and advance payments to suppliers. For the financial years ended December 31, 2013, 2014 and 2015, our five largest suppliers accounted for approximately 19%, 22% and 26%, respectively, and our largest supplier accounted for approximately 4%, 5% and 7%, respectively, of the aggregate amounts of raw materials that we purchased from our suppliers, which include our raw material suppliers and contract manufacturers.

None of our Directors, our chief executive, or any person who, (to the knowledge of our Directors), owns more than 5% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our top five suppliers during the financial years ended December 31, 2013, 2014 and 2015.

COMPETITION

The barriers to entry in the PRC branded sportswear market are high due to the cost and time required to build brand awareness and to establish an effective distribution network. Participants in the highly competitive sportswear industry in the PRC market include international and domestic brands, which compete in, among other things, brand loyalty, product variety, product design, product quality, marketing and promotion, distribution network coverage, price and the ability to meet delivery commitments. This competition has led to leading brands continuing to gain market share at the expense of less established, lower-end brands.

Our competitors, especially international brands, may have greater financial resources, greater production capabilities, superior technology, better brand recognition and a wider, more diverse and established distribution network than us. See "Risks relating to the PRC sportswear industry — We operate in a highly competitive market and the intense competition we face may result in a decline in our market share and lower profit margins." Nevertheless, we believe the following competitive strengths enable us to compete effectively with our major competitors:

- recognition of our brand as a valuable brand in the PRC;
- an extensive sales network consisting of exclusive distributors and authorized retail outlets;
- effective marketing and promotion;
- an experienced management team; and
- determination to offer customers the highest quality products in the PRC.

We believe that competition in the PRC branded sportswear industry will remain intense in the near future. However, we also believe that our competitive advantages will continue to allow us to differentiate ourselves from our competitors.

EMPLOYEES

As of December 31, 2013, 2014 and 2015, we had a total of 8,406, 9345 and 9,566 full-time employees, respectively. The following table sets forth the total number of our employees by department as of December 31, 2015:

	As of December 31, 2015	
	Number of employees	% of total employees
Management, administration, quality control, finance and accounting	685	7.2
Production and procurement	8,150	85.2
Sales and marketing	236	2.5
Research and development and design	282	2.9
Other	213	2.2
Total	9,566	100.0

We believe that the successful implementation of our growth and business strategies is dependent upon our ability to maintain a team of experienced, motivated and well-trained management and employees at all levels. Our management and employees have extensive operating expertise, and we are committed to employee development through technical training programs and occupational safety education courses.

We believe that we maintain a good working relationship with our employees. We have not experienced significant problems with our employees or disruptions in our operations due to labor disputes, or any difficulties in the recruitment and retention of experienced staff.

As required by PRC laws and regulations, we participate in statutory retirement plans and pay social insurance, including pension insurance, medical insurance, unemployment insurance, maternity insurance and occupational injury insurance, as well as housing accumulation funds for our employees.

We enter into separate labor contracts with each of our employees. The terms and conditions of the labor contracts are in full compliance with the relevant PRC labor laws and employment decrees. The remuneration of our employees consists of basic salary and quarterly and annual bonuses. The bonus amount is based on the employee's performance.

INTELLECTUAL PROPERTY RIGHTS

We use the *361°* and *361° Kids* brands and our *Innofashion* sub-brand for the marketing and sales of our sportswear products. We recognize the importance of protecting and enforcing our intellectual property rights. Our employees who may have access to our trade secrets and other proprietary intellectual property are bound by confidentiality agreements regarding our brands and our sportswear product lines and our related intellectual property. As of December 31, 2015, we had registered 348 *361°* trademarks, 19 *361° Kids* trademarks, 65 *Innofashion* trademarks and 28 *ONE WAY* trademarks in China, as well as 84 patents for footwear and 68 patents for apparel and accessories in China. We are also in the process of applying for 130 *361°* trademarks, 15 *361° Kids* trademarks, nine *Innofashion* trademarks and 48 *ONE WAY* trademarks in China. We have registered, and are in the process of applying for registration of, certain other trademarks in certain countries outside of China, including, among others, Brazil, the United Kingdom, the United States, Singapore, Saudi Arabia and Egypt. In respect of the PRC trademark applications, we have the right to use the pending trademarks notwithstanding that the registrations of such trademarks are still in process. See "— Research and Development and Design."

ENVIRONMENTAL MATTERS

We are subject to PRC environmental laws and regulations, which include the Environmental Protection Law of the PRC (中華人民共和國環境保護法), Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法), Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), Law of the PRC on the Prevention and Control of Pollution From Environmental Noise (中華人民共和國噪聲污染防治法) and Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染防治法). These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge.

According to current PRC national and local environmental protection laws and regulations, any enterprise which discharges wastewater, waste products, or polluted air is required to seek approval for the establishment of such an enterprise in the PRC from the relevant environmental protection authorities. The relevant PRC laws and regulations also require any such enterprise to carry out an environmental impact assessment before commencing construction of its production facilities and ensure that such production facilities meet the relevant environmental standards to treat wastewater, waste products and polluted air treatment before discharging such waste. In addition, the current PRC national and local environmental protection laws and regulations impose fees for the discharge of pollutants and, in cases where the pollutants have not been properly treated, fines for such discharge. The relevant environmental laws and regulations empower certain governmental authorities to shut down any enterprise that violates such laws and regulations through the discharge of pollutants.

PRC environmental laws and regulations also stipulate that all enterprises that may cause environmental pollution and other public health hazards are also required to incorporate environmental protection measures into their plans and establish a reliable system for environmental protection. These measures and systems must work to effectively prevent and control pollution levels and harm caused to the environment by waste gas, waste water, solid waste, dust, malodourous gas, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction, or other activities of the enterprise.

We believe that we do not produce material levels of waste during our production process. During the years ended December 31, 2013, 2014 and 2015, we believe (i) we fully complied with the relevant environmental rules and regulations and obtained all the required permits and environmental approvals for our production facilities; (ii) no environmental pollution incident was discovered and (iii) no penalty of any kind was imposed on us.

INSURANCE

We maintain insurance policies for property insurance, which include coverage for loss and damage to property, such as our fixed assets and inventories in our warehouses and factories. However, in line with the general industry practice in the PRC, we do not maintain any product liability insurance for any of our products. As of December 31, 2015, we had not made nor been the subject of any material insurance claims. We also contribute to social insurance for our employees as required by the PRC social security regulations, which require contribution by both our employees and us at a fixed percentage of the salaries of our employees.

LEGAL COMPLIANCE AND PROCEEDINGS

As of the date of this Offering Memorandum, we are not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim that would have a material adverse effect on our operation results or financial condition is known to be pending or threatened by or against us.

We believe that we have complied with the relevant PRC laws and regulations in all material aspects, including laws and regulations relating to environmental protection, safety, and labor and have obtained all licenses, approvals and permits from appropriate regulatory authorities for our business operations in the PRC.

SUBSTANTIAL SHAREHOLDERS

The following table sets forth certain information regarding ownership of our outstanding ordinary shares as of April 30, 2016 by those persons (other than the directors and the chief executive of the company) who had interests or short positions in the shares or underlying shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were directly or indirectly, interested in 10% of more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of our Group were as follows:

Name of Shareholder	Note	Long (L)/short (S) position in ordinary shares held		Approximate percentage of interest in our Company (%)
Dings International	(1)	(L)	377,774,000	18.27
Ming Rong International.	(2)	(L)	360,000,000	17.41
Hui Rong International.	(3)	(L)	360,000,000	17.41
Jia Wei International	(4)	(L)	187,500,000	9.07
Jia Chen International	(5)	(L)	187,500,000	9.07
Wang Jiachen	(6)	(L)	187,500,000	9.07

Notes:

(1) The entire issued share capital of Dings International is owned by Mr. Ding Wuhao, an executive director and the president of our Company. Mr. Ding Wuhao is the brother-in-law of Mr. Ding Huihuang and Mr. Ding Huirong.

(2) The entire issued share capital of Ming Rong International is owned by Mr. Ding Huihuang, an executive director and the chairman of our Company. Mr. Ding Huihuang is the brother-in-law of Mr. Ding Wuhao and brother of Mr. Ding Huirong.

(3) The entire issued share capital of Hui Rong International is owned by Mr. Ding Huirong, an executive director of our Company. Mr. Ding Huirong is the brother-in-law of Mr. Ding Wuhao and brother of Mr. Ding Huihuang.

(4) The entire issued share capital of Jia Wei International is owned by Mr. Wang Jiabi, an executive director of our Company. Mr. Wang Jiabi is the brother of Mr. Wang Jiachen.

(5) The entire issued share capital of Jia Chen International is owned by Mr. Wang Jiachen, who is the brother of Mr. Wang Jiabi.

(6) The entire issued share capital of Jia Chen International Co., Ltd. is owned by Mr Wang Jiachen, who is the brother of Mr Wang Jiabi. Jia Chen International Co., Ltd. is interested in 187,500,000 shares of our Company.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Directors

Our Board of Directors is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of members of the Board of Directors of our Company:

Executive Directors

Mr. Ding Wuhao (丁伍號), aged 50, was appointed as an executive Director in August 2008 and is the president of the Company. He is primarily responsible for our Group's overall strategies, planning and business development. He has over 15 years of experience in the PRC sportswear industry. Since December 2006, he has been a member of the Chinese People's Political Consultative Conference ("CPPCC") Fujian Province Jinjiang City Committee (中國人民政治協商會議福建省晉江市委員會). In October 2008, he received the award of the "2008 Most Socially Responsible Entrepreneur in China" (2008年度中國最具社會責任企業家) by the Annual Selection Organizing Committee of China Human Resources Management (中國人力資源管理年度評選組委會). In May 2009, he received the "Contribution Award for China TV Sports Programs (中國體育電視貢獻獎)" by CCTV Sports Channe (中央電視台體育頻道). In 2010, he was awarded "Top Ten Chinese Entrepreneur of Integrity of the Year (創業中國年度十大誠信人物獎)" by "Example for China (《榜樣中國》)," "Outstanding Contribution Award for Asian Games (亞運突出貢獻獎)" by 16th Asian Games Organizing Committee (第十六屆亞運會組委會), and "Outstanding Contribution Award of Asian Games (亞洲體育傑出貢獻獎)" by Olympic Council of Asia (亞洲奧林匹克理事會). In 2011, he was awarded "The Most Caring Chinese Entrepreneur on Staff's Development (中國最關注員工發展企業家)" at the eighth session of China Human Resource Management Innovation Summit (第八屆中國人力資源管理創新高峰會) and "Top Ten Youth Business Leader in Asia (亞洲十大青年商業領袖)" by Forbes. Mr. Ding is the brother-in-law of Mr. Ding Huihuang and Mr. Ding Huirong. He completed a CEO in China's Enterprise/Finance program at the Cheung Kong Graduate School of Business in August 2012.

Mr. Ding Huihuang (丁輝煌), aged 50, was appointed as an executive Director in August 2008 and is the chairman of the Company. He is primarily responsible for overall strategies, operation planning and footwear production. He has over 15 years of experience in the PRC sportswear industry. He was awarded the "Top Ten Outstanding Youths in China Industrial Economy (中國工業經濟十大傑出青年)" by the Organizing Committee of China Industry Forum (中國工業論壇組委會) in January 2008 and the "Top Ten Outstanding Youth Entrepreneurs of Quanzhou City (泉州市十大傑出青年企業家)" jointly issued by 18 governmental and commercial institutions in Quanzhou City, Fujian Province, the PRC in February 2007. He has been a standing member of the third committee of Quanzhou City Shoe Commercial Association (泉州市鞋業商會) and a vice chairman of Fujian Province Shoe Industry Association (福建省鞋業行業協會) since January 2006 and January 2007 respectively. Mr. Ding is the elder brother of Mr. Ding Huirong and the brother-in-law of Mr. Ding Wuhao.

Mr. Ding Huirong (丁輝榮), aged 44, was appointed as an executive Director in August 2008 and is a vice president of the Company. He is primarily responsible for financial management and infrastructure construction management of our Company, more specifically the construction of the new production facility and warehouse of our Group at the Wuli Industrial Park. He has over 15 years of experience in financial management. Mr. Ding is the younger brother of Mr. Ding Huihuang and the brother-in-law of Mr. Ding Wuhao.

Mr. Wang Jiabi (王加碧), aged 58, was appointed as an executive Director in August 2008 and is a vice president of our Company. He is primarily responsible for the human resources and external public relationship. Mr. Wang has over 15 years of experience in the PRC sportswear industry. He has completed an EMBA programme offered by Peking University (北京大學）in January 2010.

Independent Non-executive Directors

Mr. Yan Man Sing Frankie (甄文星), aged 58, joined our Group in August 2011 and is an independent non-executive Director. Mr. Yan has over 20 years of experience in financial management, corporate governance, corporate finance, corporate and financial advisory, restructuring, mergers and acquisitions. He is currently a Managing Director of the corporate finance department of a state-owned PRC securities house's Hong Kong office. He holds a fellowship of the Association of Chartered Certified Accountants (the "ACCA"), and is a certified public accountant of the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). His public services include: (i) a membership of the Election Committee of the Hong Kong Special Administrative Region; (ii) the treasurer of the Vascular and Interventional Radiology Foundation (透視微創治療基金); and (iii) a Secretary and the Financial Services Spokesman of a think tank which conducts research on Hong Kong's public policies.

Mr. Tsui Yung Kwok (徐容國), aged 47, joined our Group in September 2012 and is an independent non-executive Director. Mr. Tsui has over 20 years of experience in accounting and finance. He was awarded a bachelor degree in business (accounting) from Curtin University of Technology, Australia and a master degree in corporate governance from The Hong Kong Polytechnic University. He is currently the chief financial officer, the company secretary and an executive director of Ju Teng International Holdings Limited (Stock code: 03336). He is also an independent non-executive director of Shenguan Holdings (Group) Limited (Stock Code: 00829) and SITC International Holdings Limited (Stock Code: 01308). Mr. Tsui is a member of Chartered Accountants Australia and New Zealand, CPA Australia, the Hong Kong Institute of Chartered Secretaries and is a certified public accountant of the HKICPA.

Mr. Liao Jianwen (廖建文), aged 48, is an independent non-executive Director of our Company. He is an associate dean, academic director of innovation center, and professor of managerial practice in strategy, innovation and entrepreneurship at Cheung Kong Graduate School of Business, People's Republic of China. His professional experience spans across North America and Asia. He was a tenured associate professor at the Stuart School of business, Illinois Institute of Technology during 2006 to 2012. Additionally, he held various visiting professor positions at Hong Kong University of Science and Technology, China European International Business School (the "CEIBS") and Peking University. Dr. Liao is primarily engaged in cross disciplinary research in strategy, innovation and entrepreneurship, and in particular the interactions between new economy and traditional economy. He has won several awards for his research and teaching, including the research grant awards from the US Small Business Administration in 2007 and 2008 and the Excellence in Teaching Award in 2009 at Stuart School of Business at Illinois Institute of Technology. Dr. Liao also serves as an independent director at Colour Life Services Group Co. (Stock code: 01778), China Mengniu Dairy Company Limited (Stock code: 02319) and Qihoo 360 (Stock code: QIHU). Dr. Liao received his Bachelor of Engineering from Northeastern University in July 1988, his Master of Economics from Renmin University of China in February 1991 and his Ph.D of Business Administration from Southern Illinois University at Carbondale in August 1996.

Senior Management

Mr. Chen Yongling (陳永靈), aged 42, is the vice president of capital market of our Group and is primarily responsible for our Group's overall capital operation management. He joined our Group in August 2005. Mr. Chen has over 15 years of experience in finance, operation and business management. Mr. Chen received his diploma in business management from Zhejiang University (浙江大學) in January 2007. Mr. Chen holds a qualification certificate for accounting (中國會計師) and national secretary qualification (second class) (秘書資格國家二級) conferred by the Ministry of Finance of the PRC, a qualification certificate for economics (經濟師) of the PRC, a qualification certificate for finance management (財務管理師) and received the Certificate of Qualification for International Certified Senior Accountant (國際註冊高級會計師) awarded by the International Profession Certification Association (國際認證協會). He received the awards of the "2011 Chinese Year of the Chief Accountant" (2011中國總會計師年度人物獎) and "2013 Chinese Economist" (2013中國經濟人物) by the "China Association of Chief Financial Officer" (中國總會計師協會) and the "Committee of China Economic Development Forum" (中國經濟發展論壇組委會), respectively. He enrolled in an EMBA program at Cheung Kong Graduate School of Business in October 2015.

Mr. Lu Ning (盧寧), aged 48, is the executive vice president of our Group in charge of the footwear business, apparel business, product centre and operation department of our Group. He has over 20 years of experience in managing international renowned sportswear brands. He joined our Group in March 2013. Mr. Lu received his bachelor's degree in Economic Investment from the Nanjing University (南京大學) in 1996 and enrolled in the Executive Master of Business Administration (EMBA) at the China Europe International Business School (中歐國際工商學院) in March 2011.

Ms. Choi Mun Duen (蔡敏端), aged 47, joined our Group in October 2008 and is the chief financial officer, an authorized representative and the company secretary of our Company. She has over 20 years of experience in auditing, finance and accounting. She received her bachelor's degree in accounting and finance from University of Glamorgan in the U.K. She is a certified public accountant of the HKICPA and a fellow member of the ACCA.

Mr. Lin Bing Huang (林炳煌), aged 58, is the general manager of International Business Department of our Group and is primarily responsible for the development and daily operation of our Group's overseas business. He has over 30 years of experiences in managing international renowned sportswear brands. He joined our Group in July 2013. Mr. Lin received his bachelor's degree in international trade from Tunghai University (東海大學) in Taiwan.

Mr. Chen Jian Ci (陳建次), aged 45, is the vice president of supply chain management center and primarily responsible for overall planning in warehouse, logistics and network, integrating data stream and managing enterprise information system deployment of our Group. He has over 15 years of experience in information system related works and has worked in world renowned enterprises. He joined our Group in December 2011. Mr. Chen received his bachelor's degree in information management from Tamkang University (淡江大學) in 1995.

Ms. Zhan Xiao Xiao (詹瀟瀟), aged 34, is the vice-president of investor relations and is primarily responsible for our Group's investor relations programme. She joined our Group in October 2015. Ms. Zhan has over 10 years of experience in corporate finance, investor relations, corporate governance and management from her previous positions in investment banking, communication advisory and Hong Kong listed company. She received her bachelor's degree from Peking University, majoring in international relations and double majoring in economics. She received her master's degree from the University of Pennsylvania in 2005, majoring in international political economy.

BOARD COMMITTEES

Audit Committee

As of December 31, 2015, the Audit Committee comprised of three independent non-executive Directors, namely Mr. Yan Man Sing Frankie, Mr. Tsui Yung Kwok and Dr. Liao Jianwen. The Committee is chaired by Mr. Yan Man Sing Frankie, an independent non-executive Director. The Audit Committee assists the Board in, among other things, discharging its responsibilities for monitoring the integrity of our financial statement, overseeing our financial reporting systems, internal control procedures and our Company relationship with the external auditors.

Remuneration Committee

As of December 31, 2015, the Remuneration Committee comprised of one executive Director and two non-executive Directors, namely Dr. Liao Jianwen, Mr. Yan Man Sing Frankie and Mr. Wang Jiabi. The Committee is chaired by Dr. Liao Jianwen, an independent non-executive Director. The duties of the Remuneration Committee are to review annually and recommend to the Board the overall remuneration policy for the directors and senior management to ensure that the level of remuneration is linked to their level of responsibilities undertaken. The Remuneration Committee shall also evaluate annually the performance of the directors and the senior management and recommend to the Board specific adjustments in their remuneration and reward payment.

Nomination Committee

As of December 31, 2015, the Nomination Committee comprised of one executive Director and two independent non-executive Directors, namely Mr. Yan Man Sing Frankie, Mr. Tsui Yung Kwok and Mr. Ding Wuhao. The Committee is currently chaired by Mr. Tsui Yung Kwok, an independent non-executive Director. The responsibilities of the Nomination Committee are to review the structure, size and composition, including the skills, knowledge and experiences of the Board and make recommendations to the Board regarding any proposed changes, and identifying and nominating suitable candidates qualified to become Board members and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors if necessary.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between our consolidated subsidiaries and our directors, executive officers and substantial shareholders and, in each case, the companies with whom they are affiliated.

As a listed company on the Hong Kong Stock Exchange, we are subject to the requirements of Chapter 14A of the Listing Rules which require certain "connected transactions" with "connected persons" be approved by a company's independent shareholders. Each of our related party transactions disclosed hereunder that constitutes a connected transaction within the meaning of the Listing Rules requiring shareholder approval has been so approved, or otherwise exempted from compliance under Chapter 14A of the Listing Rules.

The following table sets forth certain material transactions between us and our related parties for the years indicated:

	Year ended December 31,		
	2013	2014	2015
	RMB'000	RMB'000	RMB'000
Key management compensation			
Short-term employee benefits	29,718	28,816	28,147
Post-employment benefits	1,159	673	766
	30,877	29,489	28,913

Short-term employee benefits primarily comprise of salaries, annual bonus and paid annual leave to our key management personnel. Equity-settled share-based payment mainly represents the fair value of share options granted to certain of our key management personnel, which is recognized as an expense during the vesting period. In addition, post-employment benefits are generally employer contributions to the retirement schemes and plans for our key management personnel in both the PRC and Hong Kong.

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS AND OTHER OBLIGATIONS

2014 NOTES

On September 12, 2014, we entered into an indenture (the "2014 Notes Indenture") pursuant to which we issued 7.5% senior notes due 2017 in an aggregate principal amount of RMB$1,500.0 million. As of the date of this Offering Memorandum, we had a total of RMB$1,489.4 million principal amount of the 2014 Notes outstanding.

Interest

The 2014 Notes bear an interest rate of 7.5% per annum, payable semi-annually in arrears on March 12 and September 12 in each year, commencing on September 12, 2014.

Subsidiary Guarantee

Our obligations under the 2014 Notes Indenture are guaranteed by our existing subsidiaries other than those organized under the laws of the PRC and certain other subsidiaries in the 2014 Notes Indenture (the "2014 Subsidiary Guarantors").

Each of the 2014 Subsidiary Guarantors, jointly and severally, guarantee the due and punctual payment of the principal, any premium, and interest on, and all other amounts payable under the 2014 Notes.

Covenants

Subject to certain conditions and exceptions, the 2014 Notes Indenture contains certain covenants, restricting us and each of the related restricted subsidiaries from, among other things:

- incurring or guaranteeing additional indebtedness and issuing disqualified or preferred stock;
- declaring dividends on its capital stock or purchasing or redeeming capital stock;
- making investments or other specified restricted payments;
- issuing or selling capital stock of the related restricted subsidiaries;
- guaranteeing indebtedness of the related restricted subsidiaries;
- selling assets;
- creating liens;
- entering into sale and leaseback transactions;
- entering into agreements that restrict the related restricted subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- entering into transactions with shareholders or affiliates; and
- effecting a consolidation or merger

Events of Default

The 2014 Notes Indenture contains certain customary events of default, including, among others, default in the payment of principal, premium or interest on any of the 2014 Notes when due and payable, breaches of one or more of our obligations in the 2014 Notes or under the 2014 Notes

Indenture which continues for 30 days, final judgment or order for the payment of money in excess of US$10 million in the aggregate, insolvency, winding-up or dissolution and other events of default specified in the 2014 Notes Indenture.

If an event of default occurs and is continuing, the trustee under the 2014 Notes Indenture or the holders of at least 25% of the outstanding 2014 Notes may declare the principal of the 2014 Notes plus any accrued and unpaid interest to be immediately due and payable.

Maturity and Redemption

The maturity date of the 2014 is September 12, 2017. Unless previously redeemed, converted or purchased and cancelled in the circumstances set forth in the 2014 Notes Indenture, the 2014 Notes will be redeemed on September 12, 2017 at 100% of their principal amount together with accrued by unpaid interest thereon.

The 2014 Notes are redeemable, at the option of our Company:

- at any time, in whole but not in part, at a redemption price equal to 100% of the principal amount of the 2014 Notes, plus a premium and together with interest accrued and unpaid to the date of redemption; and

- at any time, up to 35% of the aggregate principal amount of the 2014 Notes using the net proceeds received from the sales of certain kinds of our Company's capital stock in one or more equity offerings at a redemption price of 107.5% of the principal amount of the 2014 Notes, together with interest accrued and unpaid to the date fixed for redemption, provided that at least 65% of the aggregate principal amount of the 2014 Notes remains outstanding after each such redemption, and any such redemption takes place within 60 days after the closing of the related equity offering.

Additionally, if we or a 2014 Subsidiary Guarantor under the 2014 Notes Indenture would become obligated to pay certain additional amounts as a result of certain changes in specified tax law, we may redeem the 2014 Notes at a redemption price equal to 100% of the principal amount of the 2014 Notes, plus any accrued and unpaid interest, subject to certain exceptions.

Change of Control

Upon the occurrence of certain events of change of control, we will make an offer to repurchase all outstanding 2014 Notes at a purchase price equal to 101% of their principal amount plus any accrued and unpaid interest, if any, to the repurchase date.

PRC LOAN AGREEMENTS

To finance our working capital requirements, certain of our PRC subsidiaries have entered into credit facilities with local branches of various PRC banks and financial institutions. Set forth below is a summary of the material terms and conditions of these indebtedness for the period ended December 31, 2015:

China Construction Bank, Jinjiang Branch

On December 4, 2015, our PRC subsidiaries, Sanliuyidu (Fujian) Sporting Goods Co., Ltd. ("Sanliuyidu Fujian"), Sanliuyidu China and Sanliuyidu Footwear, as borrowers, obtained three separate bank credit facilities with China Construction Bank, Jinjiang Branch, with a maximum credit limit of RMB250.0 million, RMB600.0 million and RMB30.0 million, respectively (collectively, the "CCB Credit Facilities"). The CCB Credit Facilities will expire on December 4, 2016. The obligations of Sanliuyidu Fujian, Sanliuyidu China and Sanliuyidu Footwear under their respective facilities are guaranteed by 361 Degrees Kids Wear Limited, Sanliuyidu Fujian and Sanliuyidu China, respectively.

On December 4, 2015, Sanliuyidu Footwear, our 51%-owned subsidiary, applied for a letter of credit under the CCB Credit Facilities with a maximum credit limit of RMB12.0 million (the "CCB LOC"). The amount under the CCB LOC is guaranteed by Sanliuyidu China, our wholly-owned subsidiary. As of March 31, 2016, we have made drawdowns in the aggregate of approximately RMB336.3 million under the CCB Credit Facilities.

Under the CCB LOC, Sanliuyidu Footwear is obligated to provide information regarding its production planning, financial statements and operating conditions in accordance with the requirements of the lender and ensure that the information provided is accurate and complete. In the event the borrower is a group company, it must timely report any connected transactions involving at least 10% of its net assets to the lender. In addition, the bank has the right to adjust the credit limit or cancel any unused credit, if the bank is of the view that Sanliuyidu Footwear's ordinary production and operations are material affected. The CCB LOC also contains certain customary events of default, including failure to pay the amount payable on the due date, material breach of the terms of the facility letters, takeover, joint-stock reform, merger and acquisition, change of controlling shareholders, major asset sale, insolvency, serious difficulties in business operation, deterioration in financial condition or other circumstances under which the debt repayment ability of Sanliuyidu Footwear is materially affected.

China Citic Bank International

Our PRC subsidiaries, 361 Enterprise Company Limited ("361 Enterprise") and Yue Lei International Limited ("Yue Lei"), as borrowers, entered into separate facility letters with China Citic Bank International, as lender (the "CITIC Facility") on April 8, 2014 and subsequently supplemented on April 11, 2016, with a maximum facility limit of HK$36 million for Yue Lei, consisting of a trade finance credit of HK$30 million and a revolving loan of HK$6 million, and an installment loan of approximately HK$20 million for 361 Enterprise. As of the date of this Offering Memorandum, we have not made any drawdowns under these facilities.

Interest

Any Hong Kong dollar drawdowns under the trade finance credit for Yue Lei bear an interest at a rate of 2.25% per annum over HIBOR and any foreign-currency drawdowns under such trade finance credit bear an interest at a rate of 2.25% per annum over LIBOR. The revolving loan for Yue Lei bears an interest at a rate of 2.25% per annum over HIBOR. In addition, the installment loan for 361 Enterprise bears an interest at a rate of 2.78% below prime rate per annum.

Guarantee and Security

We agreed to provide corporate guarantee to 361 Enterprise with respect to approximately HK$26.9 million of loans plus interest and other charges and to Yue Lei with respect to HK$30 million of loans plus interest and other charges. In addition, the installment loan of approximately HK$20.0 million was secured by an office building located in Hong Kong.

Covenants

The borrowers for the CITIC Facility have agreed, among other things, to ensure that we maintain our listing status on the Hong Kong Stock Exchange and that our shares traded on the Hong Kong Stock Exchange are not suspended for trading for more than 21 consecutive trading days.

Other Terms

The CITIC Facility is repayable on demand by the lender at any time. In addition, the lender may, at any time without our consent or consent from any other third party, modify, terminate, suspend or cancel the CITIC Facility.

Industrial Bank, Jinjiang Qingyang Branch

On March 31, 2016, four of our PRC subsidiaries, Sanliuyidu China, Sanliuyidu Fujian, Sanliuyidu (Xiamen) Industrial and Trading Co., Ltd. ("Sanliuyidu Xiamen") and 361 Degrees Children's Clothing Co., Ltd. ("361 Degrees Children" and together with Sanliuyidu China, Sanliuyidu Fujian and Sanliuyidu Xiamen, the "Industrial Bank Borrowers"), as borrowers, entered into facility letters with Industrial Bank, Jinjiang Qingyang Branch, as lender, with maximum credit limits of RMB1,100.0 million, RMB1,200.0 million, RMB200.0 million and RMB200.0 million, respectively (collectively, the "Industrial Bank Facilities"). The Industrial Bank Facilities will expire on March 17, 2017. As of March 31, 2016, we have made drawdowns in the aggregate of approximately RMB14.4 million under these facilities. The obligations of Sanliuyidu Fujian, Sanliuyidu Xiamen and 361 Degrees Children under their respective facilities are guaranteed by Sanliuyidu China, whereas the obligations of Sanliuyidu China under its facility are guaranteed by Sanliuyidu Fujian. Under the Industrial Bank Facilities, the lender is entitled to receive the financial statements and other operating data from each of the Industrial Bank Borrowers. Furthermore, the Industrial Bank Borrowers are required to provide adequate and sufficient amount of collateral under each of the Industrial Bank Facilities. In the event certain events occur with respect to an Industrial Bank Borrower, including, among other things, the occurrence of a major transaction or a connected transaction involving 10% or more of its net assets, it would be obligated to notify the lender in writing.

DESCRIPTION OF THE NOTES

For purposes of this "Description of the Notes," the term "Company" refers to 361 Degrees International Limited, and any successor obligor on the Notes, and not to any of its Subsidiaries. Each Subsidiary of our Company which Guarantees the Notes is referred to as a "Subsidiary Guarantor," and each such Guarantee is referred to as a "Subsidiary Guarantee."

The Notes are to be issued under an Indenture, to be dated as of the Original Issue Date, among our Company, the Subsidiary Guarantors, as guarantors, and DB Trustees (Hong Kong) Limited, as trustee (the "Trustee").

The following is a summary of the material provisions of the Indenture, the Notes and the Subsidiary Guarantees. It does not restate those agreements in their entirety and is subject to, and qualified in its entirety by reference to the provisions of the Indenture and the Notes, including the definitions of certain terms therein. Copies of the Indenture will be available on or after the Original Issue Date at the office of the Paying Agent, currently at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

Brief Description of the Notes

The Notes are:

- general obligations of our Company;
- senior in right of payment to any existing and future obligations of our Company expressly subordinated in right of payment to the Notes;
- at least *pari passu* in right of payment with the 2014 Notes and all other unsecured, unsubordinated Indebtedness of our Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described below under the caption "— The Subsidiary Guarantees" and in "Risk Factors — Risks Relating to the Subsidiary Guarantees";
- effectively subordinated to all existing and future of our Company and the Subsidiary Guarantors, to the extent of the value of the assets serving as security therefor; and
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

The Notes will mature on June 3, 2021, unless earlier redeemed pursuant to the terms thereof and the Indenture.

The Indenture allows additional Notes to be issued from time to time (the "Additional Notes"), subject to certain limitations described under "— Further Issues." Unless the context requires otherwise, references to the "Notes" for all purposes of the Indenture and this "Description of the Notes" include any Additional Notes that are actually issued. The Notes will bear interest at 7.25% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semi-annually in arrears on June 3 and December 3 of each year (each an "Interest Payment Date"), commencing December 3, 2016.

Interest will be paid to Holders of record at the close of business on May 23 or November 22 immediately preceding an Interest Payment Date (each, a "Record Date"), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. In any case in which the date of the payment of principal of, premium on or interest on the Notes is not a Business Day in the relevant place of payment, then payment of principal, premium or interest need not be made in such place on such date but may be made on the next succeeding Business Day in such place. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

The Notes will be issued only in fully registered form, without coupons, in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of Notes, but our Company may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made in U.S. dollars by our Company at the office or agency of our Company maintained for that purpose in Hong Kong (which initially will be the corporate trust administration office of the Paying Agent, currently located at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong), and the Notes may be presented for registration of transfer or exchange at such office or agency. Interest payable on the Notes held through Euroclear and Clearstream will be available to Euroclear and Clearstream participants (as defined herein) on the Business Day following payment thereof.

The Subsidiary Guarantees

As of the date of the Indenture, all of our Company's Subsidiaries will be "Restricted Subsidiaries". Under the circumstances described below under the caption, "— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries", our Company will be permitted to designate certain of its Subsidiaries as "Unrestricted Subsidiaries". Our Company's Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture. Our Company's Unrestricted Subsidiaries will not Guarantee the Notes.

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of all of our Company's Restricted Subsidiaries other than the Non-Guarantor Subsidiaries (as defined below). Certain of the Subsidiary Guarantors are holding companies that do not have significant operations. The initial Subsidiary Guarantors will be Sanliuyidu Holdings Company Limited, 361 Enterprise Company Limited, 361 Investment Company Limited, 361 Degrees (HK) Investment Limited, Yue Lei International Limited, 361 Degrees Kids Wear Holdings Limited, 361 Degrees Kids Wear Limited and 361 Degrees Kids Wear Investment Limited.

All of our Company's Subsidiaries organized under the laws of the PRC (together, the "PRC Non-Guarantor Subsidiaries"), One Way International Enterprise Limited, Yue Lei International Limited Taiwan Branch, Yue Lei do Brasil Comércio, Importação e Exportação de Artigos Esportivos Ltda, and 361 USA, Inc. will not be Subsidiary Guarantors on the Original Issue Date (such Subsidiaries are referred to herein as the "Non-Guarantor Subsidiaries").

None of the existing Non-Guarantor Subsidiaries will provide a Subsidiary Guarantee on the Original Issue Date. In addition, none of the existing Non-Guarantor Subsidiaries or any future Restricted Subsidiaries that may be organized under the laws of the PRC is expected to provide a Subsidiary Guarantee at any time in the future. Although the Indenture contains limitations on the amount of additional Indebtedness that Non-Guarantor Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any of these Non-Guarantor Subsidiaries, the Non-Guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to our Company.

Our Company will cause each of its future Restricted Subsidiaries (other than Subsidiaries organized under the laws of the PRC), as soon as practicable and in any event within 10 business days of becoming a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which such Restricted Subsidiary will Guarantee the payment of the Notes; *provided* that such Guarantee is permitted by the laws and regulations applicable to such Restricted Subsidiary. Each Restricted Subsidiary that Guarantees the Notes after the Original Issue Date, upon execution of the applicable supplemental indenture to the Indenture, will be a "Subsidiary Guarantor."

As of December 31, 2015,

- our Company and its consolidated subsidiaries had total consolidated indebtedness of approximately RMB1,504.5 million (US$231.6) million), of which RMB15.1 million (US$2.3 million) was secured; and

- the Non-Guarantor Subsidiaries had total liabilities of RMB3,393.0 million (US$522.2 million).

In addition, as of December 31, 2015, the Non-Guarantor Subsidiaries had capital commitments and contingent liabilities of approximately RMB5.2 million (US$0.8 million) to Persons other than our Company and the other Restricted Subsidiaries.

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;

- is effectively subordinated to secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;

- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee; and

- ranks at least *pari passu* with respect to their guarantee obligations relating to the 2014 Notes and all other unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law).

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors will jointly and severally Guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. The Subsidiary Guarantors will (1) agree that their obligations under the Subsidiary Guarantees will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee or the Holders to pursue or exhaust its legal or equitable remedies against our Company prior to exercising its rights under the Subsidiary Guarantees. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be restored, the rights of the Holders under the Subsidiary Guarantees will be reinstated with respect to such payments as though such payment had not been made. All payments under the Subsidiary Guarantees will be made in U.S. dollars.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each Subsidiary Guarantee will be limited in an amount not to exceed the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally. No assurance can be given that the preceding provision limiting the maximum amount of each Subsidiary Guarantee will be given effect. If a Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor, and, depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee could be reduced to zero.

The obligations of each Subsidiary Guarantor under its respective Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See "Risk Factors — Risks Relating to the Subsidiary Guarantees — The Subsidiary Guarantees may be challenged under applicable financial assistance, insolvency, corporate benefit or fraudulent transfer or unfair preference laws, which could impair the enforceability of the Subsidiary Guarantees."

Release of the Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;

- upon a defeasance as described under "— Defeasance — Defeasance and Discharge;"

- upon the designation by our Company of such Subsidiary Guarantor as an Unrestricted Subsidiary in compliance with the terms of the Indenture; or

- upon the sale, merger or disposition of such Subsidiary Guarantor in compliance with the terms of the Indenture (including the covenants under the captions "— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries," "— Certain Covenants — Limitation on Asset Sales" and "Consolidation, Merger and Sale of Assets") resulting in such Subsidiary Guarantor no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor is simultaneously released from its obligations in respect of any of our Company's other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale or disposition are used for the purposes permitted or required by the Indenture.

No release of a Subsidiary Guarantor from its Subsidiary Guarantee shall be effective against the Trustee or the Holders until our Company has delivered to the Trustee an Officers' Certificate stating that all requirements relating to such release have been complied with and that such release is authorized and permitted by the Indenture.

Further Issues

Subject to the covenants described below and in accordance with the terms of the Indenture, our Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees) in all respects (or in all respects except for the issue date, issue price and the first payment of interest on them and, to the extent necessary, certain temporary securities law transfer restrictions) (a "Further Issue") so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes shall then be permitted under the "Limitation on Indebtedness and Disqualified or Preferred Stock" covenant described below and the other provisions of the Indenture; and *provided*, *further*, that Additional Notes that form a single class within the outstanding Notes must be fungible with the previously outstanding Notes for U.S. federal income tax purposes.

Optional Redemption

At any time and from time to time on or after June 3, 2019, our Company may at its option redeem the Notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest, if any, to (but not including) the redemption date if redeemed during the twelve-month period beginning on June 3 of each of the years indicated below.

Period	Redemption Price
2019	103.625%
2020	101.8125%

At any time prior to June 3, 2019, our Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date.

At any time and from time to time prior to June 3, 2019, our Company may at its option redeem up to 35% of the aggregate principal amount of the Notes originally issued with the Net Cash Proceeds of one or more sales of Common Stock of the Company in one or more Equity Offerings at a redemption price of 107.25% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

Our Company will give not less than 30 days' nor more than 60 days' notice of any redemption, and our Company shall deliver a copy of such notice of redemption to the Trustee and the Paying Agent at least 15 days prior to the date such notice is to be given (unless a shorter period shall be acceptable to the Trustee). In the case of any partial redemptions, the Trustee will select Notes for redemption as follows:

(1) if the Notes are listed on any recognized securities exchange, in compliance with the requirements of the principal recognized securities exchange on which the Notes are listed; or

(2) if the Notes are not listed on any recognized securities exchange, on a pro rata basis, by lot or by such other method as the Trustee in its sole discretion shall deem to be fair and appropriate.

No Note of US$200,000 in principal amount or less shall be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note; *provided*, *however*, that no such partial redemption shall be allowed if it would result in the issuance of a new Note, representing the unredeemed portion, in an amount of less than US$200,000. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption.

Our Company may at any time, and from time to time, purchase Notes in the open market or otherwise, at different market prices, subject to compliance with applicable securities laws.

Repurchase of Notes Upon a Change of Control Triggering Event

Not later than 30 days following a Change of Control Triggering Event, our Company will make an Offer to Purchase all outstanding Notes (a "Change of Control Offer") at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date.

Our Company has agreed in the Indenture that upon a Change of Control Triggering Event it will timely repay all Indebtedness or obtain consents as necessary under or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer required to be made pursuant to the Indenture. Notwithstanding this agreement of our Company, if the Company is unable to repay (or cause to be repaid) any Indebtedness that would prohibit the repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, it would continue to be prohibited from purchasing the Notes. In that case, our Company's failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Certain of the events constituting a Change of Control Triggering Event under the Notes may also constitute an event of default under certain other debt instruments of our Company or its Subsidiaries. Future debt of our Company may also (i) prohibit our Company from purchasing Notes in the event of a Change of Control Triggering Event, (ii) provide that a Change of Control Triggering Event is a default or (iii) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require our Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the repurchase on our Company. Our Company's ability to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by our Company's then-existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required repurchases of Notes. See "Risk Factors — Risks Relating to the Notes — We may not be able to repurchase the Notes upon a Change of Control Triggering Event."

The definition of Change of Control includes a phrase relating to the sale of "all or substantially all" the assets of our Company. There is a limited body of case law interpreting the phrase "substantially all" and there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder of Notes to require our Company to repurchase such Holder's Notes as a result of a sale of less than all of the assets of our Company to another person or group may be uncertain and will depend upon the particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of "all or substantially all" the assets of our Company has occurred.

Notwithstanding the above, our Company will not be required to make a Change of Control Offer following a Change of Control Triggering Event if a third party makes the Change of Control Offer in the same manner, at the same times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by our Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control Triggering Event or any event which could lead to the occurrence of a Change of Control Triggering Event has occurred and shall not be liable to any person for any failure to do so and shall be entitled to assume that no such event has occurred until it has received written notice to the contrary from our Company. The Trustee shall not be required to take any steps to ascertain whether the condition for the exercise of the rights herein has occurred. The Trustee shall not be responsible for determining or verifying whether a Note is to be accepted for redemption and will not be responsible to the Holders for any loss arising from any failure by it to do so. The Trustee shall not be under any duty to determine, calculate or verify the redemption amount payable hereunder and will not be responsible to the Holders for any loss arising from any failure by it to do so.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that our Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes.

Additional Amounts

All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which our Company, a Surviving Person (as defined in "— Consolidation, Merger and Sale of Assets") or an applicable Subsidiary Guarantor is organized or resident for tax purposes (or any political subdivision or taxing authority thereof or therein) (each, as applicable, a "Relevant Taxing Jurisdiction") or any jurisdiction through which payments are made (or any political subdivision or taxing authority thereof or therein) (together with each Relevant Taxing Jurisdiction, as applicable, a "Relevant Jurisdiction"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, our Company, a Surviving Person or applicable Subsidiary Guarantor, as the case may be, will pay such additional amounts ("Additional Amounts") as will result in receipt by the Holder of each Note of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

(a) for or on account of:

(i) any tax, duty, assessment or other governmental charge that would not have been imposed but for:

(A) the existence of any present or former connection between the Holder or beneficial owner of such Note and the Relevant Jurisdiction (other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee), including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;

(B) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period;

(C) the failure of the Holder or beneficial owner to comply with a timely request of our Company, a Surviving Person or Subsidiary Guarantor addressed to the Holder or beneficial owner, as the case may be, to provide any information, certification, identification or other reporting information concerning such Holder's or beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request would have reduced or eliminated any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder;

(D) the presentation of such Note (in cases in which presentation is required) for payment in a Relevant Jurisdiction, unless such Note could not have been presented for payment elsewhere;

(ii) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;

(iii) any withholding or deduction that is imposed or levied on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26–27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directives;

(iv) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (i), (ii) and (iii); or

(b) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that the payment of any such Additional Amounts would not have been required hereunder had the beneficial owner of such payment been the Holder thereof.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest, on any Note or under any Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Taxation Reasons

The Notes may be redeemed, at the option of our Company or a Surviving Person with respect to our Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders, the Paying Agent and the Trustee (which notice shall be irrevocable), at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to the date fixed by our Company or the Surviving Person, as the case may be, for redemption (the "Tax Redemption Date") if, as a result of:

(1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) or treaties of a Relevant Taxing Jurisdiction affecting taxation; or

(2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings or treaties (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment becomes effective (i) with respect to our Company or any initial Subsidiary Guarantor, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor or Surviving Person, on or after the date such Future Subsidiary Guarantor or Surviving Person becomes a Future Subsidiary Guarantor or Surviving Person, with respect to any payment due or to become due under the Notes or the Indenture, our Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by our Company, a Surviving Person or a Subsidiary Guarantor, as the case may be; *provided*, *however*, that such reasonable measures shall not include the reincorporation or reorganization of our Company or any Subsidiary Guarantor; *provided, further*, that in the case of any Additional Amounts payable in respect of taxes imposed by the PRC, such Additional Amounts must be in excess of the Additional Amounts that our Company or the Surviving Person, as the case may be, would be required to pay if payments in respect of the Notes were subject to deduction or withholding for PRC taxes at a rate of 10%; *provided*, *further*, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which our Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, our Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, will deliver to the Trustee:

(1) an Officers' Certificate stating that such change or amendment referred to in the prior paragraph has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by our Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, taking reasonable measures available to it; *provided*, *however*, that such reasonable measures shall not include the reincorporation or reorganization of our Company or any Subsidiary Guarantor; and

(2) an Opinion of Counsel or an opinion of a tax consultant, in either case, of recognized standing with respect to tax matters of the Relevant Taxing Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change or amendment referred to in the prior paragraph.

Any Notes that are redeemed will be cancelled.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness and Disqualified or Preferred Stock

(a) Our Company will not, and will not permit any of its Restricted Subsidiaries to, Incur any Indebtedness (including Acquired Indebtedness), *provided* that (x) our Company and any Subsidiary Guarantor may Incur Indebtedness (including Acquired Indebtedness) and (y) any Restricted Subsidiary that is not a Subsidiary Guarantor may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom, (i) no Default has occurred and is continuing and (ii) the Fixed Charge Coverage Ratio would be not less than 2.5 to 1.0 with respect to any Incurrence of Indebtedness. Notwithstanding the foregoing, our Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock or Preferred Stock (other than Disqualified Stock or Preferred Stock held by our Company or a Subsidiary Guarantor, so long as it is so held).

(b) Notwithstanding the foregoing, our Company and any Restricted Subsidiary may Incur, to the extent provided below, each and all of the following ("Permitted Indebtedness"):

(1) Indebtedness under the Notes (excluding any Additional Notes) and each Subsidiary Guarantee;

(2) any Pari Passu Subsidiary Guarantees by any Subsidiary Guarantor;

(3) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date, excluding Indebtedness permitted under clause (4), *provided* that such Indebtedness of Restricted Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness;

(4) Indebtedness of our Company or any Restricted Subsidiary owed to our Company or a Restricted Subsidiary; *provided* that (x) any event which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to our Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (4) and (y) if our Company is the obligor on such Indebtedness, such Indebtedness must expressly be subordinated in right of payment to the Notes, and if a Subsidiary Guarantor is the obligor on such Indebtedness and our Company is not the obligee, such Indebtedness must expressly be subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor, and (z) if the Indebtedness is owed to our Company or any Subsidiary Guarantor by a Restricted Subsidiary that is not a Subsidiary Guarantor, such Indebtedness must expressly be unsubordinated under applicable law;

(5) Indebtedness ("Permitted Refinancing Indebtedness") issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, redeem, defease, discharge or extend (collectively, "refinance" and "refinances" and "refinanced" shall have a correlative meaning), then outstanding Indebtedness Incurred under the immediately preceding paragraph (a) or clauses (1), (2), (3) and (7) of paragraph (b) and any refinancings thereof in an amount not to exceed the amount so refinanced or refunded (plus premiums, accrued interest, fees and expenses); *provided* that (a) Indebtedness the proceeds of which are used to refinance or refund the Notes or Indebtedness that is *pari passu* with, or

subordinated in right of payment to, the Notes or a Subsidiary Guarantee shall only be permitted under this clause (5) if (x) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or a Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee, or (y) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or a Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee, (b) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced or refunded, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced or refunded and (c) in no event may Indebtedness of our Company or any Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor;

(6) Indebtedness Incurred by our Company or any Restricted Subsidiaries pursuant to Hedging Obligations entered into in the ordinary course of business and designed solely to protect our Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities and not for speculation;

(7) Indebtedness of our Company or any Restricted Subsidiary incurred in the ordinary course of business (a) representing Capitalized Lease Obligations or (b) constituting purchase money Indebtedness incurred to finance all or any part of the purchase price or the cost of construction or improvement of equipment, property or assets of our Company, to be used in the ordinary course of business by our Company or a Restricted Subsidiary in the Permitted Business; *provided*, *however*, that (i) such purchase money Indebtedness shall not exceed such purchase price or cost of such property or assets so acquired or constructed, (ii) such Indebtedness shall be Incurred no later than 360 days after the acquisition of such property or assets or completion of such construction and (iii) on the date of the Incurrence of any Indebtedness permitted by this clause (7) and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness permitted by this clause (7) (together with refinancings thereof) does not exceed an amount equal to 10% of Total Assets;

(8) Indebtedness Incurred by our Company or any Restricted Subsidiary constituting reimbursement obligations with respect to workers' compensation claims or self-insurance obligations or bid, performance or surety bonds (in each case other than for an obligation for borrowed money);

(9) Indebtedness Incurred by our Company or any Restricted Subsidiary constituting reimbursement obligations with respect to letters of credit or trade guarantees issued in the ordinary course of business to the extent that such letters of credit or trade guarantees are not drawn upon or, if drawn upon, to the extent such drawing is reimbursed no later than 30 days following receipt by our Company or such Restricted Subsidiary of a demand for reimbursement;

(10) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided*, *however*, that such Indebtedness is extinguished within ten Business Days of Incurrence;

(11) (i) Guarantees by our Company or any Subsidiary Guarantor of Indebtedness of our Company or any Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant or (ii) Guarantees by any Restricted Subsidiary of Indebtedness of another Restricted Subsidiary that was permitted to be Incurred under clause (6) or (7) above or clause (12) below;

(12) Indebtedness of our Company or any Restricted Subsidiary with a maturity of one year or less used by our Company or any Restricted Subsidiary for working capital; *provided* that the aggregate principal amount of Indebtedness permitted by this clause (12) at any time outstanding does not exceed the greater of (i) US$30 million (or the Dollar Equivalent thereof) and (ii) an amount equal to 2.5% of Total Assets;

(13) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from Guarantees or letters of credit, surety bonds or performance bonds securing any obligation of our Company or any Restricted Subsidiary pursuant to such agreements, in any case Incurred in connection with the disposition of any business, assets or Restricted Subsidiary of our Company, other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Restricted Subsidiary for the purpose of financing such acquisition; *provided* that the maximum aggregate liability in respect of all such Indebtedness in the nature of such Guarantee shall at no time exceed the gross proceeds actually received from the sale of such business, assets or Restricted Subsidiary; and

(14) Indebtedness of our Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with refinancings thereof) not to exceed US$20 million (or the Dollar Equivalent thereof);

(c) For purposes of determining compliance with this "Limitation on Indebtedness and Disqualified or Preferred Stock" covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including under the proviso in the first paragraph of part (a), our Company, in its sole discretion, shall be permitted to divide and classify, and from time to time may redivide and/or reclassify, such item of Indebtedness and only be required to include the amount of such Indebtedness as one of such types.

(d) For purposes of determining compliance with any U.S. dollar denominated restriction on the Incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness; *provided* that if such Indebtedness is Incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies. The principal amount of any Indebtedness Incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

(e) Our Company will not Incur, and will not permit any Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of our Company or such Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes or the applicable Subsidiary Guarantee, as the case may be, on substantially identical terms. This does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

Limitation on Restricted Payments

Our Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as "Restricted Payments"):

(1) declare or pay any dividend or make any distribution on or with respect to our Company's or any of its Restricted Subsidiaries' Capital Stock (other than dividends or distributions payable or paid in shares of our Company's or any of its Restricted Subsidiaries' Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than our Company or any Wholly-Owned Restricted Subsidiary;

(2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of our Company or any Restricted Subsidiary (including options, warrants or other rights to acquire such shares of Capital Stock) held by any Persons other than our Company or any Wholly-Owned Restricted Subsidiary;

(3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Indebtedness that is expressly subordinated in right of payment to the Notes or any of the Subsidiary Guarantees (excluding any intercompany Indebtedness between or among our Company and any of its Wholly-Owned Restricted Subsidiaries); or

(4) make any Investment, other than a Permitted Investment;

if, at the time of, and after giving effect to, the proposed Restricted Payment:

(A) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;

(B) our Company could not Incur at least US$1.00 of Indebtedness under the proviso in the first paragraph of part (a) of the covenant under the caption "— Limitation on Indebtedness and Disqualified or Preferred Stock"; or

(C) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by our Company and its Restricted Subsidiaries after the Original Issue Date, shall exceed the sum (without duplication) of:

(1) 50% of the aggregate amount of the Consolidated Net Income of our Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on January 1, 2014 and ending on the last day of our Company's most recently ended semi-annual period for which consolidated financial statements of our Company (which our Company shall use commercially reasonable efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) at the time of such Restricted Payment; plus

(2) 100% of the aggregate Net Cash Proceeds received by our Company after the Original Issue Date as a capital contribution to its common equity or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of our Company, including any such Net Cash Proceeds received upon (x) the conversion by a Person who is not a Subsidiary of our Company of any Indebtedness (other than Subordinated Indebtedness) of our Company into Capital Stock (other than Disqualified Stock) of our Company, or (y) the exercise by a Person who is not a Subsidiary of our Company of any options, warrants or other rights to acquire Capital Stock of our Company (other than Disqualified Stock) in each case after deducting the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of our Company; plus

(3) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after September 12, 2014 and treated as a Restricted Payment under the Indenture or the 2014 Notes Indenture in any Person resulting from (a) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case to our Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income), (b) the unconditional release of a Guarantee (to the extent such Guarantee, when given, would have constituted a Restricted Payment under the Indenture or the 2014 Notes Indenture) *provided* by our Company or a Restricted Subsidiary of an obligation of another Person, (c) to the extent that an Investment made after September 12, 2014 (that would have been treated as a Restricted Payment under the Indenture or the 2014 Notes Indenture) is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, or (d) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by our Company or a Restricted Subsidiary after September 12, 2014 (that would have been treated as a Restricted Payment under the Indenture or the 2014 Notes Indenture) in any such Person or Unrestricted Subsidiary; plus

(4) US$10 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

(1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;

(2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of our Company or any of the Subsidiary Guarantors with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;

(3) the redemption, repurchase or other acquisition of Capital Stock of our Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of a substantially concurrent capital contribution or sale (other than to a Subsidiary of our Company) of, shares of Capital Stock (other than Disqualified Stock) of our Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (C)(2) of the preceding paragraph;

(4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of our Company or any of the Subsidiary Guarantors in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of our Company) of, shares of Capital Stock (other than Disqualified Stock) of our Company or any of the Subsidiary Guarantors (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (C)(2) of the preceding paragraph;

(5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary or the redemption, repurchase, defeasance or other acquisition or retirement by a Restricted Subsidiary of any of its Capital Stock, in each case, payable on a pro rata basis to all holders of any class of Capital Stock of such Restricted Subsidiary, a majority of which is held directly, or indirectly through Restricted Subsidiaries, by our Company;

(6) the repurchase of Equity Interests deemed to occur upon the exercise of stock options to the extent such Equity Interests represent a portion of the exercise price of those stock options; or

(7) the declaration and payment of dividends by our Company with respect to any financial year up to an aggregate amount not to exceed 15% of our Company's consolidated profit for the year in such financial year; *provided* that the conditions of clauses (A) and (B) of the first paragraph of this "Limitation on Restricted Payments" would not be violated as a consequence of such declaration and payment of dividends;

provided that, in the case of clause (2), (3) or (4) of the preceding paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein.

Each Restricted Payment permitted pursuant to clause (1) of the preceding paragraph shall be included in calculating whether the conditions of clause (C) of the first paragraph of this "Limitation on Restricted Payments" covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by our Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors' determination of the Fair Market Value of such assets or securities must be based upon an opinion or appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US$15 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment in an amount in excess of US$15 million (or the Dollar Equivalent thereof), our Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this covenant under the caption "— Limitation on Restricted Payments" were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

(a) Except as provided below, our Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on any Capital Stock of such Restricted Subsidiary owned by our Company or any other Restricted Subsidiary;

(2) pay any Indebtedness or other obligation owed to our Company or any other Restricted Subsidiary;

(3) make loans or advances to our Company or any other Restricted Subsidiary; or

(4) sell, lease or transfer any of its property or assets to our Company or any other Restricted Subsidiary.

(b) The provisions of paragraph (a) do not apply to any encumbrances or restrictions:

(1) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees or the Indenture and any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are (in the good faith judgment of our Company) no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(2) existing under or by reason of applicable law, rule, regulation or order;

(3) existing with respect to any Person or the property or assets of such Person acquired by our Company or any Restricted Subsidiary, existing at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

(4) that otherwise would be prohibited by the provision described in clause (a)(4) of this covenant if they arise, or are agreed to in the ordinary course of business and, that (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, or (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of our Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of our Company or any Restricted Subsidiary in any manner material to our Company or any Restricted Subsidiary;

(5) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the "— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries," "— Limitation on Indebtedness and Disqualified or Preferred Stock" and "— Limitation on Asset Sales" covenants;

(6) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness permitted under clause (b)(5) of the "— Limitation on Indebtedness and Disqualified or Preferred Stock" covenant if, as determined by the Board of Directors, the encumbrances or restrictions are (a) customary for such type of agreement and (b) would not, at the time agreed to, be expected to materially and adversely affect the ability of our Company to make required payment on the Notes; or

(7) existing in customary provisions in joint venture agreements and other similar agreements permitted under the Indenture, to the extent such encumbrance or restriction relates to the activities or assets of a Restricted Subsidiary that is a party to such joint venture and *provided* that (i) the encumbrances or restrictions are customary for a joint venture or similar agreement of that type and (ii) the encumbrances or restrictions would not, at the time agreed to, be expected to materially and adversely affect (x) the ability of our Company to make the required payments on the Notes, or (y) any Subsidiary Guarantor to make required payments under its Subsidiary Guarantee, *provided*, *further* that, the Board of Directors is empowered to determine whether the conditions set forth in clauses (i) and (ii) are met, which determination shall be conclusive if evidenced by a Board Resolution.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

Our Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell any shares of Capital Stock of a Restricted Subsidiary (including options, warrants or other rights to purchase shares of such Capital Stock) except:

(1) to our Company or a Wholly-Owned Restricted Subsidiary;

(2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than our Company or a Wholly-Owned Restricted Subsidiary;

(3) the issuance or sale of shares of Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer constitute a Restricted Subsidiary and the deemed Investment in such Person resulting from such issuance or sale is permitted to be made under the "— Limitation on Restricted Payments" covenant on the date of such issuance or sale and *provided* that our Company complies with the "— Limitation on Asset Sales" covenant"; and

(4) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale), *provided* that our Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "— Limitation on Asset Sales" covenant.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

Our Company will not permit any Restricted Subsidiary which is not a Subsidiary Guarantor, directly or indirectly, to Guarantee any Indebtedness ("Guaranteed Indebtedness") of our Company or any other Restricted Subsidiary, unless (1) (a) such Restricted Subsidiary, simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee of payment of the Notes by such Restricted Subsidiary and (b) such Restricted Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against our Company or any other Restricted Subsidiary as a result of any payment by such Restricted Subsidiary under its Subsidiary Guarantee until the Notes have been paid in full or (2) such Guarantee is permitted by clauses (b)(3), (4) or (11)(ii) (other than, in the case of clause (11)(ii) a Guarantee by a PRC Restricted Subsidiary of the Indebtedness of a non-PRC Restricted Subsidiary), under the caption "— Limitation on Indebtedness and Disqualified or Preferred Stock."

If the Guaranteed Indebtedness (A) ranks *pari passu* in right of payment with the Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or (B) is subordinated in right of payment to the Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness shall be subordinated in right of payment to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Subsidiary Guarantee.

Limitation on Transactions with Shareholders and Affiliates

Our Company will not, and will not permit any Restricted Subsidiary, directly or indirectly, to enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10% or more of any class of Capital Stock of our Company or (y) any Affiliate of our Company (each an "Affiliate Transaction"), unless:

(1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to our Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by our Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of our Company; and

(2) our Company delivers to the Trustee:

(a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$5 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and

(b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$10 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in Clause 2(a) above, an opinion as to the fairness to our Company or such Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

(1) the payment of reasonable and customary regular fees and other compensation for their service as board members to directors of our Company or any Restricted Subsidiary who are not employees of our Company or any Restricted Subsidiary;

(2) transactions between or among our Company and any of its Wholly-Owned Restricted Subsidiaries or between or among Wholly-Owned Restricted Subsidiaries;

(3) any Restricted Payment of the type described in clauses (1), (2) or (3) of the first paragraph of the covenant described above under the caption "— Limitation on Restricted Payments" if permitted by that covenant;

(4) any sale of Capital Stock (other than Disqualified Stock) of our Company; and

(5) the payment of compensation to officers and directors of our Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme.

In addition, the requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the "Limitation on Restricted Payments" covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this Offering Memorandum, or any amendment or modification or replacement thereof, so long as such amendment, modification or replacement is not more disadvantageous to our Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date, (iii) any transaction between or among our Company, any Wholly Owned Restricted Subsidiary and any Restricted Subsidiary that is not a Wholly-Owned Restricted Subsidiary; *provided* that in the case of clause (iii), (a) such transaction is entered into in the ordinary course of business and (b) none of the minority shareholders or minority partners of or in such Restricted Subsidiary is a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such minority shareholder or minority partner being an officer or director of a Restricted Subsidiary) and (iv) a transaction or series of transactions involving an aggregate consideration not exceeding US$25 million (or the Dollar Equivalent thereof) between or among our Company and Unrestricted Subsidiaries engaged in the 361° Kids Business constituting a sale of goods by our Company to such Unrestricted Subsidiaries in the ordinary course of business.

Limitation on Liens

Our Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind, whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are equally and ratably secured by such Lien.

Limitation on Sale and Leaseback Transactions

Our Company will not, and will not permit any of its Restricted Subsidiaries to, enter into any Sale and Leaseback Transaction; *provided* that our Company may enter into a Sale and Leaseback Transaction if:

(1) our Company could have (a) incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the first paragraph of the covenant described above under "— Limitation on Indebtedness and Disqualified or Preferred Stock" and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption "— Limitation on Liens," in which case, the corresponding Indebtedness and Lien will be deemed incurred pursuant to those provisions;

(2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction on such date; and

(3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and our Company applies the proceeds of such transaction in compliance with, the covenant described below under the caption "— Limitation on Asset Sales."

Limitation on Asset Sales

Our Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

(1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;

(2) the consideration received by our Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of at the time of sale;

(3) in the case of an Asset Sale that constitutes an Asset Disposition, our Company could Incur at least US$1.00 of Indebtedness under the proviso in the first paragraph of part (a) of the covenant under the caption "— Limitation on Indebtedness and Disqualified or Preferred Stock" after giving pro forma effect to such Asset Disposition;

(4) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided* that in the case of an Asset Sale in which our Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US$10 million (or the Dollar Equivalent thereof), our Company shall deliver to the Trustee an opinion as to the fairness to our Company or such Restricted Subsidiary of such

Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing. For purposes of this provision, each of the following will be deemed to be cash:

(a) any liabilities, as shown on our Company's most recent consolidated balance sheet, of our Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases our Company or such Restricted Subsidiary from further liability; and

(b) any securities, notes or other obligations received by our Company or any Restricted Subsidiary from such transferee that are contemporaneously, but in any event within 90 days of closing, converted by our Company or such Restricted Subsidiary into cash, to the extent of the cash received in that conversion;

(5) Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, our Company and its Restricted Subsidiaries may apply such Net Cash Proceeds to:

(a) permanently repay Senior Indebtedness of our Company or any Restricted Subsidiary (and, if such Senior Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than our Company or a Restricted Subsidiary; or

(b) acquire Replacement Assets; and

(6) Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clause (5) will constitute "Excess Proceeds." Excess Proceeds of less than US$15.0 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US$15.0 million (or the Dollar Equivalent thereof), within 10 days thereof, our Company must make an Offer to Purchase Notes having a principal amount equal to:

(a) accumulated Excess Proceeds, multiplied by

(b) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale, rounded down to the nearest US$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, our Company may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Notes (and such other *pari passu* Indebtedness) to be purchased on a pro rata basis. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on Our Company's Business Activities

Our Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses; *provided* that our Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or a joint venture or other entity that is engaged in a business other than Permitted Business as long as any Investment therein was not prohibited when made pursuant to the "— Limitation on Restricted Payments" covenant.

Use of Proceeds

Our Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes, in any amount, for any purpose other than (i) in the approximate amounts and for the purposes specified under the caption "Use of Proceeds" in this Offering Memorandum and, (ii) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in Temporary Cash Investments.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that (i) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (ii) neither our Company nor any Restricted Subsidiary of our Company Guarantees or provides credit support for the Indebtedness of such Restricted Subsidiary; (iii) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of our Company; (iv) such Restricted Subsidiary does not own any Disqualified Stock of our Company or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness of, or Lien on any property of our Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under the caption "— Limitation on Indebtedness and Disqualified or Preferred Stock" or such Lien would violate the covenant described under the caption "— Limitation on Liens"; (v) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph; and (vi) the Investment deemed to have been made thereby in such newly-designated Unrestricted Subsidiary and each other newly-designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under "— Limitation on Restricted Payments."

Notwithstanding the immediately preceding paragraph, the Board of Directors may at any time designate each of its Subsidiaries engaged in the 361° Kids Business to be an Unrestricted Subsidiary at any time and without such designation being treated as a Restricted Payment, *provided* that (a) no Default shall have occurred and be continuing as of the date of or after giving effect to such designation under this clause, (b) our Company shall have a bona fide plan to effect a Qualified IPO of our Company which operates the *361° Kids* business (or its holding company) (the "Listing Vehicle") within 45 days after such designation, (c) after giving pro forma effect to such designation, our Company is able, as of the date of such designation, to incur US$1.00 of Indebtedness under the proviso in the first paragraph of part (a) of the covenant under the caption "— Limitation on Indebtedness and Disqualified or Preferred Stock," (d) immediately after the completion of a Qualified IPO and the listing of the Listing Vehicle, neither our Company nor any Restricted Subsidiary of our Company Guarantees or provides credit support for the Indebtedness of such Subsidiary, (e) such Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of our Company, (f) such Subsidiary does not own any Disqualified Stock of our Company or Disqualified or Preferred Stock of another Restricted Subsidiary or hold any Indebtedness of, or Lien on any property of our Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under the caption "— Limitation on Indebtedness and Disqualified or Preferred Stock" or such Lien would violate the covenant described under the caption "— Limitation on Liens" and (g) such Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries of our Company or are being concurrently designated to be Unrestricted Subsidiaries of our Company in accordance with this paragraph. If no Qualified IPO has occurred within 45 days after any designation of Restricted Subsidiaries as Unrestricted Subsidiaries under the immediately preceding paragraph, such designation of Unrestricted Subsidiaries shall be deemed to have been revoked by our Company and all such Unrestricted Subsidiaries shall be re-designated as Restricted Subsidiaries without any action on the part of our Company. Our Company and the Subsidiary Guarantors will procure that immediately following the initial public offering and listing of the Listing Vehicle and so long as any of the Notes remain outstanding, our Company and/or one or more Subsidiary Guarantor(s) organized in a Permitted Jurisdiction shall directly own greater than 50% of the Capital Stock of the Listing Vehicle and our Company and/or such Subsidiary Guarantor(s) will not directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on such Capital Stock of the Listing Vehicle.

In making the determination required by clause (c) of the preceding paragraph, pro forma effect may also be given to any expected application of all or a portion of the proceeds to our Company and the remaining Restricted Subsidiaries (the "Remaining Restricted Group") from a Qualified IPO to repay Indebtedness of the Remaining Restricted Group upon receipt of such proceeds, *provided* that if our Company and the Restricted Subsidiaries do not in fact receive sufficient proceeds from such Qualified IPO or, following receipt thereof, do not apply such proceeds to repay such Indebtedness, in each case to the extent necessary to satisfy the requirements of clause (c) of the preceding paragraph, then such designation of Unrestricted Subsidiaries shall deemed to have been revoked by our Company and all such Unrestricted Subsidiaries shall be re-designated as Restricted Subsidiaries without any action on the part of our Company.

For the year ended December 31, 2015, the Subsidiaries engaged in the 361° Kids Business had total turnover of approximately RMB588.9 million (US$90.6 million) and Consolidated EBITDA of RMB143.9 million (US$22.1 million). As of December 31, 2015, the Subsidiaries engaged in the 361° Kids Business had Total Assets of RMB437.4 million (US$67.3 million) and total liabilities of RMB432.9 million (US$66.6 million).

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (i) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (ii) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under the caption "— Limitation on Indebtedness and Disqualified or Preferred Stock"; (iii) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly-designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under the caption "— Limitation on Liens"; (iv) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); and (v) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary shall upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary shall become a Subsidiary Guarantor.

Government Approvals and Licenses; Compliance with Law

Our Company will, and will cause each Restricted Subsidiary to, (i) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses, (ii) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens and (iii) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (A) the business, results of operations or prospects of our Company and its Restricted Subsidiaries, taken as a whole, or (B) the ability of our Company or any Subsidiary Guarantor to perform its obligations under the Notes, the relevant Subsidiary Guarantee or the Indenture.

Maintenance of Insurance

Our Company will, and will cause its Restricted Subsidiaries to, maintain insurance with reputable and financially sound carriers against such risks and in such amounts as is customarily carried by similarly situated businesses, including, without limitation, property and casualty insurance.

Changes in Covenants when Notes Are Rated Investment Grade

If on any date following the date of the Indenture, the Notes have a rating of Investment Grade from both of the Rating Agencies and no Default or Event of Default has occurred and is continuing (a "Suspension Event"), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from either of the Rating Agencies, the provisions of the Indenture summarized under the following captions will be suspended:

(1) "— Certain Covenants — Limitation on Indebtedness and Disqualified or Preferred Stock;"

(2) "— Certain Covenants — Limitation on Restricted Payments;"

(3) "— Certain Covenants — Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries;"

(4) "— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries;"

(5) "— Certain Covenants — Limitation on Our Company's Business Activities;"

(6) "— Certain Covenants — Limitation on Sale and Leaseback Transactions;"

(7) "— Certain Covenants — Limitation on Asset Sales;" and

(8) "— Certain Covenants — Limitation on Issuances of Guarantees by Restricted Subsidiaries."

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under the caption "— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries" or the definition of "Unrestricted Subsidiary."

Such covenants will be reinstituted and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of our Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant summarized under "— Certain Covenants — Limitation on Restricted Payments" will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended.

There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating would be maintained.

Provision of Financial Statements and Reports

(a) So long as any of the Notes remain outstanding, our Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which our Company's common shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that if at any time the Common Stock of our Company ceases to be listed for trading on a recognized stock exchange, our Company will file with the Trustee and furnish to the Holders:

(1) as soon as they are available, but in any event within 120 calendar days after the end of the fiscal year of our Company, copies of its financial statements (on a consolidated basis and in the English language) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and audited by a member firm of an internationally-recognized firm of independent accountants; and

(2) as soon as they are available, but in any event within 90 calendar days after the end of the second financial quarter of our Company, copies of its financial statements (on a consolidated basis and in the English language) in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and read by a member firm of an internationally-recognized firm of independent accountants.

(b) In addition, so long as any of the Notes remain outstanding, our Company will provide to the Trustee (1) within 120 days after the close of each fiscal year, an Officers' Certificate stating the Fixed Charge Coverage Ratio with respect to the two most recent semi-annual period and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation, *provided* that our Company shall not be required to provide such auditor certification if its external auditors refuse to provide such certification as a result of a policy of such external auditors not to provide such certification; and (2) as soon as possible and in any event within 30 days after our Company becomes aware or should reasonably become aware of the occurrence of a Default, an Officers' Certificate setting forth the details of the Default, and the action which our Company proposes to take with respect thereto.

(c) If our Company has designated any of its Subsidiaries as Unrestricted Subsidiaries, then the annual financial information required by the preceding paragraphs will include a reasonably detailed presentation of such financial information in relation to our Company and its Restricted Subsidiaries separate from the financial information of the Unrestricted Subsidiaries.

Events of Default

The following events will be defined as "Events of Default" in the Indenture:

(a) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;

(b) default in the payment of interest or Additional Amounts on any Note when the same becomes due and payable, and such default continues for a period of 30 days;

(c) default in the performance or breach of the provisions of the covenants described under "— Consolidation, Merger and Sale of Assets" or the failure by our Company to make or consummate an Offer to Purchase in the manner described under the captions "— Repurchase of Notes upon a Change of Control Triggering Event," "— Certain Covenants — Limitation on Asset Sales" or the second paragraph under "— Designation of Restricted and Unrestricted Subsidiaries";

(d) our Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (a), (b) or (c) above) and such default or breach continues for a period of 30 consecutive days after written notice by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;

(e) there occurs with respect to any Indebtedness of our Company or any Restricted Subsidiary having an outstanding principal amount of US$10 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (A) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated

Maturity and/or (B) a default in payment of principal of, or interest or premium on, or any other amounts in respect of, such Indebtedness when the same becomes due and payable or, as the case may be, after any applicable grace period;

(f) any final judgment or order for the payment of money in excess of US$10 million (or the Dollar Equivalent thereof) in the aggregate for all such final judgments or orders shall be rendered against our Company or any Restricted Subsidiary and shall not be paid or discharged for a period of 60 days during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

(g) an involuntary case or other proceeding is commenced against our Company or any Significant Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of our Company or any Significant Subsidiary or for all or substantially all of the property and assets of our Company or any Significant Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against our Company or any Significant Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;

(h) our Company or any Significant Subsidiary (A) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (B) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of our Company or any Significant Subsidiary or for all or substantially all of the property and assets of our Company or any Significant Subsidiary or (C) effects any general assignment for the benefit of creditors; or

(i) any Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee is determined to be unenforceable or invalid or shall for any reason cease to be in full force and effect.

If an Event of Default occurs and is continuing, the Trustee may, and shall upon request of Holders of at least 25% in aggregate principal amount of outstanding Notes, pursue, in its own name or as trustee of an express trust, any available remedy by proceeding at law or in equity to collect the payment of principal of, premium, if any, and interest on the Notes, to enforce the performance of any provision of the Notes or the Indenture. The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. In addition, if an Event of Default (other than an Event of Default specified in clause (g) or (h) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes, then outstanding, by written notice to our Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the written request of such Holders shall, declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (g) or (h) above occurs with respect to our Company or any Significant Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in principal amount of the outstanding Notes, by written notice to our Company and to the Trustee, may waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

(x) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived, and

(y) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

For information as to the waiver of defaults, see "— Amendments and Waiver."

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders. Prior to taking any action under the Indenture, the Trustee will be entitled to security, prefunding and/or indemnification satisfactory to it in its sole discretion against all losses, liabilities and expenses caused by taking or not taking such action. A Holder may not pursue any remedy with respect to the Indenture or the Notes unless:

(1) the Holder has previously given the Trustee written notice of a continuing Event of Default;

(2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer the Trustee security, prefunding and/or indemnity satisfactory to the Trustee against any costs, liability or expense;

(4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of security, prefunding and/or indemnity; and

(5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder to receive payment of the principal of, premium, if any, or interest on, such Note or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of the Holder.

Officers of our Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year, that a review has been conducted of the activities of our Company and its Restricted Subsidiaries and our Company's and its Restricted Subsidiaries' performance under the Indenture and that our Company has fulfilled all obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. Our Company will also be obligated to notify the Trustee in writing of any default or defaults in the performance of any covenants or agreements under the Indenture.

Consolidation, Merger and Sale of Assets

Our Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions), unless:

(1) our Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of the Cayman Islands, the BVI, Hong Kong or the United States or any jurisdiction thereof and shall

expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of our Company under the Indenture and the Notes, as the case may be, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture and the Notes, as the case may be, shall remain in full force and effect;

(2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(3) immediately after giving effect to such transaction on a pro forma basis, our Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of our Company immediately prior to such transaction;

(4) immediately after giving effect to such transaction on a pro forma basis our Company or the Surviving Person, as the case may be, could Incur at least US$1.00 of Indebtedness under the first paragraph of the covenant under the caption "— Limitation on Indebtedness and Disqualified or Preferred Stock";

(5) our Company delivers to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and such supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;

(6) each Subsidiary Guarantor, unless such Subsidiary Guarantor is the Person with which our Company has entered into a transaction described under the caption "— Consolidation, Merger and Sale of Assets," shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee shall apply to the obligations of our Company or the Surviving Person in accordance with the Notes and the Indenture; and

(7) no Rating Decline shall have occurred.

No Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of its and its Restricted Subsidiaries' properties and assets (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than our Company or another Subsidiary Guarantor), unless:

(1) such Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger or that acquired or leased such property and assets shall be our Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction;

(2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(3) immediately after giving effect to such transaction on a pro forma basis, our Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of our Company immediately prior to such transaction;

(4) immediately after giving effect to such transaction on a pro forma basis, our Company could Incur at least US$1.00 of Indebtedness under the first paragraph of the covenant under the caption "— Certain Covenants — Limitation on Indebtedness and Disqualified or Preferred Stock";

(5) our Company delivers to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and

(6) no Rating Decline shall have occurred;

provided that this paragraph shall not apply to any sale or other disposition that complies with the covenant under the caption "— Certain Covenants — Limitation on Asset Sales" or any Subsidiary Guarantor whose Subsidiary Guarantee is unconditionally released in accordance with the provisions described under "— The Subsidiary Guarantees — Release of the Subsidiary Guarantees."

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor with and into our Company or any other Subsidiary Guarantor, so long as our Company or such Subsidiary Guarantor survives such consolidation or merger.

The foregoing provisions would not necessarily afford Holders protection in the event of highly-leveraged or other transactions involving our Company that may adversely affect Holders.

No Payments for Consents

Our Company will not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Defeasance

Defeasance and Discharge

The Indenture will provide that our Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies and to hold monies for payment in trust) if, among other things:

(A) our Company (a) has deposited with the Trustee, in trust, money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and (b) delivers to the Trustee an Opinion of Counsel or a certificate of an internationally-recognized firm of independent accountants to the effect that the amount deposited by our Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity for such payment in accordance with the terms of the Indenture;

(B) our Company has delivered to the Trustee an Opinion of Counsel of recognized standing internationally to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law; and

(C) immediately after giving effect to such deposit on a pro forma basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which our Company or any of its Restricted Subsidiaries is a party or by which our Company or any of its Restricted Subsidiaries is bound.

In the case of either discharge or defeasance, the Subsidiary Guarantees will terminate.

Defeasance of Certain Covenants

The Indenture further will provide that the provisions of the Indenture will no longer be in effect with respect to clauses (3), (4), (5)(x) and (7) under the first paragraph and clauses (3), (4), (5)(x) and (6) under the second paragraph under "— Consolidation, Merger and Sale of Assets" and all the covenants described herein under "Certain Covenants," other than as described under "— Certain Covenants — Government Approvals and Licenses; Compliance with Law" clause (c) under "— Events of Default" with respect to such clauses (3), (4), (5)(x) and (7) under the first paragraph and clauses (3), (4), (5)(x) and (6) under the second paragraph under "— Consolidation, Merger and Sale of Assets" and with respect to the other events set forth in such clause, clause (d) under "— Events of Default" with respect to such other covenants and clauses (e), (f) and (i) under "— Events of Default" shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee, in trust, of money and/or U.S. Government Obligations that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, the satisfaction of the provisions described in clause (B)(2) of the preceding paragraph.

Defeasance and Certain Other Events of Default

In the event our Company exercises its option to omit compliance with certain covenants and provisions of the Indenture with respect to the Notes as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of money on deposit with the Trustee will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, our Company will remain liable for such payments.

Amendments and Waiver

Amendments Without Consent of Holders

The Indenture may be amended, without the consent of any Holder, to:

(1) cure any ambiguity, defect or inconsistency in the Indenture or the Notes in a manner that does not materially and adversely affect the rights of any Holder;

(2) comply with the provisions described under "Consolidation, Merger and Sale of Assets";

(3) evidence and provide for the acceptance of appointment by a successor Trustee;

(4) add any Subsidiary Guarantor or any Subsidiary Guarantee or release any Subsidiary Guarantor from any Subsidiary Guarantee as provided or permitted by the terms of the Indenture;

(5) provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;

(6) add collateral to secure the Notes or any Subsidiary Guarantee and create or register Liens on such collateral;

(7) make any other change that does not adversely affect the rights of any Holder;

(8) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any holder;

(9) effect any changes to the Indenture in a manner necessary to comply with the procedures of Euroclear, Clearstream or any successor clearing system; or

(10) conform the text of the Indenture, the Notes or the Subsidiary Guarantees to any provision of this "Description of the Notes" to the extent that such provision in this "Description of the Notes" was intended to be a verbatim recitation of a provision in the Indenture, the Notes or the Subsidiary Guarantees.

Amendments With Consent of Holders

Amendments of the Indenture may be made by our Company, the Subsidiary Guarantors and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes; *provided*, *however*, that no such modification or amendment may, without the consent of each Holder affected thereby:

(1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;

(2) reduce the principal amount of, or premium, if any, or interest on, any Note;

(3) change the place, currency or time of payment of principal of, or premium, if any, or interest on, any Note; *provided* that any amendment to the minimum notice requirement for any redemption of the Notes may be made with the consent of the holders of a majority in aggregate principal amount of the outstanding Notes;

(4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note or any Subsidiary Guarantee;

(5) reduce the above stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;

(6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;

(7) release any Subsidiary Guarantor from its Subsidiary Guarantee, except as provided in the Indenture;

(8) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;

(9) amend, change or modify any Subsidiary Guarantee in a manner that adversely affects the Holders;

(10) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from any Asset Sale or change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds or other proceeds from any Asset Sale;

(11) change the redemption date or the redemption price of the Notes from that stated under the captions "Optional Redemption" or "Redemption for Taxation Reasons";

(12) amend, change or modify the obligation of our Company or any Subsidiary Guarantor to pay Additional Amounts; or

(13) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or any Subsidiary Guarantee in a manner which adversely affects the Holders.

Unclaimed Money

Claims against our Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of our Company or any of the Subsidiary Guarantors in the Indenture, or in any of the Notes or the Subsidiary Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, shareholder, officer, director, employee or controlling person of our Company or any of the Subsidiary Guarantors or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws.

Concerning the Trustee, the Paying Agent and Transfer Agent

DB Trustees (Hong Kong) Limited has been appointed as Trustee under the Indenture and Deutsche Bank AG, Hong Kong Branch has been appointed as registrar, paying agent (the "Paying Agent") and transfer agent (the "Transfer Agent") with regard to the Notes. Except during the continuance of a Default, the Trustee will not be liable except for the performance of such duties as are specifically set forth in the Indenture. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill, as applicable, in its exercise of the rights and powers vested in it under the Indenture as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

The Indenture contains limitations on the rights of the Trustee, should it become a creditor of our Company or any of the Subsidiary Guarantors, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The Trustee is permitted to engage in other transactions with our Company and its Affiliates and can profit therefrom without being obliged to account such account such profit. The Trustee may have interests in or may be providing or may in the future provide financial or other services to other parties.

If our Company maintains a paying agent with respect to the Notes in a member state of the European Union, such paying agent will be located in a member state of the European Union that is not obligated to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of ECOFIN Council meeting of November 26–27, 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive or such other directive.

The Trustee shall not be responsible for the performance by any other person appointed by our Company in relation to the Notes and, unless notified in writing to the contrary, shall assume that the same are being duly performed. The Trustee shall not be liable to any Holders or any other person for any action taken by the Holders or the Trustee, as the case may be, in accordance with the instructions of the Holders. The Trustee shall be entitled to rely on any written direction of the Holders which has been duly given by the Holders of the requisite principal amount of the Notes outstanding. In the absence of bad faith on its part, the Trustee may rely upon, among other things, Officers' Certificates, opinions or other documents delivered by our Company to it and believed by it to be genuine and to have been signed or presented by the proper Person.

The Trustee shall not be deemed to have knowledge of any event unless it has been actually notified of such event or have actual knowledge thereof.

Book-Entry; Delivery and Form

The Notes will be represented by the Global Certificate in registered form without interest coupons attached (each a "Global Note"). On the Original Issue Date, the Global Certificate will be deposited with a common depositary and registered in the name of the common depositary or its nominee for the accounts of Euroclear and Clearstream.

Global Certificate

Ownership of beneficial interests in the Global Certificate (the "book-entry interests") will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under "— Individual Definitive Notes," the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant's account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common depositary for Euroclear and/or Clearstream (or its nominee) will be considered the sole holder of the Global Certificate for all purposes under the Indenture and "holders" of book-entry interests will not be considered the owners or "Holders" of Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own book-entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of our Company, the Trustee or any of their respective agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

Payments on the Global Certificate

Payments of any amounts owing in respect of the Global Certificate (including principal, premium, interest and additional amounts) will be made to the Paying Agent. The Paying Agent will, in turn, make such payments to the common depositary for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. Our Company will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under "— Additional Amounts."

Under the terms of the Indenture, our Company and the Trustee will treat the registered holder of the Global Certificate (i.e., the common depositary or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of our Company, the Trustee or any of their respective agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or

- Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

Redemption of Global Certificate

In the event the Global Certificate, or any portion thereof, is redeemed, the common depositary will distribute the amount received by it in respect of the Global Certificate so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Certificate. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the common depositary, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Certificate (or any portion thereof). Our Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided*, *however*, that no book-entry interest of US$200,000 principal amount, or less, as the case may be, will be redeemed in part.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised that they will take any action permitted to be taken by a Holder only at the direction of one or more participants to whose account the book-entry interests in the Global Certificate are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Certificate. If there is an Event of Default under the Notes, however, each of Euroclear and Clearstream reserves the right to exchange the Global Certificate for individual definitive notes in certificated form, and to distribute such individual definitive notes to their participants.

Transfers

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Certificate in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Any book-entry interest in a Global Certificate that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Certificate will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Certificate and become a book-entry interest in the other Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Certificate for as long as it retains such a book-entry interest.

Global Clearance and Settlement Under the Book-Entry System

Book-entry interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in immediately available funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Information Concerning Euroclear and Clearstream

We understand as follows with respect to Euroclear and Clearstream:

> Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks and trust companies, and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.
>
> Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the original issue and subsequent transfers of interests in the Notes among participants of Euroclear and Clearstream, neither Euroclear nor Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.
>
> None of our Company, the Trustee or any of their respective agents will have responsibility for the performance of Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations, including, without limitation, rules and procedures relating to book-entry interests.

Individual Definitive Notes

If (1) the common depositary or any successor to the common depositary is at any time unwilling or unable to continue as a depositary for the reasons described in the Indenture and a successor depositary is not appointed by our Company within 90 days (2) either Euroclear or Clearstream, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with "— Events of Default" and our Company has received a written request from a Holder, our Company will issue individual definitive notes in registered form in exchange for the Global Certificate. Upon receipt of such notice from the common depositary or the Trustee, as the case may be, our Company will use its reasonable best efforts to make arrangements with the common depositary for the exchange of interests in the Global Certificate for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the registrar in sufficient quantities and authenticated by the Trustee for delivery to Holders. Persons exchanging interests in the Global Certificate for individual definitive notes will be required to provide the registrar, through the relevant clearing system, with written instruction and other information required by our Company and the registrar to complete, execute and deliver such individual definitive notes. In all cases, individual definitive notes delivered in exchange for any Global Certificate or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in mails of the relevant jurisdiction (if intended for our Company or any Subsidiary Guarantor or the Trustee) addressed to our Company, such Subsidiary Guarantor or the Trustee, as the case may be, at the corporate trust office of the Trustee; and (if intended for any Holder) addressed to such Holder at such Holder's last address as it appears in the Note register.

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of Euroclear or Clearstream. Any such notice shall be deemed to have been delivered on the day such notice is delivered to Euroclear or Clearstream or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

Our Company and each of the Subsidiary Guarantors will irrevocably (i) submit to the nonexclusive jurisdiction of any U.S. Federal or New York State court located in the Borough of Manhattan, The City of 'New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, the Indenture or any transaction contemplated thereby and (ii) designate and appoint Law Debenture Corporate Service Inc. for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes, the Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this "Description of the Notes" for which no definition is provided.

"**2014 Notes**" means the RMB1,500,000,000 7.5% Senior Notes due 2017 issued by our Company pursuant to the 2014 Notes Indenture.

"**2014 Notes Indenture**" means the indenture dated September 12, 2014 governing the 2014 Notes, as may be amended or supplemented from time to time.

"**361° Kids Business**" means the design, manufacture, distribution and sale of children's sportwear, footwear, apparel and accessories, as currently conducted by 361 Degrees Kids Wear Holdings Limited, 361 Degrees Kids Wear Limited, 361 Degrees Kids Wear Investment Limited, 361 Degrees (HK) Investment Limited and 361 Degrees Children's Clothing Co. Limited under our Company's "361 Degrees Kids" brand, and reasonable extensions thereof.

"**Acquired Indebtedness**" means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary and not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

"**Adjusted Treasury Rate**" means, with respect to any redemption date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under "Treasury Constant Maturities," for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or after June 3, 2019, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date.

"**Affiliate**" means, with respect to any Person, any other Person (i) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (ii) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (i) of this definition or (iii) who is a spouse or any person cohabiting as a spouse, child, parent, brother, sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew or niece of a Person described in clause (i) or (ii). For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"**Applicable Premium**" means with respect to a Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of (x) the redemption price of such Note at June 3, 2019, (such redemption price being set forth in the table appearing above under the caption "— Optional Redemption"), plus (y) all required remaining scheduled interest payments due on such Note through June 3, 2019, (but excluding accrued and unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

"**Asset Acquisition**" means (1) an investment by our Company or any of its Restricted Subsidiaries in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with our Company or any of its Restricted Subsidiaries, or (2) an acquisition by our Company or any of its Restricted Subsidiaries of the property and assets of any Person other than our Company or any of its Restricted Subsidiaries that constitute substantially all of a division or line of business of such Person.

"**Asset Disposition**" means the sale or other disposition by our Company or any of its Restricted Subsidiaries (other than to our Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary or (2) all or substantially all of the assets that constitute a division or line of business of our Company or any of its Restricted Subsidiaries.

"**Asset Sale**" means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale or issuance of Capital Stock of a Subsidiary) in one transaction or a series of related transactions by our Company or any of its Restricted Subsidiaries to any Person; *provided* that "Asset Sale" shall not include:

(a) sales, transfers or other dispositions of inventory, receivables and other current assets in the ordinary course of business;

(b) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made pursuant to the covenant described under "— Certain Covenants — Limitation on Restricted Payments";

(c) sales, transfers or other dispositions by the Listing Vehicle of up to 30% of the Capital Stock of the Listing Vehicle if (i) such Capital Stock is issued following the designation of the Listing Vehicle as an Unrestricted Subsidiary and (ii) such sale, transfer or disposition is made in connection with a Qualified IPO of the Listing Vehicle;

(d) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US$1.0 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;

(e) any sale, transfer, assignment or other disposition of any property or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of our Company or its Restricted Subsidiaries;

(f) any, transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien; or

(g) the sale of cash or Temporary Cash Equivalents in the ordinary course of business.

"**Attributable Indebtedness**" means, in respect of a Sale and Leaseback Transaction, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction.

"**Average Life**" means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

"**Board of Directors**" means the board of directors elected or appointed by the shareholders or directors of our Company to manage the business of our Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

"**Board Resolution**" means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

"**Business Day**" means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in The City of New York or Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized by law or governmental regulation to close.

"**Capitalized Lease**" means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

"**Capitalized Lease Obligations**" means the discounted present value of the rental obligations under a Capitalized Lease.

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock.

"**Change of Control**" means the occurrence of one or more of the following events:

(1) the merger, amalgamation, or consolidation of our Company with or into another Person or the merger or amalgamation of another Person with or into our Company, or the sale of all or substantially all the assets of our Company to another Person;

(2) the Permitted Holders are the beneficial owners (as such term is used in Rule 13d-3 of the Exchange Act) of less than 40% of the total voting power of the Voting Stock of our Company;

(3) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined above), directly or indirectly, of total voting power of the Voting Stock of our Company greater than such total voting power held beneficially by the Permitted Holders;

(4) individuals who on the Original Issue Date constituted the board of directors of our Company, together with any new directors whose election by the board of directors was approved by a vote of at least two-thirds of the directors then still in office who were either directors on the Original Issue Date or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of our Company then in office; or

(5) the adoption of a plan relating to the liquidation or dissolution of our Company.

"**Change of Control Triggering Event**" means the occurrence of both a Change of Control and, *provided* that the Notes are rated by at least one Rating Agency, a Rating Decline.

"**Clearstream**" means Clearstream Banking, société anonyme, Luxembourg.

"**Commodity Agreement**" means any raw materials futures contract, forward contract, commodity swap agreement, commodity option agreement or other similar agreement or arrangement designed to protect against fluctuations in raw material prices.

"**Common Stock**" means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and include, without limitation, all series and classes of such common stock or ordinary shares.

"**Comparable Treasury Issue**" means the U.S. Treasury security having a maturity comparable to June 3, 2019 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity comparable to June 3, 2019.

"**Comparable Treasury Price**" means, with respect to any redemption date, if clause (ii) of the Adjusted Treasury Rate is applicable, the average of three (or such lesser number as is obtained by our Company) Reference Treasury Dealer Quotations for such redemption date.

"**Consolidated EBITDA**" means, for any period, Consolidated Net Income for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

(1) Consolidated Interest Expense,

(2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets), and

(3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income, all as determined on a consolidated basis for our Company and its Restricted Subsidiaries in conformity with GAAP,

provided that (i) if any Restricted Subsidiary is not a Wholly-Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted

Subsidiary not owned on the last day of such period by our Company or any of its Restricted Subsidiaries and (ii) in the case of any PRC CJV, Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

"**Consolidated Fixed Charges**" means, for any period, the sum (without duplication) of (i) Consolidated Interest Expense for such period and (ii) all cash and non-cash dividends, paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of our Company or any Restricted Subsidiary held by Persons other than our Company or any Wholly-Owned Restricted Subsidiary.

"**Consolidated Interest Expense**" means, for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of our Company and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by our Company and its Restricted Subsidiaries, without duplication, (i) interest expense attributable to Capitalized Lease Obligations, (ii) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (iii) the interest portion of any deferred payment obligation, (iv) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (v) the net costs associated with Hedging Obligations (including the amortization of fees), (vi) interest accruing on Indebtedness of any other Person that is Guaranteed by, or secured by a Lien on any asset of, our Company or any Restricted Subsidiary and (vii) any capitalized interest, *provided* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a pro forma basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

"**Consolidated Net Income**" means, with respect to any specified Person for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

(1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:

  (a) subject to the exclusion contained in clause (5) below, our Company's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to our Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and

  (b) our Company's equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of our Company or Restricted Subsidiaries;

(2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with our Company or any of its Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by our Company or any of its Restricted Subsidiaries;

(3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other constitutive document or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;

(4) the cumulative effect of a change in accounting principles;

(5) any net after tax gains realized on the sale or other disposition of (A) any property or assets of our Company or any Restricted Subsidiary which is not sold in the ordinary course of its business or (B) any Capital Stock of any Person (including any gains by our Company realized on sales of Capital Stock of our Company or other Restricted Subsidiaries);

(6) any translation gains and losses due solely to fluctuations in currency values and related tax effects; and

(7) any net after-tax extraordinary or non-recurring gains.

"**Consolidated Net Worth**" means, at any date of determination, stockholders' equity as set forth on the most recently available semi-annual or annual consolidated balance sheet (which may be an internal consolidated balance sheet) of our Company and its Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of our Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of our Company or any of its Restricted Subsidiaries, each item to be determined in conformity with GAAP.

"**Currency Agreement**" means any foreign exchange forward contract, currency swap agreement or other similar agreement or arrangement designed to protect against fluctuations in foreign exchange rates.

"**Default**" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"**Disqualified Stock**" means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the date that is 183 days after the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the date that is 183 days after the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the date that is 183 days after the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the date that is 183 days after the Stated Maturity of the Notes shall not constitute Disqualified Stock if the "asset sale" or "change of control" provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in "Limitation on Asset Sales" and "Repurchase of Notes upon a Change of Control Triggering Event" covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to our Company's repurchase of such Notes as are required to be repurchased pursuant to the covenants under the captions "— Certain Covenants — Limitation on Asset Sales" and "— Certain Covenants — Repurchase of Notes upon a Change of Control Triggering Event".

"**Dollar Equivalent**" means the amount in a currency other than U.S. dollars, at any time for the determination thereof, equal to a specified amount of U.S. dollars obtained by converting such U.S. dollar amount into such foreign currency at the base rate for the purchase of such foreign currency with the applicable U.S. dollar amount as quoted by the Federal Reserve Bank of New York on the date of determination.

"**Equity Offering**" means any sale of Common Stock, or options, warrants or rights with respect to such Common Stock, of our Company to any Person other than a Restricted Subsidiary.

"**Euroclear**" means Euroclear Bank S.A./N.V., as operator of the Euroclear System.

"**Fair Market Value**" means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution.

"**Fitch**" means Fitch Inc., a subsidiary of Fimalac, S.A., and its successors.

"**Fixed Charge Coverage Ratio**" means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent two semi-annual periods prior to such Transaction Date for which consolidated financial statements of our Company (which our Company shall use commercially reasonable efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) (the "Two Semi-Annual Period") to (2) the aggregate Consolidated Fixed Charges during such Two Semi-Annual Period. In making the foregoing calculation:

(A) *pro forma* effect shall be given to any Indebtedness, Disqualified Stock or Preferred Stock Incurred, repaid or redeemed during the period (the "Reference Period") commencing on and including the first day of the Two Semi-Annual Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Two Semi-Annual Period), in each case as if such Indebtedness, Disqualified Stock or Preferred Stock had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if our Company or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay or redeem such Indebtedness, Disqualified Stock or Preferred Stock;

(B) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a pro forma basis and bearing a floating interest rate shall be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;

(C) *pro forma* effect shall be given to Asset Dispositions and Asset Acquisitions (including giving pro forma effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period;

(D) *pro forma* effect shall be given to asset dispositions and asset acquisitions (including giving pro forma effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into our Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period; and

(E) *pro forma* effect shall be given to the creation, designation or redesignation of Restricted Subsidiaries and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;

provided that to the extent that clause (C) or (D) of this sentence requires that pro forma effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such pro forma calculation shall be based upon the four full fiscal quarters immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

"**GAAP**" means Hong Kong Financial Reporting Standards as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

"**Guarantee**" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided* that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"**Hedging Obligation**" of any Person means the obligations of such Person pursuant to any Commodity Agreement, Currency Agreement or Interest Rate Agreement.

"**Holder**" means the Person in whose name a Note is registered in the Note register.

"**Incur**" means, with respect to any Indebtedness or Capital Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Capital Stock; *provided* that (1) any Indebtedness and Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (or fails to meet the qualifications necessary to remain an Unrestricted Subsidiary) will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms "Incurrence," "Incurred" and "Incurring" have meanings correlative with the foregoing.

"**Indebtedness**" means, with respect to any Person at any date of determination (without duplication):

(1) all indebtedness of such Person for borrowed money;

(2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments;

(4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;

(5) all Capitalized Lease Obligations and Attributable Indebtedness;

(6) to the extent not otherwise included in this definition, all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (A) the Fair Market Value of such asset at such date of determination and (B) the amount of such Indebtedness;

(7) to the extent not otherwise included in this definition, all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;

(8) to the extent not otherwise included in this definition, Hedging Obligations;

(9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends; and

(10) any Preferred Stock issued by (a) such Person, if such Person is a Restricted Subsidiary or (b) any Restricted Subsidiary of such Person, valued in each case at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

For the avoidance of doubt, a mandatory put option granted to a Person that obligates our Company or any Restricted Subsidiary to repurchase the Capital Stock of any Restricted Subsidiary or any other Person shall be deemed to be "Indebtedness."

Notwithstanding the foregoing, Indebtedness shall not include any capital commitments or similar obligations Incurred in the ordinary course of business in connection with the acquisition, development, construction or improvement of real or personal property (including land use rights) to be used in a Permitted Business; *provided* that such Indebtedness is not reflected and is not required under GAAP to be reflected on the balance sheet of our Company or any Restricted Subsidiary (contingent obligations referred to in a footnote to financial statements and not otherwise reflected on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation, *provided*

(A) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP, and

(B) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be "Indebtedness" so long as such money is held to secure the payment of such interest.

"**Interest Rate Agreement**" means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement, option or future contract or other similar agreement or arrangement designed to protect against fluctuations in interest rates.

"**Investment**" means:

(i) any direct or indirect advance, loan or other extension of credit to another Person,

(ii) capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others),

(iii) any purchase or acquisition of Capital Stock (or options, warrants or other rights to acquire such Capital Stock), Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person, or

(iv) any Guarantee of any obligation of another Person.

For the purposes of the provisions of the covenants under the captions "— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries" and "— Certain Covenants — Limitation on Restricted Payments" covenants: (i) our Company will be deemed to have made an investment in an Unrestricted Subsidiary in an amount equal to our Company's proportionate interest in the Fair Market Value of the assets (net of our Company's proportionate interest in the liabilities owed to any Person other than our Company or a Restricted Subsidiary and that are not Guaranteed by our Company or a

Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary at the time of such designation, (ii) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors and (iii) if our Company or any Restricted Subsidiary sells or otherwise disposes of any Capital Stock of a Restricted Subsidiary (including any issuance of Capital Stock by a Restricted Subsidiary) such that, after giving effect to any such sale or disposition, such Restricted Subsidiary would cease to be a Subsidiary of our Company, our Company shall be deemed to have made an "Investment" on the date of such sale or disposition equal to sum of the Fair Market Value of the Capital stock of such former Restricted Subsidiary held by our Company or any Restricted Subsidiary immediately following such sale or other disposition and the amount of any Indebtedness of such former Restricted Subsidiary guaranteed by our Company or any Restricted Subsidiary or owed to our Company or any other Restricted Subsidiary immediately following such sale or other disposition.

"**Investment Grade**" means a rating of "AAA," "AA," "A" or "BBB," as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest rating categories, by S&P or any of its successors or assigns, a rating of "AAA," "AA," "A" or "BBB," as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest rating categories, by Fitch or any of its successors or assigns or the equivalent ratings of any internationally-recognized rating agency or agencies, as the case may be, which shall have been designated by our Company as having been substituted for S&P or Fitch or both, as the case may be.

"**Lien**" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

"**Moody's**" means Moody's Investors Service and its affiliates.

"**Net Cash Proceeds**" means:

(a) with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of

  (1) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment bankers) related to such Asset Sale;

  (2) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of our Company and its Restricted Subsidiaries, taken as a whole;

  (3) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale;

  (4) appropriate amounts to be provided by our Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP; and

(b) with respect to any issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"**Offer to Purchase**" means an offer to purchase Notes by our Company from the Holders commenced by our Company mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

(1) the covenant pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a pro rata basis;

(2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the "Offer to Purchase Payment Date");

(3) that any Note not tendered will continue to accrue interest pursuant to its terms;

(4) that, unless our Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;

(5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled "Option of the Holder to Elect Purchase" on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;

(6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and

(7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US$200,000 or integral multiples of US$1,000 in excess thereof.

On the Offer to Purchase Payment Date, our Company shall (a) accept for payment on a pro rata basis Notes or portions thereof tendered pursuant to an Offer to Purchase; (b) deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof so accepted; and (c) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by our Company. The Paying Agent shall promptly mail to the Holders so accepted payment in an amount equal to the purchase price, and the Registrar shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US$200,000 or integral multiples of US$1,000 in excess thereof. Our Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. Our Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that our Company is required to repurchase Notes pursuant to an Offer to Purchase.

The offer is required to contain or incorporate by reference information concerning the business of our Company and its Subsidiaries which our Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring our Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

"**Officer**" means one of the executive officers of our Company or, in the case of a Subsidiary Guarantor, one of the directors or officers of such Subsidiary Guarantor.

"**Officers' Certificate**" means a certificate signed by two Officers.

"**Opinion of Counsel**" means a written opinion, in form and substance acceptable to the Trustee, from external legal counsel selected by our Company who is reasonably acceptable to the Trustee.

"**Original Issue Date**" means the date on which the Notes are originally issued under the Indenture.

"**Pari Passu Subsidiary Guarantee**" means a guarantee by any Subsidiary Guarantor of Indebtedness of our Company (including Additional Notes); *provided* that (i) our Company was permitted to Incur such Indebtedness under the covenant under the caption "— Certain Covenants — Limitation on Indebtedness and Disqualified or Preferred Stock" and (ii) such guarantee ranks *pari passu* with any outstanding Subsidiary Guarantee of such Subsidiary Guarantor.

"**Payment Default**" means (i) any default in the payment of interest on any Note when the same becomes due and payable, (ii) any default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise, (iii) the failure by our Company to make or consummate a Change of Control Offer in the manner described under the caption "— Repurchase of Notes upon a Change of Control Triggering Event," or an Offer to Purchase in the manner described under the caption "— Limitation on Asset Sales" or (iv) any Event of Default specified in clause (e) of the definition of Events of Default.

"**Permitted Businesses**" means any business which is the same as or ancillary or complementary to any of the businesses of our Company and the Restricted Subsidiaries on the Original Issue Date.

"**Permitted Holders**" means any or all of the following:

(1) Each of Mr. Ding Huihuang, Mr. Ding Wuhao, Mr. Ding Huirong, Mr. Ding Jiantong, Mr. Wang Jiabi or Mr. Wang Jiachen, their respective spouses or immediately family members or any trust established by any of them for their own benefit or for the benefit of any of their respective immediate family members;

(2) any Affiliate of the Persons specified in clause (1); and

(3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% by Persons specified in clauses (1) and (2).

"**Permitted Investment**" means:

(1) any Investment in our Company or a Restricted Subsidiary that is primarily engaged in the Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged in the Permitted Business or be merged or consolidated with or into or transfer or convey all or substantially all its assets to, our Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business;

(2) cash or Temporary Cash Investments;

(3) payroll, travel and similar advances made in the ordinary course of business to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;

(4) stock, obligations or securities received in satisfaction of judgments;

(5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;

(6) any Investment pursuant to a Hedging Obligation designed solely to protect our Company or any Subsidiary Guarantor against fluctuations in commodity prices, interest rates or foreign currency exchange rates and not for speculation;

(7) advances to customers or suppliers in the ordinary course of business that are, in conformity with GAAP, recorded as accounts receivable, prepaid expenses or deposits on the balance sheet of our Company or any Restricted Subsidiary and endorsements for collection or deposit arising in the ordinary course of business;

(8) any securities or other Investments received as consideration in, or retained in connection with, sales or other dispositions of property or assets, including Asset Dispositions made in compliance with the covenant described under the caption "— Certain Covenants — Limitation on Asset Sales";

(9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of "Permitted Liens" or made in connection with Liens permitted under the covenant described under the caption "— Certain Covenants — Limitation on Liens";

(10) Investments made by our Company or any Restricted Subsidiary consisting of consideration received in connection with an Asset Sale, *provided* that such Indebtedness is made in compliance with the covenant under the caption "— Certain Covenants — Limitation on Asset Sales";

(11) Investments in securities of trade creditors, trade debtors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditor, trade debtor or customer;

(12) advances to contractors and suppliers for the acquisition of assets or consumables or services in the ordinary course of business that are recorded as deposits or prepaid expenses on our Company's consolidated balance sheet;

(13) repurchases of the Notes or the 2014 Notes;

(14) other Investments which, when taken together with all other Investments pursuant to this clause (14) and then outstanding will not exceed an amount equal to 1% of Total Assets; and

(15) any Investment by our Company or any Restricted Subsidiary in any corporation, association, or other business entity engaged in a Permitted Business, (i) of which 20% or more of the Capital Stock and the Voting Stock shall be owned, directly or indirectly, by our Company or any Restricted Subsidiary after giving effect to such Investment and (ii) which is treated as an "associate" or a "jointly controlled entity" in accordance with GAAP (such corporation, association or other business entity, an "Associate"); *provided* that:

   (a) none of the other holders of Capital Stock of such Associate is a Person described in clauses (x) or (y) of the first paragraph of the covenant described under the caption "— Limitation on Transactions with Shareholders and Affiliates" (other than by reason of such holder being an officer or director of our Company or a Restricted Subsidiary);

(b) our Company must be able to incur at least US$1.00 of Indebtedness under the proviso in the first paragraph of the covenant described under the caption "— Limitation on Indebtedness and Preferred Stock;"

(c) no Default has occurred and is continuing or would occur as a result of such Investment;

(d) such Investment, together with (x) the aggregate of all other Investments made under this clause (15) since the Original Issue Date, less (y) an amount equal to the net reduction in all Investments made under this clause (15) since the Original Issue Date resulting from (A) receipt of payments in cash by our Company or any Restricted Subsidiary in respect of all such Investments, including interest on or repayments of loans or advances, dividends or other distributions (except, in each case, to the extent any such payments are included in the calculation of Consolidated Net Income), (B) the unconditional release of a Guarantee of any obligation of such Associate provided under this clause (15) after the Original Issue Date by our Company or any Restricted Subsidiary, (C) to the extent that an Investment made after the Original Issue Date under this clause (15) is sold or otherwise liquidated or repaid for cash, the lesser of (i) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (ii) the initial amount of such Investment, or (D) such Associate becoming a Restricted Subsidiary (whereupon all Investments (other than Permitted Investments) made by our Company or any Restricted Subsidiary in such Associate since the Original Issue Date shall be deemed to have been made pursuant to clause (1) of this "Permitted Investment" definition), will not exceed an aggregate amount equal to 15% of Total Assets; and

(e) with respect to such Associate in which our Company or any Restricted Subsidiary has made an Investment pursuant to this clause (15), if (x) our Company or such Restricted Subsidiary no longer owns at least 20% of the Capital Stock and the Voting Stock of such Associate or such Associate is no longer treated as an "associate" or a "jointly controlled entity" in accordance with GAAP and (y) such Associate has not become a Restricted Subsidiary, such Investment (to the extent such Investment has not been reduced in accordance with this paragraph (d) of this clause (15)) will be deemed not to have been made in accordance with this clause (15) and such Investment must at the time such Associate is no longer treated as an Associate satisfy the other requirements of the covenant described under "— Limitation on Restricted Payments" (including meeting the requirements of one of the other clauses set forth under this "Permitted Investment" definition).

"**Permitted Jurisdictions**" means each of Bermuda, the BVI, the Cayman Islands, Hong Kong, Singapore and the United Kingdom.

"**Permitted Liens**" means:

(1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);

(4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of our Company and its Restricted Subsidiaries, taken as a whole;

(5) Liens encumbering property or assets under construction arising from progress or partial payments by a customer of our Company or its Restricted Subsidiaries relating to such property or assets;

(6) any interest or title of a lessor in the property subject to any operating lease;

(7) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person becomes, or becomes a part of, any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of our Company or any Restricted Subsidiary other than the property or assets acquired; *provided further* that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;

(8) Liens in favor of our Company or any Wholly-Owned Restricted Subsidiary;

(9) Liens arising from the rendering of a final judgment or order against our Company or any Restricted Subsidiary that does not give rise to an Event of Default;

(10) Liens Incurred in the ordinary course of business (i) securing reimbursement obligations with respect to letters of credit that encumber documents and other property relating to such letters of credit and the products and proceeds thereof or (ii) in favor of any bank having a right of setoff, revocation, refund or chargeback with respect to money or instruments of our Company or any Restricted Subsidiary on deposit with or in possession of such bank;

(11) Liens encumbering customary initial deposits and margin deposits, and other Liens that are within the general parameters customary in the industry and incurred in the ordinary course of business, in each case, securing Indebtedness under Hedging Obligations designed solely to protect our Company or any of its Restricted Subsidiaries from fluctuations in interest rates, currencies or the price of commodities;

(12) Liens existing on the Original Issue Date;

(13) Liens on current assets securing Indebtedness which is permitted to be Incurred under clause (12) of paragraph (b) of the covenant described under the caption entitled "— Certain Covenants — Limitation on Indebtedness and Disqualified or Preferred Stock";

(14) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods entered into by our Company or any of its Restricted Subsidiaries in the ordinary course of business in accordance with the past practices of our Company and its Restricted Subsidiaries prior to the Original Issue Date;

(15) Liens securing Indebtedness which is Incurred to refinance secured Indebtedness which is permitted to be Incurred under clause (5) of paragraph (b) of the covenant under the caption entitled "— Certain Covenants — Limitation on Indebtedness and Disqualified or Preferred Stock"; *provided* that such Liens do not extend to or cover any property or assets of our Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;

(16) Liens (including extensions and renewals thereof) upon real or personal property acquired after the Original Issue Date; *provided* that (i) such Lien is created solely for the purpose of securing Indebtedness of the type described under clause (b)(7) of the covenant under "— Certain Covenants — Limitation on Indebtedness and Disqualified or Preferred Stock" and such Lien is created prior to, at the time of or within 270 days after the acquisition of such property or assets or completion of such construction, (ii) the principal amount of the Indebtedness secured by such Lien does not exceed 100% of the cost of the property or assets so purchased or constructed under clause (b)(7) of the covenant under "— Certain Covenants — Limitation on Indebtedness and Disqualified or Preferred Stock" and (iii) such Lien shall not extend to or cover any property or assets other than such item of property, *provided* that, in the case of clauses (ii) and (iii), such Lien may cover other property or assets (instead of or in addition to such item of property) and the principal amount of Indebtedness secured by such Lien may exceed 100% of such cost if (A) such Lien is incurred in the ordinary course of business and (B) the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of our Company (which may be internal consolidated statements) or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (17) does not exceed 130% of the aggregate principal amount of Indebtedness secured by such Liens;

(17) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by our Company or any Restricted Subsidiary;

(18) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of our Company or any Restricted Subsidiary; and

(19) Liens securing Indebtedness Incurred under clause (14) of paragraph (b) of the covenant described under the caption "— Certain Covenants — Limitation on Indebtedness and Disqualified or Preferred Stock."

"**Permitted Subsidiary Indebtedness**" means Indebtedness (other than Public Indebtedness) of, and all Preferred Stock issued by, each Restricted Subsidiary that is not a Subsidiary Guarantor, taken as a whole, *provided* that, on the date of the Incurrence of such Indebtedness and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness and all Preferred Stock issued by such Restricted Subsidiaries (excluding the amount of any Indebtedness of such Restricted Subsidiary permitted under clauses (b)(1), (2), (4) and (6) of the covenant described under "— Certain Covenants — Limitation on Indebtedness and Disqualified or Preferred Stock" and the 2014 Notes) does not exceed an amount equal to 15% of Total Assets.

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"**PRC CJV**" means any future Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 13, 2000) and the Detailed Rules for the Implementation of the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws may be amended.

"**PRC CJV Partner**" means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with our Company or any Restricted Subsidiary.

"**PRC Restricted Subsidiary**" means a Restricted Subsidiary organized under the laws of the People's Republic of China.

"**Preferred Stock**" as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"**Public Indebtedness**" means any bonds, debentures, notes or similar debt securities issued in a public offering or a private placement (other than the Notes) to institutional investors.

"**Qualified IPO**" means an underwritten public offering of the common stock of the Listing Vehicle on a Recognized Stock Exchange where (i) following such public offering, at least 20% of the aggregate Fair Market Value of the common stock of the Listing Vehicle will be held by Persons who are not Affiliates of the Listing Vehicle and (ii) the proceeds to our Company or the Listing Vehicle, net of selling discounts and commissions, will be at least US$50 million (or the Dollar Equivalent thereof).

"**Rating Agencies**" means (i) S&P and (ii) Fitch; *provided* that if S&P or Fitch or both shall not make a rating of the Notes publicly available, a nationally recognized securities rating agency or agencies, as the case may be, selected by our Company, which shall be substituted for S&P or Fitch or both, as the case may be.

"**Rating Category**" means (i) with respect to S&P, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); (ii) with respect to Fitch, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); and (iii) the equivalent of any such category of S&P or Fitch used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories ("+" and "-" for S&P; "+" and "-" for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to S&P or Fitch, a decline in a rating from "BB+" to "BB," as well as from "BB-" to "B+," will constitute a decrease of one gradation).

"**Rating Date**" means (1) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by our Company or any other Person or Persons to effect a Change of Control or (2) in connection with actions contemplated under the caption "— Consolidation, Merger and Sale of Assets," that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

"**Rating Decline**" means (1) in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by our Company or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes, our Company or our Company and its Subsidiaries, taken as a whole, is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below, or (2) in connection with actions contemplated under the caption "— Consolidation, Merger and Sale of Assets," the notification by any of the Rating Agencies that such proposed actions will result in any of the events listed below:

(a) in the event the Notes are rated by both Fitch and S&P on the Rating Date as Investment Grade, the rating of the Notes by either Rating Agency shall be below Investment Grade;

(b) in the event the Notes are rated by either, but not both, of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agency shall be below Investment Grade; or

(c) in the event the Notes are rated below Investment Grade by both Rating Agencies on the Rating Date, the rating of the Notes by either Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

"**Recognized Stock Exchange**" means the Main Board of the Stock Exchange of Hong Kong Limited, the Singapore Exchange Limited, the Main Market of the London Stock Exchange, the New York Stock Exchange and NASDAQ.

"**Reference Treasury Dealer**" means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in The City of New York, selected by our Company in good faith.

"**Reference Treasury Dealer Quotations**" means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by our Company in good faith, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing by such Reference Treasury Dealer at 5:00 p.m. (New York City Time) on the third Business Day preceding such redemption date.

"**Replacement Assets**" means, on any date, property or assets (other than current assets) of a nature or type or that are used in a Permitted Business.

"**Restricted Subsidiary**" means any Subsidiary of our Company other than an Unrestricted Subsidiary.

"**S&P**" means Standard & Poor's Ratings Services and its affiliates.

"**Sale and Leaseback Transaction**" means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby our Company or any Restricted Subsidiary transfers such property to another Person and our Company or any Restricted Subsidiary leases it from such Person.

"**Senior Indebtedness**" of our Company or a Restricted Subsidiary, as the case may be, means all Indebtedness of our Company or the Restricted Subsidiary, as relevant, whether outstanding on the Original Issue Date or thereafter created, except for Indebtedness which, in the instrument creating or evidencing the same, is expressly stated to be subordinated in right of payment to (a) in respect of our Company, the Notes or, (b) in respect of any Restricted Subsidiary that is a Subsidiary Guarantor, its Subsidiary Guarantee; *provided* that Senior Indebtedness does not include (i) any obligation to our Company or any Restricted Subsidiary, (ii) trade payables or (iii) Indebtedness Incurred in violation of the Indenture.

"**Significant Subsidiary**" means any Restricted Subsidiary or any group of Restricted Subsidiaries that, taken together, would constitute a "significant subsidiary" as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the United States Securities Act of 1933, as such Regulation is in effect on the date of the Indenture.

"**Stated Maturity**" means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

"**Subordinated Indebtedness**" means any Indebtedness of our Company or any Subsidiary Guarantor which is contractually subordinated or junior in right of payment to the Notes or any Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

"**Subsidiary**" means, with respect to any Person, any corporation, association or other business entity of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person.

"**Subsidiary Guarantee**" means any Guarantee of the obligations of our Company under the Indenture and the Notes by any Subsidiary Guarantor.

"**Subsidiary Guarantor**" means any initial Subsidiary Guarantor named herein and any other Restricted Subsidiary which guarantees the payment of the Notes pursuant to the Indenture and the Notes; *provided* that Subsidiary Guarantor will not include any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes.

"**Temporary Cash Investment**" means any of the following:

(1) direct obligations of the United States of America, the United Kingdom, any state of the European Economic Area, the People's Republic of China or Hong Kong or any agency thereof or obligations fully and unconditionally Guaranteed by the United States of America, the United Kingdom, any state of the European Economic Area, the People's Republic of China or Hong Kong or any agency thereof, in each case maturing within one year;

(2) time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof, the United Kingdom, any state of the European Economic Area or Hong Kong, and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US$100.0 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act) or any money market fund sponsored by a registered broker dealer or mutual fund distributor;

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;

(4) commercial paper, maturing not more than one year after the date of acquisition, issued by a corporation (other than an Affiliate of our Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-2" (or higher) according to Moody's or "A-2" (or higher) according to S&P;

(5) securities with maturities of one year or less from the date of acquisition issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P or Moody's;

(6) any mutual fund that has at least 95% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and

(7) time deposit accounts, certificates of deposit and money market deposits with (i) Industrial and Commercial Bank of China, Industrial Bank Co. Ltd., China Construction Bank Corporation, Quanzhou City Commercial Bank, Agricultural Bank Of China, Ximen International Bank, China Citic Bank International, The Hongkong and Shanghai Banking Corporation Limited, Bank Julius Baer & Co. Ltd. and Chang Hwa Commercial Bank (Taiwan), (ii) any other bank or trust company organized under the laws of the PRC whose long-term debt rating by Moody's or S&P is as high or higher than any of those banks listed on clause (i) above or (iii) any other bank organized under the laws of the PRC, *provided* that, in the case of clause (iii), such deposits do not exceed US$10 million (or the Dollar Equivalent thereof) with any single bank or US$30 million (or the Dollar Equivalent thereof) in the aggregate on any date of determination.

"**Total Assets**" means, as of any date, the total consolidated assets of our Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last day of the most recent semi-annual period for which consolidated financial statements of our Company (which our Company shall use commercially reasonable efforts to compile on a timely manner) are available (which may be internal consolidated financial statements); *provided* that only with respect to the definition of

"Permitted Subsidiary Indebtedness," Total Assets shall be calculated after giving pro forma effect to include the cumulative value of all of the real or personal property or equipment the acquisition, development, construction or improvement of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder in each case as of such date, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by our Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness.

"**Trade Payables**" means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services and payable within 180 days.

"**Transaction Date**" means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

"**Unrestricted Subsidiary**" means any Subsidiary of our Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture and any Subsidiary of an Unrestricted Subsidiary.

"**Voting Stock**" means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

"**Wholly-Owned**" means, with respect to any Subsidiary of any Person, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director's qualifying shares or Investments by foreign nationals mandated by applicable law) by such Person or one or more Wholly-Owned Subsidiaries of such Person; *provided* that Subsidiaries that are PRC CJVs shall not be considered Wholly-Owned Subsidiaries.

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this Offering Memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of Notes.

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

CAYMAN ISLANDS

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws:

(1) payments of interest and principal on the Notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of the Notes, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax;

(2) no stamp duty is payable in respect of the issue of the Notes. An instrument of transfer in respect of a Note is stampable if executed in or brought into the Cayman Islands.

Our Company has received an undertaking from the Governor-in-Cabinet of the Cayman Islands that, in accordance with section 6 of The Tax Concessions Law (1999 Revision) of the Cayman Islands, for a period of 20 years from August 12, 2008, no law which is hereafter enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to our Company or its operations and, in addition, no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable on or in respect of the shares, debentures or other obligations of our Company.

HONG KONG

Withholding Tax

No withholding tax in Hong Kong is payable on payments of principal in respect of the Notes.

Profits Tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the ''Inland Revenue Ordinance'') as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal, conversion or redemption of the Notes where such sale, disposal, conversion or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Notes will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

(1) a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(2) a corporation carrying on a trade, profession or business in Hong Kong; or

(3) a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of the Notes where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue, transfer (for so long as the register of holders of the Notes is maintained outside Hong Kong).

Estate Duty

No Hong Kong estate duty is payable in respect of the Notes.

PRC TAXATION

The following summary of certain PRC tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, rules and regulations in effect as of the date of this Offering Memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes, including such possible consequences under the laws of their country of citizenship, residence or domicile.

Taxation on Interest and Capital Gains

Under the EIT Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% (or lower treaty rate, if any) is withheld from interest payable to investors that are "non-resident enterprises" and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant interest income is not effectively connected with the establishment or place of business, to the extent such interest is derived from sources within the PRC. Any gain realized on the transfer of the Notes by such investors is subject to a 10% (or lower treaty rate, if any) PRC income tax if such gain is regarded as income of a "non-resident enterprise" derived from sources within the PRC. As advised by Tianyuan Law Firm, our PRC legal counsel, there is uncertainty as to whether we will be treated as a PRC "resident enterprise" for the purpose of the EIT Law. If we are treated as a PRC "resident enterprise," the interest we pay in respect of the Notes, and the gain any investor may realize from the transfer of the Notes, may be treated as income derived from sources within the PRC and may be subject to PRC tax. See "Risk Factors — We may be deemed a PRC resident under the EIT Law and be subject to PRC taxation on our worldwide income" and "Interest payable by us to our foreign investors and gain on sale of the Notes may be subject to withholding taxes under PRC tax laws."

Stamp duty

No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside the PRC) of a Note.

EU DIRECTIVE ON THE TAXATION OF SAVINGS INCOME

Under the EC Council Directive 2003/48/EC on the taxation of savings income (the "Savings Directive"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State or to certain limited types of entities established in that other Member State.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

On March 24, 2014, the Council of European Union adopted a Council Directive amending and broadening the scope of the requirements under the Savings Directive. Member States are required to apply these new requirements from January 1, 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Austria is required (unless during that period it elects otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of the non-EU countries and territories including Switzerland have adopted similar measures (withholding system in the case of Switzerland).

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a purchase agreement dated May 24, 2016 (the "Purchase Agreement") between Merrill Lynch International (the "Initial Purchaser"), on the one hand, and our Company and the Subsidiary Guarantors, on the other hand, the Initial Purchaser has agreed to purchase from us, and we have agreed to sell to the Initial Purchaser, the following aggregate principal amounts of the Notes:

Name	Principal Amount
Merrill Lynch International	US$400,000,000
Total	US$400,000,000

The Purchase Agreement provides that the obligation of the Initial Purchaser to pay for and accept delivery of the Notes is subject to the approval of certain legal matters by their counsel and certain other conditions. The Initial Purchaser is committed to take and pay for all of the Notes if any are taken. After the initial offering, the offering price and other selling terms may be varied from time to time by the Initial Purchaser without notice. The Initial Purchaser may offer and sell the Notes through certain of their affiliates.

Each of our Company and the Subsidiary Guarantors has agreed to, jointly and severally, indemnify the Initial Purchaser against certain liabilities, including liabilities under the Securities Act, and to contribute to payments which the Initial Purchaser may be required to make in respect thereof. In addition, each of our Company and the Subsidiary Guarantors has agreed to, jointly and severally, reimburse the Initial Purchaser for certain expenses incurred in connection with the offering of the Notes. In addition, we have agreed with the Initial Purchaser that private banks will be paid a commission for any amount of the Notes not exceeding 25% of the aggregate principal amount of the Notes to be purchased by the Initial Purchaser's private bank clients, which commission may be deducted from the purchase price for the Notes payable by such private banks upon settlement.

The Notes are a new issue of securities with no established trading market. We will seek a listing of the Notes on the Hong Kong Stock Exchange. A confirmation of the eligibility of the listing of the Notes has been received from the Hong Kong Stock Exchange. We have been advised by the Initial Purchaser that, in connection with the offering of the Notes, the Initial Purchaser may, to the extent permitted by applicable laws and regulations, engage in transactions that stabilize, maintain or otherwise affect the price of the Notes. Specifically, the Initial Purchaser may over-allot the offering, creating a syndicate short position. In addition, the Initial Purchaser may bid for, and purchase, the Notes in the open market to cover syndicate shorts or to stabilize the price of the Notes. Any of these activities, which may be effected in the over-the-counter market or otherwise, may stabilize or maintain the market price of the Notes above independent market levels. However, the Initial Purchaser is not obligated or required to engage in these activities, and may end any of these activities at any time at their sole discretion without prior notice. No assurance can be given as to the liquidity of, or the trading market for, the Notes.

We expect that delivery of the Notes will be made against payment therefor on or about June 3, 2016 which we expect will be the seventh business day following the pricing date of the Notes (this settlement cycle being referred to as "T+7"). Purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+7, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or succeeding business days should consult their own legal advisor.

Investors who purchase Notes from the Initial Purchaser may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price set forth on the cover page of this Offering Memorandum.

We have been advised that the Initial Purchaser presently intends to make a market in the Notes, as permitted by applicable laws and regulations. The Initial Purchaser is not obligated, however, to make a market in the Notes, and any such market making may be discontinued at any time without prior notice at the sole discretion of the Initial Purchaser. Accordingly, no assurance can be given as to the liquidity of, or trading markets for, the Notes.

The Initial Purchaser and its affiliates have in the past engaged, and may in the future engage, in transactions with and perform services, including financial advisory and investment banking services, for us and our affiliates in the ordinary course of business, for which they received or will receive customary fees and expenses. Furthermore, we may enter into hedging or other derivative transactions as part of our risk management strategy with the Initial Purchaser, which may include transactions relating to our obligations under the Notes. Our obligations under these transactions may be secured by cash or other collateral.

The Initial Purchaser or certain of its affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution. The Initial Purchaser or its affiliates may purchase the Notes for its or their own account and may retain, purchase or sell for its own account such securities and any securities of our Company or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering of the Notes. Accordingly, references herein to the Notes being offered should be read as including any offering of the Notes to the Initial Purchaser or its affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. The Initial Purchaser may also enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of our Company or their respective subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Memorandum relates (notwithstanding that such selected counterparties may also be purchasers of the Notes).

United States

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States except pursuant to an exception from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes and the Subsidiary Guarantees are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

United Kingdom

The Initial Purchaser (a) has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "FSMA") with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and (b) has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to it.

Singapore

This Offering Memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Accordingly, the Initial Purchaser has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase or will not offer or sell the Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, or has not circulated or distributed, or will not circulate or distribute, this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under

Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 except:

(1) to an institutional investor or to a relevant person as defined in Section 275(2) of the SFA; or to any person arising from an offer referred in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Hong Kong

The Initial Purchaser (a) has not offered or sold or will not offer or sell in Hong Kong, by means of any document, any Notes other than (1) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (2) in other circumstances which do not result in the document being a "prospectus" as defined in the Cap. 32 Companies (WUMP) Ordinance or which do not constitute an offer to the public within the meaning of that Ordinance; or (b) has not issued or had in its possession for the purposes of issue or will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (the "Financial Instruments and Exchange Act") and, accordingly, the Initial Purchaser has not, directly or indirectly, offered or sold or will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and any other applicable laws and regulations of Japan.

People's Republic of China

The Initial Purchaser has represented and agreed that it has not circulated and will not circulate the Offering Memorandum and it has not offered or sold and will not offer or sell the Notes, directly or indirectly, in the People's Republic of China (for such purpose, not including the Hong Kong and Macau Special Administrative Regions or Taiwan).

General

No action is being taken or is contemplated by us that would, or is intended to, permit a public offering of the Notes or possession or distribution of any preliminary Offering Memorandum or Offering Memorandum or any amendment thereof, any supplement thereto or any other offering material relating to the Notes in any jurisdiction where, or in any other circumstance in which, action for those purposes is required.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult their legal counsel prior to making any offer, sale, resale, pledge or other transfer of the Notes.

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act and may not be offered, sold or delivered within the United States (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

By its purchase of the Notes, each purchaser of the Notes will be deemed to have represented and agreed that:

1. it is not an "affiliate" (as defined in Rule 144 under the Securities Act) of our Company or acting on behalf of our Company and is outside the United States, and it is purchasing the Notes in an offshore transaction in accordance with Regulation S;

2. it acknowledges that the Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act or with any securities regulatory authority of any jurisdiction, are being offered and sold only outside of the United States in offshore transactions in reliance on Regulation S under the Securities Act and may not be offered or sold within the United States except as set forth below;

3. it is purchasing the Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act;

4. it acknowledges that neither our Company nor the Initial Purchaser nor any person representing our Company or the Initial Purchaser have made any representation with respect to our Company or the offering of the Notes, other than the information contained in this Offering Memorandum. In addition, each purchaser represents that it is relying only on this Offering Memorandum in making its investment decision with respect to the Notes and agrees that it has had access to such financial and other information concerning our Company and the Notes as it has deemed necessary in connection with its decision to purchase the Notes, including an opportunity to ask question of and request information from our Company;

5. it acknowledges that our Company, the Initial Purchaser and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of such acknowledgments, representations or agreements deemed to have been made by virtue of its purchase of Notes are no longer accurate, it shall promptly notify our Company and the Initial Purchaser, and if it is acquiring any Notes as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account; and

6. it will inform each person to whom it transfers the Notes of any restrictions on transfer of such Notes.

RATINGS

The Notes are expected to be rated "BB" by S&P Global Ratings, acting through Standard & Poor's Hong Kong Limited and "BB" by Fitch (Hong Kong) Limited. The ratings reflect the rating agencies' assessment of the likelihood of timely payment of the principal of and interest on the Notes. Additionally, we have been rated "BB" with a "Stable" outlook by S&P Global Ratings, acting through Standard & Poor's Hong Kong Limited, and "BB" with a "Stable" outlook by Fitch (Hong Kong) Limited. The ratings do not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. We cannot assure you that the ratings will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgment circumstances so warrant. Each such rating should be evaluated independently of any other rating on the Notes, on other of our securities, or on us.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for us by Orrick, Herrington & Sutcliffe as to matters of United States federal and New York law and Hong Kong law, Tianyuan Law Firm as to matters of PRC law, Conyers Dill & Pearman as to matters of Cayman Islands law and British Virgin Islands law.

Certain legal matters will be passed upon for the Initial Purchaser by Skadden, Arps, Slate, Meagher & Flom LLP as to matters of United States federal and New York law and Jun He Law Offices as to matters of PRC law.

AUDITOR

Our audited consolidated financial statements as of and for each of the financial years ended December 31, 2013, 2014 and 2015 included in this Offering Memorandum have been audited by KPMG, independent accountants, as stated in their reports appearing herein.

GENERAL INFORMATION

1. **Clearing Systems:** The Notes have been accepted for clearance through Euroclear and Clearstream under Common Code 141575899 and the International Securities Identification Number (ISIN) XS1415758991.

2. **Listing of Notes:** Application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes by way of debt issues to professional investors and high net worth individuals, and such permission is expected to become effective on or about June 3, 2016.

3. **Authorizations:** We have obtained all necessary consents, approvals and authorizations in connection with the issue and performance of the Notes. The issue of the Notes was authorized by resolutions of our Board of Directors passed on May 24, 2016.

4. **No Material Adverse Change:** Except as disclosed in this Offering Memorandum there has been no material adverse change in the financial position, business prospects or results of operations of our Company and our Group since December 31, 2015.

5. **Litigation:** Save as disclosed in this Offering Memorandum, neither of our Company nor any of its subsidiaries is involved in any litigation or arbitration proceedings which are material in the context of the issue, offering and sale of the Notes nor is our Company or any of its subsidiaries aware that any such proceedings are pending or threatened.

6. **Available Documents:** Copies of the latest annual reports and consolidated accounts of our Company may be obtained free of charge, and copies of the Indenture will be made available for inspection, at Room 1609, 16/F, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong, during normal business hours or at the specified offices of the Agents at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong, during normal business hours and upon reasonable advance written notice being given to the Agents, so long as any of the Notes is outstanding.

INDEX TO FINANCIAL STATEMENTS

Notes:

(1) The audited consolidated financial statements set out herein has been reproduced from our Company's annual report for the year ended December 31, 2015 and page references are to pages set forth in such report.

(2) The audited consolidated financial statements set out herein has been reproduced from our Company's annual report for the year ended December 31, 2014 and page references are to pages set forth in such report.

(3) The audited consolidated financial statements set out herein have been reproduced from our Company's annual report for the year ended December 31, 2013 and page references are to pages set forth in such report.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of
361 Degrees International Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of 361 Degrees International Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 48 to 100, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

8 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2015 (Expressed in Renminbi)

	Note	2015 RMB'000	2014 RMB'000
Revenue	3	**4,458,701**	3,906,286
Cost of sales		**(2,635,738)**	(2,309,490)
Gross profit		**1,822,963**	1,596,796
Other revenue	4	**154,893**	112,870
Other net gain/(loss)	4	**27,279**	(12,987)
Selling and distribution expenses		**(712,895)**	(769,245)
Administrative expenses		**(377,571)**	(203,269)
Profit from operations		**914,669**	724,165
Net change in fair value of derivatives embedded to convertible bonds	20	**–**	51,661
Loss on repurchase of convertible bonds		**–**	(76,118)
Finance costs	5(a)	**(125,510)**	(92,235)
Profit before taxation	5	**789,159**	607,473
Income tax	6(a)	**(259,540)**	(202,261)
Profit for the year		**529,619**	405,212
Attributable to:			
Equity shareholders of the Company	9	**517,639**	397,642
Non-controlling interests		**11,980**	7,570
Profit for the year		**529,619**	405,212
Earnings per share	10		
Basic (cents)		**25.0**	19.2
Diluted (cents)		**25.0**	19.2

The notes on pages 55 to 100 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 24(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2015 (Expressed in Renminbi)

	2015 RMB'000	2014 RMB'000
Profit for the year	**529,619**	405,212
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements	**(34,700)**	(5,567)
Total comprehensive income for the year	**494,919**	399,645
Attributable to:		
Equity shareholders of the Company	**482,939**	392,075
Non-controlling interests	**11,980**	7,570
Total comprehensive income for the year	**494,919**	399,645

The notes on pages 55 to 100 form part of these financial statements. There was no tax effect relating to the components of other comprehensive income.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2015 (Expressed in Renminbi)

	Note	2015 RMB'000	2014 RMB'000
Non-current assets			
Property, plant and equipment	*11*	**1,174,446**	1,050,676
Interests in leasehold land held for own use under operating leases	*11*	**119,260**	95,450
		1,293,706	1,146,126
Other financial asset	*13*	**17,550**	17,550
Deposits and prepayments	*15*	**92,080**	96,691
Deferred tax assets	*23(b)*	**28,537**	49,971
		1,431,873	1,310,338
Current assets			
Inventories	*14*	**551,957**	570,058
Trade debtors	*15*	**2,017,676**	1,524,240
Bills receivable	*15*	**235,510**	132,013
Deposits, prepayments and other receivables	*15*	**641,385**	891,951
Pledged bank deposits	*16&17*	**122,026**	175,895
Deposits with banks	*17*	**1,500,000**	1,800,000
Cash and cash equivalents	*17*	**2,286,225**	2,130,237
		7,354,779	7,224,394
Current liabilities			
Trade and other payables	*18*	**1,659,426**	1,851,099
Bank loans	*19*	**15,116**	15,311
Current taxation	*23(a)*	**255,907**	146,374
		1,930,449	2,012,784
Net current assets		**5,424,330**	5,211,610

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2015 (Expressed in Renminbi)

	Note	2015 RMB'000	2014 RMB'000
Total assets less current liabilities		**6,856,203**	6,521,948
Non-current liabilities			
Deferred tax liabilities	*23(b)*	**351**	133
Interest-bearing borrowings	*20*	**1,489,395**	1,484,869
		1,489,746	1,485,002
NET ASSETS		**5,366,457**	5,036,946
CAPITAL AND RESERVES			
Share capital	*24(c)*	**182,298**	182,298
Reserves		**5,100,274**	4,782,743
Total equity attributable to equity shareholders of the Company		**5,282,572**	4,965,041
Non-controlling interests		**83,885**	71,905
TOTAL EQUITY		**5,366,457**	5,036,946

Approved and authorised for issue by the board of directors on 8 March 2016.

Ding Huihuang
Director

Ding Huirong
Director

The notes on pages 55 to 100 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015 (Expressed in Renminbi)

		Attributable to equity shareholders of the Company										
	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2014		182,298	232,467	156,252	90,489	504,227	12,859	(31,782)	3,529,536	4,676,346	64,335	4,740,681
Changes in equity for 2014:												
Profit for the year		–	–	–	–	–	–	–	397,642	397,642	7,570	405,212
Other comprehensive income		–	–	–	–	–	–	(5,567)	–	(5,567)	–	(5,567)
Total comprehensive income		–	–	–	–	–	–	(5,567)	397,642	392,075	7,570	399,645
Appropriation to statutory reserve		–	–	–	–	28,835	–	–	(28,835)	–	–	–
Equity settled share-based transaction	*22*	–	–	–	–	–	(12,859)	–	12,859	–	–	–
Dividends declared and paid during the year	*24(b)*	–	(103,380)	–	–	–	–	–	–	(103,380)	–	(103,380)
Balance at 31 December 2014 and 1 January 2015		182,298	129,087	156,252	90,489	533,062	–	(37,349)	3,911,202	4,965,041	71,905	5,036,946
Balance at 31 December 2014 and 1 January 2015		182,298	129,087	156,252	90,489	533,062	–	(37,349)	3,911,202	4,965,041	71,905	5,036,946
Changes in equity for 2015:												
Profit for the year		–	–	–	–	–	–	–	517,639	517,639	11,980	529,619
Other comprehensive income		–	–	–	–	–	–	(34,700)	–	(34,700)	–	(34,700)
Total comprehensive income		–	–	–	–	–	–	(34,700)	517,639	482,939	11,980	494,919
Appropriation to statutory reserve		–	–	–	–	12,783	–	–	(12,783)	–	–	–
Dividends declared and paid during the year	*24(b)*	–	(62,028)	–	–	–	–	–	(103,380)	(165,408)	–	(165,408)
Balance at 31 December 2015		182,298	67,059	156,252	90,489	545,845	–	(72,049)	4,312,678	5,282,572	83,885	5,366,457

The notes on pages 55 to 100 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2015 (Expressed in Renminbi)

	Note	2015 RMB'000	2014 RMB'000
Operating activities			
Profit before taxation		**789,159**	607,473
Adjustments for:			
Depreciation	5(c)	**64,428**	65,040
Amortisation of land lease premium	5(c)	**2,152**	2,152
Finance costs	5(a)	**125,510**	92,235
Interest income	4	**(98,536)**	(77,581)
Net change in fair value of derivatives embedded to convertible bonds		**–**	(51,661)
Loss on repurchase of convertible bonds		**–**	76,118
Net gain on disposal of property, plant and equipment	4	**(77)**	(7)
Reversal of impairment loss on trade debtors	5(c)	**–**	(111,366)
Effect of foreign exchange rates changes		**(34,426)**	23,072
Changes in working capital:			
Decrease/(increase) in inventories		**18,101**	(160,700)
(Increase)/decrease in trade debtors		**(493,436)**	418,310
Increase in bills receivable		**(103,497)**	(47,233)
Decrease/(increase) in deposits, prepayments and other receivables		**256,582**	(243,340)
(Decrease)/increase in trade and other payables		**(152,172)**	458,149
Cash generated from operations		**373,788**	1,050,661
People's Republic of China ("PRC") income tax paid		**(128,355)**	(139,477)
Net cash generated from operating activities		**245,433**	911,184
Investing activities			
Payment for the purchase of property, plant and equipment		**(253,316)**	(114,571)
Proceeds from disposal of property, plant and equipment		**383**	142
Decrease/(increase) in pledged bank deposits		**53,869**	(137,995)
Decrease/(increase) in deposits with banks		**300,000**	(1,478,253)
Interest received		**92,523**	65,487
Net cash generated from/(used in) investing activities		**193,459**	(1,665,190)

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2015 (Expressed in Renminbi)

	Note	2015 RMB'000	2014 RMB'000
Financing activities			
Proceeds from senior unsecured notes		–	1,463,889
Repayment of bank loans		(1,026)	(587)
Repurchase of convertible bonds		–	(944,413)
Finance charges on convertible bonds paid		–	(27,416)
Interest paid		(114,120)	(1,367)
Dividends paid	24(b)	(165,408)	(103,380)
Net cash (used in)/generated from financing activities		**(280,554)**	386,726
Net increase/(decrease) in cash and cash equivalents		**158,338**	(367,280)
Cash and cash equivalents at 1 January		**2,130,237**	2,494,280
Effect of foreign exchange rate changes		**(2,350)**	3,237
Cash and cash equivalents at 31 December	17	**2,286,225**	2,130,237

The notes on pages 55 to 100 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the "Group").

The Company and other investment holding subsidiaries incorporated in the Cayman Islands, the British Virgin Islands (the "BVI") and Hong Kong have their functional currency in Hong Kong dollars and subsidiaries established in the PRC have their functional currency in Renminbi ("RMB"). As the Group mainly operates in the PRC, RMB is used as the presentation currency of the Group's financial statements. All financial information presented is rounded to the nearest thousand except otherwise stated. The measurement basis used in the preparation of the financial statements is the historical costs basis except that derivative financial instruments are stated at their fair value as explained in the accounting policy set out in note 1(f).

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

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

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

(c) Change in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments are relevant to the Group's results and financial position.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests

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

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Other investments in equity securities

Investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(i)).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(f) Derivative financial instruments

Derivatives financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(g) Property, plant and equipment

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

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

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

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

— Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

— Plant and machinery	5–10 years
— Office equipment and other fixed assets	2–10 years
— Motor vehicles	5 years

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

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

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

(i) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of assets (Continued)

(i) Impairment of investments in equity securities and other receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

— For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of assets (Continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that property, plant and equipment, interests in leasehold land held for own use under operating leases, non-current deposits and prepayments and investment in subsidiary may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

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

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Inventories

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

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

(l) Convertible bonds

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition the derivative components of the convertible bonds is measured at fair value and presented as part of derivative financial instruments (see note 1(f)). Any excess of proceeds over the amount initially recognised as the derivative components is recognised as the liability component. Transaction costs that relate to the issue of the convertible bond are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative components is recognised immediately in profit or loss.

The derivative components are subsequently remeasured in accordance with note 1(f). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

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

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

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

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(q) Income tax

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Income tax (Continued)

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

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

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

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

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

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either;

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Provisions and contingent liabilities

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

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

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and goods return.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

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

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

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

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

(u) Borrowing costs

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

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

(v) Research and development and advertising

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

(w) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(x) Segment reporting

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

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

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

2 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Sources of estimation uncertainty

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

(i) Useful lives of property, plant and equipment

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

(ii) Impairment losses on trade debtors and bills receivable

The Group recognises impairment losses on doubtful debts based on an assessment of the recoverability of trade debtors and bills receivable. Impairments are applied to trade debtors and bills receivable where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debts expenses in the period in which such estimate has been changed.

(iii) Other impairment losses

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

(iv) Net realisable value of inventories

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

(Expressed in thousands of Renminbi unless otherwise indicated)

2 ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

(a) Sources of estimation uncertainty (Continued)

(v) Income taxes

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

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

Revenue by product type is as follows:

	2015 RMB'000	2014 RMB'000
Footwear	**2,072,483**	1,742,652
Apparel	**2,289,990**	2,067,293
Accessories	**96,228**	96,341
	4,458,701	3,906,286

The Group's customer base is diversified and has two (2014: one) customers with whom transactions have exceeded 10% of the Group's revenues. In 2015, revenues from sales of footwear, apparel and accessories in both reportable segments (see note 3(b)) to the two (2014: one) customers, including sales to entities which are known to the Group to be under common control with these customers, were approximately RMB585 million and RMB454 million respectively (2014: RMB536 million). Details of concentrations of credit risk arising from these customers are set out in note 25(a)(i).

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

(b) Segment reporting

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

— *361°* Products — Adults: this segment derives revenue from manufacturing and trading of adults sporting goods.

— *361°* Products — Kids: this segment derives revenue from trading of kids sporting goods.

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

(Expressed in thousands of Renminbi unless otherwise indicated)

3 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(i) Segment results

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2015 and 2014 is set out below.

	361° Products — Adults		*361°* Products — Kids		Total	
	2015	2014	**2015**	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Reportable segment revenue	**3,869,772**	3,398,783	**588,929**	507,503	**4,458,701**	3,906,286
Cost of sales	**(2,288,146)**	(2,008,617)	**(347,592)**	(300,873)	**(2,635,738)**	(2,309,490)
Reportable segment profit (gross profit)	**1,581,626**	1,390,166	**241,337**	206,630	**1,822,963**	1,596,796

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

	2015	2014
	RMB'000	RMB'000
Revenue		
Reportable segment revenue and consolidated revenue *(note 3(a))*	**4,458,701**	3,906,286
Profit		
Reportable segment profit	**1,822,963**	1,596,796
Other revenue	**154,893**	112,870
Other net gain/(loss)	**27,279**	(12,987)
Selling and distribution expenses	**(712,895)**	(769,245)
Administrative expenses	**(377,571)**	(203,269)
Net change in fair value of derivatives embedded to convertible bonds	**–**	51,661
Loss on repurchase of convertible bonds	**–**	(76,118)
Finance costs	**(125,510)**	(92,235)
Consolidated profit before taxation	**789,159**	607,473

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise indicated)

4 OTHER REVENUE AND NET GAIN/(LOSS)

	2015 RMB'000	2014 RMB'000
Other revenue		
Bank interest income	**98,536**	77,581
Government grants	**35,194**	23,408
Others	**21,163**	11,881
	154,893	112,870
Other net gain/(loss)		
Net gain on disposal of property, plant and equipment	**77**	7
Net foreign exchange gain/(loss)	**27,202**	(12,994)
	27,279	(12,987)

Government grants of RMB35,194,000 (2014: RMB23,408,000) 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.

(Expressed in thousands of Renminbi unless otherwise indicated)

5 PROFIT BEFORE TAXATION

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

		2015 RMB'000	2014 RMB'000
(a)	**Finance costs**		
	Interest on bank and other borrowings wholly repayable within five years	**1,620**	1,367
	Finance charges on convertible bonds *(note 20)*	**–**	53,338
	Finance charges on senior unsecured note *(note 20)*	**123,890**	37,530
	Total interest expense on financial liabilities not carried at fair value through profit or loss	**125,510**	92,235
(b)	**Staff costs**		
	Contributions to defined contribution retirement plans	**21,861**	20,608
	Salaries, wages and other benefits	**349,757**	308,308
		371,618	328,916
(c)	**Other items**		
	Auditors' remuneration		
	— audit services	**3,600**	3,326
	— tax services	**109**	145
	— other services	**–**	494
	Amortisation of land lease premium	**2,152**	2,152
	Depreciation	**64,428**	65,040
	Reversal of impairment loss on trade debtors *(note 15(b))*	**–**	(111,366)
	Operating lease charges in respect of properties	**12,369**	14,617
	Research and development costs *	**139,646**	95,703
	Cost of inventories **	**2,635,738**	2,309,490

* Research and development costs include RMB33,122,000 (2014: RMB28,601,000) relating to staff costs of employees in the research and development department, which amount is also included in the total staff costs as disclosed in note 5(b).

** Cost of inventories include RMB240,902,000 (2014: RMB220,547,000) relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

(Expressed in thousands of Renminbi unless otherwise indicated)

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2015 RMB'000	2014 RMB'000
Current tax — PRC income tax		
Provision for the year	**227,002**	171,142
Under/(over)-provision in respect of prior years	**10,886**	(5,867)
	237,888	165,275
Deferred tax		
Origination and reversal of temporary differences	**21,652**	36,986
	259,540	202,261

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

(ii) No provision has been made for Profits Tax in Hong Kong, Brazil and USA as the Group did not earn any income subject to Profits Tax in Hong Kong, Brazil and USA during the year.

(iii) All PRC subsidiaries are subject to income tax at 25% for the year ended 31 December 2015 (2014: 25%) under the Enterprise Income Tax law ("EIT law").

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

	2015 RMB'000	2014 RMB'000
Profit before taxation	**789,159**	607,473
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**218,907**	188,283
Tax effect of non-deductible expenses	**24,290**	21,595
Tax effect of non-taxable income	**(3,659)**	(1,750)
Under/(over)-provision in prior years	**10,886**	(5,867)
Withholding tax on dividends	**9,116**	–
Actual tax expense	**259,540**	202,261

(Expressed in thousands of Renminbi unless otherwise indicated)

7 DIRECTORS' EMOLUMENTS

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

	2015			
	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors				
Ding Wuhao	–	1,280	15	1,295
Ding Huihuang	–	1,067	15	1,082
Ding Huirong	–	1,047	15	1,062
Wang Jiabi	–	646	15	661
Independent non-executive directors				
Yan Man Sing	456	–	–	456
Liao Jianwen *(note 2)*	360	–	–	360
Tsui Yung Kwok	342	–	–	342
	1,158	4,040	60	5,258

	2014			
	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors				
Ding Wuhao	–	1,201	13	1,214
Ding Huihuang	–	1,000	13	1,013
Ding Huirong	–	1,000	13	1,013
Wang Jiabi	–	646	13	659
Independent non-executive directors				
Yan Man Sing	446	–	–	446
Sun Xianhong *(note 1)*	133	–	–	133
Liao Jianwen *(note 2)*	210	–	–	210
Tsui Yung Kwok	334	–	–	334
	1,123	3,847	52	5,022

Notes:

(1) Mr. Sun Xianhong resigned as independent non-executive director on 1 June 2014.

(2) Mr. Liao Jianwen was appointed as independent non-executive director on 1 June 2014.

(Expressed in thousands of Renminbi unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2014: Nil) is a director whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other four (2014: five) individuals are as follows:

	2015 RMB'000	2014 RMB'000
Salaries and other emoluments	**7,742**	9,327
Retirement scheme contributions	**86**	84
	7,828	9,411

The emoluments of the four (2014: five) individuals with the highest emoluments are within the following bands:

	2015 Number of individuals	2014 Number of individuals
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**3**	3
HK$2,500,001 to HK$3,000,000	**1**	–
HK$3,000,001 to HK$3,500,000	**–**	1

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB173,307,000 (2014: profit of RMB172,810,000) which has been dealt with in the financial statements of the Company.

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB517,639,000 (2014: RMB397,642,000) and the weighted average of 2,067,602,000 ordinary shares (2014: 2,067,602,000 ordinary shares) in issue during the year.

(b) Diluted earnings per share

For the year ended 31 December 2014 and 2015, diluted earnings per share is the same as basic earnings per share as the Company did not have dilutive potential shares outstanding during the year.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment and other fixed assets RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:								
At 1 January 2014	699,277	210,284	116,759	31,631	189,604	1,247,555	107,156	1,354,711
Exchange adjustments	–	–	1,107	–	–	1,107	–	1,107
Additions	109,598	9,712	11,928	77	8,848	140,163	–	140,163
Disposals	–	(649)	–	–	–	(649)	–	(649)
At 31 December 2014	808,875	219,347	129,794	31,708	198,452	1,388,176	107,156	1,495,332
Accumulated depreciation and amortisation:								
At 1 January 2014	104,973	73,621	78,866	15,468	–	272,928	9,554	282,482
Exchange adjustments	–	–	46	–	–	46	–	46
Charge for the year	29,992	18,320	11,940	4,788	–	65,040	2,152	67,192
Written back on disposals	–	(514)	–	–	–	(514)	–	(514)
At 31 December 2014	134,965	91,427	90,852	20,256	–	337,500	11,706	349,206
Net book value:								
At 31 December 2014	673,910	127,920	38,942	11,452	198,452	1,050,676	95,450	1,146,126
Cost:								
At 1 January 2015	808,875	219,347	129,794	31,708	198,452	1,388,176	107,156	1,495,332
Exchange adjustments	2,582	–	122	–	–	2,704	–	2,704
Additions	44,605	11,931	15,708	7	113,752	186,003	25,962	211,965
Transfer	305,604	–	–	–	(305,604)	–	–	–
Disposals	–	(2,549)	–	–	–	(2,549)	–	(2,549)
At 31 December 2015	1,161,666	228,729	145,624	31,715	6,600	1,574,334	133,118	1,707,452
Accumulated depreciation and amortisation:								
At 1 January 2015	134,965	91,427	90,852	20,256	–	337,500	11,706	349,206
Exchange adjustments	135	–	68	–	–	203	–	203
Charge for the year	31,810	14,273	14,041	4,304	–	64,428	2,152	66,580
Written back on disposals	–	(2,243)	–	–	–	(2,243)	–	(2,243)
At 31 December 2015	166,910	103,457	104,961	24,560	–	399,888	13,858	413,746
Net book value:								
At 31 December 2015	994,756	125,272	40,663	7,155	6,600	1,174,446	119,260	1,293,706

(Expressed in thousands of Renminbi unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (CONTINUED)

As at 31 December 2015, a property with net book value of RMB46,000,000 (2014: RMB43,471,000) was pledged as security for a banking facility of the Group of RMB42,387,000 (2014: RMB40,101,000).

The analysis of net book value of properties is as follows:

	2015 RMB'000	2014 RMB'000
In Hong Kong — medium-term leases	**46,000**	43,471
In PRC — medium-term leases	**1,068,016**	725,889
	1,114,016	769,360
Representing:		
Buildings	**994,756**	673,910
Interest in leasehold land held for own use under operating leases	**119,260**	95,450
	1,114,016	769,360

(Expressed in thousands of Renminbi unless otherwise indicated)

12 INVESTMENTS IN SUBSIDIARIES

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

			Proportion of ownership interest			
Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Sanliuyidu Holdings Company Limited	BVI	100 shares of US$1 each	100%	100%	–	Investment holding
361 Enterprise Company Limited	Hong Kong	1 share	100%	–	100%	Investment holding
361 Investment Company Limited	Hong Kong	1 share	100%	–	100%	Investment holding
361 Degrees (HK) Investment Limited	Hong Kong	1 share	87%	–	100%	Investment holding
Sanliuyidu (Fujian) Sports Goods Co., Ltd) 三六一度(福建)體育用品有限公司 *(Notes (i) and (iv))*	PRC	HK$280,000,000	100%	–	100%	Manufacture and trading of sporting goods
Sanliuyidu (China) Co., Ltd) 三六一度(中國)有限公司 *(Notes (i) and (iv))*	PRC	HK$560,000,000	100%	–	100%	Manufacture and trading of sporting goods
Sanliuyidu Xiamen Industry & Trade Co., Limited) 三六一度(廈門)工貿有限公司 *(Notes (ii) and (iv))*	PRC	RMB100,000,000	100%	–	100%	Trading of sporting goods
Sanliuyidu (Fujian) Shoes and Plastics Technology Co., Ltd) 三六一度(福建)鞋塑科技有限公司 *(Notes (iii) and (iv))*	PRC	HK$86,000,000	51%	–	51%	Manufacture and trading of shoes soles
361 Degrees Children's Clothing Co., Ltd. 三六一度童裝有限公司 *(Notes (i) and (iv))*	PRC	HK$80,000,000	87%	–	100%	Trading of children sporting goods
Yue Lei International Limited 宇彌國際有限公司	Hong Kong	100,000 shares	100%	–	100%	Trading of sporting goods
361 Degrees Kids Wear Holdings Limited	BVI	1 share of US$1 each	100%	–	100%	Investment holding
361 Degrees Kids Wear Limited	Cayman Islands	1,000,000 shares of HK$0.01 each	87%	–	87%	Investment holding

(Expressed in thousands of Renminbi unless otherwise indicated)

12 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activity
361 Degrees Kids Wear Investment Limited	BVI	1 share of US$1 each	87%	–	100%	Investment holding
One Way International Enterprise Limited 萬唯國際實業有限公司	Hong Kong	10,000 shares	70%	–	70%	Investment holding
Zhonglan Sports Goods Co. Ltd 中蘭體育用品有限公司 *(Notes (i) and (iv))*	PRC	RMB49,910,463	70%	–	100%	Investment holding
Wangwei (Xiamen) Industry & Trade Co., Limited 望唯(廈門)工貿有限公司 *(Notes (ii) and (iv))*	PRC	RMB5,000,000	70%	–	100%	Trading of sporting goods
361 USA, Inc	United States	USD3,000,000	100%	–	100%	Trading of sporting goods
Yue Lei do Brasil Comércio, Importação e Exportação de Artigos Esportivos Ltda	Brazil	1,926,650 shares of RIO$1 each	100%	–	100%	Trading of sporting goods
Quanzhou Jinjiang Jiangtou Minhai Gas Station Ltd. 泉州晉江江頭閩海加油站有限公司 *(Notes (ii) and (iv))*	PRC	RMB1,000,000	100%	–	100%	Operating of gas station

Notes:

(i) These entities are wholly foreign owned enterprises established in the PRC.

(ii) These entities are limited liability companies established in the PRC.

(iii) The entity is a sino-foreign equity joint venture enterprise registered in the PRC.

(iv) The English translation of the company names is for reference only. The official names of these companies are in Chinese.

(Expressed in thousands of Renminbi unless otherwise indicated)

13 OTHER NON-CURRENT FINANCIAL ASSET

	2015 RMB'000	2014 RMB'000
Unlisted available-for-sale equity securities	**17,550**	17,550

14 INVENTORIES

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

	2015 RMB'000	2014 RMB'000
Raw materials	**19,860**	30,943
Work in progress	**21,330**	85,600
Finished goods	**510,767**	453,515
	551,957	570,058

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

	2015 RMB'000	2014 RMB'000
Carrying amount of inventories sold	**2,635,738**	2,309,490

(Expressed in thousands of Renminbi unless otherwise indicated)

15 TRADE AND OTHER RECEIVABLES

	2015 **RMB'000**	2014 RMB'000
Trade debtors		
Trade debtors	**2,097,831**	1,604,395
Less: allowance for doubtful debts *(note 15(b))*	**(80,155)**	(80,155)
	2,017,676	1,524,240
Bills receivable	**235,510**	132,013
Deposits, prepayments and other receivables		
Current		
Deposits	**2,696**	5,105
Prepayments	**574,241**	802,198
Other receivables	**64,448**	84,648
	641,385	891,951
Non-current		
Deposits and prepayments	**92,080**	96,691

As at 31 December 2015, the Group endorsed certain bank acceptance bills totalling RMB121,517,000 (2014: RMB281,610,000) to suppliers for settling trade payables of the same amount on a full recourse basis. The Group have derecognised these bills receivable and the payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of the reporting period. In the opinion of the directors, the Group have transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group have limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

Included in prepayments are amounts prepaid to suppliers of RMB520,838,000 (2014: RMB584,123,000).

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

(Expressed in thousands of Renminbi unless otherwise indicated)

15 TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Ageing analysis

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

	2015 RMB'000	2014 RMB'000
Within 90 days	**1,704,642**	1,035,171
Over 90 days but within 180 days	**548,544**	621,082
	2,253,186	1,656,253

Trade debtors and bills receivable are due within 30-180 days from the date of billing. Further details on the Group's credit policy are set out in note 25(a).

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(i)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	2015 RMB'000	2014 RMB'000
At 1 January	**80,155**	191,521
Reversal of impairment loss recognised	**–**	(111,366)
Uncollectible amounts written off	**–**	–
At 31 December	**80,155**	80,155

At 31 December 2015, the Group's trade debtors of RMB80,155,000 (2014: RMB80,155,000) were individually determined to be impaired. The individually impaired receivables related to customers which management assessed that a portion of the receivables were doubtful. Consequently, specific allowances for doubtful debts of RMB80,155,000 (2014: RMB80,155,000) were recognised. The Group does not hold any collateral over these balances.

(Expressed in thousands of Renminbi unless otherwise indicated)

15 TRADE AND OTHER RECEIVABLES (CONTINUED)

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	2015 RMB'000	2014 RMB'000
Neither past due nor impaired	**2,119,134**	1,441,754
Within 30 days past due	**80,154**	73,553
Over 30 days but within 90 days past due	**53,898**	124,998
Over 90 days but within 180 days past due	**–**	15,948
Amount past due	**134,052**	214,499
	2,253,186	1,656,253

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

16 PLEDGED BANK DEPOSITS

Bank deposits are pledged to banks as security for certain banking facilities (see note 19).

(Expressed in thousands of Renminbi unless otherwise indicated)

17 CASH AND BANK DEPOSITS

	2015 RMB'000	2014 RMB'000
Pledged bank deposits	**122,026**	175,895
Deposits with banks		
— More than three months to maturity when placed	**1,500,000**	1,800,000
— Within three months to maturity when placed	**723,436**	809,593
Cash at bank and in hand	**1,562,789**	1,320,644
Cash and bank deposits	**3,908,251**	4,106,132
Represented by:		
Pledged bank deposits	**122,026**	175,895
Deposits with banks	**1,500,000**	1,800,000
Cash and cash equivalents	**2,286,225**	2,130,237
	3,908,251	4,106,132

At 31 December 2015, the balances that were placed with banks or on hand in the PRC and included in the pledged bank deposits, deposits with banks and cash and cash equivalents amounted to RMB3,631,716,000 (2014: RMB3,453,744,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

18 TRADE AND OTHER PAYABLES

	2015 RMB'000	2014 RMB'000
Trade creditors	**733,881**	522,924
Bills payable	**407,297**	783,760
Receipts in advance	**38,782**	19,352
Other payables and accruals	**479,466**	525,063
	1,659,426	1,851,099

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

Bills payable as at 31 December 2015 and 2014 were secured by pledged bank deposits as disclosed in note 16.

(Expressed in thousands of Renminbi unless otherwise indicated)

18 TRADE AND OTHER PAYABLES (CONTINUED)

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

	2015 **RMB'000**	2014 RMB'000
Due within 1 month or on demand	**356,921**	381,032
Due after 1 month but within 3 months	**271,120**	418,663
Due after 3 months but within 6 months	**513,137**	506,989
	1,141,178	1,306,684

19 BANK LOANS

At 31 December 2015, the bank loans were repayable within one year or on demand and secured as follows:

	2015 **RMB'000**	2014 RMB'000
Secured bank loans	**15,116**	15,311

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

	2015 **RMB'000**	2014 RMB'000
Facilities amount	**2,622,387**	3,713,301
Utilisation at the end of the reporting period		
— Bills payable	**407,297**	783,760
— Bank loans	**15,116**	15,311
	422,413	799,071

For the years ended 31 December 2015 and 2014, bank loan and bills payable of the Group were secured by a property and pledged bank deposits (see notes 11 and 16). The Group's bank loans were not subject to any covenants.

(Expressed in thousands of Renminbi unless otherwise indicated)

20 NON-CURRENT INTEREST-BEARING BORROWINGS

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

	2015 RMB'000	2014 RMB'000
Senior unsecured notes *(note 20(b)(i))*	**1,489,395**	1,484,869

All of the non-current interest-bearing borrowings are carried at amortised cost. None of the non-current interest-bearing borrowings is expected to be settled within one year.

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

(i) Senior unsecured notes

On 12 September 2014, the Company issued senior unsecured notes with principal amount of RMB1,500,000,000 due 2017. The notes are interest bearing at 7.5% per annum, and payable on a semi-annual basis in arrears. The maturity date of senior unsecured notes is 12 September 2017. The effective interest rate of the senior unsecured notes is 8.42% per annum.

(ii) Convertible bonds

On 3 April 2012, the Company issued unsecured convertible bonds with principal amount of US$150,000,000 due 2017 (the "convertible bonds"). The convertible bonds were interest-bearing at 4.5% per annum and payable semi-annually in arrears. The maturity date of the convertible bonds was 3 April 2017.

The Group fully repurchased the unsecured convertible bonds with principal amount of US$150,000,000 in 2014. All the repurchased convertible bonds were cancelled on or before 4 December 2014. There were no outstanding convertible bonds as at 31 December 2014 and 2015.

21 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in a defined contribution retirement benefit scheme ("the Scheme") organised by the PRC municipal government authority in the Fujian Province whereby the Group is required to make contributions to the Scheme at rates which ranged from 14% to 18% of the eligible employees' relevant salaries. The local government authority is responsible for the entire pension obligations payable to retired employees.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (HK$25,000 prior to 1 June 2014). Contributions to the plan vest immediately.

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

(Expressed in thousands of Renminbi unless otherwise indicated)

22 EQUITY SETTLED SHARE-BASED TRANSACTIONS

(a) Pre-IPO share option scheme

Pursuant to the shareholders' written resolution passed on 10 June 2009, the Company adopted a Pre-IPO share option scheme ("the Pre-IPO Option") whereby 91 employees of the Group were given the rights to subscribe for shares of the Company. The subscription price per share pursuant to the Pre-IPO Option is HK$2.89, being 20% discount to the global offering price.

Each option granted under the Pre-IPO Option has a vesting period of one to three years commencing from the date of listing of the Company on the Hong Kong Stock Exchange and the options have a contractual life of about five years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

During the year of 2014, outstanding share options of 17,290,000 were forfeited and the fair value of RMB12,859,000 was transferred back to retained profits accordingly (note 24(a)).

There was no outstanding share option as at 31 December 2014 and 2015.

(b) Share option scheme

The Company has also adopted a share option scheme ("the Share Option Scheme") pursuant to the shareholders' written resolution passed on 10 June 2009.

The maximum number of shares that may be granted under the Share Option Scheme and other share options schemes shall not exceed 10% of the number of issued shares of the Company from time to time. No option may be granted to any person such that the total number of shares of the Company issued and to be issued upon exercise of all options granted and to be granted to that person in any 12-month period exceeds 1% of the number of shares of the Company in issue from time to time.

An option under the Share Option Scheme may be exercised in accordance with the terms of the scheme at any time during a period as determined by the Board of Directors of the Company, which must not be more than 10 years from the date of the grant.

No share option has been granted under the Share Option Scheme during the year ended 31 December 2015 (2014: Nil).

23 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

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

	2015 **RMB'000**	2014 RMB'000
Balance at beginning of the year	**146,374**	120,576
Under/(over)-provision in respect of prior years	**10,886**	(5,867)
Provision for PRC income tax for the year	**227,002**	171,142
Payment during the year	**(128,355)**	(139,477)
	255,907	146,374

(Expressed in thousands of Renminbi unless otherwise indicated)

23 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised:

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

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

	Allowance for doubtful debts RMB'000	Withholding tax on dividends RMB'000	Expenses deductible on paid basis RMB'000	Income taxable on receipt basis RMB'000	Total RMB'000
Deferred tax arising from:					
At 1 January 2014	47,880	(19,384)	58,328	–	86,824
(Charged)/credited to profit or loss	(27,842)	15,000	(20,330)	(3,814)	(36,986)
At 31 December 2014	20,038	(4,384)	37,998	(3,814)	49,838
At 1 January 2015	20,038	(4,384)	37,998	(3,814)	49,838
Credited/(charged) to profit or loss	–	1,884	(24,941)	1,405	(21,652)
At 31 December 2015	20,038	(2,500)	13,057	(2,409)	28,186

(ii) Reconciliation to the consolidated statement of financial position

	2015 RMB'000	2014 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**28,537**	49,971
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(351)**	(133)
	28,186	49,838

(c) Deferred tax liabilities not recognised

Pursuant to the EIT law, 10% withholding tax is levied on the foreign investor, (foreign investors which are registered in Hong Kong and meet certain requirements specified in the relevant tax regulations in the PRC may be entitled to a preferential 5% rate), in respect of dividend distributions arising from profit earned by a foreign investment enterprise in the PRC after 1 January 2008. At 31 December 2015, the Group has not recognised deferred tax liabilities of RMB218,254,000 (2014: RMB188,943,000) in respect of temporary differences relating to the undistributed profits of subsidiaries amounting to RMB4,365,086,000 (2014: RMB3,778,858,000) that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

(Expressed in thousands of Renminbi unless otherwise indicated)

24 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

The Company

	Note	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	(Accumulated losses)/ retain profits RMB'000	Total RMB'000
Balance at 1 January 2014		182,298	232,467	12,859	(110,300)	(112,186)	205,138
Changes in equity for 2014:							
Profit for the year		–	–	–	–	172,810	172,810
Other comprehensive income		–	–	–	5,150	–	5,150
Total comprehensive income for the year		–	–	–	5,150	172,810	177,960
Equity-settled share-based transaction		–	–	(12,859)	–	12,859	–
Dividends declared and paid during the year	*24(b)*	–	(103,380)	–	–	–	(103,380)
Balance at 31 December 2014		182,298	129,087	–	(105,150)	73,483	279,718
Balance at 1 January 2015		182,298	129,087	–	(105,150)	73,483	279,718
Changes in equity for 2015:							
Profit for the year		–	–	–	–	173,307	173,307
Other comprehensive income		–	–	–	14,127	–	14,127
Total comprehensive income for the year		–	–	–	14,127	173,307	187,434
Dividends declared and paid during the year	24(b)	–	(62,028)	–	–	(103,380)	(165,408)
Balance at 31 December 2015		182,298	67,059	–	(91,023)	143,410	301,744

(Expressed in thousands of Renminbi unless otherwise indicated)

24 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Dividends

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

	2015 RMB'000	2014 RMB'000
Interim dividend declared and paid of RMB5.0 cents per ordinary share (2014: RMB5.0 cents per ordinary share)	**103,380**	103,380
Final dividend proposed after the end of the reporting period of HK6.3 cents (equivalent to RMB5.3 cents) per ordinary share (2014: RMB3.0 cents per ordinary share)	**109,583**	62,028
	212,963	165,408

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

	2015 RMB'000	2014 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB3.0 cents per ordinary share (2014: RMB Nil cents per ordinary share)	**62,028**	–

(c) Share capital

	2015 Number of shares '000	2015 Amount HK$'000	2014 Number of shares '000	2014 Amount HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	**10,000,000**	**1,000,000**	10,000,000	1,000,000

(Expressed in thousands of Renminbi unless otherwise indicated)

24 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(c) Share capital (Continued)

	Number of shares	Amount	
	'000	HK$'000	RMB'000
Ordinary shares, issued and fully paid:			
At 1 January 2014, 31 December 2014, 1 January 2015 and 31 December 2015	2,067,602	206,760	182,298

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

(d) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

(ii) Capital reserve

On 9 June 2009, 361 Enterprise Company Limited entered into an agreement with a shareholder of the Company whereby repayment of amounts due to the shareholder by 361 Enterprise Company Limited totalling HK$177,216,000 (equivalent to RMB156,252,000) was waived. The waiver of repayment was reflected as a reduction in the amounts due to a shareholder of the Company and a corresponding increase in capital reserve.

(iii) Other reserve

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

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

24 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Nature and purpose of reserves (Continued)

(iv) Statutory reserve

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

(v) Share option reserve

The share option reserve comprises the fair value of the actual or estimated number of unexercised share options granted under the Pre-IPO share option scheme recognised in accordance with the accounting policy accepted for share-based payments in note 1(p)(ii).

(vi) Exchange reserve

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

(e) Distributability of reserves

At 31 December 2015, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB119,446,000 (2014: RMB97,420,000). After the end of the reporting period, the directors proposed a final dividend of HK6.3 cents (equivalent to RMB5.3 cents) (2014: RMB3.0 cents) per ordinary share, amounting to RMB109,583,000 (2014: RMB62,028,000). This dividend has not been recognised as a liability at the end of the reporting period.

(f) Capital management

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

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

The Group monitors capital with reference to its debt position. The Group's strategy was to maintain the equity and debt in a balanced position and ensure there were adequate working capital to service its debt obligation. The Group's gearing ratio, being the Group's interest bearing debt over its total assets, as at 31 December 2015 was 17% (2014: 18%).

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

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

(a) Credit risk

(i) Trade debtors, bills receivable and deposits, prepayments and other receivables

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade debtors and bills receivable are due within 30 to 180 days from the date of billing. Debtors with balances that are more than 1 year from the date of billing are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 13% (2014: 14%) and 45% (2014: 44%) of the total trade debtors and bills receivable were due from the Group's largest customer, and the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 15.

(ii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

(Expressed in thousands of Renminbi unless otherwise indicated)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk

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

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

	2015					2014				
	Contractual undiscounted cash outflow					Contractual undiscounted cash outflow				
	Within 1 year or on demand	**More than 1 year but within 2 years**	**More than 2 years but less than 5 years**	**Total**	**Carrying amount at 31 December**	Within 1 year or on demand	More than 1 year but within 2 years	More than 2 years but less than 5 years	Total	Carrying amount at 31 December
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans	**15,490**	**–**	**–**	**15,490**	**15,116**	16,312	–	–	16,312	15,311
Senior unsecured note	**112,500**	**1,612,500**	**–**	**1,725,000**	**1,489,395**	112,500	112,500	1,612,500	1,837,500	1,484,869
Trade and other payables	**1,620,644**	**–**	**–**	**1,620,644**	**1,620,644**	1,831,747	–	–	1,831,747	1,831,747
Total	**1,748,634**	**1,612,500**	**–**	**3,361,134**	**3,125,155**	1,960,559	112,500	1,612,500	3,685,559	3,331,927

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans, senior unsecured notes, pledged bank deposits, deposits with banks and cash and cash equivalents. Borrowings, deposits and cash and cash equivalents at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(Expressed in thousands of Renminbi unless otherwise indicated)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk (Continued)

(i) Interest rate profile

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

	2015		2014	
	Effective interest rate	Amount	Effective interest rate	Amount
	%	RMB'000	%	RMB'000
Fixed rate borrowings/ (deposits)				
Deposits with banks	**1.95–2.36**	**(1,500,000)**	3.30–3.80	(1,800,000)
Cash and cash equivalents	**1.40–4.80**	**(723,436)**	2.86–4.00	(809,593)
Senior unsecured notes	**8.42**	**1,489,395**	8.42	1,484,869
Pledged bank deposits	**0.39–3.10**	**(122,026)**	0.39–3.10	(175,895)
		(856,067)		(1,300,619)
Variable rate borrowings/ (deposits)				
Cash and cash equivalents	**0.001–1.15**	**(1,554,481)**	0.001–1.265	(1,315,363)
Bank loans	**2.47**	**15,116**	2.47	15,311
		(1,539,365)		(1,300,052)
Total net deposits		**(2,395,432)**		(2,600,671)

(ii) Sensitivity analysis

At 31 December 2015, it is estimated that a general increase/decrease of 100 basis points in both saving and lending interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately RMB11,638,000 (2014: RMB9,817,000). Other components of consolidated equity would not be affected by the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2014.

(Expressed in thousands of Renminbi unless otherwise indicated)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk

The Group is exposed to currency risk primarily through bank deposits and senior unsecured notes that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Hong Kong dollars ("HKD") and United States dollars ("USD").

(i) Exposure to currency risk

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

	Exposure of foreign currencies (expressed in RMB)					
	2015			2014		
	Hong Kong dollars	**United States dollars**	**Renminbi**	Hong Kong dollars	United States dollars	Renminbi
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Cash and bank deposits	**27,318**	**32,425**	**225,492**	51,070	25,958	–
Trade debtors	**–**	**5,447**	**–**	–	1,726	–
Senior unsecured notes	**–**	**–**	**(1,489,395)**	–	–	(1,484,869)
Net exposure arising from recognised assets and liabilities	**27,318**	**37,872**	**(1,263,903)**	51,070	27,684	(1,484,869)

(ii) Sensitivity analysis

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

	2015		2014	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits
		RMB'000		RMB'000
Hong Kong dollars	**5%**	**1,024**	5%	1,915
	(5%)	**(1,024)**	(5)%	(1,915)
Renminbi	**5%**	**(63,195)**	5%	(74,243)
	(5%)	**63,195**	(5)%	74,243

(Expressed in thousands of Renminbi unless otherwise indicated)

25 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk (Continued)

(ii) Sensitivity analysis (continued)

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2014.

(e) Commodity price risk

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

(f) Business risk

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

(g) Fair value measurement

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2015 and 2014.

(Expressed in thousands of Renminbi unless otherwise indicated)

26 COMMITMENTS

(a) Contractual commitments outstanding at 31 December 2015 not provided for in the financial statements were as follows:

	2015 RMB'000	2014 RMB'000
Advertising and marketing expenses	**120,526**	206,730

(b) Capital commitments outstanding at 31 December 2015 not provided for in the financial statements were as follows:

	2015 RMB'000	2014 RMB'000
Contracted for	**5,222**	11,156

(c) At 31 December 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2015 RMB'000	2014 RMB'000
Within 1 year	**4,474**	11,517
After 1 year but within 5 years	**2,294**	5,716
After 5 years	**380**	863
	7,148	18,096

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

(Expressed in thousands of Renminbi unless otherwise indicated)

27 MATERIAL RELATED PARTY TRANSACTIONS

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

Key management personnel remuneration

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

	2015 RMB'000	2014 RMB'000
Short-term employee benefits	**28,147**	28,816
Post-employment benefits	**766**	673
	28,913	29,489

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

(Expressed in thousands of Renminbi unless otherwise indicated)

28 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Notes	2015 RMB'000	2014 RMB'000
Non-current asset			
Investment in subsidiary		**1**	1
Current assets			
Amounts due from subsidiaries		**1,855,623**	1,828,884
Cash and cash equivalents		**959**	918
		1,856,582	1,829,802
Current liabilities			
Amounts due to subsidiaries		**28,102**	27,683
Other payables		**37,342**	37,533
		65,444	65,216
Net current assets		**1,791,138**	1,764,586
Total assets less current liabilities		**1,791,139**	1,764,587
Non-current liability			
Interest-bearing borrowings		**1,489,395**	1,484,869
NET ASSETS		**301,744**	279,718
CAPITAL AND RESERVES	*24(a)*		
Share capital		**182,298**	182,298
Reserves		**119,446**	97,420
TOTAL EQUITY		**301,744**	279,718

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise indicated)

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual improvements to HKFRSs 2012–2014 cycle	1 January 2016
Amendments to HKFRS 11, *Accounting for acquisitions of interests in joint operations*	1 January 2016
Amendments to HKAS 1, *Disclosure initiative*	1 January 2016
Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
HKFRS 9, *Financial instruments*	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application but is not yet in a position to state whether these amendments would have a significant impact on the consolidated financial statements.

Independent Auditor's Report

Independent auditor's report to the shareholders of
361 Degrees International Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of 361 Degrees International Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 63 to 128, which comprise the consolidated and company statements of financial position as at 31 December 2014, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

10 March 2015

Consolidated statement of profit or loss

for the year ended 31 December 2014 (Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Turnover	3	**3,906,286**	3,583,477
Cost of sales		**(2,309,490)**	(2,166,378)
Gross profit		**1,596,796**	1,417,099
Other revenue	4	**112,870**	83,766
Other net (loss)/gain	4	**(12,987)**	5,101
Selling and distribution expenses		**(769,245)**	(729,300)
Administrative expenses		**(203,269)**	(424,456)
Profit from operations		**724,165**	352,210
Net change in fair value of derivatives embedded to convertible bonds	20	**51,661**	41,841
Loss on repurchase of convertible bonds		**(76,118)**	–
Finance costs	5(a)	**(92,235)**	(79,127)
Profit before taxation	5	**607,473**	314,924
Income tax	6(a)	**(202,261)**	(100,193)
Profit for the year		**405,212**	214,731
Attributable to:			
Equity shareholders of the Company	9	**397,642**	211,261
Non-controlling interests		**7,570**	3,470
Profit for the year		**405,212**	214,731
Earnings per share	10		
Basic (cents)		**19.2**	10.2
Diluted (cents)		**19.2**	10.2

The notes on pages 71 to 128 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 25(b).

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2014 (Expressed in Reminbi)

	2014 RMB'000	2013 RMB'000
Profit for the year	**405,212**	214,731
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements	**(5,567)**	6,696
Total comprehensive income for the year	**399,645**	221,427
Attributable to:		
Equity shareholders of the Company	**392,075**	217,957
Non-controlling interests	**7,570**	3,470
Total comprehensive income for the year	**399,645**	221,427

The notes on pages 71 to 128 form part of these financial statements. There was no tax effect relating to the components of other comprehensive income.

Consolidated statement of financial position

at 31 December 2014 (Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Non-current assets			
Fixed assets	11		
– Property, plant and equipment		**1,050,676**	974,627
– Interests in leasehold land held for own use under operating leases		**95,450**	97,602
		1,146,126	1,072,229
Other financial asset	13	**17,550**	17,550
Deposits and prepayments	15	**96,691**	121,148
Deferred tax assets	24(b)	**49,971**	92,256
		1,310,338	1,303,183
Current assets			
Inventories	14	**570,058**	409,358
Trade debtors	15	**1,524,240**	1,831,184
Bills receivable	15	**132,013**	84,780
Deposits, prepayments and other receivables	15	**891,951**	636,873
Pledged bank deposits	16&17	**175,895**	37,900
Deposits with banks	17	**1,800,000**	321,747
Cash and cash equivalents	17	**2,130,237**	2,494,280
		7,224,394	5,816,122
Current liabilities			
Trade and other payables	18	**1,851,099**	1,469,179
Bank loans	19	**15,311**	15,898
Current taxation	24(a)	**146,374**	120,576
		2,012,784	1,605,653
Net current assets		**5,211,610**	4,210,469

Consolidated statement of financial position

at 31 December 2014 (Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Total assets less current liabilities		**6,521,948**	5,513,652
Non-current liabilities			
Deferred tax liabilities	24(b)	**133**	5,432
Interest-bearing borrowings	20	**1,484,869**	767,539
		1,485,002	772,971
NET ASSETS		**5,036,946**	4,740,681
CAPITAL AND RESERVES			
Share capital	25(c)	**182,298**	182,298
Reserves		**4,782,743**	4,494,048
Total equity attributable to equity shareholders of the Company		**4,965,041**	4,676,346
Non-controlling interests		**71,905**	64,335
TOTAL EQUITY		**5,036,946**	4,740,681

Approved and authorised for issue by the board of directors on 10 March 2015.

Ding Huihuang
Director

Ding Huirong
Director

The notes on pages 71 to 128 form part of these financial statements.

Statement of financial position

at 31 December 2014 (Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Non-current asset			
Investment in subsidiary	12	**1**	1
Current assets			
Amounts due from subsidiaries	21	**1,828,884**	992,892
Other receivables	15	**–**	1,599
Deposits with banks	17	**–**	121,268
Cash and cash equivalents	17	**918**	8,881
		1,829,802	1,124,640
Current liabilities			
Amounts due to subsidiaries	21	**27,683**	27,683
Other payables	18	**37,533**	124,281
		65,216	151,964
Net current assets		**1,764,586**	972,676
Total assets less current liabilities		**1,764,587**	972,677
Non-current liability			
Interest-bearing borrowings	20	**1,484,869**	767,539
NET ASSETS		**279,718**	205,138
CAPITAL AND RESERVES	25(a)		
Share capital		**182,298**	182,298
Reserves		**97,420**	22,840
TOTAL EQUITY		**279,718**	205,138

Approved and authorised for issue by the board of directors on 10 March 2015.

Ding Huihuang
Director

Ding Huirong
Director

The notes on pages 71 to 128 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2014 (Expressed in Renminbi)

		Attributable to equity shareholders of the Company										
	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2013		182,298	459,903	156,252	82,724	473,658	12,859	(38,478)	3,348,844	4,678,060	52,403	4,730,463
Changes in equity for the year ended 31 December 2013:												
Profit for the year		–	–	–	–	–	–	–	211,261	211,261	3,470	214,731
Other comprehensive income		–	–	–	–	–	–	6,696	–	6,696	–	6,696
Total comprehensive income		–	–	–	–	–	–	6,696	211,261	217,957	3,470	221,427
Capital contribution received from non-controlling interests		–	–	–	7,765	–	–	–	–	7,765	8,462	16,227
Appropriation to statutory reserve		–	–	–	–	30,569	–	–	(30,569)	–	–	–
Dividends declared and paid during the year	25(b)	–	(227,436)	–	–	–	–	–	–	(227,436)	–	(227,436)
Balance at 31 December 2013		182,298	232,467	156,252	90,489	504,227	12,859	(31,782)	3,529,536	4,676,346	64,335	4,740,681
Balance at 1 January 2014		182,298	232,467	156,252	90,489	504,227	12,859	(31,782)	3,529,536	4,676,346	64,335	4,740,681
Changes in equity for the year ended 31 December 2014:												
Profit for the year		–	–	–	–	–	–	–	397,642	397,642	7,570	405,212
Other comprehensive income		–	–	–	–	–	–	(5,567)	–	(5,567)	–	(5,567)
Total comprehensive income		–	–	–	–	–	–	(5,567)	397,642	392,075	7,570	399,645
Appropriation to statutory reserve		–	–	–	–	28,835	–	–	(28,835)	–	–	–
Equity settled share-based transaction	23	–	–	–	–	–	(12,859)	–	12,859	–	–	–
Dividends declared and paid during the year	25(b)	–	(103,380)	–	–	–	–	–	–	(103,380)	–	(103,380)
Balance at 31 December 2014		182,298	129,087	156,252	90,489	533,062	–	(37,349)	3,911,202	4,965,041	71,905	5,036,946

The notes on pages 71 to 128 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2014 (Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Operating activities			
Profit before taxation		**607,473**	314,924
Adjustments for:			
Depreciation	5(c)	**65,040**	65,442
Amortisation of land lease premium	5(c)	**2,152**	2,152
Finance costs	5(a)	**92,235**	79,127
Interest income	4	**(77,581)**	(53,169)
Net change in fair value of derivatives embedded to convertible bonds		**(51,661)**	(41,841)
Loss on repurchase of convertible bonds		**76,118**	–
Net (gain)/loss on disposal of fixed assets	4	**(7)**	40
(Reversal of impairment loss)/impairment loss on trade receivables	5(c)	**(111,366)**	152,001
Effect of foreign exchange rates changes		**23,072**	(7,804)
Changes in working capital:			
(Increase)/decrease in inventories		**(160,700)**	51,357
Decrease/(increase) in trade debtors		**418,310**	(55,145)
(Increase)/decrease in bills receivable		**(47,233)**	98,690
Increase in deposits, prepayments and other receivables		**(243,340)**	(85,578)
Increase/(decrease) in trade and other payables		**458,149**	(97,433)
Cash generated from operations		**1,050,661**	422,763
People's Republic of China ("PRC") income tax paid		**(139,477)**	(99,607)
Net cash generated from operating activities		**911,184**	323,156
Investing activities			
Payment for the purchase of fixed assets		**(135,046)**	(43,965)
Decrease in non-current prepayments		**20,475**	18,625
Proceeds from disposal of fixed assets		**142**	164
(Increase)/decrease in pledged bank deposits		**(137,995)**	57,830
(Increase)/decrease in deposits with banks		**(1,478,253)**	261,901
Interest received		**65,487**	52,996
Net cash (used in)/generated from investing activities		**(1,665,190)**	347,551

Consolidated cash flow statement

for the year ended 31 December 2014 (Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
Financing activities			
Capital contribution received from non-controlling interests		**–**	16,225
Proceeds from senior unsecured notes		**1,463,889**	–
Repayment of bank loans		**(587)**	(26,417)
Repurchase of convertible bonds		**(944,413)**	–
Finance charges on convertible bonds paid		**(27,416)**	(41,786)
Interest paid		**(1,367)**	(2,204)
Dividends paid	25(b)	**(103,380)**	(227,436)
Net cash generated from/(used in) financing activities		**386,726**	(281,618)
Net (decrease)/increase in cash and cash equivalents		**(367,280)**	389,089
Cash and cash equivalents at 1 January		**2,494,280**	2,107,018
Effect of foreign exchange rate changes		**3,237**	(1,827)
Cash and cash equivalents at 31 December	17	**2,130,237**	2,494,280

The notes on pages 71 to 128 form part of these financial statements.

Notes to the financial statements

(Expressed in thousands of Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as the "Group").

The Company and other investment holding subsidiaries incorporated in the British Virgin Islands (the "BVI") and Hong Kong have their functional currency in Hong Kong dollars and subsidiaries established in the PRC have their functional currency in Renminbi ("RMB"). As the Group mainly operates in the PRC, RMB is used as the presentation currency of the Group's financial statements. All financial information presented is rounded to the nearest thousand except otherwise stated. The measurement basis used in the preparation of the financial statements is the historical costs basis except that derivative financial instruments are stated at their fair value as explained in the accounting policy set out in note 1(f).

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Change in accounting policies

The HKICPA has issued the following amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company:

– Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*

– Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*

– HK(IFRIC) 21, *Levies*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are discussed below:

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired assets or CGU whose recoverable amount is based on fair value less costs of disposal. Initial adoption in 2014 does not have impact on the financial statements.

HK(IFRIC) 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

(d) Subsidiaries and non-controlling interests

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

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

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

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

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

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

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

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

(e) Other investments in equity securities

Investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(i)).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Derivative financial instruments

Derivatives financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(g) Property, plant and equipment

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

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

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

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

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

– Plant and machinery	5 – 10 years
– Office equipment and other fixed assets	2 – 10 years
– Motor vehicles	5 years

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

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Leased assets *(Continued)*

(i) Classification of assets leased to the Group

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

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

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

(i) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(i) Impairment of investments in equity securities and other receivables *(Continued)*

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that property, plant and equipment, interests in leasehold land held for own use under operating leases, non-current deposits and prepayments and investment in subsidiary may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

  An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Inventories

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

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

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

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

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Convertible bonds

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition the derivative components of the convertible bonds is measured at fair value and presented as part of derivative financial instruments (see note 1(f)). Any excess of proceeds over the amount initially recognised as the derivative components is recognised as the liability component. Transaction costs that relate to the issue of the convertible bond are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative components is recognised immediately in profit or loss.

The derivative components are subsequently remeasured in accordance with note 1(f). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

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

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

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

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Employee benefits *(Continued)*

(ii) Share-based payments *(Continued)*

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(q) Income tax

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax *(Continued)*

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

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

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

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either;

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Provisions and contingent liabilities

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

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

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and goods return.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

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

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

(u) Borrowing costs

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

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

(v) Research and development and advertising

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Segment reporting

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

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

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

2 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Sources of estimation uncertainty

Notes 23 and 26 contain information about the assumptions and their risk factors relating to fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Useful lives of fixed assets

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

(ii) Impairment losses on trade debtors and bills receivable

The Group recognises impairment losses on doubtful debts based on an assessment of the recoverability of trade debtors and bills receivable. Impairments are applied to trade debtors and bills receivable where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debts expenses in the period in which such estimate has been changed.

2 ACCOUNTING JUDGEMENT AND ESTIMATES *(Continued)*

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

(iii) Other impairment losses

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

(iv) Net realisable value of inventories

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

(v) Income taxes

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

3 TURNOVER AND SEGMENT REPORTING

(a) Turnover

The principal activities of the Group are manufacturing and trading of sporting goods, including footwear, apparel and accessories in the PRC. Turnover represents the sales value of goods sold less returns, discounts and value added taxes and other sales taxes. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2014 **RMB'000**	2013 RMB'000
Footwear	**1,742,652**	1,674,956
Apparel	**2,067,293**	1,836,272
Accessories	**96,341**	72,249
	3,906,286	3,583,477

The Group's customer base is diversified and has only one (2013: two) customer with whom transactions have exceeded 10% of the Group's revenues. In 2014, revenues from sales of footwear, apparel and accessories to the (2013: two) customer, including sales to entities which are known to the Group to be under common control with this customer, amounted to approximately RMB536 million (2013: RMB538 million and RMB423 million respectively) and arose in both reportable segments (see note 3(b)). Details of concentrations of credit risk arising from these customers are set out in note 26(a)(i).

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

(b) Segment reporting

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

– *361°* Products – Adults: this segment derives turnover from manufacturing and trading of adults sporting goods.

– *361°* Products – Kids: this segment derives turnover from trading of kids sporting goods.

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

(Expressed in thousands of Renminbi unless otherwise indicated)

3 TURNOVER AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

(i) Segment results

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2014 and 2013 is set out below.

	361° Products – Adults		*361°* Products – Kids		Total	
	2014	2013	**2014**	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Reportable segment revenue	**3,398,783**	3,163,102	**507,503**	420,375	**3,906,286**	3,583,477
Cost of sales	**(2,008,617)**	(1,910,718)	**(300,873)**	(255,660)	**(2,309,490)**	(2,166,378)
Reportable segment profit (gross profit)	**1,390,166**	1,252,384	**206,630**	164,715	**1,596,796**	1,417,099

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

	2014	2013
	RMB'000	RMB'000
Revenue		
Reportable segment revenue and consolidated turnover (note 3(a))	**3,906,286**	3,583,477
Profit		
Reportable segment profit	**1,596,796**	1,417,099
Other revenue	**112,870**	83,766
Other net (loss)/gain	**(12,987)**	5,101
Selling and distribution expenses	**(769,245)**	(729,300)
Administrative expenses	**(203,269)**	(424,456)
Net change in fair value of derivatives embedded to convertible bonds	**51,661**	41,841
Loss on repurchase of convertible bonds	**(76,118)**	–
Finance costs	**(92,235)**	(79,127)
Consolidated profit before taxation	**607,473**	314,924

4 OTHER REVENUE AND NET (LOSS)/GAIN

	2014 RMB'000	2013 RMB'000
Other revenue		
Bank interest income	**77,581**	53,169
Government grants	**23,408**	6,889
Others	**11,881**	23,708
	112,870	83,766
Other net (loss)/gain		
Net gain/(loss) on disposal of fixed assets	**7**	(40)
Net foreign exchange (loss)/gain	**(12,994)**	5,141
	(12,987)	5,101

Government grants of RMB23,408,000 (2013: RMB6,889,000) 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.

(Expressed in thousands of Renminbi unless otherwise indicated)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		2014 RMB'000	2013 RMB'000
(a)	**Finance costs**		
	Interest on bank and other borrowings wholly repayable within five years	**1,367**	2,204
	Finance charges on convertible bonds (note 20)	**53,338**	76,923
	Finance charges on senior unsecured note (note 20)	**37,530**	–
		92,235	79,127
(b)	**Staff costs**		
	Contributions to defined contribution retirement plans	**20,608**	18,450
	Salaries, wages and other benefits	**308,308**	279,685
		328,916	298,135
(c)	**Other items**		
	Auditors' remuneration		
	– audit services	**3,326**	3,336
	– tax services	**145**	–
	– other services	**494**	–
	Amortisation of land lease premium	**2,152**	2,152
	Depreciation	**65,040**	65,442
	(Reversal of impairment loss)/impairment loss on trade receivables (note 15(b))	**(111,366)**	152,001
	Operating lease charges in respect of properties	**14,617**	13,342
	Research and development costs *	**95,703**	85,764
	Cost of inventories **	**2,309,490**	2,166,378

* Research and development costs include RMB28,601,000 (2013: RMB31,613,000) relating to staff costs of employees in the research and development department, which amount is also included in the total staff costs as disclosed in note 5(b).

** Cost of inventories include RMB220,547,000 (2013: RMB202,218,000) relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2014 RMB'000	2013 RMB'000
Current tax – PRC income tax		
Provision for the year	**171,142**	131,090
Over-provision in respect of prior years	**(5,867)**	(3,286)
	165,275	127,804
Deferred tax		
Origination and reversal of temporary differences	**36,986**	(27,611)
	202,261	100,193

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

(ii) No provision has been made for Profits Tax in Hong Kong, Brazil and USA as the Group did not earn any income subject to Profits Tax in Hong Kong, Brazil and USA during the year.

(iii) Pursuant to the income tax rules and regulations of the PRC, provision for PRC corporate income tax is calculated based on a statutory rate of 25% (2013: 25%) of the assessable profits of the PRC subsidiaries.

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

	2014 RMB'000	2013 RMB'000
Profit before taxation	**607,473**	314,924
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**188,283**	91,909
Tax effect of non-deductible expenses	**21,595**	13,119
Tax effect of non-taxable income	**(1,750)**	(1,549)
Over-provision in prior years	**(5,867)**	(3,286)
Actual tax expense	**202,261**	100,193

(Expressed in thousands of Renminbi unless otherwise indicated)

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	2014			
	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors				
Ding Wuhao	–	1,201	13	1,214
Ding Huihuang	–	1,000	13	1,013
Ding Huirong	–	1,000	13	1,013
Wang Jiabi	–	646	13	659
Independent non-executive directors				
Yan Man Sing	446	–	–	446
Sun Xianhong (note 2)	133	–	–	133
Liao Jianwen (note 3)	210	–	–	210
Tsui Yung Kwok	334	–	–	334
	1,123	3,847	52	5,022

7 DIRECTORS' REMUNERATION *(Continued)*

	2013			
	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors				
Ding Wuhao	–	1,200	11	1,211
Ding Huihuang	–	1,000	11	1,011
Ding Huirong	–	1,000	11	1,011
Wang Jiabi	–	645	17	662
Independent non-executive directors				
Yan Man Sing	444	–	–	444
Sun Xianhong	320	–	–	320
Liu Jianxing (note 1)	140	–	–	140
Tsui Yung Kwok	333	–	–	333
	1,237	3,845	50	5,132

Notes:

(1) Mr Liu Jianxing resigned as independent non-executive director on 2 September 2013.

(2) Mr Sun Xianhong resigned as independent non-executive director on 1 June 2014.

(3) Mr Liao Jianwen was appointed as independent non-executive director on 1 June 2014.

(Expressed in thousands of Renminbi unless otherwise indicated)

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the directors is the five individuals with the highest emoluments (2013: Nil). The aggregate of the emoluments in respect of the five individuals are as follows:

	2014 **RMB'000**	2013 RMB'000
Salaries and other emoluments	**9,327**	7,858
Retirement scheme contributions	**84**	146
	9,411	8,004

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

	2014 **Number of individuals**	2013 Number of individuals
HK$1,500,001 to HK$2,000,000	**1**	3
HK$2,000,001 to HK$2,500,000	**3**	2
HK$3,000,001 to HK$3,500,000	**1**	–

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB172,810,000 (2013: loss of RMB46,523,000) which has been dealt with in the financial statements of the Company.

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB397,642,000 (2013: RMB211,261,000) and the weighted average of 2,068 million ordinary shares (2013: 2,068 million ordinary shares) in issue during the year.

(b) Diluted earnings per share

For the year ended 31 December 2013 and 2014, diluted earnings per share is the same as basic earnings per share as the Company did not have dilutive potential shares outstanding during the year.

11 FIXED ASSETS

The Group

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment and other fixed assets RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:								
At 1 January 2013	699,277	197,194	113,073	30,291	126,064	1,165,899	107,156	1,273,055
Exchange adjustments	–	–	(1,283)	–	–	(1,283)	–	(1,283)
Additions	–	13,624	4,969	1,340	63,540	83,473	–	83,473
Disposals	–	(534)	–	–	–	(534)	–	(534)
At 31 December 2013	699,277	210,284	116,759	31,631	189,604	1,247,555	107,156	1,354,711
Accumulated depreciation and amortisation:								
At 1 January 2013	75,616	55,491	65,935	10,808	–	207,850	7,402	215,252
Exchange adjustments	–	–	(34)	–	–	(34)	–	(34)
Charge for the year	29,357	18,460	12,965	4,660	–	65,442	2,152	67,594
Written back on disposals	–	(330)	–	–	–	(330)	–	(330)
At 31 December 2013	104,973	73,621	78,866	15,468	–	272,928	9,554	282,482
Net book value:								
At 31 December 2013	594,304	136,663	37,893	16,163	189,604	974,627	97,602	1,072,229
Cost:								
At 1 January 2014	699,277	210,284	116,759	31,631	189,604	1,247,555	107,156	1,354,711
Exchange adjustments	–	–	1,107	–	–	1,107	–	1,107
Additions	109,598	9,712	11,928	77	8,848	140,163	–	140,163
Disposals	–	(649)	–	–	–	(649)	–	(649)
At 31 December 2014	808,875	219,347	129,794	31,708	198,452	1,388,176	107,156	1,495,332
Accumulated depreciation and amortisation:								
At 1 January 2014	104,973	73,621	78,866	15,468	–	272,928	9,554	282,482
Exchange adjustments	–	–	46	–	–	46	–	46
Charge for the year	29,992	18,320	11,940	4,788	–	65,040	2,152	67,192
Written back on disposals	–	(514)	–	–	–	(514)	–	(514)
At 31 December 2014	134,965	91,427	90,852	20,256	–	337,500	11,706	349,206
Net book value:								
At 31 December 2014	673,910	127,920	38,942	11,452	198,452	1,050,676	95,450	1,146,126

(Expressed in thousands of Renminbi unless otherwise indicated)

11 FIXED ASSETS *(Continued)*

The Group *(Continued)*

As at 31 December 2014, a property with net book value of RMB43,471,000 (2013: RMB43,286,000) was pledged as security for a banking facility of the Group of RMB40,101,000 (2013: RMB21,047,000).

The Group leased out the property under operating leases temporarily for an initial period of one year starting on 1 January 2013. The lease did not include contingent rental and the lease payment received during the year under non-cancellable operating leases was RMB1,106,000. The lease expired as at 31 December 2013 with no renewal.

The analysis of net book value of properties is as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
In Hong Kong – medium-term leases	**43,471**	43,286
In PRC – medium-term leases	**725,889**	648,620
	769,360	691,906
Representing:		
Buildings carried at cost	**673,910**	594,304
Interest in leasehold land held for own use under operating leases	**95,450**	97,602
	769,360	691,906

12 INVESTMENT IN SUBSIDIARY

	The Company	
	2014	2013
	RMB'000	RMB'000
Unlisted share, at cost	**1**	1

12 INVESTMENT IN SUBSIDIARY *(Continued)*

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

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Sanliuyidu Holdings Company Limited	BVI	100 shares of US$1 each	100%	100%	–	Investment holding
361 Enterprise Company Limited	Hong Kong	1 share	100%	–	100%	Investment holding
361 Investment Company Limited	Hong Kong	1 share	100%	–	100%	Investment holding
361 Degrees (HK) Investment Limited	Hong Kong	1 share	87%	–	100%	Investment holding
Sanliuyidu (Fujian) Sports Goods Co., Ltd 三六一度(福建)體育用品有限公司 (Notes (i) and (iv))	PRC	HK$280,000,000	100%	–	100%	Manufacture and trading of sporting goods
Sanliuyidu (China) Co., Ltd 三六一度(中國)有限公司 (Notes (i) and (iv))	PRC	HK$560,000,000	100%	–	100%	Manufacture and trading of sporting goods
Sanliuyidu Xiamen Industry & Trade Co., Limited 三六一度(廈門)工貿有限公司 (Notes (ii) and (iv))	PRC	RMB100,000,000	100%	–	100%	Trading of sporting goods
Sanliuyidu (Fujian) Shoes and Plastics Technology Co., Ltd 三六一度(福建)鞋塑科技有限公司 (Notes (iii) and (iv))	PRC	HK$86,000,000	51%	–	51%	Manufacture and trading of shoes soles
361 Degrees Children's Clothing Co., Ltd. 三六一度童裝有限公司 (Note (i) and (iv))	PRC	HK$80,000,000	87%	–	100%	Trading of children sporting goods
Yue Lei International Limited 宇彌國際有限公司	Hong Kong	100,000 shares	100%	–	100%	Trading of sporting goods

(Expressed in thousands of Renminbi unless otherwise indicated)

12 INVESTMENT IN SUBSIDIARY *(Continued)*

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
361 Degrees Kids Wear Holdings Limited	BVI	1 share of US$1 each	100%	–	100%	Investment holding
361 Degrees Kids Wear Limited	Cayman Islands	1,000,000 shares of HK$0.01 each	87%	–	87%	Investment holding
361 Degrees Kids Wear Investment Limited	BVI	1 share of US$1 each	87%	–	100%	Investment holding
One Way International Enterprise Limited 萬唯國際實業有限公司	Hong Kong	10,000 shares	70%	–	70%	Investment holding
Zhonglan Sports Goods Co. Ltd 中蘭体育用品有限公司 (Note (i) and (iv))	PRC	RMB49,910,463	70%	–	100%	Investment holding
Wangwei (Xiamen) Industry & Trade Co., Limited 望唯(廈門)工貿有限公司 (Note (ii) and (iv))	PRC	RMB5,000,000	70%	–	100%	Trading of sporting goods
361 USA, Inc	United States	US$3,000,000	100%	–	100%	Trading of sporting goods
Yue Lei do Brasil Comércio, Importação e Exportação de Artigos Esportivos Ltda	Brazil	1,926,650 shares of RIO$1 each	100%	–	100%	Trading of sporting goods

Notes:

(i) These entities are wholly foreign owned enterprises established in the PRC.

(ii) The entity is a limited liability company established in the PRC.

(iii) The entity is a co-operative joint venture registered in the PRC.

(iv) The English translation of the company names is for reference only. The official names of these companies are in Chinese.

13 OTHER NON-CURRENT FINANCIAL ASSET

	The Group	
	2014	2013
	RMB'000	RMB'000
Unlisted available-for-sale equity securities	**17,550**	17,550

14 INVENTORIES

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

	The Group	
	2014	2013
	RMB'000	RMB'000
Raw materials	**30,943**	18,530
Work in progress	**85,600**	75,710
Finished goods	**453,515**	315,118
	570,058	409,358

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

	The Group	
	2014	2013
	RMB'000	RMB'000
Carrying amount of inventories sold	**2,309,490**	2,166,378

(Expressed in thousands of Renminbi unless otherwise indicated)

15 TRADE AND OTHER RECEIVABLES

	The Group 2014 RMB'000	The Group 2013 RMB'000	The Company 2014 RMB'000	The Company 2013 RMB'000
Trade debtors				
Trade debtors	**1,604,395**	2,022,705	**–**	–
Less: allowance for doubtful debts (note15(b))	**(80,155)**	(191,521)	**–**	–
	1,524,240	1,831,184	**–**	–
Bills receivable	**132,013**	84,780	**–**	–
Deposits, prepayments and other receivables				
Current				
Deposits	**5,105**	3,885	**–**	–
Prepayments	**802,198**	557,209	**–**	–
Other receivables	**84,648**	75,424	**–**	1,244
Derivative financial instruments (note 20)	**–**	355	**–**	355
	891,951	636,873	**–**	1,599
Non-current				
Deposits and prepayments	**96,691**	121,148	**–**	–

Included in prepayments are amounts prepaid to suppliers of RMB584,123,000 (2013: RMB468,765,000).

All of the trade debtors, bills receivable and current portion of deposits, prepayments and other receivables are expected to be recovered within one year, except that the Group's current deposits of RMB5,105,000 (2013: RMB3,885,000) are expected to be recovered or recognised as expenses after more than one year.

15 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis

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

	The Group	
	2014	2013
	RMB'000	RMB'000
Within 90 days	**1,035,171**	947,799
Over 90 days but within 180 days	**621,082**	775,818
Over 180 days but within 365 days (note)	**–**	192,347
	1,656,253	1,915,964

Note: The trade debtors and bills receivable in 2013 aged over 180 days but within 365 days of RMB192,347,000 have been fully settled after the year end date.

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

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(i)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
At 1 January	**191,521**	39,520
(Reversal of impairment loss)/impairment loss recognised	**(111,366)**	152,001
At 31 December	**80,155**	191,521

At 31 December 2014, the Group's trade debtors of RMB80,155,000 (2013: RMB191,521,000) were individually determined to be impaired. The individually impaired receivables related to customers which management assessed that a portion of the receivables were doubtful. Consequently, specific allowances for doubtful debts of RMB80,155,000 (2013: RMB191,521,000) were recognised. The Group does not hold any collateral over these balances.

(Expressed in thousands of Renminbi unless otherwise indicated)

15 TRADE AND OTHER RECEIVABLES *(Continued)*

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Neither past due nor impaired	**1,441,754**	1,400,718
Within 30 days past due	**73,553**	176,464
Over 30 days but within 90 days past due	**124,998**	318,257
Over 90 days but within 180 days past due	**15,948**	20,525
Amount past due	**214,499**	515,246
	1,656,253	1,915,964

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

16 PLEDGED BANK DEPOSITS

The Group

Bank deposits are pledged to banks as security for certain banking facilities (see note 19).

17 CASH AND BANK DEPOSITS

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Pledged bank deposits	**175,895**	37,900	**–**	–
Deposits with banks				
– More than three months to maturity when placed	**1,800,000**	321,747	**–**	121,268
– Within three months to maturity when placed	**809,593**	102,203	**–**	–
Cash at bank and in hand	**1,320,644**	2,392,077	**918**	8,881
Cash and bank deposits	**4,106,132**	2,853,927	**918**	130,149
Represented by:				
Pledged bank deposits	**175,895**	37,900	**–**	–
Deposits with banks	**1,800,000**	321,747	**–**	121,268
Cash and cash equivalents	**2,130,237**	2,494,280	**918**	8,881
	4,106,132	2,853,927	**918**	130,149

At 31 December 2014, the balances that were placed with banks or on hand in the PRC and included in the pledged bank deposits, deposits with banks and cash and cash equivalents amounted to RMB3,453,744,000 (2013: RMB2,780,555,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

18 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade creditors	**522,924**	621,748	**–**	–
Bills payable	**783,760**	213,452	**–**	–
Receipts in advance	**19,352**	7,289	**–**	–
Other payables and accruals	**525,063**	515,371	**37,533**	12,962
Derivative financial instruments (note 20)	**–**	111,319	**–**	111,319
	1,851,099	1,469,179	**37,533**	124,281

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

(Expressed in thousands of Renminbi unless otherwise indicated)

18 TRADE AND OTHER PAYABLES *(Continued)*

Bills payable as at 31 December 2014 and 2013 were secured by pledged bank deposits as disclosed in note 16.

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

	The Group	
	2014	2013
	RMB'000	RMB'000
Due within 1 month or on demand	**381,032**	409,598
Due after 1 month but within 3 months	**418,663**	227,810
Due after 3 months but within 6 months	**506,989**	197,792
	1,306,684	835,200

19 BANK LOANS

At 31 December 2014, the bank loans were repayable within one year or on demand and secured as follows:

	The Group	
	2014	2013
	RMB'000	RMB'000
Secured bank loans	**15,311**	15,898

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

	The Group	
	2014	2013
	RMB'000	RMB'000
Facilities amount	**3,713,301**	3,627,899
Utilisation at the end of the reporting period		
– Bills payable	**783,760**	213,452
– Bank loans	**15,311**	15,898
	799,071	229,350

For the years ended 31 December 2014 and 2013, bank loan and bills payable of the Group were secured by a property and pledged bank deposits (see notes 11 and 16). The Group's bank loans were not subject to any covenants.

20 NON-CURRENT INTEREST-BEARING BORROWINGS

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

	The Group	
	2014	2013
	RMB'000	RMB'000
Senior unsecured notes (note 20(b)(i))	**1,484,869**	–
Convertible bonds (note 20(b)(ii))	**–**	767,539
	1,484,869	767,539

All of the non-current interest-bearing borrowings are carried at amortised cost. None of the non-current interest-bearing borrowings is expected to be settled within one year.

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

(i) Senior unsecured notes

On 12 September 2014, the Company issued senior unsecured notes with principal amount of RMB1,500,000,000 due 2017. The notes are interest bearing at 7.5% per annum, and payable on a semi-annual basis in arrears. The maturity date of senior unsecured notes is 12 September 2017. The effective interest rate of the senior unsecured notes is 8.42% per annum.

The transaction costs for the issue of the senior unsecured notes amounted to RMB28,191,000. An amount of RMB27,920,000 was offset with the senior unsecured notes and the remaining amount of transaction costs were charged to the statement of profit or loss during the current year.

(ii) Convertible bonds

On 3 April 2012, the Company issued unsecured convertible bonds with principal amount of US$150,000,000 due 2017 (the "convertible bonds"). The convertible bonds are interest-bearing at 4.5% per annum and payable semi-annually in arrears. The maturity date of the convertible bonds is 3 April 2017. The convertible bonds can be converted to shares of the Company at HK$3.81 per share, subject to anti-dilutive and dividend protection adjustments, from 14 May 2012 to 3 April 2017.

In addition to the above, the Company may early redeem all the convertible bonds from 3 April 2015 to 3 April 2017 at principal amount plus any accrued but unpaid interest thereon the redemption date, provided that the closing price of the shares of the Company for each of the thirty consecutive trading days, the last of which occurs within the five trading days prior to the date upon which the redemption notice is given by the Company, is at least 130% of the prevailing conversion price.

The holders of the convertible bonds can require the Company to early redeem all or partial of the convertible bonds on or about 3 April 2015 plus any accrued but unpaid interest thereon the redemption date.

(Expressed in thousands of Renminbi unless otherwise indicated)

20 NON-CURRENT INTEREST-BEARING BORROWINGS *(Continued)*

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

(ii) Convertible bonds *(Continued)*

The redemption call, redemption put and conversion options are separately accounted for at fair value at the end of each reporting period as derivative financial instruments in accordance with the accounting policy set out in note 1(f) to the financial statements.

As a result of the declaration of final dividend for the year ended 31 December 2012, interim dividend for the six months ended 30 June 2013 and interim dividend for the six months ended 30 June 2014, the conversion price of the convertible bonds was adjusted to HK$3.21 per share with effective from 10 September 2014.

The Group has fully repurchased principal amounts of US$150,000,000 of convertible bonds during the current year. All the repurchased convertible bonds have been cancelled on or before 4 December 2014. There was no outstanding convertible bonds as at 31 December 2014.

	Liability component of convertible bonds (note 20(b)(ii)(a)) RMB'000	Redemption call option (notes 15 and 20(b)(ii)(b)) RMB'000	Redemption put option (notes 18 and 20(b)(ii)(c)) RMB'000	Conversion option (notes 18 and 20(b)(ii)(d)) RMB'000	Total RMB'000
At 1 January 2013	753,062	(16,458)	51,992	120,984	909,580
Finance charges amortised during the year (note 5(a))	76,923	–	–	–	76,923
Interest paid and payable	(41,440)	–	–	–	(41,440)
Change in fair value	–	15,865	(12,595)	(45,111)	(41,841)
Exchange adjustments	(21,006)	238	(1,250)	(2,701)	(24,719)
At 31 December 2013	767,539	(355)	38,147	73,172	878,503
Finance charges amortised during the year (note 5(a))	**53,338**	**–**	**–**	**–**	**53,338**
Interest paid and payable	**(27,416)**	**–**	**–**	**–**	**(27,416)**
Change in fair value	**–**	**(1,798)**	**(30,856)**	**(19,007)**	**(51,661)**
Repurchase of convertible bonds	**(807,031)**	**2,160**	**(7,965)**	**(55,459)**	**(868,295)**
Exchange adjustments	**13,570**	**(7)**	**674**	**1,294**	**15,531**
At 31 December 2014	**–**	**–**	**–**	**–**	**–**

20 NON-CURRENT INTEREST-BEARING BORROWINGS *(Continued)*

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

(ii) Convertible bonds *(Continued)*

(a) Liability component of convertible bonds represents the contractually determined stream of future cash flows discounted at the rate of interest determined by the market instruments of comparable credit status taken into account the business risk and financial risk of the Company. The effective interest rate of the liability component is 10.2% per annum. There was no outstanding convertible bonds as at 31 December 2014.

(b) Redemption call option represents the fair value of the Company's option to early redeem all of the convertible bonds and is recorded as derivative financial instruments under "Trade and other receivables" (note 15).

(c) Redemption put option represents the fair value of the options of the holders of the convertible bonds to early redeem all of the convertible bonds and is recorded as derivative financial instruments under "Trade and other payables" (note 18).

(d) Conversion option represents the fair value of the options of the holders of the convertible bonds to convert the convertible bonds into shares and is recorded as derivative financial instruments under "Trade and other payables" (note 18).

(e) The transaction costs for the issue of the convertible bonds amounted to RMB22,073,000. An amount of RMB17,626,000 was offset with the liability component of the convertible bonds and the remaining amount of transaction costs was charged to the statement of profit or loss during the year ended 31 December 2012.

21 AMOUNTS DUE FROM/TO SUBSIDIARIES

The Company

The amounts due from/to subsidiaries are unsecured, interest-free and recoverable/repayable on demand.

22 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the PRC municipal government authority in the Fujian Province whereby the Group is required to make contributions to the Scheme at rates which ranged from 14% to 18% of the eligible employees' relevant salaries. The local government authority is responsible for the entire pension obligations payable to retired employees.

(Expressed in thousands of Renminbi unless otherwise indicated)

22 EMPLOYEE RETIREMENT BENEFITS *(Continued)*

Defined contribution retirement plans *(Continued)*

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (HK$25,000 prior to 1 June 2014). Contributions to the plan vest immediately.

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

23 EQUITY SETTLED SHARE-BASED TRANSACTIONS

(a) Pre-IPO share option scheme

Pursuant to the shareholders' written resolution passed on 10 June 2009, the Company adopted a Pre-IPO share option scheme ("the Pre-IPO Option") whereby 91 employees of the Group were given the rights to subscribe for shares of the Company. The subscription price per share pursuant to the Pre-IPO Option is HK$2.89, being 20% discount to the global offering price.

Each option granted under the Pre-IPO Option has a vesting period of one to three years commencing from the date of listing of the Company on the Hong Kong Stock Exchange and the options have a contractual life of about five years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

(i) The terms and conditions of the grants are as follows:

	Number of instruments '000	Vesting conditions	Contractual life of options
Options granted to employees:			
– on 10 June 2009	3,024	One year from the date of listing of the Company's shares	5.1 years
– on 10 June 2009	6,114	Two years from the date of listing of the Company's shares	5.1 years
– on 10 June 2009	8,152	Three years from the date of listing of the Company's shares	5.1 years
Total share options granted	17,290		

23 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(a) Pre-IPO share option scheme *(Continued)*

(ii) The number and exercise price of share options are as follows:

	2014		2013	
	Exercise price	**Number of options '000**	Exercise price	Number of options '000
Outstanding at the beginning of the year	**HK$2.89**	**17,290**	HK$2.89	17,290
Forfeited during the year	**HK$2.89**	**(17,290)**	–	–
Outstanding at the end of the year		**–**	HK$2.89	17,290
Exercisable at the end of the year		**–**	HK$2.89	17,290

There was no outstanding share option as at 31 December 2014. The share options outstanding at 31 December 2013 had an exercise price of HK$2.89 and a weighted average remaining contractual life of 0.5 year.

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

	Options granted on 10 June 2009
Fair value of share options and assumptions	
Fair value at measurement date	HK$0.86
Share price	HK$2.14
Exercise price	HK$2.89
Expected volatility (expressed as weighted average volatility used in the modelling under binominal lattice model)	50.97%
Expected option life (expressed as weighted average life used in the modelling under binominal lattice model)	5 years
Expected dividends	2.80%
Risk-free interest rate	2.03%

(Expressed in thousands of Renminbi unless otherwise indicated)

23 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(b) Share option scheme

The Company has also adopted a share option scheme ("the Share Option Scheme") pursuant to the shareholders' written resolution passed on 10 June 2009.

The maximum number of shares that may be granted under the Share Option Scheme and other share options schemes shall not exceed 10% of the number of issued shares of the Company from time to time. No option may be granted to any person such that the total number of shares of the Company issued and to be issued upon exercise of all options granted and to be granted to that person in any 12-month period exceeds 1% of the number of shares of the Company in issue from time to time.

An option under the Share Option Scheme may be exercised in accordance with the terms of the scheme at any time during a period as determined by the Board of Directors of the Company, which must not be more than 10 years from the date of the grant.

No share option has been granted under the Share Option Scheme during the year ended 31 December 2014 (2013: Nil).

24 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

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

	The Group	
	2014	2013
	RMB'000	RMB'000
Provision for PRC income tax for the year	**171,142**	131,090
Provisional income tax paid	**(105,303)**	(85,099)
	65,839	45,991
Balance of income tax provision relating to prior years	**80,535**	74,585
	146,374	120,576

24 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

(Continued)

(b) Deferred tax assets and liabilities recognised:

The Group

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

	Allowance for doubtful debts RMB'000	Withholding tax on dividends RMB'000	Expenses to be deductible on paid basis RMB'000	Income to be taxable on receipt basis RMB'000	Total RMB'000
Deferred tax arising from:					
At 1 January 2013	9,880	(19,384)	68,717	–	59,213
Credited/(charged) to profit or loss	38,000	–	(10,389)	–	27,611
At 31 December 2013	47,880	(19,384)	58,328	–	86,824
At 1 January 2014	47,880	(19,384)	58,328	–	86,824
(Charged)/credited to profit or loss	(27,842)	15,000	(20,330)	(3,814)	(36,986)
At 31 December 2014	20,038	(4,384)	37,998	(3,814)	49,838

Reconciliation to the consolidated statement of financial position

	The Group 2014 RMB'000	2013 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**49,971**	92,256
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(133)**	(5,432)
	49,838	86,824

(c) Deferred tax liabilities not recognised

At 31 December 2014, the Group has not recognised deferred tax liabilities of RMB188,943,000 (2013: RMB164,996,000) in respect of temporary differences relating to the undistributed profits of subsidiaries amounting to RMB3,778,858,000 (2013: RMB3,299,928,000) that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

(Expressed in thousands of Renminbi unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

The Company

	Note	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	(Accumulated losses)/ retained profits RMB'000	Total RMB'000
Balance at 1 January 2013		182,298	459,903	12,859	(101,455)	(65,663)	487,942
Changes in equity for 2013:							
Loss for the year		–	–	–	–	(46,523)	(46,523)
Other comprehensive income		–	–	–	(8,845)	–	(8,845)
Total comprehensive income for the year		–	–	–	(8,845)	(46,523)	(55,368)
Dividends declared and paid during the year	25(b)	–	(227,436)	–	–	–	(227,436)
Balance at 31 December 2013		182,298	232,467	12,859	(110,300)	(112,186)	205,138
Balance at 1 January 2014		182,298	232,467	12,859	(110,300)	(112,186)	205,138
Changes in equity for 2014:							
Profit for the year		–	–	–	–	172,810	172,810
Other comprehensive income		–	–	–	5,150	–	5,150
Total comprehensive income for the year		–	–	–	5,150	172,810	177,960
Equity-settled share-based transaction		–	–	(12,859)	–	12,859	–
Dividends declared and paid during the year	25(b)	–	(103,380)	–	–	–	(103,380)
Balance at 31 December 2014		182,298	129,087	–	(105,150)	73,483	279,718

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividends

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

	2014 RMB'000	2013 RMB'000
Interim dividend declared and paid of RMB5.0 cents per ordinary share (2013: RMB4.0 cents per ordinary share)	**103,380**	82,704
Final dividend proposed after the end of the reporting period of RMB3.0 cents per ordinary share (2013: RMB Nil cents per ordinary share)	**62,028**	–
	165,408	82,704

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

	2014 RMB'000	2013 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB Nil cents per ordinary share (2013: RMB7.0 cents per ordinary share)	**–**	144,732

(c) Share capital

	2014		2013	
	Number of shares '000	Amount HK$'000	Number of shares '000	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	**10,000,000**	**1,000,000**	10,000,000	1,000,000

(Expressed in thousands of Renminbi unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital *(Continued)*

	Number of shares '000	Amount HK$'000	RMB'000
Ordinary shares, issued and fully paid:			
At 1 January 2013, 31 December 2013, 1 January 2014 and 31 December 2014	2,067,602	206,760	182,298

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

(d) Terms of unexpired and unexercised share options at the end of the reporting period:

Date of options granted	Exercise period	Exercise price	Number of options outstanding 2014 '000	2013 '000
10 June 2009	30 June 2010 to 30 June 2014	HK$2.89	–	3,024
10 June 2009	30 June 2011 to 30 June 2014	HK$2.89	–	6,114
10 June 2009	30 June 2012 to 30 June 2014	HK$2.89	–	8,152
			–	17,290

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 23 to the financial statements.

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(e) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

(ii) Capital reserve

On 9 June 2009, 361 Enterprise Company Limited entered into an agreement with a shareholder of the Company whereby repayment of amounts due to the shareholder by 361 Enterprise Company Limited totalling HK$177,216,000 (equivalent to RMB156,252,000) was waived. The waiver of repayment was reflected as a reduction in the amounts due to a shareholder of the Company and a corresponding increase in capital reserve.

(iii) Other reserve

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

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

(iv) Statutory reserve

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

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(e) Nature and purpose of reserves *(Continued)*

(v) Share option reserve

The share option reserve comprises the fair value of the actual or estimated number of unexercised share options granted under the Pre-IPO share option scheme recognised in accordance with the accounting policy accepted for share-based payments in note 1(p)(ii).

(vi) Exchange reserve

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

(f) Distributability of reserves

At 31 December 2014, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB97,420,000 (2013: RMB9,981,000). After the end of the reporting period, the directors proposed a final dividend of RMB3.0 cents (equivalent to HK3.7 cents) (2013: RMB Nil) per ordinary share, amounting to RMB62,028,000 (2013: RMB Nil). This dividend has not been recognised as a liability at the end of the reporting period.

(g) Capital management

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

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

The Group monitors capital with reference to its debt position. The Group's strategy was to maintain the equity and debt in a balanced position and ensure there were adequate working capital to service its debt obligation. The Group's gearing ratio, being the Group's interest-bearing debt over its total assets, as at 31 December 2014 was 18% (2013: 11%).

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

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

(a) Credit risk

(i) Trade debtors, bills receivable and deposits, prepayments and other receivables

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade debtors and bills receivable are due within 30 to 180 days from the date of billing. Debtors with balances that are more than 1 year from the date of billing are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 14% (2013: 18%) and 44% (2013: 44%) of the total trade debtors and bills receivable were due from the Group's largest customer, and the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 15.

(ii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

(Expressed in thousands of Renminbi unless otherwise indicated)

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

(b) Liquidity risk

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

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

The Group

	2014 Contractual undiscounted cash outflow					2013 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
Bank loans	**16,312**	**–**	**–**	**16,312**	**15,311**	16,291	–	16,291	15,898
Senior unsecured note	**112,500**	**112,500**	**1,612,500**	**1,837,500**	**1,484,869**	–	–	–	–
Convertible bonds	**–**	**–**	**–**	**–**	**–**	40,891	919,948	960,839	767,539
Trade and other payables	**1,831,747**	**–**	**–**	**1,831,747**	**1,831,747**	1,350,571	–	1,350,571	1,350,571
Total	**1,960,559**	**112,500**	**1,612,500**	**3,685,559**	**3,331,927**	1,407,753	919,948	2,327,701	2,134,008

The Company

	2014 Contractual undiscounted cash outflow					2013 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years but less than 5 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	Total RMB'000	Carrying amount at 31 December RMB'000
Convertible bonds	**–**	**–**	**–**	**–**	**–**	40,891	919,948	960,839	767,539
Senior unsecured note	**112,500**	**112,500**	**1,612,500**	**1,837,500**	**1,484,869**	–	–	–	–
Other payables	**37,533**	**–**	**–**	**37,533**	**37,533**	12,962	–	12,962	12,962
Amounts due to subsidiaries	**27,683**	**–**	**–**	**27,683**	**27,683**	27,683	–	27,683	27,683
Total	**177,716**	**112,500**	**1,612,500**	**1,902,716**	**1,550,085**	81,536	919,948	1,001,484	808,184

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

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans, senior unsecured notes, convertible bonds, pledged bank deposits, deposits with banks and cash and cash equivalents. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

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

The Group

	2014		2013	
	Effective interest rate %	**Amount RMB'000**	Effective interest rate %	Amount RMB'000
Fixed rate borrowings/(deposits)				
Deposits with banks	**3.30 – 3.80**	**(1,800,000)**	1.50 – 2.86	(321,747)
Cash and cash equivalents	**2.86 – 4.00**	**(809,593)**	0.39 – 0.96	(102,203)
Senior unsecured notes	**8.42**	**1,484,869**	–	–
Convertible bonds	**–**	**–**	10.18	767,539
Pledged bank deposits	**0.39 – 3.10**	**(175,895)**	–	–
		(1,300,619)		343,589
Variable rate borrowings/(deposits)				
Pledged bank deposits	**–**	**–**	0.50 – 3.30	(37,900)
Cash and cash equivalents	**0.001 – 1.265**	**(1,315,363)**	0.001– 1.310	(2,386,824)
Bank loans	**2.47**	**15,311**	2.47	15,898
		(1,300,052)		(2,408,826)
Total net deposits		**(2,600,671)**		(2,065,237)

(Expressed in thousands of Renminbi unless otherwise indicated)

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

(c) Interest rate risk *(Continued)*

(i) Interest rate profile *(Continued)*

The Company

	2014		2013	
	Effective interest rate %	**Amount RMB'000**	Effective interest rate %	Amount RMB'000
Fixed rate borrowings/(deposits)				
Deposits with banks	**–**	**–**	1.96	(121,268)
Senior unsecured notes	**8.42**	**1,484,869**	–	–
Convertible bonds	**–**	**–**	10.18	767,539
		1,484,869		646,271
Variable rate deposits				
Cash and cash equivalents	**0.001 – 0.385**	**(918)**	0.001 – 1.000	(8,880)
Total net borrowings		**1,483,951**		637,391

(ii) Sensitivity analysis

At 31 December 2014, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately RMB9,817,000 (2013: RMB18,405,000). Other components of consolidated equity would not be affected by the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2013.

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

(d) Commodity price risk

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

(e) Currency risk

The Group is exposed to currency risk primarily through bank deposits, convertible bonds and senior unsecured notes that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Hong Kong dollars ("HKD"), United States dollars ("USD") and Renminbi. In respect of the convertible bonds denominated in USD issued by the Company, the Group considers the risk of movements in exchange rates between the HKD and the USD to be insignificant as the HKD is pegged to the USD.

(i) Exposure to currency risk

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

The Group

	Exposure to foreign currencies (expressed in RMB)				
	2014			2013	
	Hong Kong dollars RMB'000	**United States dollars RMB'000**	**Renminbi RMB'000**	Hong Kong dollars RMB'000	United States dollars RMB'000
Cash and bank deposits	**51,070**	**25,958**	**–**	34,620	125,625
Trade receivable	**–**	**1,726**	**–**	–	–
Convertible bonds	**–**	**–**	**–**	–	(767,539)
Senior unsecured notes	**–**	**–**	**(1,484,869)**	–	–
Net exposure arising from recognised assets and liabilities	**51,070**	**27,684**	**(1,484,869)**	34,620	(641,914)

(Expressed in thousands of Renminbi unless otherwise indicated)

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

(e) Currency risk *(Continued)*

(i) Exposure to currency risk *(Continued)*

The Company

	Exposure to foreign currencies (expressed in RMB)			
	2014		2013	
	Renminbi RMB'000	**United States dollars RMB'000**	Renminbi RMB'000	United States dollars RMB'000
Amounts due to subsidiaries	**(27,683)**	**–**	(27,683)	–
Convertible bonds	**–**	**–**	–	(767,539)
Senior unsecured notes	**(1,484,869)**	**–**	–	–
Net exposure arising from recognised assets and liabilities	**(1,512,552)**	**–**	(27,683)	(767,539)

(ii) Sensitivity analysis

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

	2014		2013	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
Hong Kong dollars	**5%**	**1,915**	5%	1,298
	(5)%	**(1,915)**	(5)%	(1,298)
Renminbi	**5%**	**(74,243)**	–	–
	(5)%	**74,243**	–	–

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

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

(e) Currency risk *(Continued)*

(ii) Sensitivity analysis *(Continued)*

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2013.

(f) Equity price risk

At 31 December 2013, the Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of derivatives or other financial liabilities of the Group. As at 31 December 2013, the Group is exposed to this risk through the conversion rights attached to the convertible bonds issued by the Company as disclosed in note 20. All convertible bonds were repurchased in current year and the Group is not exposed to equity price risk as at 31 December 2014.

At 31 December 2013, it is estimated that an increase/(decrease) of 12% in the Company's own share price, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits as follows:

The Group

	2013	
		Effect on profit after tax and retained profits RMB'000
Change in the relevant equity price risk variable:		
Increase	12%	18,455
Decrease	(12)%	(13,704)

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

(f) Equity price risk *(Continued)*

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax and retained profits that would arise assuming that the changes in relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period.

(g) Fair values

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

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

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

– Level 3 valuations: Fair value measured using significant unobservable inputs

The Group engaged an external valuer to perform valuations for the financial instruments, including redemption call and put options and conversion option embedded in the convertible bonds which are categorised into Level 3 of the fair value hierarchy. The external valuer reports directly to the chief financial officer. A valuation report with analysis of changes in fair value measurement is prepared by external valuer at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer is held twice a year, to coincide with the reporting dates.

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

(g) Fair values *(Continued)*

(i) Financial assets and liabilities measured at fair value *(Continued)*

Fair value hierarchy (Continued)

At 31 December 2013, the only financial instruments of the Group and the Company carried at fair value were the redemption call and put options and the conversion option embedded in the convertible bonds (see note 20). These instruments are measured at fair value on a recurring basis and their fair value measurements fall into Level 3 of the fair value hierarchy described above.

During the year ended 31 December 2014 and 2013, there were no transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurement

The fair values of the redemption call and put options and the conversion option embedded in the convertible bonds are determined using a binomial lattice model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2013, the expected volatility used in valuation is 41.9% and it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 5.0% would have increased/decreased the Group's profit after tax by RMB12,576,000 and RMB11,966,000 respectively.

The movements during the period in the balance of these Level 3 fair value measurement are disclosed in note 20.

The net unrealised gains arising from the remeasurement of the redemption call and put options and the conversion option embedded in the convertible bonds are recognised in the consolidated statement of profit or loss.

(ii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2014 and 2013.

(Expressed in thousands of Renminbi unless otherwise indicated)

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

(h) Business risk

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

27 COMMITMENTS

(a) Contractual commitments outstanding at 31 December 2014 not provided for in the financial statements were as follows:

	2014 RMB'000	2013 RMB'000
Advertising and marketing expenses	**206,730**	409,118

(b) Capital commitments outstanding at 31 December 2014 not provided for in the financial statements were as follows:

	2014 RMB'000	2013 RMB'000
Contracted for	**11,156**	9,845

(c) At 31 December 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2014 RMB'000	2013 RMB'000
Within 1 year	**11,517**	14,041
After 1 year but within 5 years	**5,716**	12,010
After 5 years	**863**	1,380
	18,096	27,431

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

28 MATERIAL RELATED PARTY TRANSACTIONS

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

Key management personnel remuneration

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

	2014 **RMB'000**	2013 RMB'000
Short-term employee benefits	**28,816**	29,718
Post-employment benefits	**673**	1,159
	29,489	30,877

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

On 23 December 2013, three of the key management personnel subscribed the shares of 361 Degrees Kids Wear Limited, which represented 6% of its enlarged share capital, at fair value with total consideration of RMB7,489,000.

(Expressed in thousands of Renminbi unless otherwise indicated)

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2014

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 19, *Defined benefit plans: Employee contributions*	1 July 2014
Annual improvements to HKFRSs 2010-2012 cycle	1 July 2014
Annual improvements to HKFRSs 2011-2013 cycle	1 July 2014
Amendments to HKFRS 11, *Accounting for acquisitions of interests in joint operations*	1 January 2016
Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
HKFRS 15, *Revenue from contracts with customers*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application but is not yet in a position to state whether these amendments would have a significant impact on the consolidated financial statements.

KPMG

Independent auditor's report to the shareholders of
361 Degrees International Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of 361 Degrees International Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 64 to 132, which comprise the consolidated and company statements of financial position as at 31 December 2013, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

17 March 2014

Consolidated statement of profit or loss

for the year ended 31 December 2013 (Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Turnover	3	**3,583,477**	4,950,578
Cost of sales		**(2,166,378)**	(2,978,266)
Gross profit		**1,417,099**	1,972,312
Other revenue	4	**83,766**	81,045
Other net gain	4	**5,101**	2,894
Selling and distribution expenses		**(729,300)**	(889,067)
Administrative expenses		**(424,456)**	(302,771)
Profit from operations		**352,210**	864,413
Net change in fair value of derivatives embedded to convertible bonds	20	**41,841**	32,936
Finance costs	5(a)	**(79,127)**	(66,975)
Profit before taxation	5	**314,924**	830,374
Income tax	6(a)	**(100,193)**	(115,145)
Profit for the year		**214,731**	715,229
Attributable to:			
Equity shareholders of the Company	9	**211,261**	707,208
Non-controlling interests		**3,470**	8,021
Profit for the year		**214,731**	715,229
Earnings per share	10		
Basic (cents)		**10.2**	34.2
Diluted (cents)		**10.2**	31.8

The notes on pages 72 to 132 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 25(b).

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2013 (Expressed in Renminbi)

	2013 RMB'000	2012 RMB'000
Profit for the year	**214,731**	715,229
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements	**6,696**	3,226
Total comprehensive income for the year	**221,427**	718,455
Attributable to:		
Equity shareholders of the Company	**217,957**	710,434
Non-controlling interests	**3,470**	8,021
Total comprehensive income for the year	**221,427**	718,455

The notes on pages 72 to 132 form part of these financial statements. There was no tax effect relating to the components of other comprehensive income.

Consolidated statement of financial position

at 31 December 2013 (Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Non-current assets			
Fixed assets	11		
– Property, plant and equipment		**974,627**	958,049
– Interests in leasehold land held for own use under operating leases		**97,602**	99,754
		1,072,229	1,057,803
Other financial asset	13	**17,550**	17,550
Deposits and prepayments	15	**121,148**	142,140
Deferred tax assets	24(b)	**92,256**	61,730
		1,303,183	1,279,223
Current assets			
Inventories	14	**409,358**	460,715
Trade debtors	15	**1,831,184**	1,928,040
Bills receivable	15	**84,780**	183,470
Deposits, prepayments and other receivables	15	**636,873**	567,223
Pledged bank deposits	16 & 17	**37,900**	95,730
Deposits with banks	17	**321,747**	590,791
Cash and cash equivalents	17	**2,494,280**	2,107,018
		5,816,122	5,932,987
Current liabilities			
Trade and other payables	18	**1,469,179**	1,591,474
Bank loans	19	**15,898**	42,315
Current taxation	24(a)	**120,576**	92,379
		1,605,653	1,726,168
Net current assets		**4,210,469**	4,206,819

	Note	2013 RMB'000	2012 RMB'000
Total assets less current liabilities		**5,513,652**	5,486,042
Non-current liabilities			
Deferred tax liabilities	24(b)	**5,432**	2,517
Convertible bonds	20	**767,539**	753,062
		772,971	755,579
NET ASSETS		**4,740,681**	4,730,463
CAPITAL AND RESERVES			
Share capital	25(c)	**182,298**	182,298
Reserves		**4,494,048**	4,495,762
Total equity attributable to equity shareholders of the Company		**4,676,346**	4,678,060
Non-controlling interests		**64,335**	52,403
TOTAL EQUITY		**4,740,681**	4,730,463

Approved and authorised for issue by the board of directors on 17 March 2014

Ding Huihuang
Director

Ding Huirong
Director

The notes on pages 72 to 132 form part of these financial statements.

Statement of financial position

at 31 December 2013 (Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Non-current asset			
Investment in subsidiary	12	**1**	1
Current assets			
Amounts due from subsidiaries	21	**992,892**	1,069,929
Other receivables	15	**1,599**	18,584
Deposits with banks	17	**121,268**	184,941
Cash and cash equivalents	17	**8,881**	180,664
		1,124,640	1,454,118
Current liabilities			
Amounts due to subsidiaries	21	**27,683**	26,932
Other payables	18	**124,281**	186,183
		151,964	213,115
Net current assets		**972,676**	1,241,003
Total assets less current liabilities		**972,677**	1,241,004
Non-current liability			
Convertible bonds	20	**767,539**	753,062
NET ASSETS		**205,138**	487,942
CAPITAL AND RESERVES	25(a)		
Share capital		**182,298**	182,298
Reserves		**22,840**	305,644
TOTAL EQUITY		**205,138**	487,942

Approved and authorised for issue by the board of directors on 17 March 2014

Ding Huihuang
Director

Ding Huirong
Director

The notes on pages 72 to 132 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2013 (Expressed in Renminbi)

		Attributable to equity shareholders of the Company										
	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Statutory reserve RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2012		182,298	749,367	156,252	82,724	458,801	11,902	(41,704)	2,656,493	4,256,133	44,382	4,300,515
Changes in equity for the year ended 31 December 2012:												
Profit for the year		-	-	-	-	-	-	-	707,208	707,208	8,021	715,229
Other comprehensive income		-	-	-	-	-	-	3,226	-	3,226	-	3,226
Total comprehensive income		-	-	-	-	-	-	3,226	707,208	710,434	8,021	718,455
Equity settled share-based transactions		-	-	-	-	-	957	-	-	957	-	957
Appropriation to statutory reserve		-	-	-	-	14,857	-	-	(14,857)	-	-	-
Dividends declared/paid during the year	25(b)	-	(289,464)	-	-	-	-	-	-	(289,464)	-	(289,464)
Balance at 31 December 2012		182,298	459,903	156,252	82,724	473,658	12,859	(38,478)	3,348,844	4,678,060	52,403	4,730,463
Balance at 1 January 2013		182,298	459,903	156,252	82,724	473,658	12,859	(38,478)	3,348,844	4,678,060	52,403	4,730,463
Changes in equity for the year ended 31 December 2013:												
Profit for the year		-	-	-	-	-	-	-	211,261	211,261	3,470	214,731
Other comprehensive income		-	-	-	-	-	-	6,696	-	6,696	-	6,696
Total comprehensive income		-	-	-	-	-	-	6,696	211,261	217,957	3,470	221,427
Capital contribution received from non-controlling interests		-	-	-	7,765	-	-	-	-	7,765	8,462	16,227
Appropriation to statutory reserve		-	-	-	-	30,569	-	-	(30,569)	-	-	-
Dividends declared and paid during the year	25(b)	-	(227,436)	-	-	-	-	-	-	(227,436)	-	(227,436)
Balance at 31 December 2013		182,298	232,467	156,252	90,489	504,227	12,859	(31,782)	3,529,536	4,676,346	64,335	4,740,681

The notes on pages 72 to 132 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2013 (Expressed in Renminbi)

	Note	2013 RMB'000	2012 RMB'000
Operating activities			
Profit before taxation		**314,924**	830,374
Adjustments for:			
Depreciation	5(c)	**65,442**	77,998
Amortisation of land lease premium	5(c)	**2,152**	1,996
Adjustment on amortisation of land lease premium		**–**	(1,183)
Finance costs	5(a)	**79,127**	66,975
Interest income	4	**(53,169)**	(23,535)
Net change in fair value of derivatives embedded to convertible bonds		**(41,841)**	(32,936)
Net loss on disposal of fixed assets	4	**40**	307
Equity settled share-based payment expenses	5(b)	**–**	957
Impairment loss on trade receivables	5(c)	**152,001**	–
Effect of foreign exchange rates changes		**(7,804)**	(6,453)
Changes in working capital:			
Decrease/(increase) in inventories		**51,357**	(9,451)
(Increase)/decrease in trade debtors		**(55,145)**	181,968
Decrease in bills receivable		**98,690**	61,330
(Increase)/decrease in deposits, prepayments and other receivables		**(85,578)**	248,921
(Decrease)/increase in trade and other payables		**(97,433)**	391,940
Cash generated from operations		**422,763**	1,789,208
People's Republic of China ("PRC") income tax paid		**(99,607)**	(130,431)
Net cash generated from operating activities		**323,156**	1,658,777
Investing activities			
Payment for the purchase of fixed assets		**(43,965)**	(150,706)
Decrease in non-current prepayments		**18,625**	140
Proceeds from disposal of fixed assets		**164**	2,315
Decrease in pledged bank deposits		**57,830**	31,955
Decrease/(increase) in deposits with banks		**261,901**	(378,889)
Interest received		**52,996**	18,533
Net cash generated from/(used in) investing activities		**347,551**	(476,652)

	Note	2013 RMB'000	2012 RMB'000
Financing activities			
Capital contribution received from non-controlling interests		**16,225**	–
Proceeds from new bank loans		**–**	241,128
Repayment of bank loans		**(26,417)**	(227,594)
Repayment of other loan		**–**	(150,000)
Proceeds from issuance of convertible bonds		**–**	922,894
Finance charges on convertible bonds paid		**(41,786)**	(21,409)
Interest paid		**(2,204)**	(10,424)
Dividends paid	25(b)	**(227,436)**	(289,464)
Net cash (used in)/generated from financing activities		**(281,618)**	465,131
Net increase in cash and cash equivalents		**389,089**	1,647,256
Cash and cash equivalents at 1 January		**2,107,018**	459,762
Effect of foreign exchange rate changes		**(1,827)**	–
Cash and cash equivalents at 31 December	17	**2,494,280**	2,107,018

The notes on pages 72 to 132 form part of these financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group").

The Company and other investment holding subsidiaries incorporated in the British Virgin Islands (the "BVI") and Hong Kong have their functional currency in Hong Kong dollars and subsidiaries established in the PRC have their functional currency in Renminbi ("RMB"). As the Group mainly operates in the PRC, RMB is used as the presentation currency of the Group's financial statements. All financial information presented is rounded to the nearest thousand except otherwise stated. The measurement basis used in the preparation of the financial statements is the historical costs basis except that derivative financial instruments are stated at their fair value as explained in the accounting policy set out in note 1(f).

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Change in accounting policies

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

- Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- HKFRS 10, *Consolidated financial statements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- *Annual Improvements to HKFRSs 2009-2011 Cycle*
- Amendments to HKFRS 7 – *Disclosures – Offsetting financial assets and financial liabilities*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of new or amended HKFRSs are discussed below:

Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly. In addition, the Group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

HKFRS 10, Consolidated financial statements

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

HKFRS 12, Disclosure of interests in other entities

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 12.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 26. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Annual Improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. The amendments do not have material impacts on the Group's consolidated financial statements.

Amendments to HKFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The adoption of the amendments does not have an impact on these financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7 during the periods presented.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Subsidiaries and non-controlling interests

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

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

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

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Other investments in equity securities

Investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(i)).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(f) Derivative financial instruments

Derivatives financial instruments are recognised initially at fair value. At the the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(g) Property, plant and equipment

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

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

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

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

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

–	Plant and machinery	5 – 10 years
–	Office equipment and other fixed assets	2 – 10 years
–	Motor vehicles	5 years

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

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

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

(i) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(i) Impairment of investments in equity securities and other receivables *(Continued)*

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

  Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that property, plant and equipment, interests in leasehold land held for own use under operating leases, non-current deposits and prepayments and investment in subsidiary may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Inventories

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

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

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

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

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Convertible bonds

Convertible bonds which do not contain an equity component are accounted for as follows:

At initial recognition the derivative components of the convertible bonds is measured at fair value and presented as part of derivative financial instruments (see note 1(f)). Any excess of proceeds over the amount initially recognised as the derivative components is recognised as the liability component. Transaction costs that relate to the issue of the convertible bond are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative components is recognised immediately in profit or loss.

The derivative components are subsequently remeasured in accordance with note 1(f). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the bond is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

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

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

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

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Employee benefits *(Continued)*

(ii) Share-based payments *(Continued)*

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(q) Income tax

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Income tax *(Continued)*

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

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

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

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either;

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Provisions and contingent liabilities

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

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

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts and goods return.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

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

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

(u) Borrowing costs

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

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Research and development and advertising

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

(w) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Segment reporting

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

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

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

2 ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Critical accounting judgement in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgement:

Investment property

The Group has temporarily sub-let an office but has decided not to treat this property as an investment property because it is not the Group's intention to hold this property in the long-term for capital appreciation or rental income. Accordingly, this property is still treated an item of property, plant and equipment.

(b) Sources of estimation uncertainty

Notes 23 and 26 contain information about the assumptions and their risk factors relating to fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Useful lives of fixed assets

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

2 ACCOUNTING JUDGEMENT AND ESTIMATES *(Continued)*

(b) Sources of estimation uncertainty *(Continued)*

(ii) Impairment losses on trade debtors and bills receivable

The Group recognises impairment losses on doubtful debts based on an assessment of the recoverability of trade debtors and bills receivable. Impairments are applied to trade debtors and bills receivable where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debts expenses in the period in which such estimate has been changed.

(iii) Other impairment losses

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

(iv) Net realisable value of inventories

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

(v) Income taxes

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

3 TURNOVER AND SEGMENT REPORTING

(a) Turnover

The principal activities of the Group are manufacturing and trading of sporting goods, including footwear, apparel and accessories in the PRC. Turnover represents the sales value of goods sold less returns, discounts and value added taxes and other sales taxes. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2013 **RMB'000**	2012 RMB'000
Footwear	**1,674,956**	2,321,681
Apparel	**1,836,272**	2,532,908
Accessories	**72,249**	95,989
	3,583,477	4,950,578

The Group's customer base is diversified and has only two customers with whom transactions have exceeded 10% of the Group's revenues. In 2013, revenues from sales of footwear, apparel and accessories to each of the two customers, including sales to entities which are known to the Group to be under common control with these customers, amounted to approximately RMB538 million (2012: RMB843 million) and RMB423 million (2012: RMB514 million) respectively and arose in both reportable segments (see note 3(b)). Details of concentrations of credit risk arising from these customers are set out in note 26(a)(i).

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

(b) Segment reporting

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

– *361°* Products – Adults: this segment derives turnover from manufacturing and trading of adults sporting goods.

– *361°* Products – Kids: this segment derives turnover from trading of kids sporting goods.

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

(Expressed in thousands of Renminbi unless otherwise indicated)

3 TURNOVER AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

(i) Segment results

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2013 and 2012 is set out below.

	361° Products – Adults		*361°* Products – Kids		Total	
	2013	2012	**2013**	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Reportable segment revenue	**3,163,102**	4,580,500	**420,375**	370,078	**3,583,477**	4,950,578
Cost of sales	**(1,910,718)**	(2,751,863)	**(255,660)**	(226,403)	**(2,166,378)**	(2,978,266)
Reportable segment profit (gross profit)	**1,252,384**	1,828,637	**164,715**	143,675	**1,417,099**	1,972,312

3 TURNOVER AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

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

	2013 RMB'000	2012 RMB'000
Revenue		
Reportable segment revenue and consolidated turnover (note 3(a))	**3,583,477**	4,950,578
Profit		
Reportable segment profit	**1,417,099**	1,972,312
Other revenue	**83,766**	81,045
Other net gain	**5,101**	2,894
Selling and distribution expenses	**(729,300)**	(889,067)
Administrative expenses	**(424,456)**	(302,771)
Net change in fair value of derivatives embedded to convertible bonds	**41,841**	32,936
Finance costs	**(79,127)**	(66,975)
Consolidated profit before taxation	**314,924**	830,374

4 OTHER REVENUE AND NET GAIN

	2013 RMB'000	2012 RMB'000
Other revenue		
Bank interest income	**53,169**	23,535
Government grants	**6,889**	40,028
Others	**23,708**	17,482
	83,766	81,045
Other net gain		
Net loss on disposal of fixed assets	**(40)**	(307)
Net foreign exchange gain	**5,141**	3,201
	5,101	2,894

Government grants of RMB6,889,000 (2012: RMB40,028,000) 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.

(Expressed in thousands of Renminbi unless otherwise indicated)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		2013 RMB'000	2012 RMB'000
(a)	**Finance costs**		
	Interest on bank and other borrowings wholly repayable within five years	**2,204**	10,424
	Finance charges on convertible bonds (note 20)	**76,923**	56,551
		79,127	66,975
(b)	**Staff costs**		
	Contributions to defined contribution retirement plans	**18,450**	17,296
	Equity settled share-based payment expenses (note 23)	**–**	957
	Salaries, wages and other benefits	**279,685**	324,893
		298,135	343,146
(c)	**Other items**		
	Auditors' remuneration	**3,336**	3,637
	Amortisation of land lease premium	**2,152**	1,996
	Depreciation	**65,442**	77,998
	Impairment loss on trade receivables (note 15(b))	**152,001**	–
	Operating lease charges in respect of properties	**13,342**	14,736
	Research and development costs *	**85,764**	86,560
	Cost of inventories **	**2,166,378**	2,978,266

* Research and development costs include RMB31,613,000 (2012: RMB31,882,000) relating to staff costs of employees in the research and development department, which amount is also included in the total staff costs as disclosed in note 5(b).

** Cost of inventories include RMB202,218,000 (2012: RMB228,590,000) relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2013 RMB'000	2012 RMB'000
Current tax – PRC income tax		
Provision for the year	**131,090**	147,656
(Over)/under-provision in respect of prior years	**(3,286)**	2,973
	127,804	150,629
Deferred tax		
Origination and reversal of temporary differences	**(27,611)**	(35,484)
	100,193	115,145

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

(ii) No provision has been made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax during the year.

(iii) Pursuant to the income tax rules and regulations of the PRC, provision for PRC corporate income tax is calculated based on a statutory rate of 25% of the assessable profits of the PRC subsidiaries. During the year ended 31 December 2012, a PRC subsidiary was subject to tax at 50% of the standard tax rate under the relevant PRC tax rules and regulations.

(Expressed in thousands of Renminbi unless otherwise indicated)

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

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

	2013 RMB'000	2012 RMB'000
Profit before taxation	**314,924**	830,374
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**91,909**	215,291
Tax effect of non-deductible expenses	**13,119**	10,894
Tax effect of non-taxable income	**(1,549)**	(1,184)
Tax effect of utilisation of tax losses not recognised in prior years	**–**	(2,443)
Tax effect of profits entitled to tax exemption in the PRC	**–**	(110,386)
(Over)/under-provision in prior years	**(3,286)**	2,973
Actual tax expense	**100,193**	115,145

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2013			
	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors				
Ding Wuhao	–	1,200	11	1,211
Ding Huihuang	–	1,000	11	1,011
Ding Huirong	–	1,000	11	1,011
Wang Jiabi	–	645	17	662
Independent non-executive directors				
Yan Man Sing	444	–	–	444
Sun Xianhong	320	–	–	320
Liu Jianxing (note)	140	–	–	140
Tsui Yung Kwok	333	–	–	333
	1,237	3,845	50	5,132

Note: Mr Liu Jianxing resigned as independent non-executive director on 2 September 2013.

(Expressed in thousands of Renminbi unless otherwise indicated)

7 DIRECTORS' REMUNERATION *(Continued)*

	2012			
	Directors' fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors				
Ding Wuhao	–	1,490	4	1,494
Ding Huihuang	–	1,201	4	1,205
Ding Huirong	–	1,201	4	1,205
Wang Jiabi	–	720	5	725
Independent non-executive directors				
Yan Man Sing	455	–	–	455
Sun Xianhong	320	–	–	320
Liu Jianxing	210	–	–	210
Tsui Yung Kwok	114	–	–	114
	1,099	4,612	17	5,728

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

None of the directors is the five individuals with the highest emoluments (2012: Nil). The aggregate of the emoluments in respect of the five individuals are as follows:

	2013 **RMB'000**	2012 RMB'000
Salaries and other emoluments	**7,858**	10,254
Retirement scheme contributions	**146**	355
	8,004	10,609

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

	2013 **Number of individuals**	2012 Number of individuals
HK$1,500,001 to HK$2,000,000	**3**	–
HK$2,000,001 to HK$2,500,000	**2**	4
HK$3,000,001 to HK$3,500,000	**–**	1

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB46,523,000 (2012: RMB38,340,000) which has been dealt with in the financial statements of the Company.

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB211,261,000 (2012: RMB707,208,000) and the weighted average of 2,068 million ordinary shares (2012: 2,068 million ordinary shares) in issue during the year.

(Expressed in thousands of Renminbi unless otherwise indicated)

10 EARNINGS PER SHARE *(Continued)*

(b) Diluted earnings per share

For the year ended 31 December 2013, diluted earnings per share is the same as basic earnings per share as the Company did not have dilutive potential shares outstanding during the year. For the year ended 31 December 2012, the calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB730,823,000 and the weighted average number of ordinary shares of 2,295 million adjusted for the potential dilutive effect caused by the conversion of convertible bonds (note 20), calculated as follows:

(i) Profits attributable to ordinary equity shareholders of the Company (diluted)

	2012 RMB'000
Profit attributable to ordinary equity shareholders	707,208
After tax effect of effective interest on the liability component of convertible bonds (note 20)	56,551
After tax effect of net gain recognised on the derivative components of convertible bonds (note 20)	(32,936)
Profit attributable to ordinary equity shareholders (diluted)	730,823

(ii) Weighted average number of ordinary shares (diluted)

	2012 '000
Weighted average number of ordinary shares at 31 December	2,067,602
Effect of conversion of convertible bonds (note 20)	227,847
Weighted average number of ordinary shares (diluted) at 31 December	2,295,449

11 FIXED ASSETS

The Group

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment and other fixed assets RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Interests in leasehold land held for own use under operating leases RMB'000	Total RMB'000
Cost:								
At 1 January 2012	648,854	183,175	114,288	19,781	57,589	1,023,687	106,515	1,130,202
Exchange adjustments	–	–	(8)	–	–	(8)	–	(8)
Additions	45,423	14,826	889	10,510	74,758	146,406	17,178	163,584
Disposals	–	(807)	(3,379)	–	–	(4,186)	–	(4,186)
Adjustment	–	–	–	–	–	–	(16,537)	(16,537)
Transfer from construction in progress	5,000	–	1,283	–	(6,283)	–	–	–
At 31 December 2012	699,277	197,194	113,073	30,291	126,064	1,165,899	107,156	1,273,055
Accumulated depreciation and amortisation:								
At 1 January 2012	39,606	38,873	46,608	6,337	–	131,424	6,589	138,013
Exchange adjustments	–	–	(8)	–	–	(8)	–	(8)
Charge for the year	36,010	16,954	20,563	4,471	–	77,998	1,996	79,994
Written back on disposals	–	(336)	(1,228)	–	–	(1,564)	–	(1,564)
Adjustment	–	–	–	–	–	–	(1,183)	(1,183)
At 31 December 2012	75,616	55,491	65,935	10,808	–	207,850	7,402	215,252
Net book value:								
At 31 December 2012	623,661	141,703	47,138	19,483	126,064	958,049	99,754	1,057,803
Cost:								
At 1 January 2013	699,277	197,194	113,073	30,291	126,064	1,165,899	107,156	1,273,055
Exchange adjustments	–	–	(1,283)	–	–	(1,283)	–	(1,283)
Additions	–	13,624	4,969	1,340	63,540	83,473	–	83,473
Disposals	–	(534)	–	–	–	(534)	–	(534)
At 31 December 2013	699,277	210,284	116,759	31,631	189,604	1,247,555	107,156	1,354,711
Accumulated depreciation and amortisation:								
At 1 January 2013	75,616	55,491	65,935	10,808	–	207,850	7,402	215,252
Exchange adjustments	–	–	(34)	–	–	(34)	–	(34)
Charge for the year	29,357	18,460	12,965	4,660	–	65,442	2,152	67,594
Written back on disposals	–	(330)	–	–	–	(330)	–	(330)
At 31 December 2013	104,973	73,621	78,866	15,468	–	272,928	9,554	282,482
Net book value:								
At 31 December 2013	594,304	136,663	37,893	16,163	189,604	974,627	97,602	1,072,229

(Expressed in thousands of Renminbi unless otherwise indicated)

11 FIXED ASSETS *(Continued)*

The Group *(Continued)*

As at 31 December 2013, a property with net book value of RMB43,286,000 (2012: RMB45,423,000) was pledged as security for a banking facility of the Group of RMB21,047,000 (2012: RMB21,646,000).

The Group leased out the property under operating leases temporarily for an initial period of one year starting on 1 January 2013. The lease did not include contingent rental and the lease payment received during the year under non-cancellable operating leases was RMB1,106,000. The lease expired as at 31 December 2013 with no renewal.

The analysis of net book value of properties is as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
In Hong Kong – medium-term leases	**43,286**	45,423
In PRC – medium-term leases	**648,620**	677,992
	691,906	723,415
Representing:		
Buildings carried at cost	**594,304**	623,661
Interest in leasehold land held for own use under operating leases	**97,602**	99,754
	691,906	723,415

12 INVESTMENT IN SUBSIDIARY

	The Company	
	2013	2012
	RMB'000	RMB'000
Unlisted share, at cost	**1**	1

12 INVESTMENT IN SUBSIDIARY *(Continued)*

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

Name of company	Place of establishment/ incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Sanliuyidu Holdings Company Limited	BVI	US$100	100%	100%	–	Investment holding
361 Enterprise Company Limited	Hong Kong	HK$1	100%	–	100%	Investment holding
361 Investment Company Limited	Hong Kong	HK$1	100%	–	100%	Investment holding
361 Degrees (HK) Investment Limited	Hong Kong	HK$1	100%	–	100%	Investment holding
Sanliuyidu (Fujian) Sports Goods Co., Ltd 三六一度（福建）體育用品有限公司 (Notes (i) and (iv))	PRC	HK$280,000,000	100%	–	100%	Manufacture and trading of sporting goods
Sanliuyidu (China) Co., Ltd 三六一度（中國）有限公司 (Notes (i) and (iv))	PRC	HK$560,000,000	100%	–	100%	Manufacture and trading of sporting goods
Sanliuyidu Xiamen Industry & Trade Co., Limited 三六一度（廈門）工貿有限公司 (Notes (ii) and (iv))	PRC	RMB100,000,000	100%	–	100%	Trading of sporting goods
Sanliuyidu (Fujian) Shoes and Plastics Technology Co., Ltd 三六一度（福建）鞋塑科技有限公司 (Notes (iii) and (iv))	PRC	HK$86,000,000	51%	–	51%	Manufacture and trading of shoes soles
Sanliuyidu (Guangdong) Industry & Trade Co., Limited 三六一度（廣東）工貿有限公司 (Notes (i) and (iv))	PRC	HK$10,000,000	100%	–	100%	Inactive
361 Degrees Children's Clothing Co., Ltd. 三六一度童裝有限公司 (Note (i) and (iv))	PRC	HK$40,000,000	100%	–	100%	Trading of children sporting goods
Yue Lei International Limited 宇彌國際有限公司	Hong Kong	HK$100,000	100%	–	100%	Trading of sporting goods
One Way International Enterprise Limited 萬唯國際實業有限公司	Hong Kong	HK$10,000	70%	–	70%	Investment holding
361 Degrees Kids Wear Holdings Limited	BVI	US$1	100%	–	100%	Investment holding
361 Degrees Kids Wear Limited	Cayman Islands	HK$10,000	87%	–	87%	Investment holding
361 Degrees Kids Wear Investment Limited	BVI	US$1	87%	–	100%	Investment holding

(Expressed in thousands of Renminbi unless otherwise indicated)

12 INVESTMENT IN SUBSIDIARY *(Continued)*

Notes:

(i) These entities are wholly foreign owned enterprises established in the PRC.

(ii) The entity is a limited liability company established in the PRC.

(iii) The entity is a co-operative joint venture registered in the PRC.

(iv) The English translation of the company names is for reference only. The official names of these companies are in Chinese.

13 OTHER NON-CURRENT FINANCIAL ASSET

	The Group	
	2013	2012
	RMB'000	RMB'000
Unlisted available-for-sale equity securities	**17,550**	17,550

14 INVENTORIES

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

	The Group	
	2013	2012
	RMB'000	RMB'000
Raw materials	**18,530**	28,077
Work in progress	**75,710**	116,075
Finished goods	**315,118**	316,563
	409,358	460,715

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

	The Group	
	2013	2012
	RMB'000	RMB'000
Carrying amount of inventories sold	**2,166,378**	2,978,266

15 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade debtors				
Trade debtors	**2,022,705**	1,967,560	**–**	–
Less: allowance for doubtful debts (note 15(b))	**(191,521)**	(39,520)	**–**	–
	1,831,184	1,928,040	**–**	–
Bills receivable	**84,780**	183,470	**–**	–
Deposits, prepayments and other receivables				
Current				
Deposits	**3,885**	3,586	**–**	–
Prepayments	**557,209**	495,295	**–**	–
Other receivables	**75,424**	51,884	**1,244**	2,126
Derivative financial instruments (note 20)	**355**	16,458	**355**	16,458
	636,873	567,223	**1,599**	18,584
Non-current				
Deposits and prepayments	**121,148**	142,140	**–**	–

Included in prepayments are amounts prepaid to suppliers of RMB468,765,000 (2012: RMB388,906,000).

All of the trade debtors, bills receivable and current portion of deposits, prepayments and other receivables are expected to be recovered within one year, except that the Group's current deposits of RMB3,885,000 (2012: RMB3,586,000) are expected to be recovered or recognised as expenses after more than one year.

(Expressed in thousands of Renminbi unless otherwise indicated)

15 TRADE AND OTHER RECEIVABLES *(Continued)*

(a) Ageing analysis

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

	The Group	
	2013	2012
	RMB'000	RMB'000
Within 90 days	**947,799**	1,088,602
Over 90 days but within 180 days	**775,818**	1,022,723
Over 180 days but within 365 days (note)	**192,347**	185
	1,915,964	2,111,510

Note: The trade debtors and bills receivable aged over 180 days but within 365 days of RMB192,347,000 have been fully settled after the year end date.

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

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(i)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
At 1 January	**39,520**	39,520
Impairment loss recognised	**152,001**	–
At 31 December	**191,521**	39,520

At 31 December 2013, the Group's trade debtors of RMB191,521,000 (2012: RMB39,520,000) were individually determined to be impaired. The individually impaired receivables related to customers which management assessed that a portion of the receivables were doubtful. Consequently, specific allowances for doubtful debts of RMB191,521,000 (2012: RMB39,520,000) were recognised. The Group does not hold any collateral over these balances.

15 TRADE AND OTHER RECEIVABLES *(Continued)*

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Neither past due nor impaired	**1,400,718**	1,961,452
Within 30 days past due	**176,464**	75,930
Over 30 days but within 90 days past due	**318,257**	70,414
Over 90 days but within 180 days past due	**20,525**	3,714
Amount past due	**515,246**	150,058
	1,915,964	2,111,510

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

16 PLEDGED BANK DEPOSITS

The Group

Bank deposits are pledged to banks as security for certain banking facilities (see note 19).

(Expressed in thousands of Renminbi unless otherwise indicated)

17 CASH AND BANK DEPOSITS

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Pledged bank deposits	**37,900**	95,730	**–**	–
Deposits with banks				
– More than three months to maturity when placed	**321,747**	590,791	**121,268**	184,941
– Within three months to maturity when placed	**102,203**	585,133	**–**	–
Cash at bank and in hand	**2,392,077**	1,521,885	**8,881**	180,664
Cash and bank deposits	**2,853,927**	2,793,539	**130,149**	365,605
Represented by:				
Pledged bank deposits	**37,900**	95,730	**–**	–
Deposits with banks	**321,747**	590,791	**121,268**	184,941
Cash and cash equivalents	**2,494,280**	2,107,018	**8,881**	180,664
	2,853,927	2,793,539	**130,149**	365,605

At 31 December 2013, the balances that were placed with banks or on hand in the PRC and included in the pledged bank deposits, deposits with banks and cash and cash equivalents amounted to RMB2,780,555,000 (2012: RMB2,670,561,000). Remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

18 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade creditors	**621,748**	548,936	**–**	–
Bills payable	**213,452**	491,140	**–**	–
Receipts in advance	**7,289**	43,217	**–**	–
Other payables and accruals	**515,371**	335,205	**12,962**	13,207
Derivative financial instruments (note 20)	**111,319**	172,976	**111,319**	172,976
	1,469,179	1,591,474	**124,281**	186,183

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

Bills payable as at 31 December 2013 and 2012 were secured by pledged bank deposits as disclosed in note 16.

18 TRADE AND OTHER PAYABLES *(Continued)*

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

	The Group	
	2013	2012
	RMB'000	RMB'000
Due within 1 month or on demand	**409,598**	420,644
Due after 1 month but within 3 months	**227,810**	328,764
Due after 3 months but within 6 months	**197,792**	290,668
	835,200	1,040,076

19 BANK LOANS

At 31 December 2013, the bank loans were repayable within one year or on demand and secured as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Bank loans		
– secured	**15,898**	17,315
– unsecured	**–**	25,000
	15,898	42,315

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

	The Group	
	2013	2012
	RMB'000	RMB'000
Facilities amount	**3,627,899**	3,922,544
Utilisation at the end of the reporting period		
– Bills payable	**213,452**	491,140
– Bank loans	**15,898**	42,315
	229,350	533,455

For the years ended 31 December 2013 and 2012, bank loan and bills payable of the Group were secured by a property and pledged bank deposits (see notes 11 and 16). The Group's bank loans were not subject to any covenants.

20 CONVERTIBLE BONDS

On 3 April 2012, the Company issued unsecured convertible bonds with principal amount of US$150,000,000 due 2017 (the "convertible bonds"). The convertible bonds are interest-bearing at 4.5% per annum and payable semi-annually in arrears. The maturity date of the convertible bonds is 3 April 2017. The convertible bonds can be converted to shares of the Company at HK$3.81 per share, subject to anti-dilutive and dividend protection adjustments, from 14 May 2012 to 3 April 2017.

In addition to the above, the Company may early redeem all the convertible bonds from 3 April 2015 to 3 April 2017 at principal amount plus any accrued but unpaid interest thereon the redemption date, provided that the closing price of the shares of the Company for each of the thirty consecutive trading days, the last of which occurs within the five trading days prior to the date upon which the redemption notice is given by the Company, is at least 130% of the prevailing conversion price.

The holders of the convertible bonds can require the Company to early redeem all or partial of the convertible bonds on or about 3 April 2015 plus any accrued but unpaid interest thereon the redemption date.

The redemption call, redemption put and conversion options are separately accounted for at fair value at the end of each reporting period as derivative financial instruments in accordance with the accounting policy set out in note 1(f) to the financial statements.

20 CONVERTIBLE BONDS *(Continued)*

As a result of the declaration of final dividend for the year ended 31 December 2012 and interim dividend for the six months ended 30 June 2013, the conversion price of the convertible bonds was adjusted to HK$3.31 per share with effective from 9 September 2013.

	Liability component of convertible bonds (note 20(a)) RMB'000	Redemption call option (notes 15 and 20(b)) RMB'000	Redemption put option (notes 18 and 20(c)) RMB'000	Conversion option (notes 18 and 20(d)) RMB'000	Total RMB'000
Issuance of the convertible bonds	753,885	(22,450)	40,473	173,059	944,967
Transaction costs (note (20(e))	(17,626)	–	–	–	(17,626)
Finance charges amortised during the year (note 5(a))	56,551	–	–	–	56,551
Interest paid and payable	(31,697)	–	–	–	(31,697)
Change in fair value	–	5,824	12,087	(50,847)	(32,936)
Exchange adjustments	(8,051)	168	(568)	(1,228)	(9,679)
At 31 December 2012	753,062	(16,458)	51,992	120,984	909,580
Finance charges amortised during the year (note 5(a))	76,923	–	–	–	76,923
Interest paid and payable	(41,440)	–	–	–	(41,440)
Change in fair value	–	15,865	(12,595)	(45,111)	(41,841)
Exchange adjustments	(21,006)	238	(1,250)	(2,701)	(24,719)
At 31 December 2013	767,539	(355)	38,147	73,172	878,503

(a) Liability component of convertible bonds represents the contractually determined stream of future cash flows discounted at the rate of interest determined by the market instruments of comparable credit status taken into account the business risk and financial risk of the Company. The effective interest rate of the liability component is 10.2% per annum. At 31 December 2013, the liability component of the convertible bonds was repayable after one year but within five years.

(b) Redemption call option represents the fair value of the Company's option to early redeem all of the convertible bonds and is recorded as derivative financial instruments under "Trade and other receivables" (note 15).

(c) Redemption put option represents the fair value of the options of the holders of the convertible bonds to early redeem all of the convertible bonds and is recorded as derivative financial instruments under "Trade and other payables" (note 18).

20 CONVERTIBLE BONDS *(Continued)*

(d) Conversion option represents the fair value of the options of the holders of the convertible bonds to convert the convertible bonds into shares and is recorded as derivative financial instruments under "Trade and other payables" (note 18).

(e) The transaction costs for the issue of the convertible bonds amounted to RMB22,073,000. An amount of RMB17,626,000 was offset with the liability component of the convertible bonds and the remaining amount of transaction costs was charged to the statement of profit or loss during the year ended 31 December 2012.

21 AMOUNTS DUE FROM/TO SUBSIDIARIES

The Company

The amounts due from/to subsidiaries are unsecured, interest-free and recoverable/repayable on demand.

22 EMPLOYEE RETIREMENT BENEFITS

Defined contribution retirement plans

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the PRC municipal government authority in the Fujian Province whereby the Group is required to make contributions to the Scheme at rates which ranged from 14% to 18% of the eligible employees' relevant salaries. The local government authority is responsible for the entire pension obligations payable to retired employees.

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 (HK$20,000 prior to June 2012). Contributions to the plan vest immediately.

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

23 EQUITY SETTLED SHARE-BASED TRANSACTIONS

(a) Pre-IPO share option scheme

Pursuant to the shareholders' written resolution passed on 10 June 2009, the Company adopted a Pre-IPO share option scheme ("the Pre-IPO Option") whereby 91 employees of the Group were given the rights to subscribe for shares of the Company. The subscription price per share pursuant to the Pre-IPO Option is HK$2.89, being 20% discount to the global offering price.

Each option granted under the Pre-IPO Option has a vesting period of one to three years commencing from the date of listing of the Company on the Hong Kong Stock Exchange and the options have a contractual life of about five years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

(i) The terms and conditions of the grants are as follows:

	Number of instruments '000	Vesting conditions	Contractual life of options
Options granted to employees:			
– on 10 June 2009	3,024	One year from the date of listing of the Company's shares	5.1 years
– on 10 June 2009	6,114	Two years from the date of listing of the Company's shares	5.1 years
– on 10 June 2009	8,152	Three years from the date of listing of the Company's shares	5.1 years
Total share options granted	17,290		

(Expressed in thousands of Renminbi unless otherwise indicated)

23 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(a) Pre-IPO share option scheme *(Continued)*

(ii) The number and exercise price of share options are as follows:

	2013 Exercise price	**2013** Number of options '000	2012 Exercise price	2012 Number of options '000
Outstanding at the beginning and end of the year	**HK$2.89**	**17,290**	HK$2.89	17,290
Exercisable at the end of the year		**17,290**		17,290

The share options outstanding at 31 December 2013 had an exercise price of HK$2.89 (2012: HK$2.89) and a weighted average remaining contractual life of 0.5 years (2012: 1.5 years).

(iii) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

	Options granted on 10 June 2009
Fair value of share options and assumptions	
Fair value at measurement date	HK$0.86
Share price	HK$2.14
Exercise price	HK$2.89
Expected volatility (expressed as weighted average volatility used in the modelling under binominal lattice model)	50.97%
Expected option life (expressed as weighted average life used in the modelling under binominal lattice model)	5 years
Expected dividends	2.80%
Risk-free interest rate	2.03%

23 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(b) Share option scheme

The Company has also adopted a share option scheme ("the Share Option Scheme") pursuant to the shareholders' written resolution passed on 10 June 2009.

The maximum number of shares that may be granted under the Share Option Scheme and other share options schemes shall not exceed 10% of the number of issued shares of the Company from time to time. No option may be granted to any person such that the total number of shares of the Company issued and to be issued upon exercise of all options granted and to be granted to that person in any 12-month period exceeds 1% of the number of shares of the Company in issue from time to time.

An option under the Share Option Scheme may be exercised in accordance with the terms of the scheme at any time during a period as determined by the Board of Directors of the Company, which must not be more than 10 years from the date of the grant.

No share option has been granted under the Share Option Scheme during the year ended 31 December 2013 (2012: Nil).

24 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

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

	The Group	
	2013	2012
	RMB'000	RMB'000
Provision for PRC income tax for the year	**131,090**	147,656
Provisional income tax paid	**(85,099)**	(121,941)
	45,991	25,715
Balance of income tax provision relating to prior years	**74,585**	66,664
	120,576	92,379

(Expressed in thousands of Renminbi unless otherwise indicated)

24 INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION *(Continued)*

(b) Deferred tax assets and liabilities recognised:

The Group

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

	Allowance for doubtful debts RMB'000	Withholding tax on dividends RMB'000	Expenses to be deductible on paid basis RMB'000	Total RMB'000
Deferred tax arising from:				
At 1 January 2012	9,880	(19,384)	33,233	23,729
Credited to profit or loss	–	–	35,484	35,484
At 31 December 2012	9,880	(19,384)	68,717	59,213
At 1 January 2013	9,880	(19,384)	68,717	59,213
Credited/(charged) to profit or loss	38,000	–	(10,389)	27,611
At 31 December 2013	47,880	(19,384)	58,328	86,824

Reconciliation to the consolidated statement of financial position

	The Group **2013** **RMB'000**	2012 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**92,256**	61,730
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(5,432)**	(2,517)
	86,824	59,213

(c) Deferred tax liabilities not recognised

At 31 December 2013, the Group has not recognised deferred tax liabilities of RMB164,996,000 (2012: RMB146,793,000) in respect of temporary differences relating to the undistributed profits of subsidiaries amounting to RMB3,299,928,000 (2012: RMB2,935,852,000) that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

25 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

The Company

	Note	Share capital RMB'000	Share premium RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2012		182,298	749,367	11,902	(100,688)	(27,323)	815,556
Changes in equity for 2012:							
Loss for the year		–	–	–	–	(38,340)	(38,340)
Other comprehensive income		–	–	–	(767)	–	(767)
Total comprehensive income for the year		–	–	–	(767)	(38,340)	(39,107)
Equity settled share-based transactions		–	–	957	–	–	957
Dividends declared and paid during the year	25(b)	–	(289,464)	–	–	–	(289,464)
Balance at 31 December 2012		182,298	459,903	12,859	(101,455)	(65,663)	487,942
Balance at 1 January 2013		182,298	459,903	12,859	(101,455)	(65,663)	487,942
Changes in equity for 2013:							
Loss for the year		–	–	–	–	(46,523)	(46,523)
Other comprehensive income		–	–	–	(8,845)	–	(8,845)
Total comprehensive income for the year		–	–	–	(8,845)	(46,523)	(55,368)
Dividends declared and paid during the year	25(b)	–	(227,436)	–-	–	–	(227,436)
Balance at 31 December 2013		182,298	232,467	12,859	(110,300)	(112,186)	205,138

(Expressed in thousands of Renminbi unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Dividends

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

	2013 **RMB'000**	2012 RMB'000
Interim dividend declared and paid of RMB4.0 cents per ordinary share (2012: RMB7.0 cents per ordinary share)	**82,704**	144,732
Final dividend proposed after the end of the reporting period of RMBNil per ordinary share (2012: RMB7.0 cents per ordinary share)	**–**	144,732
	82,704	289,464

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

	2013 **RMB'000**	2012 RMB'000
Final dividend in respect of the previous financial year/period, approved and paid during the year, of RMB7.0 cents per ordinary share (2012: RMB7.0 cents per ordinary share)	**144,732**	144,732

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Share capital

	2013		2012	
	Number of shares '000	**Amount HK$'000**	Number of shares '000	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	**10,000,000**	**1,000,000**	10,000,000	1,000,000

	Number of shares	**Amount**	
	'000	HK$'000	RMB'000
Ordinary shares, issued and fully paid:			
At 1 January 2012, 31 December 2012, 1 January 2013 and 31 December 2013	2,067,602	206,760	182,298

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

(Expressed in thousands of Renminbi unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(d) Terms of unexpired and unexercised share options at the end of the reporting period:

Date of options granted	Exercise period	Exercise price	Number of options outstanding 2013 '000	2012 '000
10 June 2009	30 June 2010 to 30 June 2014	HK$2.89	**3,024**	3,024
10 June 2009	30 June 2011 to 30 June 2014	HK$2.89	**6,114**	6,114
10 June 2009	30 June 2012 to 30 June 2014	HK$2.89	**8,152**	8,152
			17,290	17,290

Each option entitles the holder to subscribe for one ordinary share in the Company. Further details of these options are set out in note 23 to the financial statements.

(e) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

(ii) Capital reserve

On 9 June 2009, 361 Enterprise Company Limited entered into an agreement with a shareholder of the Company whereby repayment of amounts due to the shareholder by 361 Enterprise Company Limited totalling HK$177,216,000 (equivalent to RMB156,252,000) was waived. The waiver of repayment was reflected as a reduction in the amounts due to a shareholder of the Company and a corresponding increase in capital reserve.

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(e) Nature and purpose of reserves *(Continued)*

(iii) Other reserve

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

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

(iv) Statutory reserve

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

(v) Share option reserve

The share option reserve comprises the fair value of the actual or estimated number of unexercised share options granted under the Pre-IPO share option scheme recognised in accordance with the accounting policy accepted for share-based payments in note 1(p)(ii).

(vi) Exchange reserve

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

(f) Distributability of reserves

At 31 December 2013, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB9,981,000 (2012: RMB292,785,000). The directors do not recommend the payment of a final dividend for the current year (2012: RMB7.0 cents (equivalent to HK$8.7 cents) per ordinary share, amounting to RMB144,732,000).

25 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(g) Capital management

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

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

The Group monitors capital with reference to its debt position. The Group's strategy was to maintain the equity and debt in a balanced position and ensure there were adequate working capital to service its debt obligation. The Group's gearing ratio, being the Group's total liabilities over its total assets, as at 31 December 2013 was 33% (2012: 34%).

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

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

(a) Credit risk

(i) Trade debtors, bills receivable and deposits, prepayments and other receivables

The Group's credit risk is primarily attributable to trade and other receivables. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade debtors and bills receivable are due within 30 to 180 days from the date of billing. Debtors with balances that are more than 1 year from the date of billing are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

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

(a) Credit risk *(Continued)*

(i) Trade debtors, bills receivable and deposits, prepayments and other receivables *(Continued)*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 18% (2012: 22%) and 44% (2012: 57%) of the total trade debtors and bills receivable were due from the Group's largest customer, and the five largest customers respectively.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 15.

(ii) Deposits with banks

The Group mitigates its exposure to credit risk by placing deposits with financial institutions with established credit ratings. Given the high credit ratings of the banks, management does not expect any counterparty to fail to meet its obligations.

(b) Liquidity risk

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

(Expressed in thousands of Renminbi unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk *(Continued)*

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

The Group

	2013 Contractual undiscounted cash outflow				2012 Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	Total RMB'000	Carrying amount at 31 Dec RMB'000	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years but within 5 years RMB'000	Total RMB'000	Carrying amount at 31 Dec RMB'000
Bank loans	16,291	–	16,291	15,898	43,316	–	–	43,316	42,315
Convertible bonds	40,891	919,948	960,839	767,539	42,036	42,036	1,029,791	1,113,863	753,062
Trade and other payables	1,350,571	–	1,350,571	1,350,571	1,375,281	–	–	1,375,281	1,375,281
Total	1,407,753	919,948	2,327,701	2,134,008	1,460,633	42,036	1,029,791	2,532,460	2,170,658

The Company

	2013 Contractual undiscounted cash outflow				2012 Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	Total RMB'000	Carrying amount at 31 Dec RMB'000	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years but within 5 years RMB'000	Total RMB'000	Carrying amount at 31 Dec RMB'000
Convertible bonds	40,891	919,948	960,839	767,539	42,036	42,036	1,029,791	1,113,863	753,062
Other payables	12,962	–	12,962	12,962	13,207	–	–	13,207	13,207
Amounts due to subsidiaries	27,683	–	27,683	27,683	26,932	–	–	26,932	26,932
Total	81,536	919,948	1,001,484	808,184	82,175	42,036	1,029,791	1,154,002	793,201

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans, convertible bonds, pledged bank deposits, deposits with banks and cash and cash equivalents. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

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

The Group

	2013		2012	
	Effective interest rate %	**Amount RMB'000**	Effective interest rate %	Amount RMB'000
Fixed rate (deposits)/ borrowings				
Deposits with banks	**1.50 – 2.86**	**(321,747)**	1.12 – 5.70	(590,791)
Cash and cash equivalents	**0.39 – 0.96**	**(102,203)**	1.35 – 4.70	(585,133)
Bank loans	**2.47**	**15,898**	2.47 – 7.87	42,315
Convertible bonds	**10.18**	**767,539**	10.18	753,062
		359,487		(380,547)
Variable rate deposits				
Pledged bank deposits	**0.50 – 3.30**	**(37,900)**	0.50 – 3.30	(95,730)
Cash and cash equivalents	**0.001– 1.31**	**(2,386,824)**	0.001 – 1.31	(1,517,733)
		(2,424,724)		(1,613,463)
Total net deposits		**(2,065,237)**		(1,994,010)

(Expressed in thousands of Renminbi unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(c) Interest rate risk *(Continued)*

(i) Interest rate profile *(Continued)*

The Company

	2013		2012	
	Effective interest rate %	**Amount RMB'000**	Effective interest rate %	Amount RMB'000
Fixed rate (deposits)/ borrowings				
Deposits with banks	**1.96**	**(121,268)**	1.96 – 5.70	(184,941)
Convertible bonds	**10.18**	**767,539**	10.18	753,062
		646,271		568,121
Variable rate deposits				
Cash and cash equivalents	**0.001 – 1.00**	**(8,880)**	0.001	(180,664)
Total net borrowings		**637,391**		387,457

(ii) Sensitivity analysis

At 31 December 2013, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately RMB18,405,000 (2012: RMB12,587,000). Other components of consolidated equity would not be affected by the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2012.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) Commodity price risk

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

(e) Currency risk

The Group is exposed to currency risk primarily through bank deposits and convertible bonds that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Hong Kong dollars ("HKD") and United States dollars ("USD"). In respect of the convertible bonds denominated in USD issued by the Company, the Group considers the risk of movements in exchange rates between the HKD and the USD to be insignificant as the HKD is pegged to the USD.

(i) Exposure to currency risk

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

The Group

	Exposure to foreign currencies (expressed in RMB)			
	2013		2012	
	Hong Kong dollars RMB'000	**United States dollars RMB'000**	Hong Kong dollars RMB'000	United States dollars RMB'000
Cash and bank deposits	**34,620**	**125,625**	2,326	127,776
Convertible bonds	**–**	**(767,539)**	–	(753,062)
Net exposure arising from recognised assets and liabilities	**34,620**	**(641,914)**	2,326	(625,286)

(Expressed in thousands of Renminbi unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Currency risk *(Continued)*

(i) Exposure to currency risk *(Continued)*

The Company

	Exposure to foreign currencies (expressed in RMB)			
	2013		2012	
	Renminbi RMB'000	**United States dollars RMB'000**	Renminbi RMB'000	United States dollars RMB'000
Amounts due to subsidiaries	**(27,683)**	**–**	(26,932)	–
Convertible bonds	**–**	**(767,539)**	–	(753,062)
Net exposure arising from recognised assets and liabilities	**(27,683)**	**(767,539)**	(26,932)	(753,062)

(ii) Sensitivity analysis

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

	2013		2012	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
Hong Kong dollars	**5%**	**1,298**	5%	87
	(5)%	**(1,298)**	(5)%	(87)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Currency risk *(Continued)*

(ii) Sensitivity analysis *(Continued)*

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2012.

(f) Equity price risk

The Group is exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of derivatives or other financial liabilities of the Group. As at the end of the reporting period the Group is exposed to this risk through the conversion rights attached to the convertible bonds issued by the Company as disclosed in note 20.

At 31 December 2013, it is estimated that an increase/(decrease) of 12% (2012: 11%) in the Company's own share price, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits as follows:

The Group

	2013		2012	
		Effect on profit after tax and retained profits RMB'000		Effect on profit after tax and retained profits RMB'000
Change in the relevant equity price risk variable:				
Increase	**12%**	**18,455**	11%	40,718
Decrease	**(12)%**	**(13,704)**	(11)%	(36,946)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(f) Equity price risk *(Continued)*

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax and retained profits that would arise assuming that the changes in relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. The analysis is performed on the same basis for 2012.

(g) Fair values

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

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

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

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

- Level 3 valuations: Fair value measured using significant unobservable inputs

The Group engaged an external valuer to perform valuations for the financial instruments, including redemption call and put options and conversion option embedded in the convertible bonds which are categorised into Level 3 of the fair value hierarchy. The external valuer reports directly to the chief financial officer. A valuation report with analysis of changes in fair value measurement is prepared by external valuer at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer is held twice a year, to coincide with the reporting dates.

At 31 December 2013 and 2012, the only financial instruments of the Group and the Company carried at fair value were the redemption call and put options and the conversion option embedded in the convertible bonds (see note 20). These instruments are measured at fair value on a recurring basis and their fair value measurements fall into Level 3 of the fair value hierarchy described above.

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(g) Fair values *(Continued)*

(i) Financial assets and liabilities measured at fair value *(Continued)*

Fair value hierarchy (Continued)

During the years ended 31 December 2013 and 2012, there were no transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurement

The fair values of the redemption call and put options and the conversion option embedded in the convertible bonds are determined using a binomial lattice model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2013, the expected volatility used in valuation is 41.9% (2012: 46.7%) and it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 5.0% would have increased/decreased the Group's profit after tax by RMB12,576,000 and RMB11,966,000 respectively (2012: RMB16,330,000 and RMB20,176,000 respectively).

The movements during the period in the balance of these Level 3 fair value measurement are disclosed in note 20.

The net unrealised gains arising from the remeasurement of the redemption call and put options and the conversion option embedded in the convertible bonds are recognised in the consolidated statement of profit or loss.

(ii) Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2013 and 2012.

(h) Business risk

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

(Expressed in thousands of Renminbi unless otherwise indicated)

27 COMMITMENTS

(a) Contractual commitments outstanding at 31 December 2013 not provided for in the financial statements were as follows:

	2013 RMB'000	2012 RMB'000
Advertising and marketing expenses	**409,118**	650,240

(b) Capital commitments outstanding at 31 December 2013 not provided for in the financial statements were as follows:

	2013 RMB'000	2012 RMB'000
Contracted for	**9,845**	69,525

(c) At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2013 RMB'000	2012 RMB'000
Within 1 year	**14,041**	11,865
After 1 year but within 5 years	**12,010**	19,088
After 5 years	**1,380**	–
	27,431	30,953

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

28 MATERIAL RELATED PARTY TRANSACTIONS

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

Key management personnel remuneration

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

	2013	2012
	RMB'000	RMB'000
Short-term employee benefits	**29,718**	34,148
Equity settled share-based payment	**–**	441
Post-employment benefits	**1,159**	1,368
	30,877	35,957

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

On 23 December 2013, three of the key management personnel subscribed the shares of 361 Degrees Kids Wear Limited, which represented 6% of its enlarged share capital, at fair value with total consideration of RMB7,489,000.

29 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

The Group repurchased aggregate principal amounts of US$4,000,000 and US$10,300,000 of convertible bonds in January and February 2014 respectively through over-the-counter purchases, which approximately representing 2.7% and 6.9% of the total principal amount of convertible bonds issued. All the repurchased convertible bonds have been cancelled on 30 January 2014 and 18 February 2014. Following the cancellation of the repurchased convertible bonds, the aggregate principal amount of the remaining outstanding convertible bonds was US$135,700,000.

No adjustments have been made to these financial statements as a result of these repurchases of convertible bonds. Further details of convertible bonds are disclosed in note 20.

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and a new standard which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*	1 January 2014
HKFRS 9, *Financial instruments*	Not yet established by HKICPA

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application but is not yet in a position to state whether these amendments would have a significant impact on the consolidated financial statements.

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