Xtep International Holdings Limited
特步國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1368)

2015 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the "**Board**") of Xtep International Holdings Limited (the "**Company**") is pleased to announce the audited results of the Company and its subsidiaries (together referred to as the "**Group**") for the year ended 31 December 2015. This announcement, containing the full text of the 2015 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of annual results. The printed version of the Company's 2015 Annual Report will be delivered to the shareholders of the Company and will be available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and of the Company at www.xtep.com.hk.

CONTENTS

7,000
STORES

ABOUT THE GROUP

The Group established its own sportswear brand XTEP in 2002 and XTEP is now a leading professional sports brand with stylish and functional products in the PRC. The Group manages an extensive distribution network with exclusive distributors that include approximately 7,000 stores nationwide covering 31 provinces, autonomous regions and municipalities across the PRC. Over the years, the Group has been engaging in the design, development, manufacturing, sales and marketing and brand management of sports footwear, apparel and accessories. The Company's Shares commenced trading on the Main Board of Hong Kong Stock Exchange on 3 June 2008.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ding Shui Po (丁水波) (Chairman)
Ding Mei Qing (丁美清)
Lin Zhang Li (林章利)
Ding Ming Zhong (丁明忠)
Ye Qi (葉齊)
Ho Yui Pok, Eleutherius (何睿博)

Independent Non-executive Directors

Tan Wee Seng (陳偉成)
Sin Ka Man (冼家敏)
Gao Xian Feng (高賢峰)
Bao Ming Xiao (鮑明曉)

BOARD COMMITTEES

Audit Committee

Sin Ka Man (冼家敏) (Chairman)
Tan Wee Seng (陳偉成)
Gao Xian Feng (高賢峰)

Remuneration Committee

Sin Ka Man (冼家敏) (Chairman)
Ding Mei Qing (丁美清)
Gao Xian Feng (高賢峰)

Nomination Committee

Ding Shui Po (丁水波) (Chairman)
Tan Wee Seng (陳偉成)
Gao Xian Feng (高賢峰)

COMPANY SECRETARY

Ho Yui Pok, Eleutherius (何睿博) FCA, FCPA

AUTHORIZED REPRESENTATIVES

Ding Shui Po (丁水波)
Ho Yui Pok, Eleutherius (何睿博)

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE IN THE PRC

Economic and Technical Development Zone
Quanzhou City, Fujian Province PRC 362000

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2401-2, 24/F, Shui On Centre
6-8 Harbour Road, Wanchai, Hong Kong

LEGAL ADVISER AS TO HONG KONG LAWS

Orrick, Herrington & Sutcliffe

AUDITOR

Ernst & Young

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street, P.O. Box 705
Grand Cayman KY1-1107, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716,
17/F, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Bank of China
Bank of East Asia
China Construction Bank
China Minsheng Bank
Hang Seng Bank
HSBC
Industrial Bank

INVESTOR RELATIONS CONSULTANTS

Strategic Financial Relations Limited

COMPANY WEBSITE

www.xtep.com.hk

FINANCIAL HIGHLIGHTS FOR 2015

Interim dividend per Share	HK10.0 cents
Proposed final dividend per Share	HK7.0 cents
Proposed special dividend per Share	HK3.5 cents
Total dividend per Share	**HK20.5 cents**

XTEP Spokesperson
NICHOLAS TSE

FINANCIAL HIGHLIGHTS FOR 2015

Total Revenue

RMB **5,295.1** million

Gross Profit Margin

42.2%

Profit Attributable to Equity Shareholders

RMB **622.6** million

Total Payout Ratio

60%

Dividend per Share

– Final **HK7.0** cents

– Special **HK3.5** cents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Certain statements, that include wordings like "potential", "estimated", "expects", "anticipates", "objective", "intends", "plans", "believes", "estimates", and similar expressions or variations on such expressions may be considered "forward-looking statements". Forward-looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ in some instances materially, from those anticipated or implied in any forward-looking statement. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been reviewed or updated in the light of new information or future events. Trends and factors that are expected to affect the Group's results of operations are described in the sections of "Chairman's Statement", and "Management Discussion and Analysis".

FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December

	2015	2014	2013	2012	2011
Profitability data (RMB million)					
Revenue	**5,295.1**	4,777.6	4,343.1	5,550.3	5,539.6
Gross profit	**2,236.7**	1,946.9	1,747.6	2,257.7	2,257.6
Operating profit	**921.0**	808.7	895.4	1,131.3	1,219.3
Profit attributable to equity Shareholders	**622.6**	478.0	606.0	810.0	966.4
Basic earnings per Share (RMB cents) (Note 1)	**28.97**	21.95	27.84	37.22	44.41
Profitability ratios (%)					
Gross profit margin	**42.2**	40.8	40.2	40.7	40.8
Operating profit margin	**17.4**	16.9	20.6	20.4	22.0
Net profit margin	**11.8**	10.0	14.0	14.6	17.4
Effective tax rate	**28.7**	36.9	30.1	27.0	20.3
Return on average total equity holders' equity (Note 2)	**13.0**	10.4	13.8	19.8	26.6
Operating ratios (as a percentage of revenue) (%)					
Advertising and promotional costs	**14.7**	13.1	11.2	11.4	11.3
Staff costs	**9.0**	9.4	9.3	7.1	4.8
Research and development costs	**2.3**	2.2	2.6	1.7	1.8
As of 31 December					
Assets and liabilities data (RMB million)					
Non-current assets	**1,063.2**	917.3	954.6	663.3	495.0
Current assets	**7,050.8**	6,947.1	6,352.2	5,836.2	5,000.1
Current liabilities	**2,966.4**	2,350.3	2,356.0	1,436.8	1,400.2
Non-current liabilities	**275.9**	803.8	443.2	782.9	183.6
Non-controlling interest	**19.8**	9.9	1.9	5.4	3.9
Shareholders' equity	**4,851.9**	4,700.4	4,505.7	4,274.4	3,907.4
Asset and Working Capital data					
Current asset ratios	**2.4**	3.0	2.7	4.1	3.6
Gearing ratios (%) (Note 3)	**19.8**	23.4	20.9	16.1	9.0
Net asset value per Share (RMB) (Note 4)	**2.22**	2.16	2.07	1.97	1.80
Average inventory turnover days (days) (Note 5)	**58**	71	79	70	63
Average trade receivables turnover days (days) (Note 6)	**98**	91	91	74	64
Average trade payables turnover days (days) (Note 7)	**96**	85	76	54	63

FIVE-YEAR FINANCIAL SUMMARY

REVENUE (RMB MILLION)

11	5,539.6
12	5,550.3
13	4,343.1
14	4,777.6
15	5,295.1

GROSS PROFIT MARGIN (%)

11	40.8
12	40.7
13	40.2
14	40.8
15	42.2

OPERATING PROFIT (RMB MILLION)

11	1,219.3
12	1,131.3
13	895.4
14	808.7
15	921.0

PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS (RMB MILLION)

11	966.4
12	810.0
13	606.0
14	478.0
15	622.6

SHAREHOLDERS' EQUITY (RMB MILLION)

11	3,907.4
12	4,274.4
13	4,505.7
14	4,700.4
15	4,851.9

TOTAL DIVIDEND PER SHARE (HK cents)

11	27.5
12	27.7
13	18.0
14	16.5
15	20.5

NOTES:

1) The calculation of basic earnings per Share is based on the profit attributable to equity Shareholders of the Company divided by the weighted average number of ordinary shares in issue during the relevant year.
2) Return on average total equity holders' equity is equal to the profit for the year divided by the average of opening and closing total equity holders' equity.
3) The calculation of gearing ratio is based on the total borrowings divided by the total assets of the Group at the end of the year.
4) The calculation of net asset value per Share is based on the total number of Shares in issue at the end of the year.
5) Average inventory turnover days is equal to the average of opening and closing inventory divided by costs of sales and multiplied by 365 days (or 366 days in 2012).
6) Average trade receivables turnover days is equal to the average of opening and closing trade receivables divided by revenue and multiplied by 365 days (or 366 days in 2012).
7) Average trade payables turnover days is equal to the average of opening and closing trade payables divided by cost of sales and multiplied by 365 days (or 366 days in 2012).

2015 AWARDS AND ACCREDITATIONS

ARC AWARDS

- **GOLD:**
  Cover Photo/Design – Sports & Talent Management
  Interior Design – Sports Equipment & Goods
- **SILVER:**
  Overall Presentation – Sports Equipment & Goods
  Cover Photo/Design – Sports Equipment & Goods
- **BRONZE:**
  Overall Presentation – Retail: Specialty Stores
- **HONORS:**
  Cover Photo/Design – Retail: Specialty Stores
  Interior Design – Sports & Talent Management

BIVA AWARDS

- 2015 Best Investment Value Award For Listed Company
- 2015 Best Chief Financial Officer Award (Mr. Ho Yui Pok)
- 2015 Best Investor Relations Award (Mr. Ho Yui Pok)


CHANGE

XTEP Spokesperson
IM JIN-AH (林珍娜, aka "Nana")

CHAIRMAN'S STATEMENT

DING SHUI PO
Chairman

A YEAR OF CHANGE

Dear Shareholders,

On behalf of the Board, I am pleased to announce the annual results of the Group for the year ended 31 December 2015.

STRATEGIC TRANSFORMATION DRIVING STELLAR AND SUSTAINABLE GROWTH

2015 was a year of transformation for XTEP as we evolved from a fashion sportswear brand to a professional sports brand with stylish and functional products. Running became the new focus of the Group, which has been implemented across all aspects of the Group's operations, from product design, to branding and marketing, to retail management. The Group has introduced the "3+" strategy, which fuels our organic growth by "Products+," "Sports+" and "Internet+." Each of these will be a part of the long term business strategy of the Group, where we drive differentiation between ourselves and competitors.

The changes that have been made in 2015 already helped the Group achieve growth of 10.8% in revenue to RMB5,295.1 million for 2015 (2014: RMB4,777.6 million). Demand increased for XTEP's higher margin professional sportswear, which lead to increase of 1.4 percentage points in gross profit margin to 42.2% (2014: 40.8%). Profit attributable to equity shareholders rose by 30.3% to RMB622.6 million (2014: RMB478.0 million), with basic earnings per share amounting to RMB28.97 cents (2014: RMB21.95 cents).

To show our appreciation to Shareholders for their long term support of the Group and to provide consistent returns, the Board recommends and has resolved to declare a final dividend of HK7.0 cents (2014: HK5.0 cents) per Share and a special dividend of HK3.5 cents (2014: HK3.0 cents) per Share, represents an increase of 31.3%. Together with an interim dividend of HK10.0 cents (2014: HK8.5 cents) per Share, the annual payout ratio for the Year amounted to 60% (2014: 60%).

TARGETED DUAL MARKETING STRATEGY THROUGH MULTIPLE CHANNELS

The Group believes a distinct dual marketing strategy combining sports and entertainment, which best represents our transformed image of professional sports brand with stylish and functional products.

Sports marketing employed sports celebrities, BOL, and Xtep Running Club members in a tri-tiered scheme to promote XTEP, in particularly running, to all sectors of society. Celebrities adorn XTEP sportswear in national and international arena, and raises XTEP's profile to expert levels. BOL leads runners' voices and activities on a national level; and Xtep Runners Club's over 25,000 members doing the same in their local regions. In particular, BOL and Xtep Runners Club can integrate with our marathon sponsorship resources, leading races and creating runners' groups unified under the XTEP when joining the marathons. In 2015, we were the sportswear brand with the most marathon sponsorship in Greater China, totaling 17 major marathons, accounting for one-third of the large-scale marathons held in the country. Finally, bridging sports and entertainment marketing are social running events held by the Group. In 2015, we were the title sponsor for four XTEP ILLUMI RUN events. These running events are organized casual runs which end with a major celebration show, such as a concert or party. All of these help XTEP become the runners' brand of choice.

In addition to running, soccer is a sports category we have always seen high potential in, and have been allocating resources to. For the past five years, we have title sponsored the only two official national scale collegiate-level soccer leagues in China, the "Xtep China University Football League" (特步中國大學生足球聯賽) and the "Xtep China College Futsal League" (特步中國大學生五人制足球聯賽). Our products have been tested on the fields by our target customers, and our name has been seen across thousands of campuses in China. We also extended our footprint overseas to sponsoring La Liga, Villarreal C.F. in Spain, raising international brand recognition, as well as continued our overall belief in combining sports and entertainment by sponsoring celebrity soccer teams such as China All Star Football Team (中國明星足球隊) and Hong Kong All Star Sports Association (香港明星足球隊), leading to increased media publicity of our brand.

Entertainment marketing projects XTEP's youthful and fashion forward image through popular young artists and hit TV programs. During the Year, Nicholas Tse (謝霆鋒), Li Yifeng (李易峰), Calvin Tu (杜天皓), Im Jin-ah (林珍娜, aka "Nana") from the South Korean girl group "After School", and UNIQ, a South Korean boys pop group, have been enlisted as brand ambassadors. TV programs are another channel of employing the media to promote XTEP. In 2015, in addition to long time title sponsored talk show "Day Day Up"（天天向上）on Hunan Satellite TV, the Group partnered with four popular TV programs that integrate both sports and entertainment elements: "Running Man" (奔跑吧！兄弟) on Zhejiang Satellite Channel, "Let's Go, Boys and Girls" (男生女生向前衝) on Anhui Satellite Channel, "Yes! Coach" (報告！教練) on Dragon TV and X-Warrior (極限勇士) on Jiangsu Satellite TV. These shows star entertainment celebrities and other participants from around the world playing sports or engaging in physical challenges.

DEVELOPING VALUE-FOR-MONEY FUNCTIONAL SPORTSWEAR FOR CONSUMERS

During our transformation to stylish professional sportswear, we have hired international designers from leading global sportswear brands to help drive the upgrade in both technology and design. For footwear products, we have launched three product series: "Dynamic Foam," "Reactive Coil" and "Air Mega", each with unique attributes for support, shock absorption and rebound to improve the runners' performance. In apparel products, we are employing new materials such as "Xtep Sports Elastic Technology (X-S.E.T.)," "XTEP-FROZEN" and "XTEP-DRY" for increased comfort in different sports performance needs, namely elasticity, coolness, and ultra-quick dry. We have co-developed these materials with international giants in providing fibers, such as Toray from Japan and the Dow Chemical Company from the United States, and hold exclusive usage rights. We believe these products will help XTEP becoming the runners' brand of choice.

DETAILED RETAIL CHANNEL MANAGEMENT INCREASED STORE EFFICIENCY

Effective distribution channel management has contributed to significant improvements in overall operational efficiency and profitability. During the Year, the Group has optimized our distribution channel in four ways: "Flattening distribution layers", "Real-time monitoring", "upgrading store image," and "Utilizing big data".

We strategically increased the proportion of directly-managed retail stores by distributors to reduce multi-layered sales, implemented a uniform 7th generation store design to reinforce our brand image, provided consistent and unified training to all retail staff, and quickly applied the data gathered and analyzed from the real-time DRP-system. These real-time data allows us close monitoring of inventory levels, set market sensitive pricing strategies, develop user-friendly products, and increase efficiency of promotional efforts.

E-COMMERCE IS A STRONG CONTRIBUTOR TO REVENUE GROWTH

In recent years, e-commerce has become a new consumption trend facilitated by the increase in internet accessibility. We recognized and seized this opportunity to grow our e-commerce business, resulting in a significant revenue contribution increase from the XTEP online business. With the well-established presence on popular online platforms such as Tmall, JD, Taobao and Dangdang, a unique business model and a strong core team with more than 300 professionals, we are well-positioned to capture the exponential growth of online retail sales in China as e-commerce penetration rate is still much lower than that of developed markets such as the United States. In 2015, we signed an extensive strategic agreement with China's largest e-commerce platform Tmall, where they will provide us with more targeted customer database for our promotional efforts. We also signed a partnership agreement with S.F. Express. The logistics giant became our sole official delivery partner for XTEP e-commerce business, ensuring our customers receive top-level customer service and same-day to next-day delivery, helping us maintain our high customer satisfaction rating.

A SPORTS BRAND, NOT ONLY A SPORTSWEAR BRAND

Our vision is to make XTEP a runners' brand of choice. We would like to create a running ecosystem around our brand where runners not only can enjoy our products, but also services and community. We have implemented the new innovative "3+" strategy of "Products+", "Sports+", and "Internet+" in 2015, and will extend our business along those strategy lines in 2016. "Products+" states our intention to expand our product lines to include other performance sports categories, such as soccer, in-door training, outdoor, and yoga, while consistently adding more technical features such as "smart" functions. "Sports+" includes "Beijing Wisdom Xtep," a joint venture operating company with Wisdom Sports, which combines both parties' strengths in sports competition operations and sports products to host running events together. We will host other running events and provide running related services outside of this joint venture company as well. "Internet+" defines our determination to expand sales beyond traditional offline channels, moving towards omni-channel sales and management.

AWARD & RECOGNITION

The Group is delighted to announce that we have garnered 24 awards in 2015 won for both company operations and investor relations. These awards clearly demonstrate the recognition of our efforts by investors and general public.

The Group has won the Contribution Award at Marathon Gala-China 2015 (2015中國馬拉松年會貢獻獎), recognizing us for our significant contributions to the Chinese marathon industry. For our overall achievements, investors have awarded us with 2015 Best Investment Value Award, 2015 Best Chief Financial Officer Awards and 2015 Best Investor Relations Award at the Best Investment Value Award for Listed Companies 2015 organized by multiple financial service providers. We strive to continue to achieve the best operating results and generate the best returns for our Shareholders.

ACKNOWLEDGEMENTS

Lastly, on behalf of the Board, I would like to extend my gratitude to our Shareholders, business partners and customers for their continuous support, understanding and trust. I would also like to express my deepest appreciation to our Broad members, management team, and all employees for their dedication and contribution to the Group. As a team, the Group with each individual as its integral part, will proactively promote our business strategies to create more value for our Shareholders.

Ding Shui Po
Chairman
Hong Kong, 15 March 2016


2
3
4
5
6

CHANGE :
THE WAY WE DO BUSINESS

XTEP Spokesperson
TRENTAVIS FRIDAY

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

China's nominal GDP recorded a growth rate of 6.9% in 2015, despite a slight slowdown from previous years. Signs of rebalancing towards consumption and services have become evident. Retail sales of consumer goods grew by 14% in 2015, faster than 12% in 2014, supported by solid wage growth[1].

Since 2007, the sportswear industry in China has grown at 9% CAGR driven by favorable conditions such as increasing consumption power, hosting more major sporting events and people's increasing pursuit of healthier lifestyles. The sportswear industry has experienced strong recovery momentum in 2015 after three years of in-depth adjustments, inventory destocking and market consolidation to an estimated 8.1% growth according to Euromonitor. This momentum has been aided by the supportive government policies which set the goal of the overall scale of the sports industry to reach RMB5 trillion, increase per capita area of sports grounds to 2 sq.m. per person (vs. 1.5 sq.m. in 2015), and the number of people who regularly participate in sports activities to reach 500 million (29% of the population) by the year 2025. This growth rate of around 8% per annum is expected to continue for the next two years[2]. Sports apparel as a percentage of total apparel and footwear worldwide was at 9.2% in 2014, 16.2% for United States, and only 4% in China, showing ample room for growth. Euromonitor expects Chinese sports apparel sales to climb by a CAGR of 6.4% from 2014 to 2018 versus only around 2.4% in the United States.

Running as the Fast Growing Category With Largest Potential Participants

According to Nielsen, a leading global information and measurement company, running is the most preferred sport in China among sports enthusiasts (as defined by those who are aged 16-45 years old and participated in sports or athletics or watched sporting events in the past 3 months), with around 71% of male respondents and 69% of female respondents picking running as their top choice in the study conducted by Nielsen during late 2015. Running is one of the sports categories with low penetration rate in China. In 2014, the number of marathons held in China was around 51, in comparison to the United States, where approximately 1,200 marathons were held in the same year[3]. We believe with increasing earnings growth of Chinese consumers and increasing health awareness, running, being one of the easiest exercises to start as it has minimal entry requirement for equipment and space, will be one of the fastest growing sports categories in China.

BUSINESS REVIEW

The year 2015 marked a year of revolutionary change for XTEP, as we repositioned ourselves from a fashion sportswear brand into a professional sports brand with stylish and functional products, which focuses on running as well as other sports performance products. The Group continued to solidify its leading position in the industry by leveraging the favorable industry environment, especially riding on the running boom in China. A total of 53 major marathons were registered through the Chinese Athletic Association in 2015, representing an increase exceeding 100% compared to 2014. According to global market research firm Euromonitor, the average per capita spending on sportswear in China amounted to USD16.9 (0.2% of GDP) in 2014, this number is still far below USD284.9 (0.5% of GDP) per person spending on sportswear by consumers in a mature market such as the United States. Still more staggering, serious runners in China said they spent an average of RMB4,594 per year on sports products in 2015, even casual runners spent RMB3,116 per year[4]. Hence, there is huge market potential for sustainable growth in the sportswear sector in the PRC.

[1] Source: National Bureau of Statistics of China (as at 31 December 2015)

[2] Source: Euromonitor International

[3] Source: "China Athletic Association" and "Running USA"

[4] Source: Nielsen

5

RMB TRILLION

CHINESE GOVERNMENT'S
GOAL FOR OVERALL SCALE OF
THE SPORTS INDUSTRY

CHANGE : FOCUS ON SPORTS AND ENTERTAINMENT DUAL MARKETING

XTEP Spokesperson
TRENTAVIS FRIDAY

BRAND PROMOTION

In 2015, the Group continued to create strong brand equity for XTEP. The Group has repositioned XTEP as a professional sports brand, focused on providing value-for-money stylish running products and other sports performance products to consumers. The Group has implemented a dual-marketing strategy incorporating sports and entertainment, to enhance our identity as both professional and fashionable. Since running is the core strategic focus sports category of XTEP, the Group foremost allocates our marketing resources to being the sole sports brand sponsor for major running events in the PRC, namely international scale marathons, in order to reach the large number of runners participating in each event, maximizing the promotional impact. In addition, the Group has also devoted our resources to sponsor other social running events such as "XTEP ILLUMI RUN", recruiting leaders in track and field who have outstanding running records to represent XTEP, and established the exclusive Xtep Runners Clubs in major cities across the PRC. In addition to running, the Group also sponsored various national and international football leagues and football clubs to capture the high potential growth of football as a sports category in the future. To show support to overall Chinese sports development, the Group was the sole sports brand sponsor for the 1st Youth Game of the People's Republic of China held in Fuzhou.

Entertainment promotion efforts included title sponsorships of top rate TV programs, having popular celebrities as XTEP's spokespersons, and placing advertisements through top social media channels. All these efficient and cost-effective promotion efforts have strengthened the bond between XTEP and the sports lover, enhancing brand loyalty.

In 2015, the Group's advertising and promotional costs amounted to approximately RMB780.5 million (2014: RMB623.7 million), representing an increase of approximately 25.1% and accounted for approximately 14.7% of the Group's revenue (2014: 13.1%).

SPORTS MARKETING

Running Events Sponsorships

In 2015, XTEP was the sports brand that sponsored the largest number of international marathons in the PRC. The Group sponsored 17 major marathons in total, which accounted for almost one-third of the total number of large-scale marathons held in the PRC. In aggregate, we provided approximately 600,000 running apparel to marathon participants.

Major marathons sponsored by the Group in 2015 (in chronological order) are as follows:

- Xiamen International Marathon (廈門國際馬拉松賽)
- Standard Chartered Hong Kong International Marathon (渣打香港國際馬拉松)
- Chongqing International Marathon (重慶國際馬拉松賽)
- Zheng-kai International Marathon (中國鄭開國際馬拉松賽)
- Yangzhou Jianzhen International Half Marathon (中國揚州國際半程馬拉松賽)
- Taiyuan International Marathon (太原國際馬拉松賽)
- Tianjin Marathon (武清開發區杯天津國際馬拉松賽)
- Shenyang Marathon (瀋陽馬拉松)
- Kunming Plateau Half Marathon (昆明高原國際半程馬拉松賽)
- Chongming Half Marathon (崇明森林國際半程馬拉松)
- Changsha International Marathon (長沙國際馬拉松賽)
- Nanjing International Marathon (南京國際馬拉松賽)
- Hangzhou Marathon (杭州國際馬拉松)
- Hefei International Marathon (合肥國際馬拉松賽)
- Shanghai Pudong International Women's Half Marathon (上海浦東國際女子半程馬拉松)
- Guangzhou Marathon (廣州馬拉松)
- Fuzhou International Marathon (福州國際馬拉松賽)

In addition to being the sole sports brand to sponsor the above 17 major marathons, the Group also sponsored other social running events to encourage more people to participate in running. The Group strongly believed that to enjoy and participate in running is far more important than the results of competition.

XTEP was the title sponsor of four XTEP ILLUMI RUNS in four major cities in the PRC, namely, Beijing, Shenzhen, Guangzhou and Xiamen. Each of these events attracted thousands of young and energetic participants; most of them casual runners. After the run, concerts and parties were held with live performers where the crowd could continue to enjoy the evening. These types of events, which combine sports and entertainment represent the core spirit of XTEP, which emphasizes athletic performance while maintaining our original stylish image. This differentiates us from all other sports brands.

Sports Spokespersons and BOL

Apart from sponsoring large and popular running events, the Group also has a number of outstanding sports spokespersons and BOL with top competition records in track and field to promote XTEP running. The spokespersons and BOL were as follows:

Sports Spokespersons:

Trentavis Friday: Friday is a rising star running towards the Olympics. He was the Gold medal winner at the IAAF World Junior Championships in Athletics in July, 2014 in the 200m dash and is currently ranked first in the world junior ranking in the 200m run. He was also a member of the Team USA 4x100m relay in the World Junior Championship, USA Men's High School Record Holder over 100m dash and winner of 100m dash in the USA Track & Field Junior Championships. Friday was named Gatorade National Track & Field Athlete in 2014. He was also named by Track and Field News as "High School Boys Athlete of the Year" in 2014.

Xie Zhenye 謝震業: Xie made history with his 4x100m run teammates on 8 August 2015 by finishing the race in 38.01 seconds, winning silver medal at the Beijing IAAF World Championships in Beijing, and setting the best results ever achieved by an Asian team. Xie and his teammates also broke Asian records for 4x100m run on 2 October 2014 at the Incheon Asian Games, finishing the race in 37.99 seconds.

Chen Ding 陳定: The first-ever Chinese gold medal winner of the 20km racewalk event at the 2012 Olympics. In 2014, Chen has won the first runner-up of the National Race Walking Championships held in September and the Men's Individual Champion of the Taihu Lake International Race Walking Championship.

Zhao Qinggang 趙慶剛: Asia record holder for javelin event, set during the 2014 Incheon Asian Games. Winner of the 6th East Asian Games in javelin, and winner of the National Games of the People's Republic of China in javelin in 2013.

BOL

- Bai Bin 白斌: A super marathon runner who completed running the ancient Silk Road – across six countries, covering up to 9,800 kilometers, and back to China in 150 days. After this feat, the story of three people (Bai and two other teammates together) was written into a book and recorded in a documentary. Now he and other friends in Beijing have set up the Extraordinary Footprint Outdoor Sports Club, the slogan of which is “Extraordinary Footprints, Walk the World”, organizing different outdoor activities, endurance runs, and other related events.
- Huang Lisheng 黃力生: A serial marathon runner, he not only completed 44 marathons already, but also brought marathon as a sport into school campuses, actively promoting this national sports category, and making a positive contribution to the popularization of marathon and running in China.
- Wang Xiaogang 王曉剛: Columnist and running coach, he writes for magazines, newspapers, websites and other publicity channels. He has been a running coach for four years and has joined dozens of domestic and international marathons and super marathons.
- Sun Dongxu 孫東旭：Active member of Xtep Runners Club at the 2015 Lanzhou Marathon, Sun Dongxu gained wide recognition for completing 100 marathons in three years. The persistence and passion he showed towards marathons has encouraged other runners and attracted others to the sport.
- Guo Hongjun 郭紅軍: A popular and active female member of “Xtep Runners Club”. She proved her strong performance in the Xiamen Marathon women’s full marathon category in 2013. She has participated in many marathons across China, including those sponsored by the Group.

These outstanding sports spokespersons and BOL have attracted the attention of numerous sports participants to join different events either sponsored or promoted by the Group. The Group provided these spokespersons and BOL with XTEP professional sports products which in turn attracted the sales of similar products in the retail channels.

Xtep Runners Club

We believed that participating in sports activities organized by the Group can help runners achieve better fitness results and increase XTEP's following. The Group started to establish Xtep Runners Club in various major cities in the PRC since 2012. It has now over 25,000 registered members throughout over 18 cities including: Beijing, Shanghai, Xiamen, Shenzhen, Chongqing, Guangzhou, Nanjing, Changsha, etc. The Group organized regular running events and training programs, provided coaching for different distance runners and helped elite members register to participate in marathons sponsored by the Group. All members are provided with XTEP professional running-wear including footwear, apparel and accessories. In addition to promoting new products to runners, the Group also benefitted from collecting first-hand feedback from these regular runners and therefore can enhance our products' technology design from the users' prospective. The Group highly values these feedback and has implemented these improvements on professional quality on running sports products. As a result, the running products have been well accepted by consumers purchasing from XTEP retail stores.

National Sports Event

The 1st Youth Game of the People's Republic of China

The 1st Youth Game of the People's Republic of China was held in October 2015 in Fuzhou, Fujian Province. XTEP was honored to be the sole sports brand sponsor for this national sporting event, as well as sponsoring all the sportswear in all competitions and award ceremonies for three provincial teams: Hong Kong, Fuzhou and Xiamen teams. The competitions held were similar to those held in the Olympics. The Group designed and provided XTEP sportswear for all of the officials, referees, and volunteers, our logo could be seen on every athlete's number tag. The event attracted wide national media coverage and was broadcasted to millions of audience in the PRC.

Football

Football is emerging in importance and popularity as a sports category in the PRC, especially with key support from the PRC Government. XTEP was one of the earliest sports brand to promote in football games. Since 2011, the Group has been the sole sports brand title sponsor of:

- Xtep China University Football League (Xtep CUFL)
  (特步中國大學生足球聯賽)
- Xtep China College Futsal League (Xtep CCFL)
  (特步中國大學生五人制足球聯賽)

These are the only two nationally recognized official football leagues for collegiate level, over 15,000 university players participated in the above two national campus football leagues in the PRC. During these football matches, XTEP professional football products were worn by each football player and the Group also sponsored the cheering teams of these universities. Throughout the whole year, numerous media coverage and both local and national news and TV program broadcasted these matches. The promotional effects have permeated to cover the parents, teachers, students and their related relatives and friends. Hence, it is an efficient and cost effective brand advertising and promotion, that penetrated wide breadth to reach different segments of XTEP's target customers.

The Group has also sponsored a number of domestic and foreign football clubs to expand XTEP's presence both nationally and internationally.

Football teams and clubs sponsored by the Group in 2015:

- China All Star Football Team (中國明星足球隊)
- China Football Press United (中國足球記者聯隊)
- Hong Kong Rangers FC (香港標準流浪足球會)
- Hong Kong All Star Sports Association (香港明星足球隊)
- ZSFL Xtep League (浙江省中小學生校園足球聯賽)
- La Liga, Villarreal C.F. (Spanish National League) **Currently ranked 4th in La Liga*

China All Star Football Team	China Football Press United	Hong Kong Rangers FC	Hong Kong All Star Sports Association	ZSFL Xtep League	Villarreal C.F.

All of the above football club players have worn XTEP professional football products during their matches and achieved stellar performance. These football matches were broadcasted on TV and through other media channels where world-wide audience, including PRC fans, can watch.

ENTERTAINMENT MARKETING

The Group has been sponsoring famous celebrities as XTEP spokespersons to enhance the stylish image of XTEP by leveraging their popularity. The Group sponsored various top viewer-rating TV programs with both sports and entertainment features, to create enjoyment as well as sportsmanship.

Major Sponsorships in 2015:

Celebrity Endorsements

- Nicholas Tse (謝霆鋒)
- Li Yifeng (李易峰)
- Calvin Tu (杜天皓)
- Im Jin-ah (林珍娜, aka “Nana”) from the South Korean girl group “After School”
- UNIQ, a South Korean boys pop group

TV Program Sponsorships

- “Running Man” (奔跑吧！兄弟) on Zhejiang Satellite Channel
- “X-Warrior” (極限勇士) on Jiangsu Satellite TV.
- “Let’s Go, Boys and Girls” (男生女生向前衝) on Anhui Satellite Channel
- “Yes! Coach” (報告！教練) on Dragon TV
- Title sponsored talk show “Day Day Up” （天天向上） on Hunan Satellite TV
- “Big Hands With Small Hands” (大手牽小手) by CCTV
- “Dream Corps” (夢想總動員) on CCTV

Strategic Partnerships

- CCTV 5 – sports channel
- Guangdong Sports Channel 廣東體育頻道
- Zhejiang TV6 – Leisure Channel 浙江民生休閒頻道
- Tmall
- Youku 優酷
- Sina Video 新浪視頻
- Baidu Video 百度視頻
- IQiyi 愛奇藝
- Tencent Video 騰訊視頻
- CCTV Kids Channel

Celebrity Spokespersons

- Nicholas Tse (謝霆鋒): a widely-known artiste and young accomplished entrepreneur, he was XTEP’s first celebrity spokesperson, and has maintained solid ties with the brand for over a decade. During his acting career, he has won the Hong Kong Film Award for Best New Performer in 1998 and Hong Kong Film Award for Best Actor in 2011, attributed to his professional acting performances in “Young and Dangerous: The Prequel” and “The Stool Pigeon”. His ties with XTEP have continued to blossom, with XTEP serving as the official sportswear sponsor in the sports-entertainment TV show “Yes! Coach” in 2015, in which Tse makes regular appearances.

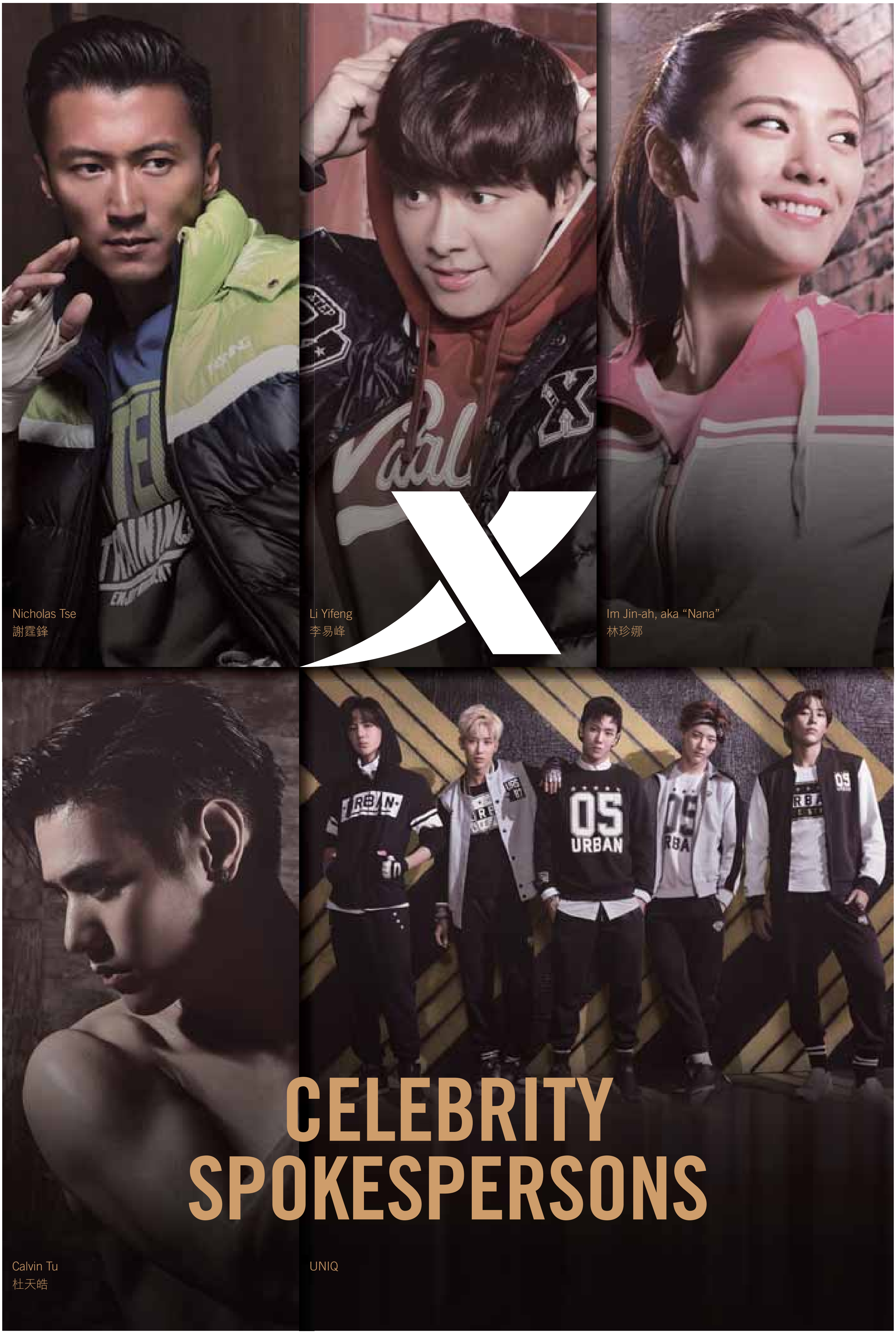
- Li Yifeng (李易峰) is one of the most popular young stars in PRC, he is an actor, singer and producer. He has over 28 million followers on his official Weibo account, and over 28 million page views on his Baidu Baike page. Because of his handsome image and modest attitude, he is also regarded as “Male Idol” (男神) by many female fans. He won The Most Popular Actor by Letv Award Ceremony in 2013, and The Most Popular Actor in Mainland China, and The Actor with the Highest Business Value presented by Domestic TV Series Ceremony in 2014.

- Calvin Tu (杜天皓) is a Taiwanese-born, rising young actor active in Mainland China. He debuted in “Tiny Times”, one of the hottest series films in PRC film industry which currently has four films, gaining wide popularity. He has numerous followers on his official Weibo account. Since then, he joined TV variety-shows and acted in other film and is growing in popularity among young fans.

- Im Jin-ah (林珍娜, aka “Nana”), is a South Korean singer, actress and model. She is a member of girl group “After School” and its subgroup “Orange Caramel”. According to the “The 100 Most Beautiful Faces” selected by American Film Website TC Candler, Nana ranked No.2 in 2013 and No.1 in 2014. In recent years, she mainly focuses on the Chinese market and successfully gained high exposure in China through participating in TV dramas, reality TV shows and films.

- UNIQ is a five-member Chinese-South Korean boy group formed by Chinese company Yuehua Entertainment in 2014. UNIQ officially debuted on October 20, 2014 with their debut single “Falling In Love” in both China and South Korea. In 2015, they have won the Best New Artist in Mainland China at KU Music Asian Music Awards, and been nominated as the Best Artist in Mainland China & Hong Kong at MTV Europe Music Awards.

CELEBRITY SPOKESPERSONS



Nicholas Tse
謝霆鋒

Li Yifeng
李易峰

Im Jin-ah, aka "Nana"
林珍娜

Calvin Tu
杜天皓

UNIQ

TV Program Sponsorship

"Running Man" (奔跑吧！兄弟) is based on the South Korean series Running Man by SBS. It was first aired on 10 October 2014. The show is a variety-game show, where the hosts and guests complete missions at a landmark location to win the race together. In 2015, Running Man Season 2 and Season 3 all ranked the top ratings both in 50 cities and nationwide according to CSM Media Research.

"X-Warrior" (極限勇士) is a large outdoor extreme sports reality TV show, first broadcasted on June 9, 2015 on Jiangsu Satellite TV station. Its format, sites, barriers, lights, all present the highest level of difficulty in current PRC "wipeout" style (闖關) reality show. The warriors actively try to challenge their limits in physical activities, perfectly matching with the growing sports trend in society, and making it one of the hottest wipeout TV programs.

"Let's Go, Boys and Girls" (男生女生向前衝) is a popular fitness TV program shown on Anhui Satellite TV station. It was launched on July 5, 2010. Anhui satellite TV has broadcasted 7 seasons of it, nearly 740 episodes. Its average rating has stayed No.1 among all programs broadcasted at the same time slot.

"Yes! Coach" (報告！教練) is a sports-entertainment show filmed at the national Olympic sports center exhibition in Beijing. In 2015 the show presented different celebrities in physical activities, to drive the healthy sports atmosphere and encourage the Olympic sports spirit. The cast involved celebrities from Taiwan, Hong Kong and PRC, and is broadcasted in both PRC and Hong Kong.

"Day Day Up" (天天向上) is a popular Chinese talk show broadcast on the Hunan Satellite TV Station, one of the most popular satellite TV channels in PRC known for its entertainment content. The show is co-hosted by "Day Day Brothers" (天天兄弟), comprising Wang Han (汪涵), Ou Hansheng (歐漢聲), aka Ou Di (歐弟), Tian Yuan (田源), Qian Feng (錢楓) and Tanas Kim Ensheng (金恩聖). This TV program usually ranks top 10 in national viewer rating and has been running for 7 years.

"Big Hands with Small Hands" (大手牽小手) produced by CCTV, promoted Xtep Kids brand to 360 million children in the PRC and their parents. It is the display platform for top children's performing groups in PRC, and famous artists perform together with the kids, big hands with small hands, to boost children's dreams. The show covers 17 provinces in China, selecting the best local performers to be broadcasted on national television. The Group is involved in the local as well as national selection process, achieving not only publicity but also local Xtep Kids sales. Over 200 PRC media published stories on this show throughout its selection process. Xtep Kids also partnered with Tencent Kids to setup the official website for the show, which promoted Xtep kids brand along with the TV program.

"Dream Corp" (夢想總動員) is a 3D animated cartoon series jointly produced by the Group and Quanzhou Kungfu Animation, that started broadcasting on CCTV Kids Channel in September 2015, and was replayed in over 30 other TV and online video channels thereafter. A series of social media promotion on Weibo was also done to coincide with the broadcasting of this program, related topic readership surpassed 18.4 million reads.


DYNAMIC
FOAM 动力巢
REACTIVE 减震旋
COIL
气能环
AIR MEGA

CHANGE :
CORE SCIENCE
AND TECHNOLOGY

PRODUCTS

The Group has repositioned XTEP by introducing professional sports performance products during the Year. The stylish design continued to attract consumers and they have recognized the improvements on quality and functionalities of our products. The Group's research and development team consisted of both domestic and overseas technical sports product designers with extensive international sports brand exposure and experience. The performance product lines lead as the growth driver for both revenue and gross profit margin of the Group.

To build a portfolio of proprietary international quality materials, the Group has begun partnerships with major fabric fiber suppliers such as Toray from Japan and the Dow Chemical Company from the United States to co-develop materials together. The Group firmly believes that product differentiation is crucial in standing out among peers and in keeping with and even leading the latest international trends.

Footwear Products

In terms of footwear products, the Group continued to introduce more professional running performance wear to strengthen the core running brand image of XTEP. The followings are the major running series:

- The "Dynamic Foam" (動力巢) series offers bounce and soft rebound in shock absorption, securely protecting runners' joints. "PUE Foam" (特步雙向控震) provides maximal low temperature resistance, hydrolysis resistance, and super cushioning material, to improve users' sports performance through quickly absorbing and transforming shock force into rebound

- The "Reactive Coil" (減震旋) series applies stabilization technology with XTEP's signature DNA hollow loop structure, supporting shape recovery from compression and impact, and provides shoe sole integrity and foot stability using highly flexible shock absorbent material

- The "Air Mega" (氣能環) series utilizes the multiple-segmented connected support structure around the entire sole, providing a flexible range of soft cushioning protection during foot impact

The Group cooperated with the Dow Chemical Company to develop a new shoe pad material named "Softpad" (柔軟墊) which provides extra comfort and protection for footwear products. Other features were also added to other sports performance and sports lifestyle products, such as "Xtep-Aroma" (芳香科技) for long lasting scent release, "Silvadur" (仙護盾) with intelligent silver ions which can effectively restrain odor and pathogenic microorganisms, and "Xtep-Cool" (特步冰爽科技) for heat absorption.

Apparel Products

The Group also introduced more professional sports performance related apparel products especially related to running series. Those technologies are mainly as follows:

- "Xtep Sports Elastic Technology" (X-S.E.T.特步運動彈性科技) is a new professional sportswear fabric in the sportswear market. The stretchable and elastic recovery features allow athletes and sports participants to stretch freely during exercise

- "XTEP-FROZEN" (冰纖科技) technology applies cooling nano-powder in clothing fibers, which reflects sunlight and absorbs heat immediately when it comes to contact with the skin, thus providing users with a feeling of instant coolness

- "XTEP-DRY" (酷乾科技) transfers moisture on the skin quickly to the surface of the fabric through the special permutation and combination of yarn, which is then transferred to the air to achieve the effect of instant absorption and immediate dryness

In addition to the above, the sports apparel products of XTEP also included other features like: Dupont™ Sorona® cotton from U.S. for lightweight and soft to skin comfort, waterproof, quick dry, antibacterial and deodorization.

The above improvements on professional sports performance apparel products were also highlighted by stylish designs. The introduction of these new features was all well accepted by the customers who look for high quality and value-for-money sports products. As a result, the Group's revenue and gross profit margin of apparel products both increased during the Year.

CORE SCIENCE AND TECHNOLOGY

DYNAMIC FOAM 动力巢

Highly-elastic Cushioning Material. Bounce: Elastic materials are made into honeycomb-like mid-sole, which offer bounce when extruded, helping each step of running. Cushioning: Excellent cushioning function in mid-sole, which can absorb shock and offer protection to the knee and the ankle.

REACTIVE COIL 减震旋

Structural cushioning with light materials. Cushioning: Infinite circulation structure offers cushioning protection and stability; Light: Hollow structural mid-sole with light ethylene vinyl acetate (EVA) materials, which decreases the weight of shoes and makes running lighter.

— 气能环 — AIR MEGA

Cushioning: Several spheroidal air-soles are made into mid-sole air circulation system. Cushioning protection absorbs shock in sports. Soft: Soft and comfortable air-soles.

Xtep-cool 特步冰爽科技

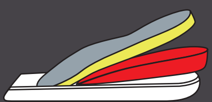
Xtep-cool is used at shoe-pad and tongue. It has the dual effect of high heat conductivity and high heat absorption efficiency which brings cooling sensation.

PU FOAM 特步双向控震

Using high performance material with a resistance of low temperature and hydrolysis, it can quickly absorb the impact and turn it into resilience, improving the performance.

Softpad

New memory material, slow rebound and extremely soft, perfectly fits the feet.



Shoe pads are designed according to human body kinematics, improve the comfortability of inner space of the shoe.

silvadur The Science of Intelligent Freshness

Release silver ion which can effectively restrain odor and pathogenic microorganisms, and also makes it washable for many times.

X WALK EASY

Light soft phylon middle sole along with easy on-off structure makes it easy to put on and walk healthily, comfortable and light.

X-FLEX

Regular cutting grooves on the sole guarantee its flexibility and the stability of foot, which offers the comfort to the barefoot. Phylon middle sole has excellent cushioning effect and gives reliable protection to the feet, extraordinary sustenance and stability.

ENVIRONMENTAL PROTECTION

X-ORGANIC COTTON 有機棉

Environmental-friendly organic cotton without polluting the environment, good air permeability and soft to touch.

OUTDOOR

X-WATERPROOF 防水科技

Waterproof materials help to keep the shoes dry and comfortable in moist circumstances.

X-REFLECT 反光科技

X-reflect material enhances visibility in dark environment and offers all-time protection.

HYGIENE

X-ANTIBACTERIAL 抗菌科技

Restrain the reproduction and growth of bacteria on the fabric, cut down unpleasant odor and keep the clothes fresh.

X-DEODORIZATION 消臭科技

Keep the clothes fresh and unaffected.

TECHNOLOGY

X-SEAMLESS TECH 無縫一體

X-seamless tech makes the clothes softer and lighter and perfectly fit the body and bring excellent feeling.

Kids Products

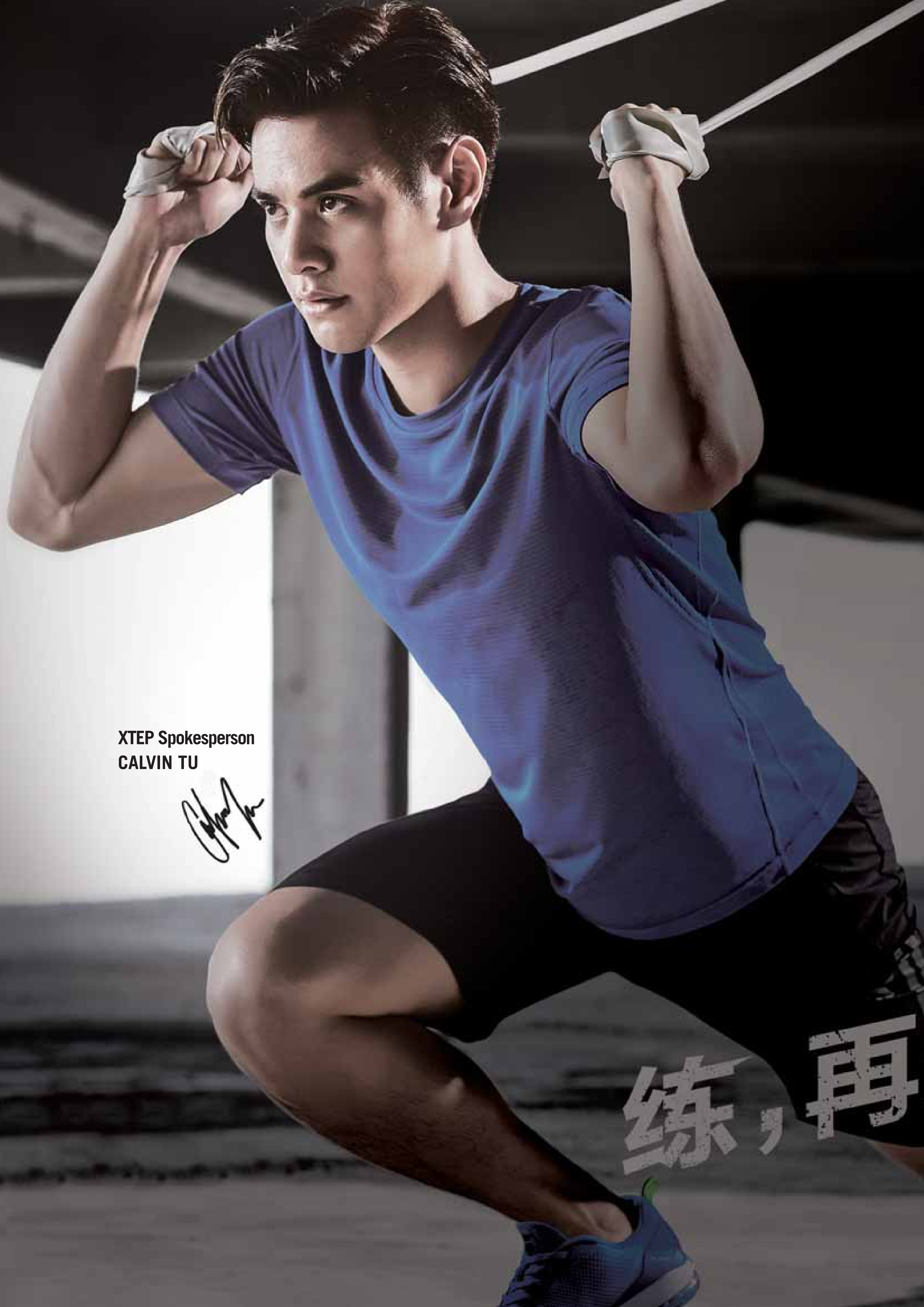
The Group believes there are strong demands for high quality and reliable value-for-money children products in the PRC following the awareness of the importance of sports activities for children and the relaxation of the one-child policy by the PRC Government. The Group has developed Xtep kids products to match the domestic market demands and they were well-accepted by our customers during the Year.

To improve product designs for comfort and safety particularly for children, the Group has established the first "Chinese Children's Foot Health Research Center" in 2014 to study the foot growth of Chinese children. The research provided a comprehensive database to aid in the creation of the most scientifically comfortable shoe for Chinese children. The Group has also signed a strategic cooperation agreement with Qihoo 360 Technology Company Limited in June 2015 to collaboratively develop "smart" wearable devices. The first product, children's "smart tracking shoes" with geo-positioning function, is launched in stores in first quarter 2016. Parents of those children wearing this smart shoe can track their child's location through a mobile application, with the help of the embedded "smart" chip transmitting real-time tracking information. The tracking information can only be turned-off on parents' end, ensuring no tempering with the information and thus, guaranteeing maximum safety for the child.

The animation cartoon series "Dream Corps", which featured Xtep Kids brand logo image, was jointly produced by the Group and Quanzhou Kungfu Animation. The animation cartoon series was well-received by audiences of all ages since its premiere. Leveraging on its popularity, the Group has launched the Xtep Kids brand product series based on "Dream Corps" resulting in satisfactory increase in the revenue of Xtep Kids brand products.

Supply Chain

The Group is fully committed to operating a seamless and vertically-integrated business with the support of an efficiently managed supply chain. The in-house production mix for footwear and apparel products accounted for approximately 57% (2014: 58%) and 14% (2014: 15%) of the corresponding total sales volume for 2015, respectively. We also utilized out-sourced suppliers in the PRC to produce footwear and apparel products. All of the out-sourced suppliers are constantly monitored by the Group's quality control team to uphold our top quality standards. The products are manufactured and inspected continuously by batch, and the same batch of products was transported to stores across China according to the logistic delivery schedule.


XTEP Spokesperson
CALVIN TU
练，再

CHANGE :
STRUCTURE
RETAIL CHANNELS

RETAIL CHANNEL MANAGEMENT

Domestic Market

The Group has implemented stringent retail channel management control to monitor the detail operations in retail channels operated by XTEP's distributors and authorized retailers. We achieved significant improvements to lower the Group's inventory and managed to maintain the amount of XTEP products in the retail channels at a healthy level. The Group's inventory level as at 31 December 2015 has significantly reduced by 30% to approximately RMB398.4 million as compared to last year end (31 December 2014: RMB569.0 million). Also, the Group's inventory turnover days for 2015 continued to be reduced to 58 days as compared to same period for the last two years (2014: 71 days; 2013: 79 days). The Group carried out detail monthly monitoring on the operational efficiency of all retail stores operated by XTEP's exclusive distributors, which are either operated directly by the distributors themselves or by authorized retailers managed by the distributors. The Group discussed with the distributors on a regular basis in the decision to open new retail stores in new areas with high market potential and close down those retail stores which under-performed. The total number of XTEP retail stores as at 31 December 2015 was approximately 7,000 (31 December 2014: 7,110) and the total number of Xtep kids brand POS as at 31 December 2015 was approximately 600 (31 December 2014: 500).

Major retail channel management actions taken:

Flattening Distribution Channels

Flattening of distribution channels increases the manageability of stores, adding transparency and decreasing inventory risk. Three major undertakings have been done to complete this task. 1) The Group has increased the number of distributors to 38 with an intention to continue to gradually add-on more distributors as the Group expands its sales network coverage. Each distributor exclusively sells XTEP sports products within their specified geographical areas. 2) The Group has reduced the layers of distribution channel into two layers from multi-layers. This enabled the Group and the distributors to have high transparency of retail inventory level in each POS and quickly respond to take appropriate actions for slow-moving stock. 3) Finally, the overall proportion of retail stores owned directly by all distributors has increased to more than 50% of the total number of retail stores. This increased the operational efficiency and profitability of distributors through lowering the risk of over-stocking due to high number and fragmented multi-layers of authorized retailers.

Real-time Monitoring and Rapid Reaction

The coverage of XTEP retail stores through the Group's centralized real-time DRP system exceeded 85% of the number of XTEP retail stores as at 31 December 2015. By sharing and analyzing real time retail data with the distributors, quick response can be taken to act upon customer retail behavior. The collection of real time retail operational data from retail stores allows the Group to gain more insights into customer preferences in different geographical locations and provide the distributors with accurate products pricing and product mix strategies. More importantly, the Group can discuss and review more frequently on the speed of product movement and clear the retail inventory level on a timely basis. This action has effectively controlled the retail inventory within a healthy level.

Strengthen XTEP's Professional Sports Image

The Group executed a universal retail store image upgrade to present XTEP as a professional sport brand with stylish and functional products. The "7th generation" retail store decoration is equipped with upgraded sportive store display, emphasizing products which bring out XTEP's strong core focus on running. Although new product ordering was conducted on a quarterly basis, the Group has systematically divided the quarterly new product collections into monthly new product cycle, with different new products delivered on a monthly basis. Therefore, new sports products were produced monthly and delivered to all the retail stores at the same time. This product launch schedule coincided with the Group's national-wide promotion campaign on new sports product of XTEP, attracting greater customer interests. The Group strives to unify XTEP image through dispensing the latest promotion campaign information including posters, banners, standardize displays and video advertisements to all retail stores.

Universal Pricing Policy

On pricing strategy, the Group set a universal retail sells price for all XTEP products that applied to all retail stores no matter where the store is located, to ensure standardized pricing policies were adopted throughout the nation. In general, no discount is allowed when new products are first launched in the market. The retail discount rates of products in each retail store must be authorized by the Group and each type of retail stores were only allowed a certain range of discount rates.

Standardize Retail Staff Training Program

Training is essential for retail staff to provide uniform high quality services to consumers. The Group provided both in-store and classroom training for retail staff. In order to facilitate standardize service routines among the retail stores, an in-store service menu is provided by the Group, with step-by-step instructions to improve service to customers. The Group also provided regular training on sports product knowledge, product displays, retail sales strategies and inventory control.

Utilizing Big Data

In order to provide the perfect fit-for-purpose products to consumers, the Group has installed various systems to collect feedback, comments, advices and customer data to modify product design on both functionality and appearance. Customers can leave their personal preferences and the Group will try to satisfy their product requirements and provide updated information to customers once new products are launched in the market.

E-Commerce

The rise in internet accessibility of consumers, especially the proliferation of mobile internet, has led to an upsurge in e-commerce. The boom in e-commerce is turning online shopping into a new consumption trend while driving greater demand. Compared to five years ago, total worldwide online retail sales doubled to approximately US$840 billion in 2014[5]. The CAGR for the next five years is projected to be approximately 15%. The percentage of online retail sales to total retail sales increased from 2.7% in 2009 to 5.8% in 2014, and is expected to rise to 8.9% in 2019. Asia has now become the region with the highest total amount of online retail sales, mainly driven by the exponential growth of online retail sales in China. From 2010 to 2014, China e-commerce sales grew at a 57% CAGR, outpacing the 13.7% CAGR in total retail sales. E-commerce's contribution to total retail sales rose to 11% in 2014 from 3% in 2010. In 1H15, overall retail growth was 10.4% while e-commerce grew 39% over the same period.[6]

Apart from the extensive presence of approximately 7,000 retail stores operated by the distributors and authorized retailers of XTEP, the Group has proactively built our online channels through a core e-commerce team of more than 300 staff including internet experts, logistics experts, graphics designers and products designers. The Group has established our official website, www.xtep.com.cn, and built strong e-commerce partnerships with the most popular online platforms such as Tmall, JD, Taobao and Dangdang. The revenue derived from the Group's e-commerce platform has increased significantly, accounting for low double digit of the Group's total revenue for the Year compared to only single digit of the Group's total revenue in the same period last year. Furthermore, XTEP products was ranked as the top selling sports footwear brand on Tmall in terms of volume sold along with 4.8 points out of maximum score of 5.0 points in terms of customer satisfaction points, the best rating among domestic sportswear brands. Tmall is the largest B2C e-commerce platform in China, with 61.7% of market share in 2014[7]. On the most famous "11-11 Singles Day" e-commerce shopping day initiated by Tmall, the Group's revenue through e-commerce platform has recorded approximately RMB100 million on that day which was almost doubled as compared to the revenue recorded on the same day in 2014. This remarkable achievement indicated the strength and devotion of the Group's e-commerce business.

[5] Source: Euromonitor International

[6] Source: HSBC research report, "China Internet &Retail" November 18, 2015

[7] Source: iResearch

The Group operates our e-commerce business directly, assuring accuracy of information, precise inventory control, synchronized branding strategy with offline channels, and high customer satisfaction rating. Accurate presentation of product information on the e-commerce platform has helped the Group to maintain a very low product return rate that reduced operating costs and reduced inventory risk.

In efforts to continue to improve the e-commerce business, in 2015, the Group signed a strategic collaboration agreement with Tmall, the leading online shopping platform in China, to closely cooperate on new product launches, O2O development, digital operation, celebrity endorsement, brand promotion and service innovation. Tmall will provide the Group with their "Potential Client Campaign" where Tmall will share with the Group targeted customer data from its approximately 350 million potential customers based on historical spending pattern, which will improve the Group's efficiency to promote new products to customers.

Another key strategic partnership formed in 2015 was between the Group's e-commerce business and S.F. Express, the express delivery giant with the biggest network in China. After the agreement entered in July 2015, S.F. Express has become the exclusive delivery partner used by the Group's official e-commerce sales. The Group gained access to S.F. Express' nationwide warehouse facilities exceeding 1,000,000 sq.m. This significantly shortened delivery times to customers, ensuring smooth and efficient delivery, which are key elements in maintaining the Group's leadership in customer satisfaction.

Overseas Market

As at 31 December 2015, the Group had XTEP POS exposure across the Middle East, South East Asia, and Central and Western Europe, operated by XTEP's distributors and authorised retailers. The Group believed business expansion to overseas markets can enhance XTEP's global exposure, enhance brand value, and broaden the revenue streams.


NEVER
ENDING

CHANGE : THE FUTURE

XTEP Spokesperson
TRENTAVIS FRIDAY

FUTURE PROSPECTS

2015 has been a critical year for economic and business reform, posing new opportunities for China's sportswear industry. First time double-digit growth since 2011 is a solid indicator of recovery and the better industry prospects, boosted by supportive Chinese government policies. High potential categories, such as running, soccer, indoor training, outdoor, female and "smart" products have been recognized as significant areas contributing to the future growth of the sportswear industry. The Group seeks to align ourselves to those high growth areas, while continuing to emphasize brand oriented sales with detailed retail channel management, and reinforcing the XTEP identity as a professional sports brand with stylish and functional products.

The Group is well-positioned to capture the strong industry growth momentum and is confident in our future business development. The Group introduced our revolutionary "3+" business strategy of "Products+", "Sports+" and "Internet+" during 2015 to drive organic growth via better professional sports products, expanded business scope and an improved online sales platforms. To enhance XTEP's leading position in the sportswear industry and our image as a professional sports brand with stylish and functional products, the Group intends to continue implementing the "3+" strategy along with the dual-marketing strategy incorporating sports and entertainment.

PRODUCTS+

Following our brand direction towards functional sports products, the Group will continue to improve our product quality and design while incorporating new features such as "smart" functions. The Group will continue to work with international material suppliers to co-develop industry leading fabric for exclusive use, this adds to the Group's competitive advantage against both local and even international players, so that XTEP is not only a value-for-money brand, but becomes world class in sports product functionality.

Running Footwear Products

The Group will continue to introduce new professional running series and launch new generation products of "Dynamic Foam" (動力巢) series, "Reactive Coil" (減震旋) series and "Air Mega" (氣能環) series. On top of these series, through the cooperation joint research of the Group and the Dow Chemical Company, a new "Softpad" series will be launched. This new series will feature new type of shoe-pad with memory foam material to provide extra softness and comfort.

As part of China's 13th Five Year Plan, "smart" wearable devices will be a major focus in the industry. The Group will launch XTEP smart running shoes for both adults and children in 2016. Adult smart running shoes will offer more functions than competitive products currently on the market, as well as higher accuracy for its users. The Group will launch a XTEP application which aims for wider applications beyond tracking running statistics for individual runners, such as aid in building a running community, providing big data for product development, and designing to be used in other sports categories. Children's smart running wearable devices will become another burgeoning trend. The Group will continue cooperation with high technology groups, such as our current partnership with Qihoo 360, to develop "smart" products for kids.

Running Apparel Products

The Group will continue to launch new professional running apparel products as well as other sports performance apparel products with improved functionality and stylish appearance. The new XTEP apparel products will include using advanced functional materials such as: "Xtep-Dry" (酷乾科技) which is one of the fastest drying fabrics used on sportswear globally, allowing runners maximal comfort whether their goal is to keep cool or warm, and "Xtep-Frozen" (冰纖科技) which includes one of the current market leading cooling technology for running wear in high temperature environment; the fabric itself absorbs heat, leading to cooling of skin surface temperature of the runner. Coinciding with fabric technology development, the Group continues to hire international designers to apply these materials to not only add fashionable appearance to its products, but also provide comfort and performance for its users.

New Sports Products Beyond Running

While XTEP running products will remain the main product development focus and revenue driver, the Group recognizes the rapid growth in demand for sports products in other sports categories. The Group has taken steps towards developing products for these segments to launch in 2016.

With past five years of sponsorship of CCFL, CUFL, and Villarreal C.F., XTEP's football products has been well tested by professional football players and improvements have been made for quality throughout the years. This is an advantage over any new brands developing a football product line and is unique to XTEP. Further, through these sponsorships, the Group has cultivated a large target audience among the young-adult population, which should eventually become consumers for XTEP soccer products upon launch. Among those products launched will be co-branding football series with CCFL and CUFL.

Indoor training, outdoor and female markets are new to China but are rapidly becoming popular. Penetration rate of these categories is still fairly low especially in 3rd/4th-tier cities, where the majority of XTEP stores are located. The Group believes there is high potential demand for quality products among these categories, as they can leverage off of the XTEP as well as R&D of materials that can be commonly used between running and these other categories. Adding new categories diversifies growth engines for XTEP, and allows for early mover advantage in emerging market segments.

SPORTS+

To strengthen the identification of XTEP with running, the Group will host a "3.21 Running Festival" (321跑步節) in 2016. This event will be carried out over a period of time and link both online and offline sales and marketing channels. The Group continues to focus on our mission to develop XTEP to be the runners' brand of choice.

The Group strongly believes that there is sustainable growth of sports participation in the PRC, which provides room for sports industry growth. As the sports industry expands, the Group is looking to capitalize on the growing need to provide services such as training, sports education, medical treatment and rehabilitation by adding our involvement in the upstream and downstream parts of the running ecosystem.

In order to solidify the Group's running brand image, we will continue to sponsor more running events in 2016. The number of international marathons sponsorship is expected to surpass that of 2015. Similarly, the Group will continue to sponsor more social running events as well, to emphasize our profile as both professional and fun. The Group plans for more product integration with marketing, where more events linked products will be developed and sold in stores. We believe such unique event-related products will be well-accepted by consumers to appreciate both its high quality standard and its memorable value.

The Group is well-positioned to expand our business scope in sporting event organization with Beijing Wisdom Xtep. The aim of this joint venture is to organize running and walking events, which provides wider scope of business opportunities to enhance XTEP equity.

INTERNET+

The Group will harness the power of internet and mobile internet for big data gathering, omni-channel sales, O2O community building, and precise marketing. The current achievements of the Group's e-commerce business are only the beginning to a new era of seamless multi-channel marketing and sales.

The Group plans to launch XTEP's own mobile application in 2016 to connect our online and offline businesses, and share customer resources. Customers can access more information about XTEP's new products and experience smooth and expedited shopping experience through XTEP mobile application platform. Such mobile application can also create a virtual community. XTEP's mobile application will not only be a shopping tool, but also target to create a platform where runners can communicate, share and gather. If combined with XTEP smart running shoes, users can give and receive comments on their run real-time from other runners on the platform as well. Customers can also participate in those sporting events that are sponsored or organized by the Group through this mobile application. Through this mobile application channel, we believe we can build stronger XTEP loyalty.

The Group will continue its long-term partnership with Tmall to provide differentiated products to customers, and enhance their shopping experience with strong support for logistic delivery services from S.F. Express. These strong strategic partnerships serve as part of the foundation from which a multi-dimensional omni-channel ecosystem can be built from.

Xtep Kids brand products are also available at the e-commerce platform, extending customers' flexibility of access and variety of choice. The Group targets to extend our e-commerce platform to include overseas sales as well in the future.

CONCLUSION

The Group strongly believes that the "3+" strategy, in concert with the dual-marketing strategy incorporating sports and entertainment elements can continue to deliver sustainable and steady growth. The Group will continue on our current path of boosting XTEP to industry leading position as a professional sports brand with stylish and functional sports products.

ADDITIONAL DISCLOSURES

Compliance with Laws and Regulations

The Group recognizes the importance of compliance with regulatory requirements and the risk of non-compliance with such requirements could lead to the termination of operating licenses and fines. The Group has instituted guidelines to staff on compliance with laws and regulations, and has maintained cordial working relationships with regulators through effective communications. During the year under review, the Group has complied, to the best of our knowledge, with the relevant rules and regulations in China where we carry out our operations.

Key Financial Performance Analysis

Please refer to "Financial Review" section

Environmental Policies and Performance

Please refer to "Corporate Social Responsibility" section

Relationship with Key Stakeholders

Employees: please refer to "Corporate Social Responsibility" section
Customers: please refer to "Retail Channel Management" section
Suppliers: please refer to "Products" section

Principal Risks and Uncertainties

The Group's principal business activities comprise of consumer retail of sportswear products in PRC, which are exposure to a variety of macro risks including a significant slowdown in Chinese GDP and wage growth, significant downturn in the retail environment, disruptive change in the competitive environment for sportswear in China either in price or supply, abrupt and large fluctuation in global natural resource prices such as rubber and cotton. While these risks continue to exist, the Group closely monitors any signs of these occurring and will devise appropriate plans to minimize earnings risk for our Shareholders.

FINANCIAL REVIEW

Group Revenue Breakdown by Product Category

The following table sets out the contributions to the Group's revenue by product category for the Year:

For the year ended 31 December

	2015		2014		
	Revenue (RMB Million)	(% of Revenue)	Revenue (RMB Million)	(% of Revenue)	Changes In Revenue (%)
Footwear	3,258.1	61.5	3,042.9	63.7	+7.1
Apparel	1,926.6	36.4	1,687.5	35.3	+14.2
Accessories	110.4	2.1	47.2	1.0	+133.9
Total	5,295.1	100.0	4,777.6	100.0	+10.8

The Group's total revenue for the year ended 31 December 2015 amounted to approximately RMB5.30 billion (2014: RMB4.78 billion), representing an increase of approximately 10.8% compared to last year (2014: increase of 10.0%). This improvement in revenue was mainly due to:

1. successful repositioning XTEP as professional sports brand with stylish and functional products which focus on running;

2. regain growth in revenue of apparel products after successful destocking at retail inventory level; and

3. significant increase in revenue contribution from e-commerce business.

During the Year, the Group has consistently applied a prudent approach when accepting product orders from distributors and authorised retailers in each quarter and therefore the retail inventory has maintained at a healthy level. The strong and unique professional sports brand with stylish and functional products image of XTEP were established well throughout various international marathon and running events in the Greater China. As such, this delivered a better-than-expected demand for XTEP sportswear products in footwear, apparel and accessories products. Nevertheless, our professional running footwear series namely "Dynamic Foam", "Reactive Coil" and "Air Mega" were well accepted by the runners and hence gaining both the reputation and market share among sportswear industry in the PRC.

On the other hand, we mainly used the Group's website as our XTEP e-commerce flagship stores on various internet platforms. The revenue through e-commerce platform has recorded significant improvements and accounted for low double digit of the Group's revenue (2014: single digit). Such improvement was mainly due to our outstanding e-commerce team which focus to develop a sophisticated online platform, and with the seamless cooperation with Tmall and S.F. Express, to provide excellent e-commerce logistics and distinguished products online which are mainly different from offline products.

Gross Profit and Gross Profit Margin Breakdown by Product Category

The following table sets out the gross profit and the gross profit margin by product category for the Year:

For the year ended 31 December

	2015		2014		
	Gross profit (RMB million)	Gross profit margin (%)	Gross profit (RMB million)	Gross profit margin (%)	Changes in gross profit margin (% point)
Footwear	1,428.5	43.8	1,280.3	42.1	+1.7
Apparel	764.4	39.7	649.2	38.5	+1.2
Accessories	43.8	39.7	17.4	36.9	+2.8
Total	2,236.7	42.2	1,946.9	40.8	+1.4

The Group's overall gross profit margin increased by 1.4 percentage point to 42.2% (2014: 40.8%). The increase in the overall gross profit margin was mainly due to footwear and apparel products gross profit margin increase by 1.7 and 1.2 percentage point, respectively.

The improvements in the gross profit margin of footwear and apparel products were mainly due to increase in average selling price due to increase in sales proportion of professional sportswear products with higher profit margins.

Other Income and Gains

For the year ended 31 December 2015, other income and gains of the Group mainly represented the subsidized income from the PRC Government, which amounted to approximately RMB55.5 million (2014: RMB29.7 million); and the income derived from available-for-sale financial assets was approximately RMB86.3 million (2014: RMB115.3 million), which was mainly derived from the interest income from treasury deposit products.

Selling and Distribution Expenses

For the year ended 31 December 2015, the Group's selling and distribution expenses amounted to approximately RMB982.6 million (2014: RMB798.6 million), representing approximately 18.6% (2014: 16.7%) of the Group's total revenue. The increase in selling and distribution expenses was mainly due to the increase in advertising and promotional costs.

The advertising and promotional costs for the Year amounted to approximately RMB780.5 million (2014: RMB623.7 million), represented approximately 14.7% (2014: 13.1%) of the Group's total revenue and the increase in advertising and promotional costs was mainly related to increases in:

1. sponsorships of international marathons and running events;

2. sports and entertainment TV programs;

3. advertising through social media;

4. improvements and upgrade of retail stores decoration and product displays; and

5. sports and entertainment spokesperson.

All the marketing and promotional activities and sponsored events were carefully selected to promote XTEP as a unique sports brand with stylish and functional products that stands out from our peers.

General and Administrative Expenses

For the year ended 31 December 2015, the Group's general and administrative expenses amounted to approximately RMB478.1 million (2014: RMB488.4 million), which represented approximately 9.0% (2014: 10.2%) of the Group's total revenue. The R&D costs for the Year amounted to approximately RMB121.3 million (2014: RMB107.5 million), representing approximately 2.3% (2014: 2.2%) of the Group's total revenue. The R&D costs were mainly related to the salary costs of research and design team, material costs of research and development of new products and equipment costs for new production technology.

Maintaining a prudent approach towards financial management, the Group made a net provision for doubtful debt for the long outstanding account receivables for the Year, which amounted to approximately RMB31.7 million (2014: RMB127.6 million).

Net Finance Costs

The total net finance cost of the Group for the year ended 31 December 2015 amounted to approximately RMB27.8 million (2014: RMB38.4 million). The decrease was mainly due to the increase in interest income to RMB56.2 million (2014: RMB41.3 million) as a result of increase in cash balance while the interest expenses increased to approximately RMB75.8 million (2014: RMB69.1 million) primarily as a result of the increase in average balance of bank loans and discounted bills receivable during the Year.

Operating Profit Margin

The operating profit margin for the year ended 31 December 2015 increased by 0.5 percentage point to 17.4% (2014: 16.9%). This was mainly due to the increase in gross profit margin by 1.4 percentage points but offset by increase in selling and distribution expenses and general and administrative expenses by 0.7 percentage points.

Income Tax Expenses

Income tax provision of the Group for the year ended 31 December 2015 was approximately RMB256.6 million (2014: RMB284.3 million). The income tax provision included profit tax provision relating to operating companies which amounted to approximately RMB248.0 million (2014: RMB250.9 million). The profit tax provision was recorded according to the profit derived from the underlying operating companies. However, certain provisions and interest expenses incurred by the Group were not subject to income tax deduction. Also, there was an under provision of income tax of approximately RMB5.6 million (2014: RMB11.5 million). The Company holds certain PRC subsidiary companies which have retained profits that can be distributed to the Company in the future. Therefore, the Company has made a provision of withholding tax amounted to approximately RMB3.0 million (2014: RMB22.0 million).

Profit Attributable to Ordinary Equity Shareholders and Net Profit Margin

For the year ended 31 December 2015, the profit attributable to ordinary equity Shareholders was approximately RMB622.6 million (2014: RMB478.0 million), representing an increase of approximately 30.3% over the same period last year. The increase was mainly due to the increase in gross profit as both the Group's revenue and gross profit margin increased, but at the same time, it was offset by the increase of selling and distribution expenses for the Year.

The Group's net profit margin increased to 11.8% (2014: 10.0%).

Dividend

The Group maintained a high level of cash and bank balances. The Board continued to improve Shareholders' dividend return and therefore recommended a final dividend of HK7.0 cents (2014: HK5.0 cents) per Share and a special dividend of HK3.5 cents (2014: HK3.0 cents) per Share, representing an increase of 31.3%. Together with the interim dividend of HK10.0 cents (2014: HK8.5 cents) per Share, the annual payout ratio for the Year amounted to 60% (2014: 60%).

Working Capital Cycle

For the year ended 31 December 2015, the Group has improved the overall working capital turnover days by 17 days to 60 days (2014: 77 days).

For the year ended 31 December:

WORKING CAPITAL TURNOVER DAYS	2015 Days	2014 Days	Changes Days
Inventories	58	71	–13
Trade receivables	98	91	+7
Trade payables	96	85	+11
Overall working capital turnover days	60	77	–17

Inventories

INVENTORIES	2015 RMB million	2014 RMB million
Balance at 1 January	569.0	536.8
Balance at 31 December	398.4	569.0
Average balance (note 1)	483.7	552.9
Cost of sales for the year ended 31 December	3,058.4	2,830.7
Average turnover days (note 2)	58 days	71 days

As at 31 December 2015, the Group's balance of inventory was approximately RMB398.4 million (2014: RMB569.0 million). The turnover days of inventories for the year ended 31 December 2015 improved by 13 days to 58 days (2014: 71 days). The improvement was mainly due to stringent stock control through prudent products ordering, flattened distribution channel and real-time retail inventory monitoring management.

Trade Receivables

TRADE RECEIVABLES	2015 RMB million	2014 RMB million
Balance at 1 January	1,231.4	1,137.9
Balance at 31 December	1,603.2	1,231.4
Average balance (note 1)	1,417.3	1,184.7
Revenue for the year ended 31 December	5,295.1	4,777.6
Average turnover days (note 2)	98 days	91 days

As of 31 December 2015, the Group's net balance of trade receivables was approximately RMB1,603.2 million (2014: RMB1,231.4 million). The slight increase of trade receivables turnover days compared to last year was due to the Group provided temporary support to assist its distributors to increase their directly owned retail stores. This measurement flattened and reduced multi-layers in the distribution channel which resulted in significant reduction of inventory level at the retail end. This in turn reduced the Group's inventory level as shown above. On the other hand, as compared to the trade receivables turnover of 104 days for the six months ended 30 June 2015, the trade receivable turnover days for the year ended 31 December 2015 was reduced by 6 days.

Trade Payables

TRADE PAYABLES	2015 RMB million	2014 RMB million
Balance at 1 January	719.1	597.5
Balance at 31 December	895.8	719.1
Average balance (note 1)	807.5	658.3
Cost of sales for the year ended 31 December	3,058.4	2,830.7
Average turnover days (note 2)	96 days	85 days

As at 31 December 2015, the Group's trade payables balance was approximately RMB895.8 million (2014: RMB719.1 million). The increase was due to the Group having utilized the credit period of suppliers and extending the payment days in order to improve the working capital cycle of the Group. The average trade payable turnover days for the Year improved by 11 days to 96 days (2014: 85 days).

Note 1: The average balance is equal to the average of balance as at 1 January and 31 December of the relevant year.

Note 2: The average turnover days is equal to the average balance divided by the corresponding cost of sales or revenue and multiplied by 365 days.

Bills Receivables and Bills Payables

In order to have more flexibilities in utilising working capital facilities, the Group utilized the acceptance and usage of bills receivables and bills payables, respectively. As of 31 December 2015, the bills receivables amounted to approximately RMB288.6 million (31 December 2014: RMB258.5 million) and the bills payables were nil (31 December 2014: RMB9.9 million). For the year ended 31 December 2015, the number of turnover days of bills receivables was 19 days (2014: 10 day) and the number of turnover days of bills payables was nil (2014: 1 day).

LIQUIDITY AND CAPITAL RESOURCES

As of 31 December 2015, the Group's cash and cash equivalents amounted to approximately RMB3,607.0 million (31 December 2014: RMB3,137.1 million), representing an increase of approximately RMB469.9 million. The net cash and cash equivalents (including fixed deposits held at banks with maturity dates of over three months, pledged deposits and other current financial assets, minus bank loans) were approximately RMB2,866.3 million as of 31 December 2015 (as of 31 December 2014: RMB2,604.2 million). This was mainly attributable to:

(a) Net cash inflow from operating activities that amounted to RMB786.5 million, which was due to the cash generated from operations of approximately RMB1,087.3 million but offset by the payment of income and withholding tax amounting to RMB281.2 million and the payment of net interest expenses of approximately RMB19.6 million. On the other hand, the cashflow from operating activities in the second half year of 2015 was significantly improved to net cash inflow of approximately RMB938.1 million compared of net cash outflow of approximately RMB151.6 million in the first half year of 2015. The major reason was the decrease in inventory level, increase in trade payables and accruals and better remittance from trade receivables in the second half year of 2015;

(b) Net cash inflow from investing activities that amounted to RMB396.6 million, which was mainly due to the decrease in available-for-sale investment amounting to RMB326.0 million and the time deposit amounting to RMB46.0 million, and income derived from available-for-sale investments amounted to RMB86.3 million but offset by the payment of capital expenditure amounted RMB58.7 million; and

(c) Net cash outflow from financing activities that amounted to RMB719.7 million, mainly due to the payment of dividends amounting to RMB316.7 million, repayment of bank borrowings amounting to RMB596.1 million and payment of repurchase of shares amounted to RMB120.4 million, but offset by new loans amounted to RMB288.6 million.

As of 31 December 2015, the Group's gearing ratio was 19.8% (31 December 2014: 23.4%), which is defined as the total bank borrowings divided by the Group's total assets.

As of 31 December 2015, the total assets of the Group amounted to RMB8,114.0 million (31 December 2014: RMB7,864.4 million), represented by non-current assets of RMB1,063.2 million (31 December 2014: RMB917.3 million) and current assets of RMB7,050.8 million (31 December 2014: RMB6,947.1 million). The total liabilities of the Group amounted to RMB3,242.3 million (31 December 2014: RMB3,154.1 million), represented by non-current liabilities of RMB275.9 million (31 December 2014: RMB803.8 million) and current liabilities of RMB2,966.4 million (31 December 2014: RMB2,350.3 million). The total non-controlling interests of the Group amounted to RMB19.8 million (31 December 2014: RMB9.9 million). Hence, the total net assets of the Group amounted to RMB4,871.7 million (31 December 2014: RMB4,710.3 million), representing an increase of 3.4%. Net assets per Share as at 31 December 2015 were approximately RMB2.22 (31 December 2014: RMB2.16), representing an increase of 2.8%.

INVENTORY PROVISION

For the year ended 31 December 2015, the Group did not have any inventory provisions.

IMPAIRMENT PROVISION FOR TRADE RECEIVABLES

For the year ended 31 December 2015, the Group recorded a net impairment provision for trade receivables amounting to approximately RMB31.7 million (2014: RMB127.6 million).

COMMITMENTS

Details of the Group's commitments are stated in note 34 of the financial statements.

CONTINGENT LIABILITIES

As of 31 December 2015, the Group did not have any material contingent liabilities.

CHARGE OF ASSETS

Save as disclosed in notes 21 and 24 of the financial statements relating to certain amounts of bank deposits pledged to secure the banking facilities, none of the Group's assets were pledged as of 31 December 2015.

FOREIGN CURRENCY RISKS

The Group mainly operates in the PRC with most of its transactions settled in RMB. The Group's assets and liabilities, and transactions arising from operation are mainly denominated in RMB. Accordingly, it is believed that the Group does not have any material foreign currency risks that would affect its operation. The Group has not used any forward contracts or currency borrowings to hedge its foreign currency risks. However, the management team will continue to monitor foreign currency risks and adopt prudent measures as appropriate.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the Year, the Group did not have any significant investments or acquisitions or sales of subsidiaries. The Group will continue to seek opportunities to acquire and work with international sportswear brands in order to generate more returns to its Shareholders. No plans have been authorized by the Board for any material investments or additions of capital assets as at the date of this annual report.

HUMAN RESOURCES

As of 31 December 2015, the Group has approximately 8,100 employees (31 December 2014: 8,000 employees). The Group provides introductory orientation programs and continuous training to its employees. Topics covered include industry knowledge, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and standards of its staff. The Group will strive to strengthen human resources management to provide strong support for the development of its business through staff recruitment initiatives, optimization of the organizational structure and promotion of its corporate culture to ensure that it can maintain sustainable development in the future.

INVESTOR RELATIONS REPORT

The Group is fully committed to transparent, accurate and timely communication with Shareholders, research analysts, the investor community, and the public.

Stock price performance

2015 Stock performance on a rising trend, stock price rose by 55.0% from the beginning to the end of the year, out-performing HSCEI by 74.2%

Xtep (1368.HK) market capitalization as at 31 December 2015: HKD8.995 billion

INVESTOR INFORMATION

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Share Information

Listing Date: 3 June 2008
Board lot: 500 Shares
Number of issued shares as at 31 December 2015: 2,194,995,000 Shares
Stock code: 1368.HK

INVESTMENT BANK AND SECURITIES FIRM COVERAGE

As at 31 December 2015			
	Investment Bank	Rating	Target Price (HK$)
1	Oriental Patron Financial Group	Buy	5.78
2	HSBC Securities	Buy	5.10
3	Cinda International	Buy	5.06
4	Zhongtai International	Buy	5.00
5	Essence Securities	Buy	4.98
6	China Merchants Securities	Buy	4.88
7	Guotai Junan International	Buy	4.70
8	Southwest Securities	Buy	4.65
9	GF Securities	Buy	4.60
10	Daiwa Capital Markets	Buy	4.60
11	Jefferies	Buy	4.50
12	ICBC International	Buy	4.50
13	CITIC Securities	Buy	4.20
14	KGI Asia	Neutral	4.20
15	J.P. Morgan Securities	Buy	3.90
16	First Shanghai Securities	Buy	3.60

Source: Bloomberg, 31 December 2015

TOTAL NUMBER OF INVESTOR RELATIONS AWARDS RECEIVED IN 2015: 22

Seven Awards	Award	
Asiamoney **Six Awards**	**Corporate Governance Poll 2014** Best for Investor Relations in China Best for Responsibilities of Management and the Board of Directors in China Overall Best Company in China for Corporate Governance	Best for Shareholders' Rights and Equitable Treatment in China Best for Corporate Social Responsibility in China Best for Disclosure and Transparency in China
LACP **Six Awards**	**2014 Annual Report** *Consumer Durables – Textile/Apparel/Luxury:* Industry Award: Gold #80 for "Top 100 Annual Reports Worldwide" #20 for "Top 50 Annual Reports in the Asia-Pacific Region" Best Report Narrative in the Asia-Pacific Region: Silver Top 40 Chinese Annual Reports	*Retailing – Multi-line Retail:* Industry Award: Bronze
2015 ARC **Seven Awards**	**Annual Report 2014** Gold: Cover Photo/Design – Sports & Talent Management Gold: Interior Design – Sports Equipment & Goods Silver: Overall Presentation – Sports Equipment & Goods Silver: Cover Photo/Design – Sports Equipment & Goods Bronze: Overall Presentation – Retail: Specialty Stores	Honors: Cover Photo/Design – Retail: Specialty Stores Honors: Interior Design – Sports & Talent Management
BIVA Award 2015 **Three Awards**	2015 Best Investment Value Award For Listed Company 2015 Best Chief Financial Officer Award (Mr. Ho Yui Pok) 2015 Best Investor Relations Award (Mr. Ho Yui Pok)	

LACP: League of American Communications Professionals
ARC: Annual Report Competition
BIVA: Best Investment Value Award

KEY INVESTOR RELATIONS EVENTS HELD IN 2015

Type of Event	No. of Events Held in 2015
Results Presentations to Investors (for the 2014 annual results and 2015 interim results)	2
Press Conferences for Results Announcement	2
Annual General Meeting	1 (2014)
Regular Roadshows	15 (89 meetings in aggregate)
Investment Strategy Conferences Organized by Major Investment Banks	5 (48 meetings in aggregate)
One-on-one/Group Face-to-face Meetings or Telephone Conferences with Investors	59
Shop Visits	10
Press Interviews	9
Press Releases	12
Meetings with Stock Commentators/Financial Media	5
Analyst Briefings	Numerous
Number of Attendees (approximately and including those attended repeatedly)	387

CORPORATE SOCIAL RESPONSIBILITY

PROMOTE PARTICIPATION IN RUNNING

The Group is committed to fulfilling our social responsibilities to our community. With the rebranding of the Group's focus to a professional sports product company with stylish and functional products, we focused our efforts to promoting participation in running, using our resources to help the development of the sports industry in China, and hoping to improve the health and athletic abilities of Chinese citizens.

In 2015, the Group sponsored 17 marathons, the highest number by any sports brand in Greater China and sponsored four XTEP ILLUMIN RUNS events with total around 4,000 participants. The Group also organized 124 "Xtep Run" events for Xtep Running Club members, where members participated with their friends and families. These running related events are intended to use the influence of Xtep Running Club to bring more non-serious runners to participate in the running community we created. We believe that a person would become a runner, once he/she takes the first step. We also organized six "Family Run" events during some of the marathons sponsored by us, such as the marathons in Hong Kong, Zhengkai, Yangzhou, Taiyuan, Hefei, and Hangzhou. Over 4,000 families participated in these "Family Run" events, we want to involve China's next generation, the children, in running events early, by giving them a safe and fun environment together with their parents.

PRODUCTION SAFETY AND QUALITY ENHANCEMENT

XTEP was named "Top 50 Quality Chain-Brand in China" (中國連鎖品牌質量50強), a multi-province contest organized by Shenzhen Retail Business Association (深圳市零售商業行業協會) and Shenzhen Chain Store & Franchise Association (深圳市連鎖經營協會). The Group is equipped with the most advanced level of manufacturing equipment in the country, and places great emphasis on production standards. To further enhance manufacturing standards, we have integrated industrial processes with information systems and constantly upgraded our equipment with new automation features to ensure we meet industry benchmarks for safety and standardized quality control. Not only has the Group improved product safety standards by adhering to the latest industry requirements, but being a leading industry player, the Group has also participated in the drafting and revision of associated industry standards in China. We have been a regular member of the "Quality and Credibility Alliance" (質量信譽聯盟單位常務委員單位) since 2006.

All XTEP products have passed rigorous testing conducted by independent third party organizations that hold national qualifications. With the effective application of an ISO quality management system for managing our production processes, the Group is able to raise operation accuracy and precision effectively. To ensure the highest standards, we rigorously monitor our manufacturing progress constantly and test our products internally with a dedicated team headed by our Chief Quality Officer. Their duty is to make sure all the

pieces delivered to our customers are of the high quality that defines our brand. In 2015, we were awarded "Export Inspection Exempt" certificate from General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ), indicating our high quality consistently meets international standards.

The Group has strengthened ties with China National Institution of Standardization, China Association for Quality and AQSIQ, which has contributed to the enhancement of product safety and quality management. Our annual quality report is released through the AQSIQ.

ENVIRONMENTAL PROTECTION

The Group takes into consideration our environmental responsibilities when conducting research and developing for our products. The Group has incorporated organic Dupont™ Sorona® Cotton in our footwear and apparel products, adding both comfort to consumers and contributing to environmental sustainability.

The Group has been committed to implementing various energy-efficient and environmental protection measures in the production process, including unified sewage treatment and solid waste collection and separation. In addition, the Group has encouraged suppliers to establish environmental-friendly and energy-efficient production management systems. Correspondingly, it has provided relevant training and encouraged them to adopt the ISO14001 environmental management system. The Group has also cooperated with government authorities and environmental monitoring institutions. Working together, the parties have conducted inspections and offered guidance to major suppliers on enhancing their production and working environment, as well as employing relevant waste management procedures.

The Group also operates laboratories that are nationally certified and have well-established testing and management systems in place. The laboratories conduct tests on raw materials provided by suppliers to ensure product safety, as well as correspond with China's sustainable development strategy.

EMPLOYEE TREATMENT AND HUMAN RESOURCE DEVELOPMENT

In recognition for our high quality working environment, the Group has been awarded "National Model Harmonious Labor Relations Enterprise" and "May 1st Labor Medal", and one of our factory work in An Hui Province won "National Excellent Migrant Worker" award, a national award given to only 981 people in China. We strictly adhere to labor laws governing working hours and employee social insurance, resulting in low turnover in our staff.

The Group won Quanzhou Excellent Corporate Culture promotion event "Cultural City" Corporate award ("東亞文化之都 • 泉州"優秀企業文化推選活動 – "文都風采"特色單位.) The Group firmly believes in providing a comfortable and harmonious working and living environment for its employees. In our production base in Quanzhou, Fujian Province, we provide our employees with living quarters, dining facilities, outdoor fitness areas, and activity rooms for employees to spend their leisure time in a social environment. The Group also organizes monthly group birthday parties and annual "Sunshine Cultural Tours" to enrich the social life of our workers.

In addition to on the job training, the Group provides regular training and personal enrichment courses for our employees through "Xtep University". The internal courses covered all areas of the business and allowed employees to not only gain a deeper understanding of the skills required in their own positions, but also, learn about the different parts of the Group's operations and hone additional skills for career advancement.

INDUSTRY COLLABORATIONS

The Group has actively collaborated with community groups and non-governmental organizations, including China National Institute of Standardization, China Association for Quality, China Quality Supervision Association, China Leather Industry Association, and Innovation Method Society. The long-term and stable communication channels that have been established will enable the Group to stay at the forefront of the industry.

With regards to occupational health and safety as it pertains to the supply chain, the Group has conducted evaluations and offered guidance to major suppliers.

CONTRIBUTING TO CHARITIES

During the year, the Group has continued to engage in social and charitable activities. We made a donation of RMB8 million to China Foundation for Poverty Alleviation (中國扶貧基金會) and became part of "Humanistic Aid Corporation Strategic Alliance" (人道救援企業戰略合作圈). We also made other various contributions to local communities, schools, sports organizations and events that amounted to millions of Renminbi.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Ding Shui Po (丁水波), aged 45, is the founder, chairman and chief executive officer of the Group. He has over 27 years of experience in the sportswear industry and is primarily responsible for the overall corporate strategies, planning and business development of the Group. Mr. Ding founded the Group in 1999 and is currently also the chairman of the Board of Directors and president of various subsidiaries of the Group.

Mr. Ding personally obtained the following awards:

Year	Award
2002	Outstanding Young Entrepreneur in Quanzhou
2003	Top 100 Individuals in PRC's Economic Development
2004	Top 10 Most Influential Entrepreneurs in China
2005	Fujian Young Entrepreneurs Achievement Award
2007	Fujian May 4th Youth Medal
2008	CAPITAL Leaders of Excellence in China 2008
2008	Outstanding Young Entrepreneur in Fujian
2009	Ernst & Young Entrepreneur of the Year China 2009
2009	May 1st Labor Medal
2009	Top Ten Eminent Young Entrepreneurs of Fujian
2010	Chinese Brands Awards – People of the Year
2010	Chinese Textile and Apparel Industry – Top 10 People of the Year
2011	Most Innovative Entrepreneur of Quanzhou City
2013	Quanzhou Top Talent
2013	Outstanding Contribution Award on Community Donation by a Businessman in the Private Sector in Fujian Province
2013	Outstanding Contribution Award on Western Taiwan Straits Economic Zone Construction
2013	Top Ten Outstanding Young Persons in Quanzhou
2015	2nd China Footwear Industry Ceremony – Annual Leading Figure of 2015

Mr. Ding held the following public offices:

Year	Public Office
2003	Committee Member of the 9th Fujian Provincial Committee of the Political Consultative Conference
2006	Chairman of the 3rd Executive Committee Quanzhou Footwear Chamber
2008	Committee Member of the 10th Fujian Provincial Committee of the Political Consultative Conference
2009	Honorary Chairman of the Fujian Footwear Industry Association
2010	Chairman of the 5th Board of China Young Entrepreneurs Association – Young Chamber of Commerce in Quanzhou
2010	Committee Member of the National Youth Committee
2011	Founding Chairman of the Hong Kong China Chamber of Commerce
2013	Committee Member of the 11th Fujian Provincial Committee of the Political Consultative Conference
2013	Executive Vice President of the 4th Congress of the China Federation of Overseas Chinese Entrepreneurs
2014	Chairman of the 2nd World Quanzhou Youth Friendship Association

Mr. Ding participated in entrepreneurship programs offered by Peking University (北京大學) and Tsinghua University (清華大學) in 2004 and 2006, respectively, and studied in the China CEO/Finance CEO Program offered by Cheung Kong Graduate School of Business (長江商學院) in 2011. He also completed the CEO Program of the China Europe International Business School (中歐國際工商學院) and the EMBA program offered by Xiamen University (廈門大學) in 2014. He is the son of Mr. Ding Jin Chao (one of our controlling shareholders), a brother of Ms. Ding Mei Qing and Mr. Ding Ming Zhong and a brother-in-law of Mr. Lin Zhang Li.

Ms. Ding Mei Qing (丁美清), aged 43, is our executive Director and a vice president of the Company. Ms. Ding has over 17 years of experience in the sportswear industry and is primarily responsible for the management of the footwear operation of the Group. She is also responsible for the design and technology development of the Group and has led our design team in creating a number of special collections of footwear under our XTEP that successfully appeal to the trendy and youthful mass market segment. Ms. Ding joined the Group in 1999 and is currently also a deputy general manager, a director and a vice president of various subsidiaries of the Group. Ms. Ding participated in an entrepreneurship program offered by Tsinghua University (清華大學) in 2006. She is the daughter of Mr. Ding Jin Chao, the sister of Mr. Ding Shui Po and Mr. Ding Ming Zhong and the wife of Mr. Lin Zhang Li.

Mr. Lin Zhang Li (林章利), aged 44, is our executive Director and a vice president of the Company. Mr. Lin has over 17 years of experience in the sportswear industry and is primarily responsible for the management of the apparel business of the Group. Mr. Lin joined the Group in 1999 and is currently also a vice president of Xtep (China). He participated in an entrepreneurship program offered by Tsinghua University (清華大學) in 2006. He is the husband of Ms. Ding Mei Qing, the son-in-law of Mr. Ding Jin Chao, a brother-in-law of Mr. Ding Shui Po and Mr. Ding Ming Zhong.

Mr. Ding Ming Zhong (丁明忠), aged 39, is our executive Director and a vice president of the Company. He has over 17 years of experience in the sportswear industry and is primarily responsible for the management of the accessories business of the Group. Mr. Ding joined the Group in 1999 and is currently also a deputy general manager and a vice president of various subsidiaries of the Group. He participated in entrepreneurship programs offered by Peking University (北京大學) and Tsinghua University (清華大學) in 2004 and 2006, respectively. He is the son of Mr. Ding Jin Chao, a brother of Mr. Ding Shui Po and Ms. Ding Mei Qing and a brother-in-law of Mr. Lin Zhang Li.

Mr. Ye Qi (葉齊), aged 58, is our executive Director and a vice president of Xtep (China). Joining the Group in 2004, Mr. Ye has over 23 years of experience in sales and marketing and is primarily responsible for the overall sales and marketing business of the Group. He also assists our chairman with the overall corporate strategies planning and business development of the Group. He graduated from South West University (西南大學) with a bachelor's degree in chemical science in 1982. He obtained a master's degree in philosophical science from East China Normal University (華東師範大學) and a master's degree in business administration from China Europe International Business School (中歐國際工商學院) in 1988 and 2003, respectively. He studied and completed the Doctor of Business Administration program jointly offered by the City University of Hong Kong (香港城市大學) and Fudan University (復旦大學) of China from 2011 to 2014. He has been studying the MBA program of the Peking University HSBC Business School since September 2014.

Mr. Ho Yui Pok, Eleutherius (何睿博), aged 50, joined the Group in 2007 and was later appointed as an executive Director of the Company on 29 March 2010. Mr. Ho is also the chief financial officer, investor relations spokesperson and authorized representative of the Company. He is also the company secretary of the Company. He has over 26 years of experience in auditing, accounting and financial management and is primarily responsible for the Group's overall financial and accounting affairs and investor relations. Mr. Ho graduated from the University of Kent (肯特大學) at Canterbury, England with a bachelor's degree in accounting in 1987 and a master's degree in management science in 1989. Prior to joining the Group, he was a chief financial officer, company secretary and authorized representative of GST Holdings Limited from 2005 to 2007, and a financial controller of EC-Founder (Holdings) Co., Ltd. from 2000 to 2005, a company listed on the Main Board of the Hong Kong Stock Exchange. In addition, he worked for an international accounting firm as a manager from 1994 to 1996. He is a fellow member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Hong Kong Institute of Certified Public Accountants, and an associate member of the Hong Kong Institute of Directors.

Independent Non-Executive Directors

Mr. Tan Wee Seng (陳偉成), aged 60, was appointed as a non-executive Director of the Company on 29 March 2010. Mr. Tan is a professional in value and business management consultancy. He is an independent non-executive director of Sa Sa International Holdings Limited, an independent non-executive director and chairman of the remuneration committee of Biostime International Holdings Limited and an independent non-executive director and chairman of audit committee of Sinopharm Group Company Limited, and an independent non-executive director and chairman of the audit committee of CIFI Holdings (Group) Company Limited, all of these companies are listed on the Main Board of Hong Kong Stock Exchange. He is also an independent director and chairman of the audit committee of ReneSola Ltd. whose shares are listed on the NYSE, and a board member and chairman of the finance and operation committee of Beijing City International School, an academic institution in Beijing. Mr. Tan has been an independent director and chairman of audit committee for 7 Days Group Holdings Limited listed in the NYSE from November 2009 to July 2013 on which it was privatized. Mr. Tan was also the chairman of special committee for privatization of the 7 Days Group Holdings Limited from October 2012 to July 2013.

Mr. Tan has over 36 years of experience in financial management, corporate finance, merger and acquisition, business management and strategy development. He has also held various management and senior management positions in a number of multi-national and Chinese corporations. From 2003 to 2008, he was an executive director, chief financial officer and company secretary of Li Ning Company Limited, the shares of which are listed on the Main Board of Hong Kong Stock Exchange. From 1999 to 2002, he was the senior vice president of Reuters for China, Mongolia and North Korea regions, and the chief representative of Reuters in China. Prior to that, he had served as the managing director of AFE Computer Services Limited, a Reuters subsidiary in Hong Kong mainly engaged in domestic equity and financial information services, and as the director of Infocast Pty Limited, a Reuters subsidiary in Australia and as the regional finance manager of Reuters East Asia. Mr. Tan is a professional accountant and a fellow member of both the Chartered Institute of Management Accountants in the United Kingdom and the Hong Kong Institute of Directors.

Mr. Sin Ka Man (冼家敏), aged 48, was appointed as our independent non-executive Director on 24 January 2008. Mr. Sin has over 23 years of professional experience in auditing, accounting and financial management for both private and listed corporations. He is an associate member of the HKICPA, a fellow member of the Association of Chartered Certified Accountants and a CPA of the CPA Australia. He is currently a vice president of the Huayu Expressway Group Limited, a company listed on the Main Board of Hong Kong Stock Exchange and mainly engaged in toll road business in the PRC, with responsibilities for the accounting and financial management of that company. He holds a bachelor's degree in Social Sciences from the University of Hong Kong, a master's degree in Finance from the University of Strathclyde, the United Kingdom and a master's degree in accounting from Curtin University of Technology, Australia.

Mr. Sin is currently an independent non-executive director of Infinity Financial Group (Holdings) Limited (formerly Fronton Group Limited), Easy One Financial Group Limited (formerly PNG Resources Holdings Limited), and Chinese People Holdings Company Limited (all of these companies are listed on the Main Board of Hong Kong Stock Exchange). Previously he was an independent non-executive director of Sino Haijing Holdings Limited, China Motion Telecom International Limited (companies listed on the Main Board of Hong Kong Stock Exchange) and he was an independent non-executive director of China Leason CBM & Shale Gas Group Company Limited (formerly Shine Software (Holdings) Limited), a company listed on the Growth Enterprise Market Board of the Hong Kong Stock Exchange.

Dr. Gao Xian Feng (高賢峰), aged 53, was appointed as our independent non-executive Director on 24 January 2008. Dr. Gao is currently the executive officer of the Human Resources Management Research Centre at Peking University (北京大學人本管理研究中心), and a guest professor of entrepreneurship programs at Peking University (北京大學), Tsinghua University (清華大學), Party School of the Central Committee of Communist Party of China (中央黨校) and Fudan University (復旦大學). Dr. Gao previously served as an associate professor at Shandong Economic University (山東經濟學院). He holds a bachelor's degree in enterprise management from Shandong Economic University (山東經濟學院) and a doctor of law degree from the Peking University (北京大學).

Dr. Bao Ming Xiao (鮑明曉), aged 53, was appointed as our independent non-executive Director on 21 December 2012. Dr. Bao has over 23 years of experience in physical education. Dr. Bao was a professor of physical education theory at the Capital Institute of Physical Education from 1998 to 2000. He has been a researcher and the chairman of the Research Center of Physical Education Sociology and Science at the Research Institute of Physical Education and Science (體育科學研究所體育社會科學研究中心) of the General Administration of Sport of China (國家體育總局) since 2001. In 2011, Dr. Bao was appointed as deputy chairman of the Second Sport Committee of China Sport Science Society (中國體育科學學會). Dr. Bao graduated from Anhui Normal University (安徽師範大學) with a bachelor's degree in physical education in 1983. Dr. Bao then obtained a master's degree in education and a doctorial degree in education from Shanghai University of Sport (上海體育學院) in 1988 and 2005, respectively.

SENIOR MANAGEMENT

The senior management of the Company is composed of all the executive Directors of the Company, namely, Mr. Ding Shui Po, Ms. Ding Mei Qing, Mr. Lin Zhang Li, Mr. Ding Ming Zhong, Mr. Ye Qi and Mr. Ho Yui Pok, Eleutherius. Please refer to the above section headed "Executive Directors" for their biographical details.

COMPANY SECRETARY

Mr. Ho Yui Pok, Eleutherius (何睿博), aged 50, is the company secretary as well as the chief financial officer, investor relations spokesperson and authorized representative of the Company. His biographical details are set out above under the paragraph headed "Directors".

CORPORATE GOVERNANCE REPORT

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization that is open and accountable to the Shareholders. The Board strives to adhere to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor for creating more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board, in order to optimize the returns for Shareholders.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2015, the Company complied with all code provisions and, where appropriate, adopted the recommended best practices as set out in the Corporate Governance Code, with the exception of code provision A.2.1 (chairman and chief executive).

Under code provision A.2.1 of the Corporate Governance Code, the roles of the chairman and chief executive should be separate and should not be performed by the same individual. The Group does not at present separate the roles of the chairman and the chief executive. Mr. Ding Shui Po is the chairman and chief executive officer of the Group. He has extensive experience in the sportswear industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board believes that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the Board and the senior management, which is comprised of experienced and high caliber individuals. The Board currently consists of six executive Directors and four independent non-executive Directors and has a strong independence element in its composition.

COMPLIANCE WITH MODEL CODE

The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding directors' securities transactions for the year ended 31 December 2015.

BOARD OF DIRECTORS

Board Composition

As at 31 December 2015 and the date of this annual report, the Board is comprised of six executive Directors and four independent non-executive Directors.

The followings are the members of the Board:

Executive Directors

Mr. Ding Shui Po *(Chairman and Chief Executive Officer)*
Ms. Ding Mei Qing
Mr. Lin Zhang Li
Mr. Ding Ming Zhong
Mr. Ye Qi
Mr. Ho Yui Pok, Eleutherius

Independent Non-Executive Directors

Mr. Tan Wee Seng
Mr. Sin Ka Man
Dr. Gao Xian Feng
Dr. Bao Ming Xiao

Among members of the Board, Mr. Ding Shui Po is the elder brother of Ms. Ding Mei Qing and Mr. Ding Ming Zhong, and Mr. Lin Zhang Li is the husband of Ms. Ding Mei Qing. Save as disclosed herein, to the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director is suitably qualified for his position, and has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Biographical information of the Directors are set out in the section headed "Directors and Senior Management" of this annual report.

Meetings of the Board

Board meetings were held from time to time to discuss the business strategies of the Group, to monitor financial and operational performance, to approve the annual and interim results of the Group, and to discuss the corporate governance functions of the Board.

Directors may participate either in person or through electronic means of communications. The individual attendance record of each Director at the meetings of the Board and the general meetings during the year ended 31 December 2015 is set out below:

Name of Director	Attendance/Number of Board Meeting(s)	Attendance/Number of General Meeting
Executive Directors		
Mr. Ding Shui Po	4/4	1/1
Ms. Ding Mei Qing	4/4	1/1
Mr. Lin Zhang Li	4/4	1/1
Mr. Ding Ming Zhong	4/4	1/1
Mr. Ye Qi	4/4	1/1
Mr. Ho Yui Pok, Eleutherius	4/4	1/1
Independent Non-Executive Directors		
Mr. Tan Wee Seng (re-designated from non-executive director to independent non-executive director on 15 May 2015)	4/4	1/1
Mr. Sin Ka Man	4/4	1/1
Mr. Xu Peng Xiang (retired on 15 May 2015)	4/4	1/1
Dr. Gao Xian Feng	4/4	1/1
Dr. Bao Ming Xiao	4/4	1/1

All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the company secretary of the Company at all times and may seek independent professional advice at the Company's expense. When queries are raised by Directors, steps would be taken to respond as promptly and as fully as possible. All Directors have the opportunity to include matters in the agenda of Board meetings. Notices of at least 14 days of Board meetings are given to the Directors and Board procedures comply with the articles of association of the Company, as well as relevant rules and regulations.

Functions and Duties of the Board

The overall management of the Company's operation is vested in the Board. The Board carries out its functions according to the powers conferred upon it by the Memorandum and Articles of Association of the Company which is uploaded onto the websites of the Hong Kong Stock Exchange and the Company, and since the date of uploading, has no significant changes have been made.

The main functions and duties conferred on the Board include:

- management of the overall business and strategic development;
- deciding business plans and investment plans;
- convening general meetings and reporting to the Shareholders; and
- exercising other powers, functions and duties conferred by Shareholders in general meetings.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approvals must be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

The Directors may have access to the advice and services of the company secretary of the Company to ensure that the board procedures, and all applicable rules and regulations, are followed. In addition, the Directors may, upon reasonable request, seek independent professional advice under appropriate circumstance at the Company's expenses. The Board shall resolve to provide separate, appropriate, independent and professional advice to the Directors to assist the relevant Directors in discharging their duties.

Independent Non-Executive Directors

Independent non-executive Directors have played a significant role in the Board by bringing their independent judgment to the Board meeting and scrutinizing the Group's performance. Their views carry significant weight in the Board's decision; in particular, they bring an impartial view to issues relating to the Group's strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advice to the Board. The independent non-executive Directors provide independent advice on the Group's business strategy, results and management to ensure that all interests of Shareholders are taken into account, and the interests of the Company and its Shareholders are protected.

The Board has four independent non-executive Directors, in compliance with Rule 3.10(1) of the Listing Rules, which requires that every board of directors of a listed issuer must include at least three independent non-executive Directors. In addition, at least two independent non-executive Director, namely, Mr. Sin Ka Man and Mr. Tan Wee Seng, possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 3.10(2) of the Listing Rules. The Company has appointed four independent non-executive Directors, representing more than one-third of the Board, in compliance with Rule 3.10A of the Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all the independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

Training and Support for Directors

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company.

The Directors have been informed of the requirement under code provision A.6.5 of the Corporate Governance Code regarding continuous professional development. According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Corporate Governance Code on continuous professional development during the year ended 31 December 2015:

	Corporate Governance/Updates on Laws, Rules and Regulations		Accounting/Financial/Management or Other Professional Skills	
Name of Director	Read materials	Attended Seminars/ Briefings	Read materials	Attended Seminars/ Briefings
Executive Directors				
Mr. Ding Shui Po	✓	✓	✓	✓
Ms. Ding Mei Qing	✓	✓	✓	✓
Mr. Lin Zhang Li	✓	✓	✓	✓
Mr. Ding Ming Zhong	✓	✓	✓	✓
Mr. Ye Qi	✓	✓	✓	✓
Mr. Ho Yui Pok, Eleutherius	✓	✓	✓	✓
Independent Non-Executive Directors				
Mr. Tan Wee Seng (re-designated from non-executive director to independent non-executive director on 15 May 2015)	✓	✓	✓	✓
Mr. Sin Ka Man	✓	✓	✓	✓
Mr. Xu Peng Xiang (retired on 15 May 2015)	✓	✓	✓	✓
Dr. Gao Xian Feng	✓	✓	✓	✓
Dr. Bao Ming Xiao	✓	✓	✓	✓

Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Appointments and Re-Election of Directors

Each of the executive Directors and independent non-executive Directors has entered into a service contract with the Company for a specific term, and is subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the articles of association of the Company.

The articles of association of the Company provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Board Diversity Policy

Pursuant to code provisions of the Corporate Governance Code, the Board approved a new board diversity policy (the "Board Diversity Policy") in August 2013. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

CHAIRMAN AND CHIEF EXECUTIVE

Mr. Ding Shui Po is the chairman and chief executive officer of the Group. He has extensive experience in the sportswear industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board believes that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the Board and the senior management, which is comprised of experienced and high caliber individuals. The Board currently consists of six executive Directors and four independent non-executive Directors and has a strong independence element in its composition.

TERM OF APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors, except Mr. Tan Wee Seng and Dr. Bao Ming Xiao, had entered into a service contract with the Company for an initial term of two years commencing on 3 June 2008. Mr. Tan Wee Seng had entered into a service contract with the Company for an initial term of three years commencing on 29 March 2010. Dr. Bao Ming Xiao had been appointed as a Director effective from 21 December 2012 and had entered into a service contract with the Company for an initial term of two years commencing on the same date.

All the service contracts of independent non-executive Directors are automatically renewed upon expiration and may be terminated by either party with a three-month's prior written notice.

BOARD COMMITTEES

The Board has established (i) Audit Committee, (ii) Remuneration Committee, and (iii) Nomination Committee with defined terms of reference. The terms of reference of the board committees, which explain their respective role and the authority delegated to them by the Board, are available on the websites of the Company and the Hong Kong Stock Exchange. The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance under appropriate circumstances, at the Company's expenses.

Audit Committee

The Audit Committee was established on 7 May 2008, in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the Code on Corporate Governance Code. The Audit Committee consists of three members, namely, Mr. Sin Ka Man, Mr. Tan Wee Seng and Dr. Gao Xian Feng, all of whom are independent non-executive Directors. The chairman of the Audit Committee is Mr. Sin Ka Man, who has appropriate professional qualifications and experience in accounting matters. None of the members of the Audit Committee is a former partner of the existing external auditors of the Company, Ernst & Young.

The primary duties of the Audit Committee are to make recommendation to the Board on the appointment, re-appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the risk management and internal control procedures of the Company.

During the year ended 31 December 2015, the Audit Committee mainly performed the following duties:

– reviewed the Group's unaudited interim results for the six months ended 30 June 2015 and the audited annual results for the year ended 31 December 2015, met with the external auditors to discuss such interim results and annual results without the presence of the Company's management, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made;

– reviewed the accounting principles and practices adopted by the Group, and recommended the appointment of the external auditors; and

– assisted the Board in meeting its responsibilities for maintaining an effective system of internal control and risk management.

During the year ended 31 December 2015, 3 meetings were held by the Audit Committee. The attendance record of each member of the Audit Committee at the meetings of the Audit Committee is set out below:

Name of Director	Attendance/Number of Audit Committee Meeting(s)
Mr. Sin Ka Man	3/3
Mr. Tan Wee Seng (appointed as a member of the Audit Committee on 15 May 2015)	2/3
Mr. Xu Peng Xiang (ceased to be a member of the Audit Committee on 15 May 2015)	1/3
Dr. Gao Xian Feng	3/3

There had been no disagreement between the Board and the Audit Committee during the financial year ended 31 December 2015.

Remuneration Committee

The Remuneration Committee was established on 7 May 2008, with written terms of reference in compliance with the Corporate Governance Code. The Remuneration Committee consists of three members, namely Mr. Sin Ka Man, Dr. Gao Xian Feng and Ms. Ding Mei Qing, the majority of whom are independent non-executive Directors. Mr. Sin Ka Man is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board on the remuneration of non-executive Directors.

During the year ended 31 December 2015, the Remuneration Committee mainly performed the following duties:

– reviewed the Group's remuneration policy and reviewed the remuneration package of the executive Directors and senior management for the year of 2015.

During the year ended 31 December 2015, one meeting was held by the Remuneration Committee. The attendance record of each member of the Remuneration Committee at the meetings of the Remuneration Committee is set out below:

Name of Director	Attendance/Number of Remuneration Committee Meeting
Mr. Sin Ka Man (appointed as the chairman of the Remuneration Committee on 15 May 2015)	0/1
Mr. Xu Peng Xiang (ceased to be a member of the Remuneration Committee on 15 May 2015)	1/1
Dr. Gao Xian Feng	1/1
Ms. Ding Mei Qing	1/1

Nomination Committee

The Nomination Committee was established on 7 May 2008, with written terms of reference in compliance with the Corporate Governance Code. The Nomination Committee consists of three members, namely, Mr. Ding Shui Po, an executive Director and the chairman of the Board, and two independent non-executive Directors, namely, Mr. Tan Wee Seng and Dr. Gao Xian Feng. Mr. Ding Shui Po is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board at least once a year and to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships. In identifying suitable director candidates and making such recommendations to the Board, the Nomination Committee would also take into account various aspects of a candidate, including but not limited to his/her education background, professional experience, experience with the relevant industry and past directorships.

During the year ended 31 December 2015, the Nomination Committee mainly performed the following duties:

– reviewed the annual confirmation of independence submitted by the independent non-executive Directors and assessed their independence; and

– reviewed the structure, size and composition of the Board during the year of 2015.

The Nomination committee will also give consideration to the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy on a regular basis to ensure its effectiveness.

During the year ended 31 December 2015, one meeting was held by the Nomination Committee. The attendance record of each member of the Nomination Committee at the meetings of the Nomination Committee is set out below:

Name of Director	Attendance/Number of Nomination Committee Meeting
Mr. Ding Shui Po	1/1
Mr. Tan Wee Seng (appointed as a member of the Nomination Committee on 15 May 2015)	0/1
Mr. Xu Peng Xiang (ceased to be a member of the Nomination Committee on 15 May 2015)	1/1
Dr. Gao Xian Feng	1/1

AUDITORS' REMUNERATION

The Company has re-appointed Ernst & Young as its external auditors during the year ended 31 December 2015. The external auditors are refrained from engaging in non-audit services except for specific approved items, such as review of interim results of the Group. The Audit Committee reviews the external auditor's statutory audit scope and non-audit services and approves its fees. Details of the fees paid/payable to Ernst & Young during the year are as follows:

	HK$
Review of interim results	638,000
Audit services	3,930,000
	4,568,000

FINANCIAL REPORTING

The Board, supported by the chief financial officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flow of the Company and its subsidiaries for that period. The directors acknowledge their responsibilities for preparing the accounts of the Company. As at 31 December 2015, the Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The responsibilities of Ernst & Young, the Company's external auditors, the financial statements are set out in the section headed "Independent Auditors' Report" in this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board recognises its overall responsibility for the Group's risk management and internal control systems and reviewing their effectiveness on an ongoing basis.

The risk management and internal control systems of the Group are featured with a defined management structure with limits of authority and well-rounded policies and procedures, and are designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks, and to safeguard assets of the Group. The Group's risk management and internal control system are designed to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives. The senior management reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures taken to address such variances and identified risks. The Company has established policies and procedures applicable to all operating units to ensure the effectiveness of risk management and internal controls systems. The Company also has a process for identifying, evaluating, and managing the significant risks associate with the achievement of its operational objective. This process is subject to continuous improvement and was in place throughout 2015. The day-to-day operation is entrusted to the individual department, which is accountable for its own conduct and performance, and is required to strictly adhere to the policies set by the Board. The Company carries out reviews of the effectiveness of the risk management and internal control systems from time to time in order to ensure that they are able to meet and deal with the dynamic and ever changing business environment.

In addition, the procedures on disclosure of inside information were in place to ensure that all relevant facts and circumstances that may have material effect on the share price of the Company is promptly assessed and that any material information which comes to the knowledge of any one or more officers of the Group be promptly identified, assessed and, if appropriate, escalated for the attention of the Board to determine whether a disclosure is required.

During the Year under review, the Board and the Audit Committee have reviewed the effectiveness of the Group's risk management and internal control systems on all major operations of the Group, with assistance from the Group's risk management and internal audit department. The Group's internal audit department has reported major risk management and internal control review findings to the Board and Audit Committee. No major issues but areas for improvement have been identified. All of the recommendations from the Group's internal audit department will be properly followed up to ensure that they are implemented within a reasonable period of time. The Board and the Audit Committee considered that the key areas of the Group's risk management and internal control systems, including the adequacy of resources, qualifications and experience of our accounting, internal audit and financial reporting staff, and their training programs and budget, are reasonably implemented and the Group has fully complied with provisions of the Corporate Governance Code regarding risk management and internal control systems in general for the year ended 31 December 2015.

COMPANY SECRETARY

The secretary of the Company is Mr. Ho Yui Pok, Eleutherius, whose biography details are set out in the section headed "Directors and Senior Management" in this annual report.

Mr. Ho has been informed of the requirement of the Rule 3.29 of the Listing Rules, and he confirmed that he had attained no less than 15 hours of relevant professional training during the year ended 31 December 2015.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene an Extraordinary General Meeting and to Put Forward Proposals at Shareholders' Meeting

Pursuant to the Article 58 of the articles of association of the Company, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company by mail at Suite 2401–2, 24/F, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by Which Enquiries May Be Put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the secretary of the Company by mail at Suite 2401–2, 24/F, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the chief executive officer of the Company.

INVESTOR RELATIONS

Constitutional Documents

There has been no significant change in the Company's constitutional documents during the year ended 31 December 2015.

Communication With Shareholders

The Board recognizes the importance of maintaining clear, timely and effective communication with Shareholders of the Company and its investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the investors and the Shareholders receive accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, announcements and circular. The Company also publishes all corporate correspondence on the Company's website www.xtep.com.hk. The Board maintains regular dialogues with institutional investors and analysts to keep them informed of the Group's strategy, operations, management and plans. Members of the Board and of the various board committees will attend the annual general meeting of the Company and answer questions raised during the meeting. At the general meeting, separate resolutions are proposed to resolve each substantially separate issue.

The chairman of the general meetings of the Company would explain the procedures for conducting poll before putting a resolution to vote. The results of the voting by poll will be declared at the meeting and published on the websites of the Hong Kong Stock Exchange and the Company.

REPORT OF THE DIRECTORS

The Directors are pleased to present their report together with the audited financial statements for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in the design, development, manufacturing, sales and marketing and brand management of sportswear, including footwear, apparel and accessories, sold mainly under XTEP.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2015 are set out in note 1 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2015 and the Group's financial position as at that date are set out in the financial statements on pages 93 to 144 of this annual report.

DIVIDENDS

An interim dividend of HK10.0 cents (equivalent to approximately RMB8.2 cents) per Share was paid to our Shareholders during the year. The Board recommended a final dividend of HK7.0 cents (equivalent to approximately RMB5.9 cents) per Share and a special dividend of HK3.5 cents (equivalent to approximately RMB2.9 cents) per Share for the year ended 31 December 2015, subject to approval by the Shareholders at the annual general meeting to be held on 29 April 2016. The total dividends for the year ended 31 December 2015, which include the interim dividend, final dividend and special dividend, amounted to a total dividend of HK20.5 cents (equivalent to approximately RMB17.0 cents) per Share, represented a payout ratio of approximately 60%. Details of the dividend for the year ended 31 December 2015 are set out in note 11 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2015, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB76.3 million (2014: RMB299.9 million). Details of the reserves of the Company as at 31 December 2015 are set out in note 40 to the financial statements.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2015 amounted to approximately RMB9.8 million (2014: RMB8.0 million).

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2015 are set out in note 27 to the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2015 were:

Executive Directors

Ding Shui Po *(Chairman)*
Ding Mei Qing
Lin Zhang Li
Ding Ming Zhong
Ye Qi
Ho Yui Pok, Eleutherius

Independent Non-Executive Directors

Tan Wee Seng (re-designated from non-executive director to independent non-executive director on 15 May 2015)
Sin Ka Man
Xu Peng Xiang (retired on 15 May 2015)
Gao Xian Feng
Bao Ming Xiao

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

Each of the executive Directors on the Board, except Mr. Ho Yui Pok, Eleutherius, had entered into a service contract with the Company for an initial term of three years commencing on 3 June 2008. Mr. Ho Yui Pok, Eleutherius had entered into a service contract with the Company for an initial term of three years commencing on 29 March 2010.

Each of the independent non-executive Directors, except Mr. Tan Wee Seng and Dr. Bao Ming Xiao, had entered into a service contract with the Company for an initial term of two years commencing on 3 June 2008. Mr. Tan Wee Seng had entered into a service contract with the Company for an initial term of three years commencing on 29 March 2010. Dr. Bao Ming Xiao had been appointed as a Director effective from 21 December 2012 and had entered into a service contract with the Company for an initial term of two years commencing on the same date.

All the service contracts of Directors are automatically renewed upon expiration and may be terminated by either party with a three-month's prior written notice.

In accordance with article 87 of the Company's articles of association, Ms. Ding Mei Qing, Mr. Ho Yui Pok, Eleutherius, Mr. Tan Wee Seng and Dr. Bao Ming Xiao will retire from the Board by rotation at the forthcoming annual general meeting and, Ms. Ding Mei Qing, Mr. Ho Yui Pok, Eleutherius, Mr. Tan Wee Seng and Dr. Bao Ming Xiao, being eligible, offer themselves for re-election.

None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out on pages 64 to 67 of this annual report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed below, there was no transaction, arrangement or contract of significance to which the holding companies of the Company, and the Company's subsidiaries was a party, and in which a Director of the Company or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2015.

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

As at 31 December 2015, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Long Positions in the Company

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company[1]
Mr. Ding Shui Po	Beneficiary of a trust[2]/ Beneficial interests[3]	1,327,375,000	60.47%
Ms. Ding Mei Qing	Beneficiary of a trust[2]	1,310,059,500	59.68%
Mr. Lin Zhang Li	Interests of spouse[4]	1,310,059,500	59.68%
Mr. Ding Ming Zhong	Beneficiary of a trust[2]	1,310,059,500	59.68%
Mr. Ye Qi	Beneficial interests	2,500,000[5]	0.11%
Mr. Ho Yui Pok, Eleutherius	Beneficial interests	8,400,000[6]	0.38%
Mr. Tan Wee Seng	Beneficial interests	1,380,000[7]	0.06%

Notes:

(1) It was based on 2,194,995,000 issued Shares of the Company as at 31 December 2015.

(2) Each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong established a family trust (each, a "Family Trust" and collectively, the "Family Trusts") for the benefit of himself/herself and their respective family members. UBS Trustees (BVI) Limited is the trustee of the Family Trusts.

The Family Trusts (through their controlled companies) indirectly hold 1,310,059,500 Shares in aggregate and therefore each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong is deemed to be interested in 1,310,059,500 Shares of the Company.

(3) Mr. Ding Shui Po is also beneficially interested in 17,315,500 Shares of the Company.

(4) Mr. Lin Zhang Li, the husband of Ms. Ding Mei Qing and an executive Director, is deemed to be interested in his wife's interests in the Company.

(5) 1,000,000 of these shares are subject to the exercise of options granted on 28 May 2010 under the Share Option Scheme. The remaining 1,500,000 of these shares are subject to the exercise of options granted on 7 December 2011 under the Share Option Scheme.

(6) 1,000,000 of these shares are subject to the exercise of options granted on 7 May 2008 under the Pre-IPO Share Option Scheme. Another 1,500,000 of these shares are subject to the exercise of options granted on 29 July 2009 under the Share Option Scheme. Another 1,000,000 of these shares are subject to the exercise of options granted on 28 May 2010 under the Share Option Scheme. Another 4,500,000 of these shares are subject to the exercise of options granted on 7 December 2011 under the Share Option Scheme. The remaining 400,000 shares of these shares were acquired by Mr. Ho Yui Pok, Eleutherius on the Hong Kong Stock Exchange.

(7) 600,000 of these shares are subject to the exercise of options granted on 30 March 2010 under the Share Option Scheme. Another 600,000 of these shares are subject to the exercise of options granted on 7 December 2011 under the Share Option Scheme. The remaining 180,000 shares of these shares were acquired by Mr. Tan Wee Seng on the Hong Kong Stock Exchange.

Long Positions in Associated Corporation Xtep International E-Commerce Investment Limited

Name of Director	Nature of interest	Number of shares interested	Approximate percentage of interest in the issued share capital of associated corporation
Mr. Ho Yui Pok, Eleutherius[(1)]	Interests of controlled corporation and interests of spouse	1,750	3.5%

Note:

(1) Such interests are held by a company which is equally owned by Mr. Ho Yui Pok, Eleutherius and his spouse.

Save as disclosed above, as at 31 December 2015, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

At no time was the Company, or any of its holding companies and subsidiaries a party to any arrangements to enable the Directors and the chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

The Company has adopted the Pre-IPO Share Option Scheme on 7 May 2008 for the purpose of giving its employees an opportunity to have a personal stake in the Company and motivating its employees to optimize their performance and efficiency, and retaining its employees whose contributions are important to the long-term growth and profitability of the Group. Options to subscribe for an aggregate of 19,000,000 Shares were granted on 7 May 2008. The exercise price per Share is HK$3.24, being a discount of 20% to the global offering price. No further options would be granted under the Pre-IPO Share Option Scheme on or after the Listing Date. All options granted under the Pre-IPO Share Option Scheme may be exercised during the option period commencing from the end of twelve months after the Listing Date to the date falling 10 years from the offer date of the options and can only be exercised in the following manner:

Exercise period	Maximum percentage of options exercisable
Anytime after the first anniversary of the Listing Date	30% of the total number of options granted
Anytime after the second anniversary of the Listing Date	30% of the total number of options granted
Anytime after the third anniversary of the Listing Date	40% of the total number of options granted

Details of the share options granted under the Pre-IPO Share Option Scheme as at 31 December 2015 are as follows:

Name	Outstanding as at 1 January 2015	Exercised during the year ended 31 December 2015[1]	Outstanding as at 31 December 2015
Directors			
Mr. Ye Qi	1,500,000	(1,500,000)	–
Mr. Ho Yui Pok, Eleutherius	1,000,000	–	1,000,000
Employees			
In aggregate	14,265,000	(1,800,000)	12,465,000
Total	16,765,000	(3,300,000)	13,465,000

The total number of shares available for issue under the Pre-IPO Share Option Scheme is 13,465,000, representing approximately 0.61% of the Company's issued share capital as at the date of this annual report.

Save as disclosed above, no options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2015.

Share Option Scheme

The Company has adopted the Share Option Scheme on 7 May 2008 for the purpose of motivating eligible persons to optimize their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

The maximum number of Shares that may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issued as at the Listing Date, i.e. 220,000,000 Shares. No option may be granted to any participant of the Share Option Scheme such that the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.0 upon acceptance of the grant on or before 30 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

(a) the nominal value of a Share;

(b) the closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotations sheets on the offer date; and

(c) the average closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date, after which no further options will be granted or offered.

Details of the share options granted under the Share Option Scheme as at 31 December 2015 are as follows:

Name	Date of Grant	Exercise price per Share[1]	Exercise period[2][3][4]	Outstanding as at 1 January 2015	Granted during the year ended 31 December 2015	Cancelled during the year ended 31 December 2015	Exercised during the year ended 31 December 2015	Outstanding as at 31 December 2015
Directors								
Mr. Ye Qi	28 May 2010	HK$6.00	28 May 2012– 27 May 2020	1,000,000	–	–	–	1,000,000
Mr. Ye Qi	7 December 2011	HK$2.35	14 January 2012– 13 January 2021	3,000,000	–	–	(1,500,000)	1,500,000
Mr. Ho Yui Pok, Eleutherius	29 July 2009	HK$4.11	29 July 2010– 28 July 2019	1,500,000	–	–	–	1,500,000
Mr. Ho Yui Pok, Eleutherius	28 May 2010	HK$6.00	28 May 2012– 27 May 2020	1,000,000	–	–	–	1,000,000
Mr. Ho Yui Pok, Eleutherius	7 December 2011	HK$2.35	14 January 2012– 13 January 2021	6,500,000	–	–	(2,000,000)	4,500,000
Mr. Tan Wee Seng	30 March 2010	HK$6.13	30 March 2011– 29 March 2020	600,000	–	–	–	600,000
Mr. Tan Wee Seng	7 December 2011	HK$2.35	14 January 2012– 13 January 2021	600,000	–	–	–	600,000
Employees								
In aggregate	29 July 2009	HK$4.11	29 July 2010– 28 July 2019	8,140,000	–	–	(350,000)	7,790,000
In aggregate	28 January 2010	HK$5.01	28 January 2011– 27 January 2020	500,000	–	–	–	500,000
In aggregate	28 May 2010	HK$6.00	28 May 2012– 27 May 2020	8,000,000	–	–	–	8,000,000
In aggregate	7 December 2011	HK$2.35	14 January 2012– 13 January 2021	48,055,000	–	–	(9,760,000)	38,295,000
Total				78,895,000	–	–	(13,610,000)	65,285,000

The total number of shares available for issue under the Share Option Scheme is 65,285,000, representing 3.0% of the Company's issued share capital as at the date of this annual report.

Saved as disclosed above, no share options granted under the Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2015.

Notes:

(1) The closing prices per Share immediately before 28 January 2010, 30 March 2010, 28 May 2010 and 7 December 2011 (the dates on which the share options were granted) were HK$4.86, HK$5.95, HK$5.67 and HK$2.31 respectively.

(2) Share options granted under the Share Option Scheme on 29 July 2009, 28 January 2010 and 30 March 2010 shall vest in the grantees in accordance with the timetable below (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

Vesting Date	Percentage of Share Options to vest
First anniversary of the Date of Grant	30% of the total number of options granted
Second anniversary of the Date of Grant	30% of the total number of options granted
Third anniversary of the Date of Grant	40% of the total number of options granted

(3) Share options granted under the Share Option Scheme on 28 May 2010 shall vest in the grantee in accordance with the timetable below:

Vesting Date	Percentage of Share Options to vest
Second anniversary of the Date of Grant	30% of the total number of options granted
Third anniversary of the Date of Grant	70% of the total number of options granted

(4) Share options granted under the Share Option Scheme on 7 December 2011 shall vest in the grantees in accordance with the timetable below (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

Vesting Date	Percentage of Share Options to vest
14 January 2012	40% of the total number of options granted
14 January 2013	30% of the total number of options granted
14 January 2014	30% of the total number of options granted

(5) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$4.23.

Further details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 29 to the financial statements.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in "Share Option Schemes" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, or any of its holding companies and its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

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

So far as is known to any Director or chief executive of the Company, as at 31 December 2015, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Nature of Interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company(1)
Group Success	Beneficial interests	1,310,059,500	59.68%
Wan Xing International Holdings Limited	Interests of controlled corporation(2)	1,310,059,500	59.68%
Ding Wang Fortune Limited	Interests of controlled corporation(3)	1,310,059,500	59.68%
Guan Hong Development Limited	Interests of controlled corporation(3)	1,310,059,500	59.68%
Ming Zhong Family Limited	Interests of controlled corporation(3)	1,310,059,500	59.68%
UBS Trustees (BVI) Limited	Trustee(3)	1,310,059,500	59.68%

Notes:

(1) It was based on 2,194,995,000 issued Shares of the Company as at 31 December 2015.

(2) Wan Xing International Holdings Limited is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing International Holdings Limited.

(3) Each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong established a family trust (each, a "Family Trust" and collectively, the "Family Trusts") for the benefit of himself/herself and their respective family members. UBS Trustees (BVI) Limited is the trustee of the Family Trusts and, through its nominee UBS Nominees Limited, holds the entire issued share capital of each of Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited as the respective trust assets under the Family Trusts.

Each of Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing International Holdings Limited, which is in turn held as to 55%, 35% and 10% by Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited, respectively.

Save as disclosed above, as at 31 December 2015, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE AWARD SCHEME

On 1 August 2014, the Company has adopted the Share Award Scheme ("Scheme") in which the Group's employees, executives, officers or directors will be entitled to participate. Details of the Scheme are set out in the Company's announcement dated 1 August 2014.

On 15 May 2015, the Board has paid to the trust established for the Scheme HK$160,000,000, and HK$152,600,000 of which was used to purchase 50,000,000 Shares as part of the trust fund and such Shares are held by the trustee for the benefit of the eligible participants under the trust. Details of the purchase are set out in the Company's announcement dated 15 May 2015.

Save for the aforesaid, as at the date of this report, the Board neither granted any awards nor caused to pay the trustee the trust fund for purchase nor subscription of Shares.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2015, except that the trustee of the Share Award Scheme, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 50,000,000 Shares at a total consideration of HK$152,600,000.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2015.

SPECIFIC PERFORMANCE OBLIGATIONS ON CERTAIN CONTROLLING SHAREHOLDERS

On 9 January 2014, the Company as borrower entered into a facility agreement (the "Facility Agreement") with a consortium of 11 banks arranged by Hang Seng Bank Limited ("HASE") as co-ordinator, a mandated lead arranger and facility agent in the principal amount of US$92,000,000 and HK$452,400,000 (equivalent to approximately HK$1,170,000,000 in aggregate) (the "Facility") was made available to the Company on the terms and conditions stated therein.

The Facility is guaranteed by certain subsidiaries of the Company.

It is provided in the Facility Agreement, among other things, that an event of default will occur if:

(a) Mr. Ding Shui Po is not or ceases to be the chairman of the Board;

(b) Mr. Ding Shui Po does not or ceases to maintain control over the management and business of the Group;

(c) Mr. Ding Shui Po and Ms. Ding Mei Qing (the "Majority Shareholders") collectively do not or cease to own, directly or indirectly, at least 40% of the beneficial shareholding, carrying at least 40% of the voting rights in the Company, free from any security; or

(d) the Majority Shareholders collectively are not or cease to be the single largest shareholder of the Company.

In case of occurrence of an event of default which is continuing, HASE may by notice to the Company (a) cancel the whole or any part of the Facility whereupon the whole or relevant part of the Facility shall immediately be cancelled; (b) declare that all or part of the Facility, together with accrued interest, and all other amounts accrued or outstanding under the Facility Agreement and related documents be immediately due and payable, whereupon they shall become immediately due and payable; and/or (c) declare that all or part of the Facility be payable on demand, whereupon they shall immediately become payable on demand by HASE on the instructions of the majority lenders.

As at 31 December 2015 and as at the date of this report, Mr. Ding Shui Po was an executive director, the chairman and a controlling shareholder of the Company. Ms. Ding Mei Qing was an executive director and a controlling shareholder of the Company. Mr. Ding Shui Po and Ms. Ding Mei Qing collectively held indirectly approximately 59.68% of the issued share capital of the Company. As at the date of this report, Mr. Ding Shui Po also had personal beneficial interests in approximately 0.79% of the issued share capital of the Company.

NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders has confirmed to the Company of his/her compliance with the non-compete undertakings provided to the Company under the Deed of Non-compete (as defined in the Prospectus). The independent non-executive Directors of the Company have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-compete have been complied with by the controlling shareholders of the Company.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors is or was interested in any business, apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2015 and up to and including the date of this annual report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands where the Company is incorporated applicable to the Company.

EMOLUMENT POLICY

The Group's emolument policies are based on the merit, qualifications and competence of individual employees and are reviewed by the remuneration committee periodically.

The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted two share option schemes to motivate and reward its Directors and eligible employees. Details of these schemes are set out in the paragraph headed "Share Option Schemes" above and note 29 to the financial statements.

None of the directors waived any emoluments during the year.

PENSION SCHEME

The Group operates a defined contribution mandatory provident fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for eligible employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statements as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in China are required to participate in defined contribution central pension schemes operated by the local municipal government. The subsidiaries of the Group are required to contribute certain percentages of its payroll costs to the central pension schemes. The contributions are charged to the consolidated income statements as they become payable in accordance with the rules of the central pension scheme.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

BUSINESS REVIEW

A business review of the Group for the year ended 31 December 2015 is shown on pages 18 to 58.

PERMITTED INDEMNITY PROVISION

Article 167 of the Company's articles provides that every Director, secretary and other officers shall be indemnified out of the assets and profits of the Company against all actions, costs, losses and damages which he shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of his duty, or supposed duty, in his office, provided that the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to him.

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's largest and five largest customers were 3.7% (2014: 5.7%) and 14.1% (2014: 18.1%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 3.7% (2014: 3.0%) and 15.7% (2014: 9.7%) of the Group's total purchases respectively.

At no time during the year ended 31 December 2015, did a Director, his/her associate(s) or a Shareholder, which to the knowledge of the Director owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest customers and suppliers.

AUDITORS

Ernst & Young will retire and, being eligible, offer themselves for reappointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the year ended 31 December 2015.

BANK LOANS

Details of bank loans of the Company and the Group as at 31 December 2015 are set out in note 24 to the financial statements.

FIVE-YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 6 to 7 of this annual report.

On behalf of the Board
Ding Shui Po
Chairman

Hong Kong, 15 March 2016

INDEPENDENT AUDITORS' REPORT

EY 安永

To the shareholders of Xtep International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Xtep International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 93 to 144, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our 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 auditors' 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 auditors consider internal control relevant to the entity's preparation of 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 financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

15 March 2016

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
REVENUE	5	**5,295,117**	4,777,648
Cost of sales		**(3,058,434)**	(2,830,730)
Gross profit		**2,236,683**	1,946,918
Other income and gains	5	**144,987**	148,778
Selling and distribution expenses		**(982,584)**	(798,619)
General and administrative expenses		**(478,070)**	(488,391)
Operating profit	6	**921,016**	808,686
Net finance costs	7	**(27,838)**	(38,352)
PROFIT BEFORE TAX		**893,178**	770,334
Income tax expense	10	**(256,607)**	(284,338)
PROFIT FOR THE YEAR		**636,571**	485,996
Attributable to:			
Ordinary equity holders of the Company		**622,602**	478,005
Non-controlling interests		**13,969**	7,991
		636,571	485,996
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
– Basic		**RMB28.97 cents**	RMB21.95 cents
– Diluted		**RMB28.78 cents**	RMB21.77 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

	2015 RMB'000	2014 RMB'000
PROFIT FOR THE YEAR	**636,571**	485,996
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income/(expense) may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements of operations outside Mainland China	**(68,768)**	1,543
Other comprehensive income/(expense) for the year, net of tax	**(68,768)**	1,543
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**567,803**	487,539
Attributable to:		
Ordinary equity holders of the Company	**553,834**	479,550
Non-controlling interests	**13,969**	7,989
	567,803	487,539

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**591,483**	585,350
Prepaid land lease payments	14	**208,663**	215,836
Deposits for acquisition of land use rights	15	**62,790**	55,751
Intangible assets	16	**3,239**	2,172
Available-for-sale investments	17	**72,000**	48,000
Deposits	20	**25,064**	10,206
Pledged bank deposits	21	**100,000**	–
Total non-current assets		**1,063,239**	917,315
CURRENT ASSETS			
Inventories	18	**398,385**	568,984
Trade receivables	19	**1,603,226**	1,231,419
Bills receivables	19	**288,631**	258,520
Prepayments, deposits and other receivables	20	**381,351**	423,695
Tax recoverable		**2,395**	21,258
Available-for-sale investments	17	**100,000**	450,000
Pledged bank deposits	21	**605,825**	746,159
Time deposits	21	**64,000**	110,000
Cash and cash equivalents	21	**3,607,000**	3,137,110
Total current assets		**7,050,813**	6,947,145
CURRENT LIABILITIES			
Trade and bills payables	22	**895,835**	728,926
Deposits received, other payables and accruals	23	**536,369**	322,950
Interest-bearing bank borrowings	24	**1,489,361**	1,221,662
Tax payable		**44,862**	76,749
Total current liabilities		**2,966,427**	2,350,287
NET CURRENT ASSETS		**4,084,386**	4,596,858
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,147,625**	5,514,173
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	24	**121,199**	617,367
Other payables	23	**1,693**	–
Deferred tax liabilities	25	**109,705**	121,248
Deferred subsidy	26	**43,315**	65,210
Total non-current liabilities		**275,912**	803,825
NET ASSETS		**4,871,713**	4,710,348
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Share capital	27	**19,354**	19,214
Reserves	28	**4,832,588**	4,681,241
		4,851,942	4,700,455
Non-controlling interests		**19,771**	9,893
Total equity		**4,871,713**	4,710,348

Ding Shui Po
Director

Ding Mei Qing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

		Attributable to ordinary equity holders of the Company											
			Reserves										
	Notes	Share capital RMB'000 (note 27)	Share premium account RMB'000 (note 40)	Capital reserve RMB'000 (note 28(i))	Statutory surplus fund RMB'000 (note 28(ii))	Treasury shares RMB'000 (note 27)	Share option reserve RMB'000 (note 40)	Exchange fluctuation reserve RMB'000 (note 28(iii))	Retained profits RMB'000	Total reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014		19,204	129,172	118,600	418,218	–	114,122	39,614	3,666,805	4,486,531	4,505,735	1,904	4,507,639
Total comprehensive income for the year		–	–	–	–	–	–	1,545	478,005	479,550	479,550	7,989	487,539
Equity-settled share option arrangements	29	–	–	–	–	–	449	–	–	449	449	–	449
2013 final dividend declared and paid	11	–	–	–	–	–	–	–	(139,597)	(139,597)	(139,597)	–	(139,597)
2014 interim dividend declared and paid	11	–	–	–	–	–	–	–	(148,137)	(148,137)	(148,137)	–	(148,137)
Exercise of share options	27(i)	10	3,128	–	–	–	(683)	–	–	2,445	2,455	–	2,455
Transfer to statutory surplus fund		–	–	–	63,104	–	–	–	(63,104)	–	–	–	–
At 31 December 2014 and 1 January 2015		19,214	132,300	118,600	481,322	–	113,888	41,159	3,793,972	4,681,241	4,700,455	9,893	4,710,348
Total comprehensive income/ (expense) for the year		–	–	–	–	–	–	(68,768)	622,602	553,834	553,834	13,969	567,803
2014 final dividend declared and paid	11	–	–	–	–	–	–	–	(86,015)	(86,015)	(86,015)	–	(86,015)
2014 special dividend declared and paid	11	–	–	–	–	–	–	–	(51,609)	(51,609)	(51,609)	–	(51,609)
2015 interim dividend declared and paid	11	–	–	–	–	–	–	–	(179,080)	(179,080)	(179,080)	–	(179,080)
Exercise of share options	27(i)	140	44,807	–	–	–	(9,234)	–	–	35,573	35,713	–	35,713
Transfer to statutory surplus fund		–	–	–	39,593	–	–	–	(39,593)	–	–	–	–
Acquisition of additional interest in a subsidiary	1	–	–	–	–	–	–	–	(909)	(909)	(909)	(4,091)	(5,000)
Repurchase of shares	27	–	–	–	–	(120,447)	–	–	–	(120,447)	(120,447)	–	(120,447)
At 31 December 2015		19,354	177,107	118,600	520,915	(120,447)	104,654	(27,609)	4,059,368	4,832,588	4,851,942	19,771	4,871,713

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		893,178	770,334
Adjustments for:			
Depreciation	13	51,610	40,269
Amortisation of prepaid land lease payments	14	5,182	4,836
Amortisation of intangible assets	16	485	367
Loss on write-off of items of property, plant and equipment	6	958	4,614
Interest income	7	(56,157)	(41,342)
Interest expense on bank loans	7	40,171	38,280
Interest expense on discounted bills receivables	7	35,595	30,795
Amortisation of bank charges on syndicated loans	7	10,089	12,557
Fair value gains, net:			
Derivative financial instruments – transactions not qualified as hedges	7	(2,682)	(2,221)
Equity-settled share option expense	29	–	449
Provision for impaired trade receivables, net	6	31,742	127,628
Income derived from available-for-sale investments	5	(86,270)	(115,340)
		923,901	871,226
Decrease/(increase) in inventories		170,599	(32,185)
Increase in trade and bills receivables		(433,660)	(466,624)
Decrease/(increase) in prepayments, deposits and other receivables		42,262	(38,187)
Increase in trade and bills payables		166,909	127,908
Increase/(decrease) in deposits received, other payables and accruals		217,285	(7,524)
Cash generated from operations		1,087,296	454,614
Interest received		56,157	41,342
Interest paid		(75,766)	(69,075)
Overseas taxes paid		(281,174)	(332,322)
Net cash flows from operating activities		786,513	94,559
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(58,690)	(106,383)
Additions of intangible assets	16	(1,552)	(1,473)
Increase in deposits for purchase of items of property, plant and equipment		(14,858)	(95)
Increase in deposits for acquisition of land use rights, net		(7,039)	(49,490)
Decrease/(increase) in pledged deposits		40,334	(30,956)
Decrease/(increase) in available-for-sale investments		326,000	(465,000)
Decrease in time deposits with original maturity more than three months when acquired		46,000	–
Income derived from available-for-sale investments	5	86,270	115,340
Addition of prepaid land lease payments	14	(19,822)	–
Net cash flows from/(used in) investing activities		396,643	(538,057)

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans, net of bank charges on syndicated loans		288,576	1,256,561
Repayment of bank loans		(596,113)	(955,832)
Net proceeds from issue of ordinary shares	27	35,713	2,455
Dividends paid	11	(316,704)	(287,734)
Repurchase of shares	27	(120,447)	–
Exchange realignment		(10,738)	1,760
Net cash flows from/(used in) financing activities		(719,713)	17,210
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		463,443	(426,288)
Cash and cash equivalents at beginning of year		3,137,110	3,563,387
Effect of foreign exchange rate changes, net		6,447	11
CASH AND CASH EQUIVALENTS AT END OF YEAR		3,607,000	3,137,110
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		3,607,000	3,137,110

1. CORPORATE AND GROUP INFORMATION

Xtep International Holdings Limited is a limited liability company incorporated in the Cayman Islands. The Company's principal place of business in Hong Kong is located at Suite 2401-02, 24th floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were engaged in the design, development, manufacture and marketing of sportswear, including footwear, apparel and accessory products, sold mainly under the self-owned Xtep brand. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the ultimate holding company of the Company is Wan Xing International Holdings Limited, which is a limited liability company incorporated in the British Virgin Islands ("BVI").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation or establishment/ business	Issued ordinary share/ registered and paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Xtep International Development Limited	BVI	US$10,000	100	–	Investment holding
特步中國有限公司* ("Xtep China") (notes (i) and (iii))	People's Republic of China ("PRC")/ Mainland China	HK$830 million	–	100	Manufacture and trading of sportswear
Koling (Fujian) Garment Co., Ltd.* (notes (i) and (iii))	PRC/Mainland China	HK$158 million	–	100	Manufacture and trading of sportswear
Xtep Sports Goods Co., Ltd. Jinjiang* (notes (i) and (iii))	PRC/Mainland China	US$6 million	–	100	Manufacture and trading of sportswear
Xiamen Xtep Investment Company Limited* (notes (i) and (iii))	PRC/Mainland China	RMB50 million	–	100	Trading of sportswear
特步（安徽）有限公司* ("Xtep Anhui") (notes (ii), (iii) and (iv))	PRC/Mainland China	RMB450 million	–	100	Manufacture and trading of sportswear
特步湖南體育用品有限公司* ("Xtep Hunan") (notes (ii), (iii) and (vi))	PRC/Mainland China	RMB50 million	–	100	Manufacture of sportswear
晉江特步貿易有限公司* (notes (ii) and (iii))	PRC/Mainland China	RMB10 million	–	100	Trading of sportswear

Name	Place of incorporation or establishment/ business	Issued ordinary share/ registered and paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
廈門市特步兒童用品有限公司* (notes (i) and (iii))	PRC/Mainland China	HK$30 million	–	82	Trading of sportswear
Xtep International E-Commerce Investment Limited	BVI	US$50,000	–	75	Investment holding
廈門特興貿易有限公司* (notes (ii) and (iii))	PRC/Mainland China	RMB30 million	–	100	Trading of sportswear
江西天鄰商貿有限公司* ("Jiangxi TL") (notes (i) and (v))	PRC/Mainland China	–	–	100	Trading of sportswear

Notes:

(i) The entity is a wholly-foreign-owned enterprise and a limited liability company established in the PRC.

(ii) The entity is registered as a limited liability company in the PRC.

(iii) The registered capital of these entities was fully paid up as at 31 December 2015.

(iv) The registered capital of Xtep Anhui increased to RMB450,000,000 (2013: RMB200,000,000) during the year ended 31 December 2014. As at 31 December 2015, the registered capital of RMB450,000,000 (2014: RMB200,000,000) had been paid-up.

(v) Jiangxi TL was established on 18 September 2014 of which its registered capital of RMB5,000,000 was not yet paid up as at 31 December 2015.

(vi) During the year ended 31 December 2015, the Group acquired an additional 10% equity interest in a subsidiary, Xtep Hunan, from the then non-controlling shareholder of Xtep Hunan at a consideration of approximately RMB5,000,000 and the Group's interest in Xtep Hunan increased from 90% to 100%. The difference of approximately RMB909,000 between the consideration and the non-controlling interest in Xtep Hunan was debited to the Group's retained profits.

* Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network had not been appointed as the statutory auditors of these entities.

Saved as disclosed in note (vi) above, there were no changes in the percentage of equity of the above subsidiaries attributable to the Company during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all 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. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all amounts are rounded to the nearest thousand except where otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in income statement. The Group's share of components previously recognised in other comprehensive income is reclassified to income statement or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's financial statements.

Amendments to HKAS 19 *Defined Benefit Plans: Employee Contributions*
Annual Improvements to HKFRSs 2010–2012 Cycle
Annual Improvements to HKFRSs 2011–2013 Cycle

The adoption of the above revised standards has had no significant financial effect on these financial statements.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKAS 1	*Disclosure Initiative*[1]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012–2014 Cycle	Amendments to a number of HKFRSs[1]

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group
4 No mandatory effective date yet determined but is available for adoption

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group 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); and

(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 parent of the Group.

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditure incurred after the items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Buildings	Over the shorter of lease terms and 20 years
Leasehold improvements	Over the shorter of lease terms and 5 years
Moulds, plant and machinery	3 to 10 years
Motor vehicles	5 years
Furniture, fixtures and office equipment	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and trademarks

Patents and trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the product so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, pledged deposits, trade and bills receivables, available-for-sale financial investments and other receivables.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement.

Available-for-sale financial investments
Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Assets carried at cost
If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement
All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs. The Group's financial liabilities include trade and bills payables, other payables, financial liabilities included in accruals, derivative financial instruments and interest-bearing bank borrowings.

Subsequent measurement
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective position of cash flow hedges, which is recognised in other comprehensive income and later reclassified to the income statement when the hedged item affects the income statement.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current and non-current portions only if a reliable allocation can be made.

Treasury shares

Own equity instruments which are reacquired and held by the Company (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside income statement is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset;

(c) rental income, on a time proportion basis over the lease terms; and

(d) dividend income, when the shareholders' rights to receive payment has been established.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Share-based payments

The Company operates two share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal government. The subsidiaries are required to contribute certain percentages of their payroll costs to the central pension schemes. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension schemes.

Other benefits
The Group contributes on a monthly basis to defined contribution housing, medical and other benefit plans organised by the government of the PRC. The PRC government undertakes to assume the benefit obligations of all existing and retired employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for benefits for their qualified employees under these plans.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB, which is the Company's presentation currency. The functional currency of the Company is the Hong Kong dollar which is the currency of the primary environment in which the Company operates. Since the Company does not conduct any substantive operations of its own and conducts its primary business operations through its subsidiaries in Mainland China, the Company adopts RMB as the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or income statement is also recognised in other comprehensive income or income statement, respectively).

The functional currencies of certain subsidiaries operate outside Mainland China are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at exchange rates prevailing at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of an operation outside Mainland China, the component of other comprehensive income relating to that particular operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and its subsidiaries operate outside Mainland China are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and its subsidiaries operate outside Mainland China which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has an effect on the amounts recognised in the financial statements.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will revise the depreciation charge where useful lives are different to the ones previously estimated and the Group will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of each reporting period.

Impairment provision for trade and other receivables

The Group estimates the impairment provision for trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the impairment provision at the end of each reporting period.

Deferred tax assets
Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of sportswear, including footwear, apparel and accessories. All of the Group's products are of a similar nature and subject to similar risk and returns. Accordingly, the Group's operating activities are attributable to a single reportable segment.

In addition, the Group's revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, which is the PRC. Therefore, no analysis by geographical region is presented.

Information about major customers

For the years ended 31 December 2015 and 2014, no revenue derived from a single customer of the Group accounted for over 10% of the Group's total revenue.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold during the year, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

	2015 RMB'000	2014 RMB'000
Revenue		
Manufacture and sale of sportswear:		
Footwear	3,258,137	3,042,857
Apparel	1,926,639	1,687,552
Accessories	110,341	47,239
	5,295,117	4,777,648
Other income and gains		
Subsidy income from the PRC government*	55,484	29,723
Rental income	3,233	2,813
Income derived from available-for-sale investments	86,270	115,340
Others	–	902
	144,987	148,778
	5,440,104	4,926,426

* There are no unfulfilled conditions or contingencies relating to these subsidies.

6. OPERATING PROFIT

The Group's operating profit is arrived at after charging/(crediting):

	Notes	2015 RMB'000	2014 RMB'000
Cost of inventories sold[1]		**3,058,434**	2,830,730
Depreciation	13	**51,610**	40,269
Amortisation of prepaid land lease payments	14	**5,182**	4,836
Amortisation of intangible assets[2]	16	**485**	367
Advertising and promotional costs		**780,511**	623,701
Employee benefit expenses (including directors' remuneration – note 8):			
Wages and salaries		**418,222**	395,883
Other allowances and benefits		**44,157**	45,951
Equity-settled share option expense		**–**	449
Pension scheme contributions[3]		**23,093**	13,045
		485,472	455,328
Auditors' remuneration		**3,144**	2,920
Loss on write-off of items of property, plant and equipment		**958**	4,614
Minimum lease payments under operating leases of land and buildings		**12,224**	11,079
Provision for impaired trade receivables, net[2]	19	**31,742**	127,628
Research and development costs[4]		**121,337**	107,496
Fair value gains, net:			
Derivative instruments – transactions not qualified as hedges	7	**(2,682)**	(2,221)

1 The cost of inventories sold for the year includes RMB261,442,000 (2014: RMB280,113,000), relating to staff costs, depreciation of manufacturing facilities, and minimum lease payments for land and buildings, which are also included in the respective total amounts disclosed above for each of these types of expenses.

2 The amortisation of intangible assets and provision for impaired trade receivables, net for the year are included in "General and administrative expenses" in the consolidated income statement.

3 As at 31 December 2015, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2014: Nil).

4 The research and development costs for the year include RMB72,727,000 (2014: RMB58,836,000) relating to depreciation of research and development centres and staff costs for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses.

7. NET FINANCE COSTS

An analysis of net finance costs is as follows:

	Note	2015 RMB'000	2014 RMB'000
Interest expense on bank loans		(40,171)	(38,280)
Interest expense on discounted bills receivable		(35,595)	(30,795)
Amortisation of bank charges on syndicated loans		(10,089)	(12,557)
Foreign exchange differences, net		(822)	(283)
Bank interest income		56,157	41,342
Fair value gain on interest rate swaps*	23	2,682	2,221
		(27,838)	(38,352)

* The Group enters into interest rate swap contracts for its floating-interest loans to manage its exposure to interest rate fluctuation.

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2015 RMB'000	2014 RMB'000
Fees:		
Executive directors	–	–
Non-executive director	220	523
Independent non-executive directors	935	730
	1,155	1,253
Other emoluments of executive directors:		
Salaries, other allowances and benefits in kind	6,818	6,325
Performance related bonuses*	924	–
Pension scheme contributions	218	193
	7,960	6,518
	9,115	7,771

* An executive director of the Company is entitled to bonus payments which are determined based on the Group's performance during the year.

Share options were granted to directors, in respect of their services to the Group, under the pre-initial public offering ("pre-IPO") share option and share option schemes of the Company, further details of which are set out in notes 29(a) and 29(b) to the financial statements, respectively.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

	Salaries, other allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2015					
a) *Executive directors*					
Ding Shui Po^	916	–	–	17	933
Ding Mei Qing	458	–	–	14	472
Lin Zhang Li	458	–	–	14	472
Ding Ming Zhong	458	–	–	14	472
Ye Qi	1,680	–	–	17	1,697
Ho Yui Pok, Eleutherius	2,848	924	–	142	3,914
	6,818	924	–	218	7,960
b) *Non-executive director*					
Tan Wee Seng*	220	–	–	–	220
c) *Independent non-executive directors*					
Tan Wee Seng*	308	–	–	–	308
Sin Ka Man	192	–	–	–	192
Xu Peng Xiang**	75	–	–	–	75
Gao Xian Feng	180	–	–	–	180
Bao Ming Xiao	180	–	–	–	180
	935	–	–	–	935
	7,973	924	–	218	9,115

	Salaries, other allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2014					
a) *Executive directors*					
Ding Shui Po^	912	–	–	16	928
Ding Mei Qing	456	–	–	14	470
Lin Zhang Li	456	–	–	14	470
Ding Ming Zhong	456	–	–	14	470
Ye Qi	1,668	–	–	16	1,684
Ho Yui Pok, Eleutherius	2,377	–	–	119	2,496
	6,325	–	–	193	6,518
b) *Non-executive director*					
Tan Wee Seng*	523	–	–	–	523
c) *Independent non-executive directors*					
Sin Ka Man	190	–	–	–	190
Xu Peng Xiang**	180	–	–	–	180
Gao Xian Feng	180	–	–	–	180
Bao Ming Xiao	180	–	–	–	180
	730	–	–	–	730
	7,578	–	–	193	7,771

^ Mr. Ding Shui Po is also the chief executive officer of the Group.

* Mr. Tan Wee Seng was re-designated from non-executive director to independent non-executive director with effect from 15 May 2015.

** Mr. Xu Peng Xiang has retired as an independent non-executive director with effect from 15 May 2015.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2014: three) directors, details of whose remuneration are set out in note 8 above.

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2015	2014
HK$500,001 – HK$1,000,000	**1**	2
HK$1,000,001 – HK$1,500,000	**1**	–
	2	2

Details of the remuneration for the year of the remaining two (2014: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2015 RMB'000	2014 RMB'000
Salaries, other allowances and benefits in kind	**1,716**	1,527
Performance-related bonuses	**160**	129
Pension scheme contributions	**29**	27
	1,905	1,683

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2014: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2015 RMB'000	2014 RMB'000
Current tax – Overseas		
Charge for the year	**248,013**	250,878
Underprovision in prior years	**5,594**	11,460
	253,607	262,338
Deferred (note 25)	**3,000**	22,000
	256,607	284,338

Xtep (China) Co., Ltd. ("Xtep China"), a wholly-owned subsidiary of the Company, was taxed at a preferential 15% tax rate for the years ended 31 December 2014 and 2015 as Xtep China was qualified as a High-New Technology Enterprise (the "HNTE") in the PRC and obtained the HNTE certificate in 2013.

A reconciliation of the tax expense applicable to profit before tax at the applicable statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries operate to the tax expense at the effective tax rates is as follows:

	2015 RMB'000	2014 RMB'000
Profit before tax	893,178	770,334
Tax at the applicable tax rates	223,889	202,001
Lower tax rates for specific provinces or tax holidays	(24,227)	(25,659)
Adjustments in respect of current tax of previous years	5,594	11,460
Income not subject to tax	(414)	(2,975)
Expenses not deductible for tax	50,940	71,242
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	3,000	22,000
Tax losses utilised from previous periods	(2,365)	(1,381)
Tax losses not recognised	190	7,650
Tax charge at the Group's effective rate	256,607	284,338

11. DIVIDENDS

	2015 RMB'000	2014 RMB'000
Dividends paid during the year:		
Final – HK5.0 cents (2014: HK8.0 cents) per ordinary share	86,015(ii)	139,597(i)
Special – HK3.0 cents (2014: Nil) per ordinary share	51,609(ii)	–
Interim – HK10.0 cents (2014: HK8.5 cents) per ordinary share	179,080(iii)	148,137(ii)
	316,704	287,734
Proposed final dividend:		
HK7.0 cents (2014: HK5.0 cents) per ordinary share	129,066(iii)	87,668(ii)
Proposed special dividend:		
HK3.5 cents (2014: HK3.0 cents) per ordinary share	64,533(iii)	52,601(ii)
	193,599	140,269

(i) In respect of the financial year ended 31 December 2013
(ii) In respect of the financial year ended 31 December 2014
(iii) In respect of the financial year ended 31 December 2015

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect the final dividend payable.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

(a) Basic earnings per share

The calculation of the basic earnings per share amount for the year was based on the profit for the year attributable to ordinary equity holders of the Company of RMB622,602,000 (2014: RMB478,005,000) and the weighted average number of ordinary shares in issue during the year of 2,148,802,000 (2014: 2,177,346,000), as adjusted to exclude shares held under the share award scheme of the Company (note 27).

(b) Diluted earnings per share

The calculation of the diluted earnings per share amount for the year ended 31 December 2015 is based on the profit for that year attributable to ordinary equity holders of the Company of RMB622,602,000 (2014: RMB478,005,000). The weighted average number of ordinary shares of 2,163,535,000 (2014: 2,196,073,000) used in the calculation is the weighted average number of 2,148,802,000 ordinary shares (2014: 2,177,346,000) in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options into 14,733,000 ordinary shares (2014: 18,727,000) during the year.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Moulds, plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2015							
Cost:							
At beginning of year	350,902	29,028	112,677	68,507	110,603	130,708	802,425
Additions	180	3,154	9,676	92	11,892	33,696	58,690
Write-off	–	–	(1,266)	–	(65)	–	(1,331)
Exchange realignment	–	20	–	18	48	–	86
At 31 December 2015	351,082	32,202	121,087	68,617	122,478	164,404	859,870
Accumulated depreciation:							
At beginning of year	54,996	27,357	55,337	22,231	57,154	–	217,075
Provided during the year	16,533	646	8,301	10,814	15,316	–	51,610
Write-off	–	–	(362)	–	(11)	–	(373)
Exchange realignment	–	20	–	2	53	–	75
At 31 December 2015	71,529	28,023	63,276	33,047	72,512	–	268,387
Net carrying amount:							
At 31 December 2015	279,553	4,179	57,811	35,570	49,966	164,404	591,483

	Buildings RMB'000	Leasehold improvements RMB'000	Moulds, plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2014							
Cost:							
At beginning of year	154,213	34,141	100,626	32,939	94,945	306,172	723,036
Additions	250	–	11,967	36,399	15,236	71,291	135,143
Transfer	246,062	–	256	–	437	(246,755)	–
Release of deferred subsidy	(49,623)	–	–	–	–	–	(49,623)
Write-off	–	(5,113)	(172)	(831)	(16)	–	(6,132)
Exchange realignment	–	–	–	–	1	–	1
At 31 December 2014	350,902	29,028	112,677	68,507	110,603	130,708	802,425
Accumulated depreciation:							
At beginning of year	43,885	26,827	48,134	15,371	44,108	–	178,325
Provided during the year	11,111	1,216	7,307	7,583	13,052	–	40,269
Write-off	–	(686)	(104)	(723)	(5)	–	(1,518)
Exchange realignment	–	–	–	–	(1)	–	(1)
At 31 December 2014	54,996	27,357	55,337	22,231	57,154	–	217,075
Net carrying amount:							
At 31 December 2014	295,906	1,671	57,340	46,276	53,449	130,708	585,350

Included in "Buildings" are certain self-used properties with a net carrying amount of approximately RMB57,883,000 at 31 December 2015 (2014: RMB148,080,000), for which the Group has not obtained the building ownership certificates. The Group is still in the process of applying for the building ownership certificates in respect of the aforementioned properties with a net carrying amount at 31 December 2015 of RMB55,993,000 out of the total of RMB57,883,000 (2014: RMB73,988,000 out of the total of RMB148,080,000).

14. PREPAID LAND LEASE PAYMENTS

	2015 RMB'000	2014 RMB'000
Carrying amount at 1 January	**220,734**	225,570
Additions during the year	**19,822**	–
Resumed during the year (note 26)	**(21,895)**	–
Recognised during the year	**(5,182)**	(4,836)
Carrying amount at 31 December	**213,479**	220,734
Current portion included in prepayments, deposits and other receivables	**(4,816)**	(4,898)
Non-current portion	**208,663**	215,836

15. DEPOSITS FOR ACQUISITION OF LAND USE RIGHTS

Pursuant to an agreement entered into between the Group and local government authorities on 9 February 2014, the Group has paid RMB62,790,000 (31 December 2014: RMB55,751,000), in connection with the acquisition in progress with respect to a parcel of land in Fujian Province, the PRC.

Should the bidding of that parcel of land become unsuccessful, the corresponding agreement would be cancelled. During the year ended 31 December 2015, certain portion of that parcel of land was successfully bid by the Group at a cash consideration of RMB62,900,000, of which the sales and purchase agreements have not yet been entered into between/among the Group and the local government authorities up to the date of approval of the financial statements. At the end of the reporting period, the bidding of the remaining portion of that parcel of land has not been arranged by the corresponding PRC government.

16. INTANGIBLE ASSETS

Patents and trademarks

	2015 RMB'000	2014 RMB'000
Cost:		
At beginning of year	4,156	2,683
Additions	1,552	1,473
At 31 December	5,708	4,156
Accumulated amortisation:		
At beginning of year	1,984	1,617
Amortisation provided during the year	485	367
At 31 December	2,469	1,984
Net carrying amount:		
At 31 December	3,239	2,172

17. AVAILABLE-FOR-SALE INVESTMENTS

	Notes	2015 RMB'000	2014 RMB'000
Non-current:			
Unlisted equity investments, at cost	(i)	72,000	48,000
Current:			
Unlisted investment funds, at cost	(ii)	100,000	450,000
		172,000	498,000

Notes:

(i) As at 31 December 2015, the unlisted equity investments with carrying values of RMB33,000,000 (2014: RMB33,000,000), RMB15,000,000 (2014: RMB15,000,000) and RMB24,000,000 (2014: Nil) represented 11%, 5% and 3% equity interests in three (2014: two) corporate entities, which were established in the PRC on 22 October 2012, 22 December 2014 and 30 September 2015 with registered and fully paid-up capital of RMB300,000,000, RMB300,000,000 and RMB800,000,000, respectively.

(ii) It represented treasury products offered by a bank in the PRC in both years. The products amounting to RMB450,000,000 as at 31 December 2014 were fully redeemed in the year ended 31 December 2015.

The above investments were stated at cost less impairment because the unlisted investments do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

18. INVENTORIES

	2015 RMB'000	2014 RMB'000
Raw materials	**88,684**	89,942
Work in progress	**72,519**	42,659
Finished goods	**237,182**	436,383
	398,385	568,984

19. TRADE AND BILLS RECEIVABLES

	Notes	2015 RMB'000	2014 RMB'000
Trade receivables		**1,891,015**	1,487,466
Less: provision for impaired receivables	(a)	**(287,789)**	(256,047)
	(b), (c)	**1,603,226**	1,231,419
Bills receivables	(d)	**288,631**	258,520

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group's trade receivables relate to a number of diversified customers and there is certain concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

(a) The movements in provision for impairment of trade receivables are as follows:

	Note	2015 RMB'000	2014 RMB'000
At 1 January		**256,047**	128,419
Provision for impaired receivables, net	6	**31,742**	127,628
At 31 December		**287,789**	256,047

Included in the above provision for impairment of trade receivables is provisions for individually impaired trade receivables of RMB287,789,000 (2014: RMB256,047,000) with aggregate carrying amounts before provision of RMB430,667,000 (2014: RMB530,421,000). The individually impaired trade receivables relate to customers that were in default or delinquency in payments and only a portion of the receivables is expected to be recovered.

(b) An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	2015 RMB'000	2014 RMB'000
Within 3 months	1,125,562	858,755
4 to 6 months	330,221	266,096
Over 6 months	147,443	106,568
At 31 December	1,603,226	1,231,419

(c) An aged analysis of the trade receivables as at the end of the reporting period, based on the payment due date, that are not considered to be impaired is as follows:

	2015 RMB'000	2014 RMB'000
Neither past due nor impaired	1,125,562	858,755
Less than 3 months past due	330,221	266,096
Past due over 3 months	147,443	106,568
	1,603,226	1,231,419

Receivables that were neither past due nor impaired relate to a number of diversified 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 repayment record with the Group or relate to a portion of the receivables expected to be recovered from independent customers. Based on past experience, the directors of the Company are of the opinion 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.

(d) The maturity dates of the Group's bills receivables as at the end of the reporting period are as follows:

	2015 RMB'000	2014 RMB'000
Within 3 months	130,500	15,020
3 to 6 months	158,131	243,500
	288,631	258,520

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 RMB'000	2014 RMB'000
Prepayments	205,174	152,051
Deposits and advance payments to suppliers	159,535	168,330
Deposits for construction contracts	9,910	10,206
Other deposits	8,357	669
Value added tax ("VAT") recoverable	17,231	95,138
Other receivables	6,208	7,507
	406,415	433,901
Less: Non-current portion	(25,064)	(10,206)
	381,351	423,695

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

21. TIME DEPOSITS, CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

	Notes	2015 RMB'000	2014 RMB'000
Time deposits		1,260,417	1,351,240
Cash and bank balances*		3,116,408	2,642,029
		4,376,825	3,993,269
Less: Current portion of pledged deposits:			
for short term bank loans	24	(592,170)	(715,505)
for bank guarantees**		(13,655)	(28,455)
for bills payable	22	–	(2,199)
		(605,825)	(746,159)
Less: Non-current portion of pledged deposits for short term bank loans	24	(100,000)	–
Less: Time deposits with original maturity of more than three months when acquired*		(64,000)	(110,000)
Cash and cash equivalents		3,607,000	3,137,110

* The time deposits of RMB64,000,000 (2014: RMB110,000,000) and bank balance of RMB169,924,000 (2014: RMB48,280,000) were capital guaranteed funds undertaken by a wholly-owned subsidiary of the Company to maintain in PRC bank accounts pursuant to the terms of the Group's short term revolving banking facilities.

** These time deposits were pledged to secure the bank guarantees granted for the Group in relation to the construction of buildings and adherence to the construction timeline on the land acquired by the Group.

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB2,912,755,000 (2014: RMB2,600,366,000) and RMB1,260,417,000 (2014: RMB1,351,240,000), respectively. RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day to two years (2014: one day to two years) depending on the immediate cash requirements of the Group, and earn interest at the respective deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

22. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2015 RMB'000	2014 RMB'000
Within 3 months	779,356	590,129
3 to 6 months	62,865	81,869
Over 6 months	53,614	47,078
Trade payables	895,835	719,076
Bills payable	–	9,850
Trade and bills payables	895,835	728,926

The trade payables are non-interest-bearing and are normally settled within 60 to 90 days.

As at 31 December 2014, bills payables of RMB9,850,000 were secured by the pledge of time deposits of RMB2,199,000.

23. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	2015 RMB'000	2014 RMB'000
Deposits and advances from customers	73,446	66,240
Other payables	119,634	46,878
VAT payables	25,103	417
Derivative financial instruments	11,808	13,981
Accruals	308,071	195,434
	538,062	322,950
Less: Non-current portion	(1,693)	–
	536,369	322,950

All these balances are non-interest-bearing and other payables have an average term of three months.

The Group has entered into interest rate swap contracts to manage its interest rate exposures which did not meet the criteria for hedge accounting. Changes in fair value of non-hedging interest derivative instruments amounting to RMB2,682,000 (2014: RMB2,221,000) (note 7) were credited to the income statement.

24. INTEREST-BEARING BANK BORROWINGS

	Notes	2015 Effective interest rate per annum (%)	2015 Maturity	2015 RMB'000
Current:				
Current portion of syndicated loans	(a)	HIBOR/LIBOR +2.2%	2016	562,180
Other bank loans	(b)	HIBOR+1.2% to 2.0%	2016	927,181
				1,489,361
Non-current:				
Syndicated loans	(a)	HIBOR/LIBOR +2.2%	2017	121,199
				1,610,560

	Notes	2014 Effective interest rate per annum (%)	2014 Maturity	2014 RMB'000
Current:				
Current portion of syndicated loans	(a)	HIBOR/LIBOR +2.2%	2015	291,767
Other bank loans	(b)	HIBOR+1.5% to 2.25%	2015	929,895
				1,221,662
Non-current:				
Syndicated loans	(a)	HIBOR/LIBOR +2.2%	2017	617,367
				1,839,029

	2015 RMB'000	2014 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year and on demand	1,489,361	1,221,662
In the second year	121,199	539,198
In the third to fifth years, inclusive	–	78,169
	1,610,560	1,839,029

Notes:

(a) The bank loans are supported by a corporate guarantee provided by certain of the Company's wholly-owned subsidiaries, to the extent of HK$452,400,000 (equivalent to approximately RMB373,275,000) (2014: HK$452,400,000 (equivalent to approximately RMB358,029,000)) and US$92,000,000 (equivalent to approximately RMB588,448,000) (2014: US$92,000,000 (equivalent to approximately RMB564,409,000)) as at the end of the reporting period.

(b) The bank loans are supported by:

(i) the pledge of certain of the Group's time deposits amounting to RMB692,170,000 (2014: RMB715,505,000) in aggregate;

(ii) corporate guarantees provided by a wholly-owned subsidiary (2014: two) of the Company to the extent of HK$1,103,018,000 (equivalent to approximately RMB910,100,000) (2014: HK$700,000,000 (equivalent to approximately RMB553,980,000)) as at the end of the reporting period; and

(iii) time deposits of RMB64,000,000 (2014: RMB110,000,000) and bank balance of RMB169,924,000 (2014: RMB48,280,000), which were capital guaranteed funds undertaken by a wholly-owned subsidiary of the Company to maintain in PRC bank accounts pursuant to the terms of the Group's short term revolving loan facilities (note 21).

As at 31 December 2015, except for the bank loan of RMB418,330,000 (2014: RMB556,356,000) which was denominated in the United States dollars ("US$"), all bank borrowings are denominated in Hong Kong dollars.

25. DEFERRED TAX LIABILITIES

	Withholding taxes RMB'000
At 1 January 2014	153,453
Withholding tax paid on repatriation of earnings from a PRC subsidiary	(54,205)
Deferred tax charged to the income statement during the year (note 10)	22,000
At 31 December 2014 and 1 January 2015	121,248
Withholding tax paid on repatriation of earnings from PRC subsidiaries	(14,543)
Deferred tax charged to the income statement during the year (note 10)	3,000
At 31 December 2015	109,705

Pursuant to the income tax law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings accrued after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate for the withholding tax is 5% or 10%. In estimating the withholding taxes on dividends expected to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008, the directors have made an assessment based on factors which included the dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future.

At 31 December 2015, there were no significant unrecognised deferred tax liabilities (2014: Nil) for withholding taxes that would be payable on the unremitted earnings of the Company's subsidiaries expected to be distributed, after considering the abovementioned factors, in the foreseeable future.

The Company has no significant unprovided deferred tax in respect of the reporting period and at the end of the reporting period.

26. DEFERRED SUBSIDY

	2015 RMB'000	2014 RMB'000
Carrying amount at 1 January	**65,210**	114,833
Release to prepaid land lease payments (note 14)*	**(21,895)**	–
Release to property, plant and equipment	**–**	(49,623)
Carrying amount at 31 December	**43,315**	65,210

A subsidy of RMB114,833,000 was received by Xtep Anhui from the People's Government of Bengbu, Anhui Province, the PRC (the "Bengbu Government"), for the cost of infrastructure to be incurred by the Group on a parcel of land in Bengbu, Anhui Province, the PRC (the "Land") to facilitate the construction of manufacturing facilities on the Land.

During the year ended 31 December 2014, a deferred subsidy of RMB49,623,000 was released to property, plant and equipment to offset the construction costs incurred by the Group upon the completion of certain buildings in Anhui.

* During the year ended 31 December 2015, certain portion of the Land was resumed by the Bengbu Government upon its request. In the opinion of the directors, with reference to the agreements in relation to the acquisition of the Land, the subsidy received by Xtep Anhui in prior years was based on the purchase cost of the Land paid by Xtep Anhui. Therefore, deferred subsidy of the same amount of the cost of the resumed portion of the Land was released to the prepaid land lease payments in the current year as no construction of manufacturing facilities was required for that resumed portion of the Land.

27. SHARE CAPITAL

At 31 December 2015

	HK$'000	RMB'000
Authorised: 100,000,000,000 ordinary shares of HK$0.01 each	**1,000,000**	**935,629**
Issued and fully paid: 2,194,995,000 ordinary shares of HK$0.01 each	**21,950**	**19,354**

At 31 December 2014

	HK$'000	RMB'000
Authorised: 100,000,000,000 ordinary shares of HK$0.01 each	1,000,000	935,629
Issued and fully paid: 2,178,085,000 ordinary shares of HK$0.01 each	21,781	19,214

The following changes in the Company's share capital took place during the current and last years:

	Note	Number of ordinary shares of HK$0.01 each	Share capital HK$'000	Share capital RMB'000
At 1 January 2014		2,176,765,000	21,768	19,204
Exercise of share options	(i)	1,320,000	13	10
At 31 December 2014 and 1 January 2015		2,178,085,000	21,781	19,214
Exercise of share options	(i)	16,910,000	169	140
At 31 December 2015		2,194,995,000	21,950	19,354

Note:

(i) During the year ended 31 December 2015, the subscription rights attaching to 13,260,000 (2014: 1,320,000) and 350,000 (2014: Nil) share options granted under the Share Option Scheme (as defined in note 29) and 3,300,000 (2014: Nil) share options granted under the Pre-IPO Scheme (as defined in note 29) were exercised at the subscription prices of HK$2.35, HK$4.11 and HK$3.24 per share, respectively. The exercise of these share options resulted in the issue of a total of 16,910,000 shares (2014: 1,320,000 shares) of HK$0.01 (2014: HK$0.01) each for a total cash consideration before expenses of approximately HK$43,292,000 (equivalent to approximately RMB35,713,000) (2014: approximately HK$3,102,000 (equivalent to approximately RMB2,455,000)) representing the nominal value of ordinary shares of RMB140,000 (2014: RMB10,000) and share premium of RMB35,573,000 (2014: RMB2,445,000).

An amount of HK$11,191,000 (equivalent to approximately RMB9,234,000) (2014: HK$862,000 (equivalent to approximately RMB683,000)) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

During the year ended 31 December 2015, the Company repurchased 50,000,000 shares of HK$0.01 at HK$3.052 per share at an aggregate consideration of HK$152,600,000 (equivalent to approximately RMB120,447,000) for the share award scheme in which the Group's employees, executives, officers or directors will be entitled to participate. Details of this scheme were set out in an announcement of the Company dated 15 May 2015. Up to the date of approval of the financial statements, no share was granted under this scheme.

Share option schemes

Details of the Company's share option schemes and the share options issued under the schemes are included in note 29 to the financial statements.

28. RESERVES

The amounts of the Group's reserves and movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(i) Capital reserve

The capital reserve represents the excess of the nominal value of the paid-in capital of the subsidiaries acquired pursuant to the group reorganisation prior to the listing of the Company's shares over the consideration paid for acquiring these subsidiaries.

(ii) Statutory surplus fund

In accordance with the relevant regulations applicable in the PRC, subsidiaries established in the PRC are required to transfer a certain percentage of their statutory annual profits after tax (after offsetting any prior year's losses), if any, to the statutory surplus fund until the balance of the fund reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory surplus fund may be used to offset against accumulated losses of the respective PRC subsidiaries. The amount of the transfer is subject to the approval of the board of directors of the respective PRC subsidiaries.

(iii) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC, which is dealt with in accordance with the accounting policy set out in note 2.4 to the financial statements.

29. SHARE OPTION SCHEMES

(a) Pre-IPO share option scheme

The Company has adopted a pre-IPO share option scheme on 7 May 2008 (the "Pre-IPO Scheme") for the purpose of giving the Group's employees an opportunity to have a personal stake in the Company and help motivate the Group's employees to optimise their performance and efficiency, and also to retain the Group's employees whose contributions are important to the long term growth and profitability of the Group.

The principal terms of the Pre-IPO Scheme, approved by written resolutions of the Company's shareholders and the Carlyle Investment Funds passed on 7 May 2008, are as follows:

(i) the subscription price per share under the Pre-IPO Scheme shall be at a 20% discount to the offer price of the Company's shares in the IPO;

(ii) the total number of shares which may be issued upon the exercise of all options granted under the Pre-IPO Scheme is 19,000,000;

(iii) all options granted under the Pre-IPO Scheme can only be exercised in the following manner:

Exercise period	Maximum percentage of options exercisable
Anytime after the first anniversary of 3 June 2008 ("the Listing Date")	30% of the total number of options granted
Anytime after the second anniversary of the Listing Date	30% of the total number of options granted
Anytime after the third anniversary of the Listing Date	40% of the total number of options granted

(iv) each option granted under the Pre-IPO Scheme has a 10-year exercise period; and

(v) share options issued under the Pre-IPO Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 7 May 2008, an aggregate of 19,000,000 share options (the "Pre-IPO Share Options") under the Pre-IPO Scheme were issued to directors of the Company and certain employees of the Group.

The following share options were outstanding under the Pre-IPO Scheme during the year:

	2015		2014	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	3.24	16,765	3.24	16,765
Exercised during the year	3.24	(3,300)	3.24	–
At 31 December	3.24	13,465	3.24	16,765

The weighted average share price at the date of exercise for share options exercised during the year was HK$4.49 per share.

The subscription rights attaching to 3,300,000 (2014: Nil) share options granted under the Pre-IPO Scheme were exercised at the subscription price of HK$3.24 per share during the year, resulting in the issue of 3,300,000 shares (2014: Nil).

The exercise prices and exercise periods of the Pre-IPO Share Options outstanding at 31 December 2015 and 2014 were as follows:

2015

Number of options	Exercise price per share	Exercise period
3,180,000	HK$3.24*	3 June 2009 to 6 May 2018
4,005,000	HK$3.24*	3 June 2010 to 6 May 2018
6,280,000	HK$3.24*	3 June 2011 to 6 May 2018
13,465,000		

2014

Number of options	Exercise price per share	Exercise period
4,170,000	HK$3.24*	3 June 2009 to 6 May 2018
4,995,000	HK$3.24*	3 June 2010 to 6 May 2018
7,600,000	HK$3.24*	3 June 2011 to 6 May 2018
16,765,000		

* The exercise price of the Pre-IPO Share Options equals to a 20% discount on the offer price of HK$4.05 per share of the Company's ordinary shares in the IPO.

The fair value of the Pre-IPO Share Options granted during the year ended 31 December 2008 was estimated at RMB10,815,000.

At the end of the reporting period and up to the date of approval of these financial statements, the Company had outstanding Pre-IPO Share Options for the subscription of 13,465,000 shares under the Pre-IPO Scheme, which represented approximately 0.6% of the issued share capital of the Company as at that date. The exercise in full of the outstanding Pre-IPO Share Options would, under the present capital structure of the Company, result in the issue of 13,465,000 additional ordinary shares of the Company and additional share capital of approximately HK$135,000 (equivalent to approximately RMB111,000) and share premium account of approximately HK$43,492,000 (equivalent to approximately RMB35,885,000), before related issuance expenses.

(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 7 May 2008. The purposes of the Share Option Scheme are to motivate the eligible persons to optimise their future contributions to the Group and/or to reward them for their past contributions; to attract and retain or otherwise maintain ongoing relationships with such eligible persons who are significant to the Group and/or whose contributions are or will be beneficial to the performance, growth or success of the Group; and to attract and retain individuals with experience and ability.

Eligible persons include the Group's directors, proposed directors, employees, direct or indirect shareholders, suppliers, customers, consultants, business or joint venture partners, franchisees, contractors, any person or entity that provides design, research, development or other supporting services to the Group; and any associate of the aforementioned eligible persons.

The maximum number of shares that may be granted under the Share Option Scheme and other share option schemes shall not exceed 30% 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 each participant in any 12-month period up to the date of the latest grant exceeds 1% of the number of shares of the Company in issue.

An option under the Share Option Scheme may be exercised in accordance with the terms of the Share Option 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.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors or up to the expiry date of the Share Option Scheme, if earlier.

The exercise price of the share options is determinable by the directors in their absolute discretion, but in any event shall not be less than the highest of (1) the nominal value of an ordinary share of the Company; (2) the closing price of the Company's shares as stated in the Stock Exchange daily quotation sheet issued on the date of grant of the share options; and (3) the average of the closing prices of the Company's shares stated in the Stock Exchange daily quotation sheets for the five business days immediately preceding the date of grant of share options.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Share Option Scheme during the year:

	2015		2014	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	3.07	78,895	3.07	80,215
Exercised during the year	2.40	(13,610)	2.35	(1,320)
At 31 December	3.22	65,285	3.07	78,895

The weighted average share price at the date of exercise for share options exercised during the year was HK$4.26 (2014: HK$3.5) per share.

The Company recognised a share option expense of RMB449,000 during the year ended 31 December 2014.

The subscription rights attaching to 13,260,000 (2014: 1,320,000) and 350,000 (2014: Nil) share options granted under the Share Option Scheme were exercised at the subscription price of HK$2.35 and HK$4.11 per share, respectively, during the year, resulting in the issue of 13,610,000 shares (2014: 1,320,000 shares).

The exercise prices and exercise periods of the share options outstanding at 31 December 2015 and 2014 were as follows:

2015

Number of options	Exercise price per share	Exercise period
2,535,000	HK$4.11	29 July 2010 to 28 July 2019
2,895,000	HK$4.11	29 July 2011 to 28 July 2019
3,860,000	HK$4.11	29 July 2012 to 28 July 2019
150,000	HK$5.01	28 January 2011 to 27 January 2020
150,000	HK$5.01	28 January 2012 to 27 January 2020
200,000	HK$5.01	28 January 2013 to 27 January 2020
180,000	HK$6.13	30 March 2011 to 29 March 2020
180,000	HK$6.13	30 March 2012 to 29 March 2020
240,000	HK$6.13	30 March 2013 to 29 March 2020
3,000,000	HK$6.00	28 May 2012 to 27 May 2020
7,000,000	HK$6.00	28 May 2013 to 27 May 2020
16,851,000	HK$2.35	14 January 2012 to 13 January 2021
14,022,000	HK$2.35	14 January 2013 to 13 January 2021
14,022,000	HK$2.35	14 January 2014 to 13 January 2021
65,285,000		

2014

Number of options	Exercise price per share	Exercise period
2,640,000	HK$4.11	29 July 2010 to 28 July 2019
3,000,000	HK$4.11	29 July 2011 to 28 July 2019
4,000,000	HK$4.11	29 July 2012 to 28 July 2019
150,000	HK$5.01	28 January 2011 to 27 January 2020
150,000	HK$5.01	28 January 2012 to 27 January 2020
200,000	HK$5.01	28 January 2013 to 27 January 2020
180,000	HK$6.13	30 March 2011 to 29 March 2020
180,000	HK$6.13	30 March 2012 to 29 March 2020
240,000	HK$6.13	30 March 2013 to 29 March 2020
3,000,000	HK$6.00	28 May 2012 to 27 May 2020
7,000,000	HK$6.00	28 May 2013 to 27 May 2020
22,155,000	HK$2.35	14 January 2012 to 13 January 2021
18,000,000	HK$2.35	14 January 2013 to 13 January 2021
18,000,000	HK$2.35	14 January 2014 to 13 January 2021
78,895,000		

At the end of the reporting period, the Company had total outstanding share options for the subscription of 65,285,000 shares under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 65,285,000 additional ordinary shares of the Company and additional share capital of approximately HK$653,000 (equivalent to approximately RMB539,000) and share premium of HK$209,215,000 (equivalent to approximately RMB172,623,000), before related issuance expenses.

At the date of approval of these financial statements, the Company had outstanding share options for the subscription of 65,285,000 shares under the Share Option Scheme, which represented approximately 3.0% of the issued share capital of the Company as at that date.

30. SHARE AWARD SCHEME

The Group adopted a share award scheme in August 2014. During the year and up to the end of the reporting period, no share awards were granted under the share award scheme.

Details of the Group's share award scheme were set out in the Company's announcement dated 1 August 2014.

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transaction:

During the year ended 31 December 2014, a deferred subsidy of RMB49,623,000 (note 26) was released to reduce the carrying amount of the building.

32. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities (2014: Nil).

33. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its production facilities, office premises and staff quarters under operating lease arrangements. Leases for these properties are negotiated for terms ranging from two to ten years (2014: two to ten years).

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 RMB'000	2014 RMB'000
Within one year	9,246	8,156
In the second to fifth years, inclusive	19,047	10,790
After five years	19,369	3,124
	47,662	22,070

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following commitments at the end of the reporting period:

	2015 RMB'000	2014 RMB'000
Contracted for commitments in respect of:		
– construction of new buildings	85,752	52,732
– construction of new manufacturing facilities	28,741	35,281
– advertising and promotional expenses	380,310	221,947
– software	100	100
	494,903	310,060

35. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties:

Compensation of key management personnel of the Group, including directors' remuneration as detailed in note 8 to the financial statements:

	2015 RMB'000	2014 RMB'000
Short term employee benefits	7,742	6,325
Post-employment benefits	218	193
Total compensation paid to key management personnel	7,960	6,518

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	2015 RMB'000	2014 RMB'000
Available-for-sale investments	172,000	498,000
Loans and receivables:		
Trade receivables	1,603,226	1,231,419
Bills receivables	288,631	258,520
Other receivables	6,208	7,507
Pledged bank deposits	705,825	746,159
Time deposits	64,000	110,000
Cash and cash equivalents	3,607,000	3,137,110
	6,274,890	5,490,715
Total	6,446,890	5,988,715

Financial liabilities

	2015		
	Financial liabilities at fair value through profit or loss – held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	895,835	895,835
Financial liabilities included in deposits received, other payables and accruals	11,808	186,112	197,920
Interest-bearing bank borrowings	–	1,610,560	1,610,560
	11,808	2,692,507	2,704,315

	2014		
	Financial liabilities at fair value through profit or loss – held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	728,926	728,926
Financial liabilities included in deposits received, other payables and accruals	13,981	109,061	123,042
Interest-bearing bank borrowings	–	1,839,029	1,839,029
	13,981	2,677,016	2,690,997

37. FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY

At 31 December 2015, the Group discounted certain bank and commercial bills receivable with a carrying amount in aggregate of approximately RMB1,208,400,000 (2014: commercial bills receivable of RMB918,140,000) to two banks (2014: one bank) in the PRC (the "Derecognised Bills") for cash. The Derecognised Bills had a remaining maturity from twenty-four days to six months (2014: forty-nine days to six months) at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC bank and/or the issuers of bills receivable default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair value of the Group's Continuing Involvement in the Derecognised Bills is not significant.

During the year ended 31 December 2015, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills (2014: Nil). No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The amounts of discount of bills receivable of RMB754,100,000 (30 June 2014: RMB197,380,000) and RMB1,962,500,000 (31 December 2014: RMB918,140,000) have been made near the period ended 30 June 2015 and the year ended 31 December 2015, respectively.

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, time deposits, pledged bank deposits, trade and bills receivables, trade and bills payables, financial assets included in other receivables, financial liabilities included in deposits received, other payables and accruals and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments. For the Group's unlisted available-for-sale equity investments, they were stated at cost less impairment because the unlisted investments do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

The Group's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following method and assumptions were used to estimate the fair values:

The fair values of the non-current time deposits and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2015 was assessed to be insignificant.

Fair value hierarchy

As at 31 December 2015 and 2014, the financial instruments measured at fair value held by the Group comprised derivative financial instruments and were classified as Level 2.

During the year ended 31 December 2015, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2014: Nil).

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise available-for-sale investments, interest-bearing bank borrowings and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as trade and bills receivables, other receivables, trade and bills payables and financial liabilities included in other payables and accruals, which arise directly from its operations. The Group also enters into interest rate swap transactions. The purpose is to manage the interest rate risk arising from the Group's operation and its sources of financing.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, interest rate risk, liquidity risk and commodity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

Foreign currency risk

The Group mainly operates in Mainland China with most of the transactions settled in RMB. Most of the Group's financial instruments such as trade and bills receivables and cash and bank balances are denominated in the same currency or a currency that is pegged to the functional currency of the operations to which the transactions relate. The Group has not used any forward contract or currency borrowing to hedge its exposure as foreign currency risk is considered minimal.

Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and at the end of each reporting period, the Group reviews the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, deposits, available-for-sale investments and other receivables, arise from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short term debt obligations with floating interest rates.

The Group enters into interest rate swap contracts for its floating-interest loans to reduce its exposure to interest rate fluctuation.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates excluding the effect from interest rate swaps, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2015		
Hong Kong dollar and US$	100	(13,764)
Hong Kong dollar and US$	(100)	13,764
2014		
Hong Kong dollar and US$	100	(18,525)
Hong Kong dollar and US$	(100)	18,525

Liquidity risk

The Group monitors its risk to a shortage of funds by considering the maturity of both its financial assets and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through use of bank borrowings and other borrowings to meet its working capital requirements.

The tables below summarise the maturity profile of the financial liabilities of the Group as at the end of the reporting period, based on the contractual undiscounted payments:

	2015		
	On demand and within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade and bills payables	895,835	–	895,835
Financial liabilities included in deposits received, other payables and accruals	197,920	–	197,920
Interest-bearing bank borrowings	1,486,829	137,473	1,624,302
	2,580,584	137,473	2,718,057

	2014		
	On demand and within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade and bills payables	728,926	–	728,926
Financial liabilities included in deposits received, other payables and accruals	123,042	–	123,042
Interest-bearing bank borrowings	1,222,642	667,294	1,889,936
	2,074,610	667,294	2,741,904

Commodity price risk

The major raw materials used in the production of the Group's products include cotton, rubber 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.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratio in order to support its business and maximise shareholders' value. The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 31 December 2014.

The Group monitors capital on the basis of the net cash-to-capital ratio, which is calculated as the net cash divided by total equity. The net cash-to-capital ratio as at the end of the reporting period was as follows:

	2015 RMB'000	2014 RMB'000
Cash and cash equivalents	**3,607,000**	3,137,110
Less: Interest-bearing bank borrowings	**1,610,560**	1,839,029
Net cash	**1,996,440**	1,298,081
Total equity	**4,871,713**	4,710,348
Net cash-to-capital ratio	**0.410**	0.275

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSET		
Investments in subsidiaries	1,128,009	1,100,241
CURRENT ASSETS		
Due from a subsidiary	413,326	1,070,235
Prepayments	6,464	716
Cash and cash equivalents	198,085	35,719
Total current assets	617,875	1,106,670
CURRENT LIABILITIES		
Due to subsidiaries	3,619	3,472
Other payables and accruals	34,310	45,270
Interest-bearing bank borrowings	1,489,361	1,221,662
Total current liabilities	1,527,290	1,270,404
NET CURRENT LIABILITIES	(909,415)	(163,734)
TOTAL ASSETS LESS CURRENT LIABILITIES	218,594	936,507
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	121,199	617,367
Other payables	1,693	–
Total non-current liabilities	122,892	617,367
NET ASSETS	95,702	319,140
EQUITY		
Share capital	19,354	19,214
Reserves	76,348	299,926
Total equity	95,702	319,140

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Treasury shares RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2014	129,172	–	114,122	(113,584)	47,366	177,076
Profit for the year	–	–	–	–	408,329*	408,329
Other comprehensive expense:						
Exchange realignment	–	–	–	(639)	–	(639)
Total comprehensive income for the year	–	–	–	(639)	408,329	407,690
Equity-settled share option arrangements	–	–	449	–	–	449
2013 final dividend declared and paid	–	–	–	–	(139,597)	(139,597)
2014 interim dividend declared and paid	–	–	–	–	(148,137)	(148,137)
Exercise of share options	3,128	–	(683)	–	–	2,445
At 31 December 2014 and 1 January 2015	132,300	–	113,888	(114,223)	167,961	299,926
Profit for the year	–	–	–	–	171,335*	171,335
Other comprehensive income:						
Exchange realignment	–	–	–	6,665	–	6,665
Total comprehensive income for the year	–	–	–	6,665	171,335	178,000
2014 final dividend declared and paid	–	–	–	–	(86,015)	(86,015)
2014 special dividend declared and paid	–	–	–	–	(51,609)	(51,609)
2015 interim dividend declared and paid	–	–	–	–	(179,080)	(179,080)
Exercise of share options	44,807	–	(9,234)	–	–	35,573
Repurchase of shares	–	(120,447)	–	–	–	(120,447)
At 31 December 2015	177,107	(120,447)	104,654	(107,558)	22,592	76,348

* The balance included a dividend from a subsidiary of RMB285,463,000 (2014: RMB480,293,000).

Any excess of the appropriation over the retained profits of the Company will be replenished by dividends declared by its subsidiaries to the Company when they are approved subsequent to the end of the reporting period. The directors of the Company anticipate that the approval of such dividends from subsidiaries will be obtained in the near future.

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.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 March 2016.

GLOSSARY

In this annual report, unless the context otherwise requires, the following terms shall have the following meanings:

"AQSIQ"	General Administration of Quality Supervision, Inspection and Quantitative of the PRC
"Beijing Wisdom Xtep"	Beijing Wisdom Xtep Competition Operation Co., Ltd. (北京智美特步賽事運營有限公司), a limited liability company to be established in the PRC
"BOL"	Brand Opinion Leader
"Board"	The Board of Directors of the Company
"Business Day"	Any day on which the Hong Kong Stock Exchange is open for the business of dealing in securities
"CCFL"	China College Futsal League
"Company"	Xtep International Holdings Limited
"Corporate Governance Code"	The Corporate Governance Code as set out in Appendix 14 of the Listing Rules
"CUFL"	China University Football League
"Director(s)"	The director(s) of the Company
"DRP System"	Distribution Resource Planning System
"GDP"	Gross domestic product
"Group"	The Company and its subsidiaries
"Group Success"	Group Success Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 23 February 2007, and is wholly owned by Wan Xing International Holdings Limited, which is in turn ultimately owned as to 55% by Mr. Ding Shui Po's family trust, 35% by Ms. Ding Mei Qing's family trust and 10% by Mr. Ding Ming Zhong's family trust
"HK$" and "HK cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange", "Stock Exchange" and "HKSE"	The Stock Exchange of Hong Kong Limited
"IAAF"	International Association of Athletics Federations
"Listing Date"	3 June 2008, on which dealing in the Shares first commenced on the Hong Kong Stock Exchange
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited

"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"POS"	Points of sale
"PRC" or "China" or "Mainland China"	The People's Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan
"Pre-IPO Share Option Scheme"	The share option scheme for employees of the Group approved and adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed "Pre-IPO Share Option Scheme" in Appendix VI to the prospectus of the Company dated 21 May 2008
"R&D"	Research and development
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	Ordinary share(s) of HK$0.01 each in the share capital of the Company
"Share Option Scheme"	The share option scheme adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed "Share Option Scheme" in Appendix VI to the prospectus of the Company dated 21 May 2008
"Shareholder(s)"	Shareholder(s) of the Company
"SKU"	Stock Keeping Unit
"U.S."	United States of America
"US$"	U.S. dollars, the lawful currency of the U.S.
"Wisdom Group"	Wisdom Sports and its subsidiaries
"Wisdom Sports"	Wisdom Sports Group, formerly Wisdom Holdings Group, a company incorporated in the Cayman Islands with limited liability which shares are listed on the main board of the Stock Exchange (stock code: 1661)
"Xtep (China)"	Xtep (China) Co., Ltd., an indirect wholly-owned subsidiary of the Company
"XTEP"	Xtep brand
"Year"	For the year ended 31 December 2015

REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the consolidated financial statements for the year ended 31 December 2015.

DIVIDENDS

An interim dividend of HK10.0 cents (equivalent to RMB8.2 cents) per Share was paid to our Shareholders during the year. The Board recommended a final dividend of HK7.0 cents (equivalent to RMB5.9 cents) per Share and a special dividend of HK3.5 cents (equivalent to RMB2.9 cents) per Share for the year ended 31 December 2015, subject to approval by the Shareholders at the annual general meeting ("**AGM**") to be held on 29 April 2016. The total dividends for the year ended 31 December 2015, which include the interim, final and special dividends, amounted to a total of HK20.5 cents (equivalent to RMB17.0 cents) per Share, and represented a total payout ratio of 60%.

BOOK CLOSURE

In order to determine the entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Tuesday, 26 April 2016 to Friday, 29 April 2016, both days inclusive, during which period no transfer of Shares in the Company will be effected. The record date for entitlement to attend and vote at the AGM is Friday, 29 April 2016. In order to be eligible to attend and vote at the forthcoming AGM of the Company to be held on 29 April 2016, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 25 April 2016.

The proposed final dividend and special dividend are subject to the passing of ordinary resolutions by the shareholders at the AGM. The record date for entitlement to the proposed final dividend and special dividend is on Tuesday, 10 May 2016. The transfer books and register of members of the Company will be closed from Friday, 6 May 2016 to Tuesday, 10 May 2016, both days inclusive, during which period no transfer of Shares in the Company will be effected. In order to determine the entitlement to the proposed final dividend and special dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 5 May 2016. The payment date of the proposed final dividend and special dividend is expected to be on Tuesday, 31 May 2016.

AGM

The AGM of the Company will be held in Hong Kong on Friday, 29 April 2016. Notice of the annual general meeting will be issued and disseminated to Shareholders in due course.

PUBLICATION OF RESULTS ANNOUNCEMENT

This annual results announcement is available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company's website at www.xtep.com.hk.

By Order of the Board of
Xtep International Holdings Limited
Ding Shui Po
Chairman

Hong Kong, 15 March 2016

As at the date of this announcement, the executive Directors of the Company are Mr. Ding Shui Po, Ms. Ding Mei Qing, Mr. Lin Zhang Li, Mr. Ding Ming Zhong, Mr. Ye Qi and Mr. Ho Yui Pok, Eleutherius; and the independent non-executive Directors are Mr. Sin Ka Man, Mr. Tan Wee Seng, Dr. Gao Xian Feng and Dr. Bao Ming Xiao.