2017
ANNUAL REPORT

特步國際控股有限公司
XTEP INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with Limited Liability) *Stock Code: 1368*

ABOUT THE GROUP

The Group established its own sportswear brand XTEP in 2002 and XTEP is now a leading professional sports brand in the PRC. The Group manages an extensive distribution network with exclusive distributors that operates approximately 6,000 stores nationwide covering 31 provinces, autonomous regions and municipalities across the PRC. The Group is principally engaged in 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.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ding Shui Po (丁水波) (Chairman)
Ding Mei Qing (丁美清)
Ding Ming Zhong (丁明忠)

Non-executive Director

Ho Yui Pok, Eleutherius (何睿博)

Independent Non-executive Directors

Tan Wee Seng (陳偉成)
Gao Xian Feng (高賢峰)
Bao Ming Xiao (鮑明曉)

BOARD COMMITTEES

Audit Committee

Tan Wee Seng (陳偉成) (Chairman)
Gao Xian Feng (高賢峰)
Bao Ming Xiao (鮑明曉)

Remuneration Committee

Gao Xian Feng (高賢峰) (Chairman)
Ding Mei Qing (丁美清)
Bao Ming Xiao (鮑明曉)

Nomination Committee

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

COMPANY SECRETARY

Yeung Lo Bun (楊鷺彬), FCPA

AUTHORIZED REPRESENTATIVES

Ding Shui Po (丁水波)
Yeung Lo Bun (楊鷺彬)

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit A, 27/F, Tower A
Billion Centre, 1 Wang Kwong Road
Kowloon Bay, Kowloon, Hong Kong

HEAD OFFICE IN THE PRC

Xiamen Xtep Tower, No. 89 Jiayi Road, Guanyinshan
Siming District, Xiamen, Fujian Province, PRC
Postal code 361008

LEGAL ADVISER AS TO HONG KONG LAWS

Luk & Partners in Association with Morgan, Lewis & Bockius

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
ICBC

PUBLIC RELATIONS CONSULTANTS

Strategic Financial Relations Limited

COMPANY WEBSITE

www.xtep.com.hk

2017 ANNUAL REPORT HIGHLIGHTS

- The Group is at the end of the three-year strategic transformation after gaining full supervision over the retail channel, and transforming Xtep exclusive distributors from wholesalers to partial retailers.
- Retail sales showed positive performance, with same-store-sales growth averaging mid-single-digit for the year, exclusive distributors directly-owned stores sales efficiency increasing over 10%, and newly renovated sportive stores sales rising over 10% per square meter.
- The Group's revenue declined by 5.2% to RMB5,113.4 million (2016: RMB5,396.6 million) mainly due to retail channel restructuring.
- Gross profit margin continued to expand for the 5th year in a row, by 0.7 percentage point to 43.9%, attributable to effective streamlining of business divisions, and increased contribution from e-commerce.
- Profit attributable to ordinary equity holders declined by 22.7% to RMB408.1 million (2016: RMB527.9 million), mainly due to one time loss on buy-back of inventories of RMB120.8 million. Profit excluding loss on buy-back was RMB529.0 million, an increase of 0.2% over the same period last year.
- Average trade receivables turnover days reduced to 130 days from 164 days as at 30 June 2017, trade receivables amount reduced to RMB1,719.0 million from RMB2,224.4 million.
- Strong net cash position, with RMB2,933.8 million of net cash and cash equivalents, which is equivalent to 55.1% of net assets.
- Proposed final dividend HK4.5 cents, tenth year listing anniversary special dividend HK10 cents.
- Total dividend increased by 39.4% to HK23.0 cents (2016: HK16.5 cents), equivalent to annual payout ratio of 103.8%.

Total Revenue

RMB **5,113.4** million

Gross Profit Margin

43.9%

Profit Excluding Loss on Buy-back

RMB **529.0** million

Profit Attributable to Ordinary Equity Holders

RMB **408.1** million

Annual Payout Ratio

103.8%

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, involving known and unknown risks or 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 as "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

	2017	2016	2015	2014	2013
Profitability data (RMB million)					
Revenue	**5,113.4**	5,396.6	5,295.1	4,777.6	4,343.1
Gross profit	**2,244.5**	2,331.3	2,236.7	1,946.9	1,747.6
Operating profit	**724.5**	917.0	921.0	808.7	895.4
Profit attributable to ordinary equity holders	**408.1**	527.9	622.6	478.0	606.0
Basic earnings per Share (RMB cents) (Note 1)	**18.81**	23.89	28.97	21.95	27.84
Profitability ratios (%)					
Gross profit margin	**43.9**	43.2	42.2	40.8	40.2
Operating profit margin	**14.2**	17.0	17.4	16.9	20.6
Net profit margin	**8.0**	9.8	11.8	10.0	14.0
Effective tax rate	**33.5**	33.8	28.7	36.9	30.1
Return on average total equity holders' equity (Note 2)	**8.0**	10.8	13.0	10.4	13.8
Operating ratios (as a percentage of revenue) (%)					
Advertising and promotional costs	**12.9**	11.8	14.7	13.1	11.2
Staff costs	**12.1**	10.5	9.0	9.4	9.3
Research and development costs	**2.8**	2.6	2.3	2.2	2.6
As of 31 December					
Assets and liabilities data (RMB million)					
Non-current assets	**1,051.9**	956.9	1,063.2	917.3	954.6
Current assets	**7,881.8**	7,217.0	7,050.8	6,947.1	6,352.2
Current liabilities	**2,488.8**	3,029.4	2,966.4	2,350.3	2,356.0
Non-current liabilities	**1,116.3**	121.7	275.9	803.8	443.2
Non-controlling interests	**107.7**	69.3	19.8	9.9	1.9
Shareholders' equity	**5,220.9**	4,953.5	4,851.9	4,700.4	4,505.7
Asset and working capital data					
Current asset ratios	**3.2**	2.4	2.4	3.0	2.7
Gearing ratios (%) (Note 3)	**20.7**	18.4	19.8	23.4	20.9
Net asset value per Share (RMB) (Note 4)	**2.4**	2.26	2.22	2.16	2.07
Average inventory turnover days (days) (Note 5)	**75**	51	58	71	79
Average trade receivables turnover days (days) (Note 6)	**130**	119	98	91	91
Average trade payables turnover days (days) (Note 7)	**122**	107	96	85	76
Overall working capital days (days)	**83**	63	60	77	94

NOTES:

1) The calculation of basic earnings per Share is based on the profit attributable to ordinary equity holders 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 attributable to ordinary equity holders of the Company 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 2016).
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 2016).
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 2016).

2017 AWARDS AND ACCREDITATION

Top Ten Sports Brand of 2016
(2016 China Footwear Industry Ceremony, Shoes.net.cn)
** Received in 2017*

2016 Most Popular Running Shoe Brand in China
(2016 Sina Running Ceremony)
** Received in 2017*

2017 Fujian Industrial Enterprise for Exceptional Quality
(Fujian Provincial Commission of Economy and Information Technology)

2017 Golden Wheat Awards (Product Categories)
(Zhejiang Daily Press Group and "Taobao Tianxia", a platform of Alibaba)

IR Magazine Awards – Greater China 2017
(IR Magazine)

IADA Awards 2017
(The International Annual Report Design Awards (IADA))

2016 Contribution Award for Development of Marathon in China
(Chinese Athletic Association)
** Received in 2017*

2016 "Golden HK Stock" Poll
(Zhitong Finance and Hithink RoyalFlush Finance)
** Received in 2017*


XTEP SPOKESPERSON
XIE ZHENYE


XTEP MISSION
To be the Chinese Runners' Favorite Brand

CHAIRMAN'S STATEMENT

DING SHUI PO
Chairman

Dear Shareholders,
On behalf of the Board, I am pleased to announce the annual results of the Group for the year ended 31 December 2017.

COMPLETING THE STRATEGIC TRANSFORMATION

2017 was a year where the Group made some of the biggest changes to our retail system, completing our three-year strategic transformation. While still operating a wholesale business model in the offline retail channels, the Group has gained full supervision over the entire retail operations by flattening the retail channel and incentivizing wholesale XTEP exclusive distributors to become retailers. We recognized that such rapid changes posed some temporary challenges to the Group's financials, but the changes were necessary for a better future. The benefits of the changes have been immediately visible with improved efficiencies in retail sales. We believe this will translate into better sales revenue for the Group from 2018 onwards.

The Group's revenue for 2017 declined by 5.2% to RMB5,113.4 million (2016: RMB5,396.6 million). The decline in revenue in the second half of 2017 was 2.1%, improved from a 8.8% decrease in the first half of 2017. Gross profit margin continued to expand for the 5th year in a row, by 0.7 percentage point to 43.9% (2016: 43.2%). Margin expansion was driven by effective streamlining of business divisions and the increasing contribution of e-commerce to the revenue. Profit attributable to ordinary equity holders of the Company declined by 22.7% to RMB408.1 million (2016: RMB527.9 million). However, if the impact from the one time buy-back loss of RMB120.8 million associated with repurchased products were excluded, the profit attributable to ordinary equity holders would have been approximately RMB529.0 million (2016: RMB527.9 million), representing an increase of approximately 0.2% over the last year. Basic earnings per Share amounted to RMB18.81 cents (2016: RMB23.89 cents). The Board recommends and has resolved to declare a final dividend of HK4.5 cents per Share. To thank shareholders for supporting the Group in the past ten years, a tenth year listing anniversary special dividend of HK10.0 cents is proposed (2016: a final dividend of HK3.25 cents per Share and a special dividend of HK2.75 cents per Share). Together with an interim dividend of HK8.5 cents (2016: HK10.5 cents) per Share, total dividend increased by 39.4% to HK23.0 cents (2016: HK16.5 cents), equivalent to annual payout ratio of 103.8% (2016: 60.0%).

CHINESE RUNNERS' FAVORITE BRAND

Even though most of the changes in 2017 were made on retail management, I would still like to talk about branding first, as XTEP is first and foremost a brand. We believe every brand should have its unique identity, and XTEP after its transformation to a professional sports brand strives to be the "Chinese runners' favorite brand". We continue to show our commitment to this by continuing to be the sportswear sponsor for the most number of marathons in China since 2015. In 2017, we sponsored 40 running events in total, including international Gold and Silver Label marathons and social races that emphasize mass participation. We hosted the second annual XTEP 321 Running Festival, which attracted over 20 million participants and tied XTEP brand ever-closer to running. Our spokesperson Xie Zhenye (謝震業) became the fastest man in China by winning triple gold medals in the 100m dash, 200m dash, and 4x100m relay during the 13th National Games of China, wearing cleats designed for him by our own laboratory and scientists. The success of our sports marketing was well perceived by XTEP's topping domestic brand ranking in Joyrun research in the top three marathons in China again.

XTEP's marketing strategies were not limited to sports arena and athletes. We have also signed additional entertainment celebrities Zhao Liying (趙麗穎) and Lin Gengxin (林更新). Their popularity as actress and actor helps promote our products to those who are only starting to or considering to engage in a more active lifestyle. The XTEP brand is inclusive and we aim to provide affordable professional quality sportswear to enable the mass market to become happier and healthier.

RETAIL CHANNEL SUPERVISED BY THE GROUP

The Group's retail channels underwent several major changes that allowed us to effectively supervise the entire retail channel, which led to positive results on retail sell-through, retail price, and inventory levels. First, we directly completed most of the flattening of our retail distribution channel to a more optimized format, where around 60% of the stores are operated directly by our exclusive distributors and the rest by authorized retailers. With the Group's aid in voluntarily lengthening account receivable credit period to these exclusive distributors, we were able to complete this transformation of our distributors from wholesalers to partial retailers over 2017. As a result, we have effective supervision over the entire retail channel, where the team of over 1,000 retail management staff decide on store locations and layout, universal tag price and set strict guidelines on product ordering instructions, discount ranges based on store tiering, and provides training for retail store staff. Retail efficiency has improved by over 10% on stores operated directly by exclusive distributors.

Second, we remodeled more than half of XTEP stores to our new 6s generation sports image. The new athletic image increased traffic into our stores, as well as items purchased per shopper. Newly renovated stores have over 10% increase in sales per square meter in comparison to those yet to be remodeled. The new stores also serve as a localized brand marketing icon, as it represents our new professional sports image. It allowed consumers to experience our new brand concept first-hand, as the Group believes this is the essential link for consumers to understand, accept and appreciate the new XTEP.

Third, our ERP system now has full coverage of our entire store network. The Group has added a "big data team" which monitors and analyzes the data gathered from the ERP system. The analyzed results are used for formulating accurate product ordering instructions for exclusive distributors, monitoring retail inventory levels, setting precise discounting ranges, arranging product displays to maximize store sales, and feeding consumer preference back to the Group to improve product designs.

While all of these positive changes in our offline retail channels were taking place, the Group's online retail remained robust. XTEP remained the top running footwear products seller on Tmall.com, and became the top casual sports shoes seller among domestic brands in 2017. For long-term brand development, we have integrated e-commerce as part of our online marketing efforts, which streamlines cost and further unifies XTEP brand image. O2O integration continued with our exclusive distributors, where we can achieve true omni-channel sales, and maximize profitability for both the Group and the exclusive distributors. We continue to see e-commerce as an essential part of the Group's entire retail system.

CONSUMER CENTERED PRODUCT INNOVATION

To strengthen XTEP's new professional sports image, we have further enhanced our product innovation and technology using our own running research laboratory, which is the first dedicated running research lab in China. They are also working on new materials to be trademarked and launched in 2018. We have taken a unique consumer-centered approach in our product design, where we offer three different functional footwear options for different runner usage frequencies, and six different functional apparel technology platforms to meet different weather conditions. Unlike many sportswear companies promoting specific technologies, we focus on the consumer, and apply multiple technologies within one product to create the best user experience. In lifestyle sports products, XTEP works with many different partners to create fashionable and comfortable wear for everyday use. Our partners range from unique IPs such as Transformers and Smiley® to our celebrity spokespersons.

RUNNING FASTER INTO THE FUTURE

The changes made in 2017, and our rebranding as a professional sportswear brand since 2015 will propel the Group to the next phase of growth. XTEP has evolved from a fashion sportswear company to a professional sports brand. I believe, in the near future, the Group will begin to see the benefits of the changes made in the past three years. With our big data capabilities, the Group's retail network is getting smarter and increasingly efficient. We will continue to develop XTEP as a mass market sports brand, while seeking collaborative opportunities to tap other market segments.

ACKNOWLEDGEMENT

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 to the Group. I would also like to express my deepest appreciation to our Board 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 2018

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

China's GDP grew by 6.9% in 2017, while retail sales grew by 10.2%, well ahead of overall GDP growth[1]. Consumer confidence level reached 112 points as compared to 106 points in 2016, and willingness to spend as a component of consumer confidence index rose by 5 points[2]. Spending power is trending younger, with 44% of both post-1980s and post-1990s generations seeing household expenditure increase, while only 37% and 32% of post-1970s and post-1960s respectively[3]. According to Nielsen research, with the rise of the younger generation comes stronger emphasis on "me", and there is also an increase in spending by female consumers.

The size of the sports industry is to reach RMB5 trillion by 2025, trippled as compared to 2015[4]. 1,100 marathons and other running events (with over 800 participants) have been held in 2017, 256 of which were recognized by the Chinese Athletic Association, and total participants in 1,100 events reached around 5 million[5]. According to Mr. Yu Hongchen, the vice president and secretary general of Chinese Athletic Association, the "goal is that by 2020, the total number of marathons and running events will reach over 1,900, competitions recognized by Chinese Athletic Association to reach 350, the total number of participants to reach over million, and market size of marathon industry to reach RMB120 billion. Running has overtaken basketball as the most popular sports for post-1995 generation, with gym fitness ranked 4th and extreme sports ranked 5th[6]. XTEP focuses on running, supplemented by indoor fitness, and will launch skateboard series in 2018. Female participation in marathons increased by 10% to 46% in 2017[7], in line with our observation and the Group's initiative to launch female-specific product lines in 2017.

Euromonitor reported that the sales of sportswear in China increased by 12.0% again in 2017 (same as in 2016), reaching RMB212 billion, showing no signs of slow-down. It predicts the industry to grow at a CAGR of 8.0% at constant prices over the forecast period, reaching RMB318 billion in 2022, much faster than the 5.6% CAGR from 2010 to 2015[8]. In terms of spending, male to female ratio for sports footwear consumption is around 60:40, with a rising trend in ASP. The fastest growing age category is 19-22 years old, while the largest shrinking category is 29-35 years old[9]. More consumers are tending to purchase specialized and exercise-specific sports apparel and footwear, for better protection and more effective training, as purchasing power and consciousness of well-being increases. Thus, performance footwear saw the highest growth among all categories at 18%[8]. The product ratio and the reduction in overall consumption age well match the XTEP brand positioning.

E-commerce remained one of the fastest growing retail channels in China. In 2017, China e-commerce sales reached RMB7.2 trillion with year-on-year growth of 32.2%. Online retail sales accounted for 19.6% of total retail sales of consumer goods[1]. The overall internet user population amounted to around 772 million people in 2017 (2016: 731 million), growing by 5.6% year-on-year, but penetration rate is still only 55.8% compared to 80-90% in most of the developed countries[10]. China's e-commerce retail is expected to continue to grow rapidly in the near future.

1 Source: National Bureau of Statistics of the People's Republic of China
2 Source: China Consumer Confidence Index Reached All-time High to 114 Points in Q4 2017 (Nielsen, February 2018)
3 Source: China Consumer Confidence Survey (Nielsen, November 2017)
4 Source: General Administration of Sport of China
5 Source: Chinese Athletic Association
6 Source: Deciphering Generation of Future Consumers (Nielsen, November 2017)
7 Source: Automotive + Sports Fusion Imagination (Tencent & Nielsen, November 2017)
8 Source: Sportswear in China (Euromonitor, February 2018)
9 Source: Online Sports Consumers Report (線上體育消費人群報告) (CBN Data, August 2016)
10 Source: China Internet Network Information Center (中國互聯網絡信息中心)


XTEP SPOKESPERSON
ZHAO LIYING


XTEP BRAND
Professional Sports Brand

XTEP BRAND

XTEP is a professional sports brand that enhances mass market consumers' ability to compete in world class marathons and provides the flexibility to look fashionable in everyday life. After transforming the brand into a professional sports brand in 2015, we have solidified XTEP as the "Chinese runners' favorite brand". We were the sponsor of the most number of marathons in China for the third consecutive year with 40 running events in 2017, and officially affiliated ourselves with China Marathon, the Chinese Athletic Association's division in charge of marathons in China, as well as sponsored the fastest man in China Xie Zhenye. Meanwhile, we upgraded our lifestyle sports product image from casual to fashion, with increasing amount of online media promotions as well as adding our new spokespersons Zhao Liying and Lin Gengxin, both are popular actress/actor in China with a large and active fan-base. The Group's advertising and promotional costs for the year ended 31 December 2017 was approximately 12.9% of the Group's revenue (2016: 11.8%), within the budget of 11–13% of revenue, at approximately RMB658.0 million (2016: RMB637.2 million).

SPORTS MARKETING

Running

Distinguishing ourselves from our domestic peers, XTEP identifies uniquely with running. This is where the Group foremost allocated marketing resources within sports marketing. XTEP continued to carry the title of the sportswear sponsor for the most number of marathons in China in 2017, where we were the sole sports brand sponsor for each event. Marathons are one of the best ways for us to directly reach our target consumers, Chinese runners, as each runner is given a XTEP logoed event t-shirt and XTEP advertisements can be seen throughout each city. Each marathon involved a large number of runners and captured high levels of media attention in both traditional media and social media, and sales of running products generally showed positive momentum around the time a marathon is held locally. The Group sponsored 29 major marathons in major cities such as Beijing, Tianjin, Chongqing, Xiamen and other 11 additional running events for the year ended 31 December 2017, including 10 XTEP Penguin Runs in cooperation with Tencent and the XTEP 321 Running Festival. Total participants in these 40 events, excluding XTEP 321 Running Festival Gala Show, exceeded 670,000.

In 2017, we continued to be the official partner of China Marathon (中國馬拉松官方合作夥伴) recognized by the Chinese Athletic Association (中國田徑協會), and won the 2016 Contribution Award for Development of Marathon in China (2016 年中國馬拉松發展貢獻獎) and the Contribution Award at Marathon Gala-China 2016 (2016年中國馬拉松年會貢獻獎) in March 2017. After nearly ten years of cultivation in running in China, XTEP won the 2016 Most Popular Running Shoe Brand in China (2016年度最受歡迎中國路跑跑鞋品牌) at the 2016 Sina Running Ceremony (2016年度新浪跑步盛典) in May 2017. XTEP stood out amongst our domestic peers as our footwear products were worn by the highest number of runners who finished a full marathon within three hours in three of the most prominent marathons in China: Beijing Marathon, Guangzhou Marathon and Xiamen International Marathon according to a research by Joyrun in 2017. XTEP ranked 4th among all sports brands with 10.5% market share in Beijing Marathon, 4th among all sports brands with 9.1% market share in Guangzhou Marathon, and 2nd among all sports brand with 20.0% market share in Xiamen International Marathon. Seroi Andersonsaitoti from Kenya won the men's full marathon wearing full XTEP running shoes and apparel during the Shenzhen Baoan International Marathon.

XTEP 321 Running Festival has become an annual national celebration of runners. In March of 2017, we organized the second XTEP 321 Running Festival, emphasizing the Group's focus on running through different channels both offline and online. Offline, we hosted three XTEP Crazy Run in Beijing, Changsha and Xiamen, and a large gala in the evening to promote this one and only running festival for Chinese runners. The gala was broadcasted live on Southeast Television (東南衛視) and through major online live-steaming platforms such as iQIYI and Tencent Video, as well as publicized by popular Internet celebrities live broadcast (網紅直播) to connect with nationwide audiences in real-time, reaching over 20 million people. The gala was a show with XTEP spokespersons and other celebrities attending, capturing wide media and consumer attention. During the show, our products were displayed in the background and our e-commerce channel sales and promotions were integrated with the gala itself. During the show, the Group launched a special limited namesake edition shoe with our new celebrity spokesperson Zhao Liying which were sold out within 1 minute on our e-commerce platform, showing the popularity of our products and the impact of XTEP 321 Running Festival. The Group's e-commerce revenue generated from XTEP 321 Running Festival in 2017 almost doubled as compared to 2016, one day's sales tripled that of the average daily sales revenue, proving the success of XTEP 321 Running Festival and the strength of the Group's e-commerce business. At the same time, retail shops also added XTEP 321 Running Festival advertisements, further capturing sales fueled by the event.

Guangzhou Marathon
(廣州馬拉松)

Shenzhen International Marathon
(深圳國際馬拉松)

Xiamen International Marathon
(廈門國際馬拉松賽)

XTEP 321 Running Festival
(特步321 跑步節)

XTEP Penguin Run
(特步企鵝跑)

Chongqing International Marathon
(重慶國際馬拉松賽)

Hangzhou Marathon
(杭州馬拉松)

Nanjing marathon – National Marathon Championships
(南京馬拉松暨全國馬拉松錦標賽)

Wuhan Marathon
(武漢馬拉松)

Yangzhou Jianzhen International Half Marathon
(揚州鑒真國際半程馬拉松)

Changsha International Marathon
(長沙國際馬拉松賽)

Shenzhen Baoan International Marathon
(深圳寶安國際馬拉松賽)

Tianjin (Wuqing) International Marathon
(天津(武清)國際馬拉松賽)

Fuzhou International Marathon – National Marathon Championships
(福州國際馬拉松暨全國馬拉松錦標賽)

Shenyang Marathon
(沈陽馬拉松)

Taiyuan International Marathon
(太原國際馬拉松賽)

Changchun International Marathon
(長春國際馬拉松)

Hefei International Marathon
(合肥國際馬拉松賽)

Qingdao Marathon
(青島馬拉松)

China Zheng-kai International Marathon
(中國鄭開國際馬拉松賽)

Beijing Half Marathon
(北京半程馬拉松)

Kunming Plateau Half Marathon (昆明高原國際半程馬拉松賽)

Xiamen (Haicang) International Half Marathon (廈門(海滄)國際半程馬拉松賽)

Wuhan Women's Half Marathon
(武漢女子半程馬拉松)

Kiss Run Chengdu Women's Half Marathon
(成都女子半程馬拉松)

Kiss Run Nanjing Women's Half Marathon
(南京女子半程馬拉松)

Changsha Patriotic Half Marathon
(長沙紅色半程馬拉松)

Quzhou Marathon
(衢州馬拉松)

Jinjiang International Marathon
(晉江國際馬拉松賽)

Xiong'an Marathon
(雄安馬拉松)

SportiRun-KissRun Hong Kong
(SportiHealth健康跑–KissRun香港站)

The Group believes that fun running events match well with XTEP's brand profile, promoting the spirit of combining sports and entertainment. In 2017, the Group title sponsored XTEP Penguin Run (特步企鵝跑), which was backed by Tencent Sports. More than 90 million runners were extended an invitation to the event by Tencent to participate in online running activities, while 100,000 lucky runners joined the offline running carnivals in ten major cities. Cooperation with partners like Tencent enabled XTEP to reach a broader consumer base quickly and effectively.

XTEP Runner's Club

XTEP Runner's Club is the largest and most active running group around a brand in China. They are not only our loyal fan base that took the XTEP brand and our products on marathons all over the world, but also, served as a focal point of local running communities. The XTEP Runner's Club boasts of over 50,000 members across the country, all of them are frequent runners, and many of them participate in multiple full marathons each year. They led and organized local running events, and publicized their success stories and product experiences on Wechat and Weibo. They also helped test and provide feedback on our new products in development to ensure the best user experience when those products were launched in the market. The Group gathered these runners around unique services, such as entry quota to marathons we sponsored, training camps with professional coaches, and special local social runs that aimed at building a community through running. To further benefit the XTEP Runner's Club members, we have established 4 XTEP Run Clubs (特步跑步俱樂部) around the country, adding in 2017 Changsha, Hefei and Nanjing after the first one at Beijing Olympic Forest Park XTEP Running Track. We will set up more of these club house facilities for the XTEP Runner's Club members to make running with XTEP a premium experience.


特步
2017
2017 BEIJIN


特步
GO!


321跑步节

Xie Zhenye (謝震業):

Xie competed in the 4x100m relay and 100m dash for the China team during the 2016 Olympics. He made history with his 4x100m relay teammates on 29 August 2015 at the 15th IAAF World Championships held in Beijing, setting the best result ever achieved by an Asian team. The relay team beat USA and won Gold at the 2017 IAAF Diamond League Monaco. He won three gold medals in men's 100m and 200m dash and 4x100m relay at 2017 National Games of China, becoming the fastest man in China.

Chen Ding (陳定):

Chen was the first-ever Chinese gold medal winner of the 20km race walk event at the 2012 Olympics, and the second Chinese male athlete to win an Olympic gold medal in track and field. He also competed in the 20km race walk at the 2016 Olympics.

SPORTS CELEBRITY SPOKESPERSONS

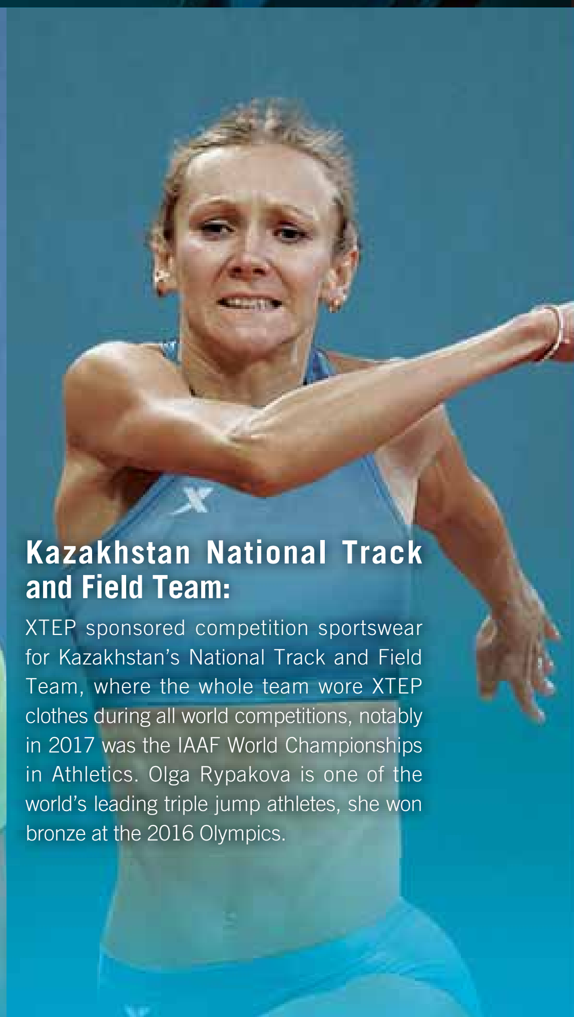
In 2017, the Group has added two Chinese track and field Olympic medalists to our sports celebrity lineup, Wang Zhen and Cai Zelin, who won first and second place respectively in the 20km race walking competition during the 2016 Olympics. XTEP continues to regard top Chinese track and field athletes as the best personification of our brand's emphasis on running.

Wang Zhen (王鎮):

Wang won the Men's 20km race walk title at the 2016 Olympics and was the third Chinese male athlete to win an Olympic gold medal in track and field. He was the gold medalist of the 20km race walk at 2014 Incheon Asian Games and the bronze medalist at the 2012 Olympics.

Cai Zelin (蔡澤林):

Cai finished second in the Men's 20km race walk at the 2016 Olympics, and was also the silver medalist of Men's 20km race walk at the IAAF World Race Walking Cup in 2014.



Kazakhstan National Track and Field Team:

XTEP sponsored competition sportswear for Kazakhstan's National Track and Field Team, where the whole team wore XTEP clothes during all world competitions, notably in 2017 was the IAAF World Championships in Athletics. Olga Rypakova is one of the world's leading triple jump athletes, she won bronze at the 2016 Olympics.

Football

In addition to running, the Group viewed football as a supplementary part of our branding strategy to raise more consumer conviction for XTEP's professional sports image. In 2017, the Group narrowed our focus to Chinese youth football, echoing the goal of our comprehensive football strategy "Blade Project" (鋒芒計劃) to serve over 5 million Chinese football youths by 2021. President Xi Jinping and the Chinese government have also emphasized the development of football particularly in the youth population, with the goal of having over 20,000 football schools and over 30 million youth football participants by 2020.

CSSF

China High School Football League
（中國高中足球聯賽）
organized by CSSF
（中國中學生體育協會）
(sponsorship since 2016)

ZSFL
浙江省中小学生校园足球联赛

ZSFL XTEP League
（浙江省中小學生校園足球聯賽）
(sponsorship since 2010)

The Group also continued to sponsor celebrity football clubs to increase XTEP's media exposure. All of these celebrities wore XTEP professional football products during their matches as well as in media interviews relating to the matches, raising XTEP's brand profile and brand image to worldwide audiences.

China All Star Football Team
（中國明星足球隊）
(sponsorship since 2012)

Hong Kong All Star Sports Association
（香港明星足球隊）
(sponsorship since 2009)

National Sporting Event

The 13th National Games of China were held from August to September 2017, and XTEP was the official apparel sponsor for 5 provincial delegation teams, including host city Tianjin, Hong Kong, Fujian Province, Jilin Province and the Liberation Army. The athletes in each team wore different outfits for opening, closing and award ceremonies designed by XTEP. This was the third time the Group had taken part in sponsoring the National Games of China, and there, our sponsored sports celebrities also achieved impressive results. Our spokesperson Xie Zhenye won three titles in men's 100m and 200m dash and 4x100m relay, respectively at 2017 National Games of China, becoming the fastest man in China. As this is the key national sporting event in China where famed and rising athletes compete, and serves as a prelude to the next Olympics, it received national level media attention and captured top hot topic rankings on social media.

ENTERTAINMENT MARKETING

XTEP brand image on lifestyle sports products identifies closely with fashionable street-wear. In 2017, the Group organized our first annual "XTEP Storming the Streets" (特步熱煉工場), a street sport event incorporating skateboarding competition, street basketball, and cage football. After competitions during the day, in the evenings, there were performances by professional skateboarders, basketball players, China All Star Football Team's celebrities, and leading pop groups and DJs. The two-day event attracted over 1 million participants, and helped increase XTEP brand's street-fashion exposure among consumers, and through online media. During the two-day event, XTEP became the official partner of the Confederation of Asian Roller Sports and together organized the Asia Professional Skateboarding Competition (亞洲滑板精英賽), leading up to the inclusion of skateboarding for the first time into the 2020 Olympic Games.

Showcasing XTEP's style change to fashion from youngster casual, a number of fashion icons, celebrities, and fashion bloggers showed how they would express themselves in XTEP products.

Zhao Liying (趙麗穎):
One of the most popular Chinese actresses, Zhao won national fame for her lead role in the TV series "The Journey of Flower" (花千骨). Zhao gained the title of "100 billion queen" ("千億女王") in 2016 for her gaining 100 billion combined online views for all the TV series she appeared in. In 2016, she won the Audience's Choice for Actress at 28th China TV Golden Eagle Award (第28屆中國電視金鷹獎), the most highly regarded TV award in China. In 2017, she won the TV Series Actor of the Year at China TV Series Quality Awards (中國電視劇品質盛典), the College Student's Choice Actress award at the 24th Beijing College Student Film Festival, as well as the Most Valuable Actress (年度最具價值女明星獎) according to 2017 Film Star Value Report by CCSmart (新傳智庫發佈的2017中國影視明星價值報告).

Lin Gengxin (林更新):
One of the most popular young actors in China, he impressed audiences with his TV Series debut in "Each Step Escape" (步步驚心), which was awarded the Most Popular Foreign Drama of the Year at the Seoul International Drama Awards 2012 (2012年首爾國際電視節). In 2017, he gained enormous popularity overnight by playing the male lead in "Princess Agents" (楚喬傳), together with another XTEP spokesperson Zhao Liying. This was the first ever Chinese drama to break 42.9 billion views online.

ENTERTAINMENT CELEBRITY SPOKESPERSONS

As the first sports brand to employ entertainment celebrities to represent the brand, the Group continues to regard this channel as crucial to expose XTEP to those who are seeking more fashion oriented sportswear or those who are only beginning to participate in sports activities. We added Zhao Liying and Lin Gengxin in 2017, who are both highly ranked in their ability to generate media and social media hot topics. All of our celebrity Spokespersons carry a positive, young and energetic profile, which perfectly fits the brand image of XTEP.

Nicholas Tse (謝霆鋒):
A widely-known artist and young accomplished entrepreneur, Tse was XTEP's first celebrity spokesperson, and has remained our spokesperson for over a decade. As an actor, Tse has won the Hong Kong Film Award for Best New Performer in 1998 and Hong Kong Film Award for Best Actor in 2011. In 2017, he won the award for Highest Media Attention Actor of the Year at the 19th Shanghai International Film & TV Festival, for his performance in the film "Heartfall Arises" (驚天破). His ties with XTEP have continued to blossom, where he became a Shareholder in July 2016 and will deepen our long-standing working relationship in the areas of product development and marketing and promotion.

Jiro Wang (汪東城):
A Taiwanese singer and actor, he gained popularity as a member of the former Taiwanese boy-band Fahrenheit and has over 16 million page views on his Baidu Baike page and around 16 million followers on his official Weibo account. He has been based in Mainland China in recent years, his positive and sporty image attracts a young audience that coincides with XTEP's target consumer. He has been in a variety of reality TV shows, TV series and movies. He won the Best Actor of the Year at Migu G-Ker Awards & Gala (咪咕 • G客網絡視頻年度盛典) for his performance in Youku-Tudou original movie "Rakshasa Street" (鎮魂街) in 2017.

XTEP RETAIL MANAGEMENT

Omni - Channel

RETAIL MANAGEMENT

OFFLINE RETAIL CHANNEL

Hands-on Operational Supervision

In 2017, the Group made drastic changes in our retail platform, where we went from managing a distribution channel, to managing a retail network. We have built a team of over 1,000 professionals who take a hands-on approach to managing approximately 6,000 outlets retail network. The Group decides store location and layout, universal tag price, sets strict guidelines on product ordering instructions, discount ranges based on detail store tiering, and provides training for all retail store staff. While we are still running a wholly wholesale business model with approximately 40 exclusive distributors in the offline retail channel, we make most of the retail decisions, while the distributors make most of the capital investments on those stores they directly operate. Exclusive distributor directly-managed stores are now over 60% of the total XTEP store count. As retail efficiency has improved by over 10% in those stores operated directly by exclusive distributors, the Group anticipates higher revenue from future orders as the exclusive distributors achieve higher profitability and healthier cashflow.

The Group has been able to have full supervision over the retail channel after going through a three-year channel flattening process, during which we voluntarily extended our account receivable credit period to our exclusive distributors. As distributors are responsible for most of the capital costs for their directly-managed stores, the Group extended our support to them during this capital intensive period. As the majority of the store opening process has ended for exclusive distributor directly-managed stores, the Group intends to retreat our trade receivables credit period back to the 120 days level on contract. As at 31 December 2017, the Group's number of trade receivables turnover days has reduced to 130 days, as compared to 164 days at 30 June 2017.

Big Data Monitoring and Analysis

The Group has full ERP-system coverage over the XTEP store network. We have built a professional team of big data experts who not only monitor the activities of each store, but also analyze the data gathered to help formulate product ordering instructions, store layouts, and future product directions. From the monitoring perspective, the Group is able to see real-time the retail sales progress of each store, as well as its inventory level, discount level, and sales efficiency. The amount of XTEP products in the offline retail channels was at a low level of close to 4 months as at 31 December 2017, as compared to industry average of 4-6 months. Proactively, the analyzed big data helps the Group set precise discount ranges for each store, guide the store staff on changing product displays in store, offer insights on how to improve customer service quality, formulate accurate product ordering instructions for exclusive distributors per store, and pinpoint consumer behaviors that lead to more popular future product development directions.

New Sportive Stores

A XTEP store is not only a retail outlet, but also a physical experience center for our consumers. As the XTEP brand has been transformed into a professional sports brand, our store image has also been upgraded to international-style "6s generation" sports store design, emphasizing the running focus of XTEP's products. As consumers are increasingly looking for a shopping experience when they visit physical stores in addition to quality products, upgrading of XTEP stores' image has led to over 10% increase in retail sales per square meter.

XTEP now provides universal training for store staff through the "XTEP Retail Learning Center" (特步零售學院) in person, detailed in-store instruction menus and our internal "Super Shopping Guide" (超級導購) retail management APP with videos and articles. The APP has been rolled out to over 85% of stores, covering over 22,000 staff as at 31 December 2017. We aim to standardize XTEP's high-level customer service and make them replicable throughout our retail network. Training videos and information on the APP are constantly updated to complement new sales campaigns and new product specifications. Retail staff's understanding of the Group's requirements is tested through quizzes on the APP, and the test results serve as support for upward employment promotion. Our retail management team does surprise store visits to ensure thorough execution. Proper staff training leads to better customer service which has resulted in more items sold per order, as well as increased repeat purchasing. Giving consumers the best experience in stores leads to increased consumers' confidence and trust in the XTEP brand, capturing increased retail sales both offline and online.

TRUE OMNI-CHANNEL RETAIL: INTEGRATING E-COMMERCE

XTEP has captured the top sales volume position in running footwear products on TMALL.com, as well as top sales volume in casual sports shoes amongst domestic brands in 2017 and continues to generate high sales growth with our dedicated team of over 400 professionals. The success of our self-operated e-commerce platform was driven by our ability to quickly evolve with consumer trend and our detailed direct management. The Group operates a truly omni-channel retail platform, as we are one of the first and one of the few sportswear companies to operate a truly integrated O2O platform in China. Further, the online platform also acts as an additional channel of brand marketing, with rising sales contribution from O2O, our online products become ever more closely matching to our offline products. For the year ended 31 December 2017, e-commerce contributed more than 20% of the our Group's revenue.

O2O: Mutual Benefit

Similar to most consumer brands in China, the Group's e-commerce business first offered consumers online exclusive products that differentiated from those available in offline stores, in order to coordinate interests between offline distributors and the Group, and to maximize sales. Differing from our competitors, the Group was one of the first sports brands in China to start O2O with our exclusive distributors in late-2016.

In 2017, around half of the products listed on our e-commerce platform were part of the O2O system, and the other half were online exclusive products. Online exclusive items have the advantage of quick production, quick supply-chain, and quick turnover. Some immensely popular online exclusive items were later made available for sale in offline stores, such as the shoes we co-designed with our celebrity spokesperson Zhao Liying and Lin Gengxin. We define O2O as inventory sharing, where products were made available online and offline at the same time, with identical prices, and have the same promotion periods. A low level inventory is kept by the e-commerce business for O2O products. Instead, we rely on inventory from the offline retail channel. Products ordered by consumers are delivered from their nearby distributor, ensuring quick to doorstep customer service. With permission from the Group, e-commerce platform can also hold special promotions for those slower moving items from offline channels. In effect, XTEP e-commerce platform functions as another retail channel for not only the Group, but also our exclusive distributors. With our proven success in e-commerce, O2O is a win-win situation where XTEP products are aligned; branding and promotional efforts see exponential effect, inventory levels are better controlled and profit increases for both the Group and our exclusive distributors. In 2017, the O2O system was rolled out to over half of more than exclusive distributors.

XTEP KIDS

The XTEP Kids division underwent a major restructuring in 2016 and 2017 to better position for higher efficiency in future profit generation. We have realigned resources between the XTEP Kids and the XTEP adult divisions, consolidated their operational management, branding, new product research and development, material sourcing and production, retail management systems, and retail networks. POS count remained at 250 as at 31 December 2017, and revenue contribution to the Group from XTEP Kids was minimal in 2017. We will be cautiously expanding the Kids division in 2018, as the market is very fragmented in China.

OVERSEAS MARKET

As at 31 December 2017, the Group had XTEP POS exposure across the Middle East and Southeast Asia, operated by XTEP's exclusive distributors and authorized retailers. At present, the overseas business segment only accounts for a minor revenue contribution to the Group. We believe that business in overseas markets can increase XTEP's global exposure, enhance brand value, and broaden revenue streams. Given the market size and growth potential of the domestic Chinese market, where we have built strong brand equity and a nationwide presence, our focus remains in our home market.


TRANSFORMERS
THE LAST KNIGHT


I·REAL RUNNER


AIR MEGA
跑释极限


特步跑道
10KM
10KM


跑者训练营
MARATHON
试跑体验



XTEP SPOKESPERSON
NICHOLAS TSE


XTEP PRODUCTS
Innovation

PRODUCT INNOVATION

PRODUCT POSITIONING

Since we made the brand transformation towards a professional sports brand, XTEP products have become increasingly technical in the running category. However, we have not foregone our heritage as one of the most fashionable sports brands. Therefore, we have maintained a product mix of approximately half performance sports and half lifestyle sports. On both fronts, XTEP products have been upgraded. We believe with the rise of both athletic participation and athleisure in fashion, both of these product categories will generate rising revenue in 2018.

On performance sports products, the Group focused on running technology. We have built China's first dedicated running research laboratory, led by international scientists and employing global leading research technologies. The team comprises of over 20 researchers from different research fields such as sports science, design, structural engineering, and fabric and shoe sole chemical engineering. They use world leading scientific research equipment for product testing and studying of different types of runner's feet, body figure and gait, in order to develop and optimize the functions, technologies and products to best fit runners of different levels. We benchmark our product technology against international running specialty brands, with the idea of offering similar quality at a fraction of the price, to mass market consumers. We have created gold medal winning cleats for the fastest man in China, Xie Zhenye, as well as first-place winning marathon shoes for runners during multiple international level marathons in China, such as Shenzhen Baoan International Marathon and Beijing Half Marathon.

On lifestyle sports products, we have retailored XTEP products to be closer to international fashion style. In 2017, the Group phased out our previous lifestyle sportswear categorization of Campus and Urban series, which were based on age ranges and targeted younger consumers. Phasing out these products meant clearing channel inventory by reducing new product shipment, which impacted the Group's revenue. Starting in 2018, XTEP lifestyle sports products will be separated into three categories based on style: Urban, Street, and Active. Each of these new series targets different style demands of a wider age group of consumers, as Chinese consumers become more individualized on their sense of style. Offering affordable products to a wider age range of consumers also allows the Group to take advantage of the rising consumption power of lower-tier cities, while meeting their needs for upgrades in fashion style. Sports lifestyle footwear will mostly fall under the XTEP trademarked "π Series", which bears a "π" logo instead of the traditional "X" logo of XTEP. We have and will increase cooperation with celebrities and third-party IPs under this trademark.

PERFORMANCE SPORTS TECHNOLOGIES

XTEP products have been restructured to be centered around consumers, especially Chinese runners. We have built a new team of designers in the past three years led by international design talents with extensive work experience in top international sports brands. Not only did they bring their keen vision for fashion trends, but also applied their years of know-how in creating sportswear for performance and comfort. We also cooperated with leading international fiber material developers, such as the Dow Chemical Company, 3M and INVISTA in the United States, and Toray in Japan, to co-develop fiber technology in order to stay ahead of global trends. We have trademarked technologies such as "Softpad™", where material co-developed with the Dow Chemical Company is exclusively applied to XTEP's unique scientific designs. Both parties will strengthen the cooperation with an aim to launch more professional sports products applying international state-of-the-art technologies in the future. Therefore, we are confident that our products are competitive with international brands both in style and in quality.

Instead of the common sports product categorization based on singular technologies, the Group tailored XTEP products to directly fulfill the needs of runners at different experience levels. We combined different technologies into three core series of running shoes in 2017, which are RUN FAST (競速快跑), RUN STRONG (動力暢跑) and RUN FIT (舒適易跑), to better serve expert/advanced runners, intermediate runners and beginner runners, respectively. For running apparel, the Group consolidated different technologies into six core technology platforms to match different weather conditions and motion states runners encounter, which are XTEP-DRY (酷乾科技), XTEP-COOL (釋冰科技), XTEP-WARM (熱能科技), XTEP-SHIELD, XTEP-COMFORT and XTEP-STRONGER.

FOOTWEAR TECHNOLOGIES

RUN FAST

FOR EXPERT/ADVANCED RUNNERS

Who participate competitively in marathons or triathlon, and look for high performance

RC 160 shoes

One of the lightest running shoes in China, weighs only 160 grams, have strong shock absorption, designed for expert/advanced runners

ENERGETEX 聚能弹™

Made from high elasticity TPU bubbles, which absorbs and releases more energy during running, making each step easier

NITEOPTICS 驭光科技

Uses reflective and light-emitting material to enable better visibility in the dark, improving safety of outdoor sports at night

RUN DYNAMIC

FOR INTERMEDIATE RUNNERS

Who look for both performance and comfort

RC 300 Shoes

Uses two types of materials in the shoe sole, with gel cushioning in the front and heel of the shoe to provide strong shock absorption, and TPU in the center for more structural foot support from rolling

DYNAMIC FOAM 动力巢®

Offers bounce and soft rebound in shock absorption with improved 4.0 generation soft and high resilience material

REACTIVE COIL 减震旋™

Uses XTEP's signature DNA hollow loop structure to support shape recovery from compression and impact

AIR MEGA 气能环® 特步气能环科技

Utilizes an air-cushion system around the entire sole, providing all-around shock absorption

RUN FIT

FOR BEGINNER RUNNERS

Who prioritize comfort in their exercise experience

COMFYCUBES 舒步垫™

Uses cube modules to support pressure from the foot and ground, plus memory foam-like material to bring increased cushioning

Softpad™

A key shoe insole technology the Group co-developed with the Dow Chemical Company. The insole provides memory foam-like comfort to fully enclose the foot

AIR COMFORT 透气网

Applies uni-body three-dimensional double-layer weaving technique, with mesh arrangement according to stress points to improve breathability and seamless fit to foot, providing light and comfortable running experience

3M Thinsulate 新雪丽™ 高效暖绒

Material from the 3M Company provides lightweight insulation for winter products

APPAREL TECHNOLOGIES

XTEP-DRY

酷干科技

KEEP YOU DRY
助力运动畅快干爽

XTEP-DRY 2.0

Absorbs and transfers moisture on the skin quickly to fabric surface through special yarn and weaving arrangement, which then evaporates in air for instant absorption and immediate dryness

XTEP-COOL

释冰科技

KEEP YOU COOL
助力运动冰感酷爽

Cooling Fibers

Cooling Xylitol is weaved into special clothing fibers, which increases the fiber's rate of heat dispersion, leading to long-lasting coolness during exercise

XTEP-WARM

热能科技

KEEP YOU WARM
助力运动持续保暖

Far-infrared Warm

Applies ceramic printing which can effectively absorb and reflect the far-infrared of human body heat, to improve thermal insulation and provide increased warmth without extra weight

Heat Retain

Newly developed uni-body heat containment structure using seamless down filling technique that prevents heat loss from pin-hole, achieving high heat retention

Thermolite®

Material from INVISTA (part of KoSa) from the U.S. with fine hollow fiber technology that creates a layer of air protection blocking cold air from outside, keeping the wearer warm and dry

XTEP-COMFORT

KEEP YOU COMFORTABLE
提升舒适性

Dupont™ Sorona® materia

Lightweight, soft, elastic material that easily recovers shape

Xtep Sports Elastic Technology

Uses highly elastic fiber that allows athletes to stretch freely during exercise, this is applied specifically to indoor training series

X-SEAMLESS-TECH

Uses seamless knitting technique in professional sports apparel to reduce friction during sport

XTEP-SHIELD

KEEP YOU PROTECTED
全方位防护

Anti-UV

Protects the wearer from harmful ultraviolet radiation during outdoor sports through protective chemicals weaved into fabric

Waterproof & Raised Permeation

Protection from water and quick evaporation of moisture on the body surface through special coating on fabric, keeping body dry and comfortable

XTEP-STRONGER

MAKE YOU STRONGER
提供运动持久动能

XTEP-ENERGY technology

Releases negative ions to alleviate sports fatigue, helping runners harness more energy during professional sports

COOPERATION WITH THIRD PARTY IP

Transformers Series

The Group cooperated with world-class global play and entertainment company Hasbro (孩之寶) for the rights to use Transformers images in our products. To coincide with the launch of the "Transformers: The Last Knight" movie in the summer of 2017, the Group launched XTEP Blade II x TRANSFORMERS co-branded limited edition football shoe and Transformers lifestyle sports products in June 2017. The Transformers football shoes are based on the 2nd generation of XTEP professional football product series "Blade II", with trendy mid-top collar made of elastic knitting, uni-body design that fits snug to the feet, and shoe sole and conical cleats that give better traction on the predominantly artificial grass fields Chinese players compete on. The launch of XTEP Blade II x TRANSFORMERS football shoe helped us attract younger consumers, which we view as the target audience for our football products. Transformers lifestyle sports series captured the essence of trend, by bringing a popular summer movie to life. The design concept was inspired by the powerfulness of futurism embodied by Transformers, where we deemphasized the comic character elements, and emphasized the heroic spirit it encapsulates. This series had both footwear and apparel products.

Smiley® Series

The Group also cooperated with Smiley Company, one of the 100 biggest licensing companies in the world, to launch two namesake Smiley Shoes with the iconic Smiley® logo in the fourth quarter of 2017. The Smiley® trademark is regarded as a symbol of positivity, matching the brand image that XTEP wishes to convey to consumers.

SUPPLY CHAIN

New product ordering was conducted by the Group's exclusive distributors on a quarterly basis, while product delivery was systematically divided into monthly new product styles and sent to retail stores at the same time. 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 for footwear and apparel products accounted for approximately 50% (2016: 55%) and 15% (2016: 15%) of the corresponding total sales volume for 2017 respectively. We also utilized outsourced suppliers in the PRC to produce footwear and apparel products, and set a stringent requirement on sourcing of all materials. All of the outsourced suppliers were constantly monitored by the Group's quality control team to uphold our top quality standards. The efficient production and delivery cycle has allowed us to increase the flexibility of products manufactured and sold. In 2017, around one-third of the products sold were under the flexible production mandate, where the Group decides based on market demands to increase or decrease the production of certain SKUs.


XTEP SPORTS
特步
特步
XTEP
SPORTS

FINANCIAL REVIEW

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

	2017		2016		
	Revenue (RMB million)	(% of revenue)	Revenue (RMB million)	(% of revenue)	Changes In revenue (%)
Footwear	**3,257.8**	**63.7**	3,525.4	65.3	–7.6
Apparel	**1,759.4**	**34.4**	1,764.8	32.7	–0.3
Accessories	**96.2**	**1.9**	106.4	2.0	–9.6
Total	**5,113.4**	**100.0**	5,396.6	100.0	–5.2

The Group's total revenue for the year ended 31 December 2017 amounted to approximately RMB5.1 billion (2016: RMB5.4 billion), representing a decrease of approximately 5.2% compared to last year. Nevertheless, the revenue showed positive signs of recovery during the second half of the year. Comparing to the corresponding period of last year, the decrease in revenue reduced from 8.8% in first half of the year to 2.1% in the second half of the year.

Overall, the movement in revenue was mainly due to less products produced and delivered by the Group to exclusive distributors in response to the retail channel transformation and change of lifestyle sports product categorization especially in the first half of 2017; but partially offset by the increase in revenue contribution of XTEP products through e-commerce channels.

XTEP continued to focus on the mass market in the PRC providing value-for-money running-wear as well as other lifestyle sports products. XTEP brand's positioning in running and lifestyle sports products has strong traction with young consumers and hence led to increased revenue contribution from e-commerce channels, which accounted for more than 20% (2016: mid-teens percentage) of revenue. Besides, a colder winter in December 2017 also simulated revenue contribution from apparel products in the second half of the year.

During the year, XTEP recorded steady demand for functional sports products mostly related to the running category. On the other hand, the Group also consistently applied a prudent approach when accepting product orders from exclusive distributors and authorised retailers in each quarter. Prompt actions have been taken to adjust the delivery of products to the retail channels according to actual sell-through in retail stores, which were reflected by the ERP system to the Group. Therefore, retail inventory maintained at a healthy level during the year.

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

	2017		2016		
	Gross profit (RMB million)	Gross profit margin (%)	Gross profit (RMB million)	Gross profit margin (%)	Changes in gross profit margin (% point)
Footwear	**1,465.1**	**45.0**	1,550.9	44.0	+1.0
Apparel	**741.7**	**42.2**	736.8	41.7	+0.5
Accessories	**37.7**	**39.2**	43.6	41.0	–1.8
Total	**2,244.5**	**43.9**	2,331.3	43.2	+0.7

The Group's overall gross profit margin increased by 0.7 percentage point to 43.9% (2016: 43.2%). The increase in the overall gross profit margin was mainly due to the streamlining of business divisions and increased contribution from e-commerce, which had higher gross profit margin than the overall business.

With XTEP repositioned as a professional sports brand, the average selling price of the products among footwear and apparel categories increased due to the higher average selling price of functional products. As a result, the gross profit margin improved as the Group maintained effective cost control throughout the supply chain by utilizing both in-house and outsourced production, such that the increase in material costs and manufacturing costs were fully absorbed by the increase in average selling price.

OTHER INCOME AND GAINS

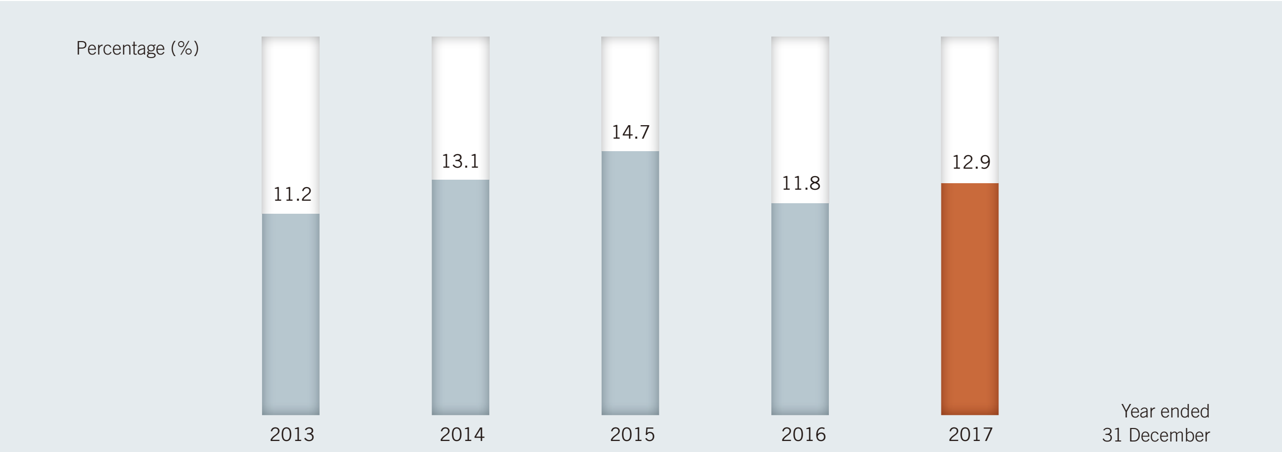
For the year ended 31 December 2017, other income and gains of the Group mainly represented the subsidised income from the PRC government, which amounted to approximately RMB79.4 million (2016: RMB53.7 million); and the income derived from available-for-sale financial assets and structured bank deposits was approximately RMB63.2 million (2016: RMB41.9 million), which was mainly interest income from treasury deposit products.

SELLING AND DISTRIBUTION EXPENSES

For the year ended 31 December 2017, the Group's selling and distribution expenses amounted to approximately RMB911.4 million (2016: RMB850.8 million), representing approximately 17.8% (2016: 15.8%) of the Group's total revenue. The increase in selling and distribution expenses was mainly due to the increase in advertising and promotional costs and distribution costs.

The advertising and promotional costs for the year amounted to approximately RMB658.0 million (2016: RMB637.2 million), representing approximately 12.9% (2016: 11.8%) of the Group's total revenue. The increase in advertising and promotional costs mainly related to the increase in professional sportsperson endorsements and running events promotion.

The following chart sets out the advertising and promotional costs as a percentage of the Group's total revenue for the past 5 years:



The advertising and promotional costs were normally maintained between 11% to 13% of the Group's total revenue and was higher for the year ended 31 December 2015 (i.e. 14.7%) as it was the first year of our strategic transformation, changing from a fashion sportswear company to a running focused professional sports brand. The Group will continue the effort in repositioning XTEP as a professional sports brand. As such, the Group will continue to invest in marketing and advertising resources to specific programs and events that will be beneficial to the Group.

GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended 31 December 2017, the Group's general and administrative expenses amounted to approximately RMB766.8 million (2016: RMB662.1 million), which represented approximately 15.0% (2016: 12.3%) of the Group's total revenue. The increase in general and administrative cost was mainly attributed from the:

1) one time buy-back loss of RMB120.8 million associated with repurchased products that were produced prior to 31 December 2015;

2) staff costs associated with the Share Award Scheme amounting to RMB45.4 million (2016: Nil);

3) increase in R&D cost – the R&D cost for the year amounted to approximately RMB143.4 million (2016: RMB138.2 million), representing approximately 2.8% (2016: 2.6%) of the Group's total revenue. The R&D cost was mainly related to the salary costs of the research and design team, material costs for research and development of new products and equipment costs for new production technology; and

4) a write-down of inventories amounted to RMB26.0 million (2016: Nil);

which where offset by:

5) decrease in net provision for doubtful debt made during the year – maintaining a prudent approach towards financial management, the Group made a net provision for doubtful debt for the long outstanding trade receivables for the year, which amounted to approximately RMB66.8 million (2016: RMB222.2 million).

NET FINANCE COSTS

The total net finance cost of the Group for the year ended 31 December 2017 amounted to approximately RMB53.8 million (2016: RMB51.4 million). The increase was mainly due to the increase in bank charges on syndicated loans (2017: RMB9.9 million; 2016: RMB3.9 million) which was partially offset by the increase in unrealized gain on interest rate swaps and currency swap (2017: RMB7.3 million; 2016: RMB5.7 million).

OPERATING PROFIT MARGIN

The operating profit margin for the year ended 31 December 2017 decreased by 2.8 percentage points to 14.2% (2016: 17.0%). This was mainly due to the increase in advertising and promotional costs and R&D costs and one time buy-back loss of inventories during the year, which was partially offset by the decrease of provision for doubtful debt for the year.

INCOME TAX EXPENSES

Income tax provision of the Group for the year ended 31 December 2017 was approximately RMB224.4 million (2016: RMB292.6 million). The income tax provision included profit tax provision relating to operating companies, which amounted to approximately RMB217.9 million (2016: RMB269.9 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 RMB6.5 million (2016: RMB7.7 million). The Company holds certain PRC subsidiary companies which have retained profits that can be distributed to the Company in the future.

PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS AND NET PROFIT MARGIN

For the year ended 31 December 2017, the profit attributable to ordinary equity holders was approximately RMB408.1 million (2016: RMB527.9 million), representing a decrease of approximately 22.7% over the same period last year. The decrease was in line with the decrease in operating profit. However, if the impact from the one time buy-back loss of RMB120.8 million associated with repurchased products were excluded, the profit attributable to ordinary equity holders would have been approximately RMB529.0 million (2016: RMB527.9 million), representing an increase of approximately 0.2% over the same period last year.

The Group's net profit margin amounted to 8.0% (2016: 9.8%).

DIVIDEND

The Group maintained a high level of cash and bank balances. The Board continued to maintain high Shareholders' dividend return and therefore recommended a final dividend of HK4.5 cents per Share. To thank shareholders for supporting the Group in the past ten years, a special dividend of HK10 cents is proposed to celebrate the tenth anniversary of the Group's listing (2016: a final dividend of HK3.25 cents per Share and a special dividend of HK2.75 cents per Share). Together with the interim dividend of HK8.5 cents (2016: HK10.5 cents) per Share, total dividend increased by 39.4% to HK23.0 cents (2016: HK16.5 cents), equivalent to annual payout ratio of 103.8% (2016: 60%).

WORKING CAPITAL CYCLE

For the year ended 31 December 2017, the Group's overall working capital turnover days was 83 days (2016: 63 days).

For the year ended 31 December:

WORKING CAPITAL TURNOVER DAYS	2017 Days	2016 Days	Changes Days
Inventories	**75**	51	+24
Trade receivables	**130**	119	+11
Trade payables	**122**	107	+15
Overall working capital turnover days	**83**	63	+20

INVENTORIES

INVENTORIES	2017 RMB million	2016 RMB million
Balance at 1 January	**459.6**	398.4
Balance at 31 December	**717.9**	459.6
Average balance (note 1)	**588.8**	429.0
Cost of sales for the year ended 31 December	**2,868.9**	3,065.3
Average turnover days (note 2)	**75 days**	51 days

As at 31 December 2017, the Group's net balance of inventory was approximately RMB717.9 million (2016: RMB459.6 million). The increase was mainly due to the increase of finished goods by 55%. Thanks to a colder winter in December 2017, the Group received additional purchase orders towards the end of the year from exclusive distributors and authorised retailers and more inventories were produced to fulfill those demands.

TRADE RECEIVABLES

TRADE RECEIVABLES	2017 RMB million	2017 interim RMB million	2016 RMB million
Balance at 1 January	**1,916.2**	1,916.2	1,603.2
Balance at 31 December/30 June	**1,719.0**	2,224.4	1,916.2
Average balance (note 1)	**1,817.6**	2,070.3	1,759.7
Revenue for the year ended 31 December/six months ended 30 June	**5,113.4**	2,310.8	5,396.6
Average turnover days (note 2)	**130 days**	164 days	119 days

As of 31 December 2017, the Group's net balance of trade receivables was approximately RMB1,719.0 million (2016: RMB1,916.2 million). The increase in trade receivables turnover days as compared to last year was due to the Group's provision of temporary support to assist its distributors to increase the proportion of retail stores directly owned by exclusive distributors. This measure flattened and reduced the multi-layered structure in the retail distribution channel which resulted in significant reduction of inventory level at the retail-end. On the other hand, comparing to the net balance of trade receivables of RMB2,224.4 million and trade receivables turnover of 164 days as of and for the six months ended 30 June 2017, the net balance of trade receivables and trade receivable turnover days as of and for the year ended 31 December 2017 reduced by RMB505.4 million and 34 days respectively.

TRADE PAYABLES

	2017 RMB million	2016 RMB million
Balance at 1 January	**896.0**	895.8
Balance at 31 December	**1,027.7**	896.0
Average balance (note 1)	**961.9**	895.9
Cost of sales for the year ended 31 December	**2,868.9**	3,065.3
Average turnover days (note 2)	**122 days**	107 days

As at 31 December 2017, the Group's trade payables balance was approximately RMB1,027.7 million (2016: RMB896.0 million). The increase was due to the Group having utilised 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 15 days to 122 days (2016: 107 days).

BILLS RECEIVABLES

In order to have more flexibilities in utilising working capital facilities, the Group utilised the acceptance and usage of bills receivables. As of 31 December 2017, the bills receivables amounted to approximately RMB87.5 million (2016: RMB187.0 million). For the year ended 31 December 2017, the number of turnover days of bills receivables was 10 days (2016: 16 days).

LIQUIDITY AND CAPITAL RESOURCES

As of 31 December 2017, the Group's cash and cash equivalents amounted to approximately RMB3,832.3 million (2016: RMB2,846.5 million), representing an increase of approximately RMB985.8 million. This was mainly attributable to:

(a) net cash inflow from operating activities that amounted to RMB558.1 million, which was due to the cash generated from operations of approximately RMB868.5 million, but offset by the payment of income and withholding tax amounting to RMB259.2 million and the payment of net interest expenses of approximately RMB51.2 million;

(b) net cash inflow from investing activities that amounted to RMB275.1 million, which was mainly due to the decrease in pledged deposits amounting to RMB742.2 million and time deposits with original maturity more than three months amounting to RMB420.0 million but offset by the increase in structured bank deposits amounting to RMB715.0 million; and

(c) net cash inflow from financing activities that amounted to RMB153.8 million, which was mainly due to the new loans amounting to RMB1,588.4 million, but offset by repayment of bank borrowings amounting to RMB1,167.6 million and dividends paid amounting to RMB270.8 million.

Note 1: The average balance is equal to the average of balance as at 1 January and 31 December or 30 June respectively of the relevant year/period.

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 or 183 days respectively.

The net cash and cash equivalents (including fixed deposits held at banks with maturity dates of over three months, structured bank deposits and pledged deposits, minus bank loans) was approximately RMB2,933.8 million as at 31 December 2017 (2016: RMB2,743.7 million).

	2017 RMB million	2016 RMB million
Cash and cash equivalents	3,832.3	2,846.5
Bank deposits	951.5	1,399.8
Total bank deposits and bank balances	4,783.8	4,245.3
Less: Bank borrowings	(1,850.0)	(1,501.6)
Net cash and cash equivalents	2,933.8	2,743.7

As of 31 December 2017, the Group's gearing ratio was 20.7% (2016: 18.4%), which is defined as the total bank borrowings divided by the Group's total assets.

As of 31 December 2017, the total assets of the Group amounted to RMB8,933.7 million (2016: RMB8,173.9 million), represented by non-current assets of RMB1,051.9 million (2016: RMB956.9 million) and current assets of RMB7,881.8 million (2016: RMB7,217.0 million). The total liabilities of the Group amounted to RMB3,605.1 million (2016: RMB3,151.1 million), represented by non-current liabilities of RMB1,116.3 million (2016: RMB121.7 million) and current liabilities of RMB2,488.8 million (2016: RMB3,029.4 million). The total non-controlling interests of the Group amounted to RMB107.7 million (2016: RMB69.3 million). Hence, the total net assets of the Group amounted to RMB5,328.6 million (2016: RMB5,022.8 million), representing an increase of 6.1%. Net assets per Share as at 31 December 2017 were approximately RMB2.40 (2016: RMB2.26), representing an increase of 6.2%.

WRITE-DOWN AND LOSS ON BUY-BACK OF INVENTORIES

For the year ended 31 December 2017, the Group recorded a write-down and an one time loss of buy-back of inventories amounted to RMB26.0 million and RMB120.8 million, respectively (2016: Nil).

COMMITMENTS

Details of the Group's commitments are stated in note 36 of the financial statements.

CONTINGENT LIABILITIES

As of 31 December 2017, the Group did not have any material contingent liabilities.

CHARGE OF ASSETS

Save as disclosed in notes 23 and 26 of the financial statements relating to certain amounts of bank deposits pledged to secure the banking facilities. None of the Group's assets was pledged as at 31 December 2017.

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. 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 2017, the Group has approximately 8,500 employees (31 December 2016: 8,400 employees). The Group provides introductory orientation programs and continuous training to its employees. Topics covered included industry knowledge, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and standards of our 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 our corporate culture to ensure that it can maintain sustainable development in the future.


XTEP SPOKESPERSON
LIN GENGXIN
XTEP SPORTS
FASHION WITH
PERSONALITY

FUTURE

Sustainable Growth

FUTURE PROSPECTS

2017 marked our last year of strategic transformation plan. Our new professional sports brand image has been accepted by consumers, especially as the "Chinese runners' favorite brand". The Group has also fully supervising the entire retail operations, after flattening the retail channel, and incentivizing wholesale XTEP exclusive distributors to become partial retailers. Such rapid changes have posed some temporary challenges to the Group's financials, but after all of these efforts, we have already seen positive effects such as increased retail sales efficiency. Therefore we are confident about the prospects of 2018, as XTEP has become a stronger brand.

BUILDING BRAND EQUITY AROUND RUNNING

With our success in running, consumers now view XTEP as increasingly professional in performance sports products. The Group will leverage on our brand equity in products to build a sports brand, where when consumers think of XTEP, they will not only think of sportswear, but also an ecosystem that includes events and community. We have established two major annual events with unique IP, "XTEP 321 Running Festival" and "XTEP Storming the Streets", the former in its third year in 2018 and well-recognized by Chinese consumers. The majority of attendees for these events are not runners or even active in sports, they are followers of the XTEP brand. We are building a community around the XTEP brand, which has endless possibilities beyond sports products.

TECHNOLOGY AND CELEBRITY

Simultaneous with broadening our brand loyalty beyond products, the Group strives to raise our brand premium through technology and associating with popular celebrities and popular culture. We aim to launch new proprietary technology launches in footwear in 2018 based on research from our laboratory, which rivals with international brands both in performance, comfort, and style. We will also continue our successful cooperation with different celebrities and popular culture, to evolve XTEP's brand premium from casual to fashion. Such cooperation also contributes a strong revenue stream to the Group, for example, Zhao Liying and Lin Gengxin endorsed white sneakers sold over 150,000 pairs online during Double Eleven in 2017.

NEWER AND SMARTER RETAIL

Internet giants' entry into retail technology has made traditional offline retail smarter. In 2017 the Group established a "new-retail team" (新零售運營中心) to explore the new practices of user-centered retail marketing in different areas such as branding, e-commerce, omni-channel, community marketing, and Runner's Club and etc. In the next two years, the Group plans to open no more than 10 directly-owned XTEP flagship experience centers to showcase our new professional sports image and to connect directly with consumers. These stores will be experience centers where consumers can test products under different weather and terrain condition simulations, find exclusive launches of our highest technology products, experience foot scanners, and shop in real omni-channel retail that smartly links e-commerce and physical stores. For the Group, these flagship experience centers will show consumers that XTEP is a brand with international standards, in terms of both technology and design, and also in shopping experience. We believe such initiatives will enable us to consolidate our retail sales growth, and extend the momentum of our same-store sales growth in the future.

MULTI-BRAND STRATEGY

As the Group has largely completed the three-year transformation of our own XTEP brand, we will begin to seek to expand our brand portfolio to target high-end market as well as other unique sports retail channels. The Group wants to diversify our brand offerings to address the needs of different consumer segments, in order to broaden our revenue base, and make it more defensive against market volatilities. We will apply our distribution, retail and brand management expertise in China to new portfolio brands in order to achieve accretive growth and profitability. The Group will take a cautious approach in making any investments or acquisitions in the best interests of Shareholders.

INVESTOR RELATIONS REPORT

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

INVESTOR INFORMATION

Investor Relations Contact

Xtep International Holdings Limited
Investor Relations Department
Unit A, 27/F, Tower A
Billion Centre, 1 Wang Kwong Road
Kowloon Bay, Kowloon, Hong Kong
Telephone: (852) 2152 0333
Fax: (852) 2153 0330
E-mail: ir@xtep.com.hk
Corporate website: www.xtep.com.hk

Share Information

Listing Date: 3 June 2008
Board lot: 500 Shares
Number of issued shares as at 31 December 2017:
2,223,185,000 Shares
Stock code: 1368.HK

INDEXES

Xtep International Holdings Limited has been included in the following indexes:

MSCI Index
since November 2008

- MSCI All Country World Index
- MSCI Emerging Markets Index
- MSCI Emerging Markets Value Index
- MSCI World ex USA Small Cap Index
- MSCI Emerging Markets Small Cap Index
- MSCI All Country Far East Ex Japan Small Cap Index
- MSCI China Small Cap Index

HANG SENG Index
since March 2010

- Hang Seng Global Composite Index
- Hang Seng Composite Index Series

INVESTMENT BANK AND SECURITIES FIRM COVERAGE

- China Merchants Securities
- CICC
- Cinda International
- Credit Suisse
- CITIC Securities
- Crosby Group
- Daiwa Securities
- Everbright Securities
- First Shanghai
- Guotai Junan International
- GF Securities
- HSBC
- ICBC International
- Jefferies
- KGI
- RHB Securities
- Sunwah Kingsway
- UOB Kay Hian
- Zhongtai International
- 86 Research

Number of investment bank and securities firm coverage in 2017: 20

KEY INVESTOR RELATIONS EVENTS HELD IN 2017

Results Presentations to Investors (2016 annual results and 2017 interim results)	2 (2017 interim results presented in the form of tele-conference due to typhoon)
Annual General Meeting	1 (Year 2016)
Non-deal Roadshows	7 (41 meetings in aggregate)
Investment Conferences Organized by Major Investment Banks	13 (68 meetings in aggregate)
Countries/Regions where Roadshows/ Conferences were Held	China, Hong Kong, London, New York, Singapore, Taiwan and Tokyo
Major Broker Conferences Attended	Bank of America Merrill Lynch, CITIC, Citigroup, CLSA, Credit Suisse, Daiwa, Everbright, Gelonghui (格隆匯), HSBC, J.P. Morgan, and Morgan Stanley
One-on-one/Group Face-to-face Meetings or Telephone Conferences with Investors	70

Number of investor meetings in 2017: 228

INVESTOR RELATIONS AWARDS RECEIVED IN 2017

HKIRA 3rd Investor Relations Awards 2017

- Best IR Company

Hong Kong Investor Relations Association

IR Magazine Awards – Greater China 2017

- Rising star (Ms. Leah Liu)
- Best use of multimedia for IR – 2nd place
- Best IR website – 3rd place

IR Magazine

IADA Awards 2017

- Silver: Traditional format: Consumer – Sport
- Silver: Traditional format: Retail – Fashion & Clothing
- Bronze: Traditional format: Retail – Chain Business

The International Annual Report Design Awards (IADA)

2016 "Golden HK Stock" Poll

- Best Value Award for Consumer Companies
- Best Listed Companies on Returns to Shareholders

Zhitong Finance and Hithink RoyalFlush Finance

2017 LACP Vision Awards

- Gold: Retailing – Food & Specialty
- Top 40 Chinese Report of 2016

League of American Communications Professionals

2017 International ARC Awards

- Bronze: Traditional Format – Sports & Talent management

MERCOMM INC.

Number of investor relations awards received in 2017: 14

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

The most significant environmental impacts in footwear and apparel industry are air emission, waste disposal, and wastewater discharges in the process of production that are regarded as harmful to human health and environment. As a responsible sportswear producer, the Group has strived to reduce our impacts through effective implementation of environmental management systems and strict compliance to laws and regulations. Since 2010, all of our production sites have adopted ISO14001 environmental management standards to ensure the production processes comply with national environmental laws and regulations. No violations and non-compliance incidents occur during the reporting year. Aligning with national climate change strategy and global trends on greenhouse gas reductions, energy saving and water management are also relevant environmental issues to the Group. Continuous efforts and relevant measures have been taken to reduce our environmental footprints. Also, the Group is dedicated to developing healthy and environmental friendly materials and products, integrating environmental protection with our innovation strategy. For more details, please refer to our "2017 Environmental, Social and Governance Report" published separately.

RELATIONSHIP WITH KEY STAKEHOLDERS

Employees:

As a responsible employer, the Group has fully complied with the relevant national laws and regulations on compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, wage and other employee benefits and welfare. The Group has strictly complied with the International Labor Standards and the PRC government's "Provision on the Prohibition of Using Child Labor". During the year, we did not hire any employee under the age of 16. Above the requirements, the Group regarded our employees as its most valuable assets, and provided training and clear career advancement paths. With dedication to providing wages, welfares and working environments that are significantly better than our peers. In recognition for our high quality working environment, the Group was awarded "National Model Harmonious Labor Relations Enterprise" and "May 1st Labor Medal". In 2017, the Group was awarded "Top Ten Human Resource Management Company" for Quanzhou Economic and Technological Development Zone. In 2016, the Group's internal training center XTEP UNIVERSITY was awarded "Most Valuable Corporate University in China" by the Committee of Enterprises Education Top 100 in China.

Customers:

Customer satisfaction, among other relevant indicators, has been regarded as one of the performance indicators of our entire retail network, to ensure our service meets customers' needs and expectations. The Group conducts "brand healthiness survey" annually to review our competitiveness against peers, identify key challenges and adjust our branding and product strategies accordingly. According to the latest survey conducted in 2017, customers have very strong cognition of our brand in the running sports category.

The "customer service" division affiliated with the Group's quality management centre is responsible for responding and handling of any customer complaints and product return and recalls due to quality irregularity, according to relevant operational policy established by the Group. The quality management centre has to complete incident investigations within 15 working days and provide a "responsibility attribution report" to senior management and the human resource department. Once the persons responsible for respective incident are identified, they need to provide reasonable corrective measures for future prevention and improvement within 10 working days.

Suppliers:

Our main types of suppliers include outsourced production suppliers and material suppliers. The Group used outsourced suppliers in China to produce approximately 50% of our footwear products and 85% of our apparel products. All of the outsourced suppliers are constantly monitored by the Group's quality control team deployed in the suppliers' manufacturing sites to uphold our top quality standards.

The Group required all suppliers to comply with national and local laws and regulations regarding environmental protection, production safety, labor condition and human rights. Quarterly check is conducted by our Procurement, Laws and Compliance, as well as Human Resources departments to ensure no violations against relevant laws and regulations. The Group actively encouraged suppliers to establish environmental friendly and energy-efficient production management systems. Relevant trainings were provided to encourage suppliers to adopt ISO14001 environmental management system and other environmental and labor friendly measures. In addition, the Group has also cooperated with government authorities and environmental monitoring institutions to conduct inspections and offered guidance to major suppliers on enhancing their production and working environment, as well as employing relevant environmental, health, and safety management procedures.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's principal business activities comprise consumer retail of sportswear products in China, which are exposed 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.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Ding Shui Po (丁水波), aged 47, is the founder, chairman and chief executive officer of the Group. He has over 29 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 Province May 4th Youth Medal
2008	CAPITAL Leaders of Excellence in China 2008
2008	Fujian Province May 4th Youth Medal
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	The "Seeding of Hope, Contribution to Brightness" medal, presented by All-China Federation of Returned Overseas Chinese
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
2016	Top Ten Teaching Entrepreneurs in China 2016 presented by Enterprise Education Top 100 in China Committee
2016	Outstanding Entrepreneur in China 2015–2016 presented by China Enterprise Confederation

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
2009	Honored Executive Director of Red Cross Society of China Fujian Branch
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
2015	Committee Member of Marathon Committee of Chinese Athletic Association
2016	Chief Expert in the Sportswear Industry, for the Sports Economy Research Center of the Research Institute of Sports Science of the General Administration of Sport of China
2017	Deputy Director of Marathon Committee of Chinese Athletic 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 started attending China Europe International Business School's Sport and Leisure Management Program in 2015, and Shanghai Advanced Institute of Finance CEO Program in 2016. He is the father of Ms. Ding Lizhi (one of our controlling shareholders) and a brother of Ms. Ding Mei Qing and Mr. Ding Ming Zhong.

Ms. Ding Mei Qing (丁美清), aged 45, is our executive Director and a vice president of the Company. Ms. Ding has over 19 years of experience in the sportswear industry and is primarily responsible for managing the Group's product design and development as well as supply chains. 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 the chief operating officer of the Group and 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 and the sister of Mr. Ding Shui Po and Mr. Ding Ming Zhong.

Mr. Ding Ming Zhong (丁明忠), aged 41, is our executive Director and a vice president of the Company. He has over 19 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 and a brother of Mr. Ding Shui Po and Ms. Ding Mei Qing.

Non-Executive Director

Mr. Ho Yui Pok, Eleutherius (何睿博), aged 52, was re-designated from executive Director to non-executive Director of the Company on 1 September 2017. Mr. Ho joined the Group in 2007 and was previously the chief financial officer, company secretary, authorized representative of the Company and he was also in charge of the investor relations the Group. On 29 March 2010, Mr. Ho was appointed as an executive Director of the Company. Since Mr. Ho's re-designation as non-executive Director of the Company on 1 September 2017, he resigned his position as the chief financial officer, company secretary and authorized representative of the Company and the person in charge of the investor relations of the Group. He has over 28 years of experience in auditing, accounting and financial management. From 2005 to 2007, Mr. Ho was the chief financial officer, company secretary and authorized representative of GST Holdings Limited, a company previously listed on the Main Board of the Hong Kong Stock Exchange. From 2000 to 2005, Mr. Ho was the financial controller of EC-Founder (Holdings) Co., Ltd., (currently known as Peking University Resources (Holdings) Company Limited, a company listed on the Main Board of the Hong Kong Stock Exchange. Mr. Ho also worked for listed companies on the Main Board of the Hong Kong Stock Exchange as manager from 1996 to 2000 and worked for an international accounting firm in Hong Kong as a manager from 1994 to 1996 and accounting firm in England from 1989 to 1993.

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. In addition, 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 a member of the Hong Kong Institute of Directors. In 2016, Mr. Ho received the Best CFO (Overall) and Best CFO (sell-side) in Consumer/Discretionary Sector Awards presented by Institutional Investor, and the Directors of the Year Awards 2016 by The Hong Kong Institute of Directors. In 2016 and 2017, Mr. Ho received the Best IR by CFO Awards presented by Hong Kong Investor Relations Association.

Independent Non-Executive Directors

Mr. Tan Wee Seng (陳偉成), aged 62, 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 and chairman of the audit committee of Sa Sa International Holdings Limited, an independent non-executive director and chairman of the remuneration committee of Health and Happiness (H&H) International Holdings Limited (previously known as 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 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 38 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.

Dr. Gao Xian Feng (高賢峰), aged 55, 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 55, was appointed as our independent non-executive Director on 21 December 2012. Dr. Bao has over 25 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. In 2016, Dr. Bao was appointed as director of the China Sports Economy Research Center.

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 and Mr. Ding Ming Zhong. Please refer to the above section headed "Executive Directors" for their biographical details.

COMPANY SECRETARY

Mr. Yeung Lo Bun (楊鷺彬), aged 40, is the company secretary as well as the chief financial officer and authorized representative of the Company. He is responsible for overall financial and accounting affairs, treasury, investor relations and company secretarial matters of the Group. He has over 17 years of experience in the field of audit, corporate finance and financial management. Mr. Yeung joined the Group on 20 September 2010. Prior to joining the Group, Mr. Yeung worked in DaChan Food (Asia) Limited (stock code: 3999), a company listed on the Main Board of the Hong Kong Stock Exchange, from 2003 to 2010 and his last position was senior finance manager. Mr. Yeung also worked for an international audit firm from 2001 to 2003.

Mr. Yeung graduated from University of Melbourne with a bachelor's degree in commerce in 2000. He is a fellow member of the Hong Kong Institute of Certified Public Accountants.

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 2017, 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 three executive Directors, one non-executive Director and three 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 have confirmed that they have complied with the required standard set out in the Model Code for the year ended 31 December 2017.

BOARD OF DIRECTORS

Board Composition

As at 31 December 2017 and the date of this annual report, the Board is comprised of three executive Directors, one non-executive Director and three 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. Ding Ming Zhong

Non-executive Director

Mr. Ho Yui Pok, Eleutherius

Independent Non-Executive Directors

Mr. Tan Wee Seng
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. 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/her position, and has sufficient experience to hold the position so as to carry out his/her 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 2017 is set out below:

Name of Director	Attendance/Number of board meeting(s) held during a director's tenure	Attendance/Number of general meeting held during a director's tenure
Executive Directors		
Mr. Ding Shui Po	4/4	1/1
Ms. Ding Mei Qing	4/4	1/1
Mr. Ding Ming Zhong	4/4	1/1
Mr. Lin Zhang Li (retired on 8 May 2017)	1/1	n/a
Non-executive Director		
Mr. Ho Yui Pok, Eleutherius	4/4	1/1
Independent Non-Executive Directors		
Mr. Tan Wee Seng	4/4	1/1
Dr. Gao Xian Feng	4/4	1/1
Dr. Bao Ming Xiao	4/4	1/1
Mr. Sin Ka Man (retired on 8 May 2017)	1/1	n/a

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 the 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;

– exercising other powers, functions and duties conferred by Shareholders in general meetings; and

– performing corporate governance duties in compliance with the terms of reference set out in the code.

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 three 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 one independent non-executive Director, namely, 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 three 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 2017:

	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. Ding Ming Zhong	✓	✓	✓	✓
Mr. Lin Zhang Li (retired on 8 May 2017)	✓	✓	✓	✓
Non-Executive Director				
Mr. Ho Yui Pok, Eleutherius	✓	✓	✓	✓
Independent Non-Executive Directors				
Mr. Tan Wee Seng	✓	✓	✓	✓
Dr. Gao Xian Feng	✓	✓	✓	✓
Dr. Bao Ming Xiao	✓	✓	✓	✓
Mr. Sin Ka Man (retired on 8 May 2017)	✓	✓	✓	✓

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, non-executive Director 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 three executive Directors, one non-executive Director and three independent non-executive Directors and has a strong independence element in its composition.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTOR AND INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ho Yui Pok, Eleutherius had entered into a service contract with the Company for an initial term of three years commencing from 1 September 2017.

Dr. Gao Xian Feng 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 non-Executive Director and 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 Corporate Governance Code. The Audit Committee consists of three members, namely, Mr. Tan Wee Seng, Dr. Gao Xian Feng and Mr. Bao Ming Xiao, all of whom are independent non-executive Directors. The chairman of the Audit Committee is Mr. Tan Wee Seng, 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 2017, the Audit Committee mainly performed the following duties:

– reviewed the Group's unaudited interim results for the six months ended 30 June 2017 and the audited annual results for the year ended 31 December 2017, 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 2017, three 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) held during a director's tenure
Mr. Tan Wee Seng	2/2
Dr. Gao Xian Feng	2/2
Dr. Bao Ming Xiao (appointed on 8 May 2017)	1/1
Mr. Sin Ka Man (retired on 8 May 2017)	1/1

There had been no disagreement between the Board and the Audit Committee during the financial year ended 31 December 2017.

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 Dr. Gao Xian Feng, Ms. Ding Mei Qing and Dr. Bao Ming Xiao, the majority of whom are independent non-executive Directors. Dr. Gao Xian Feng 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 2017, 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 2017.

During the year ended 31 December 2017, 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 held during a director's tenure
Ms. Ding Mei Qing	1/1
Dr. Gao Xian Feng	1/1
Dr. Bao Ming Xiao (appointed on 8 May 2017)	1/1
Mr. Sin Ka Man (retired on 8 May 2017)	n/a

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 2017, 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 2017.

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 2017, 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 held during a director's tenure
Mr. Ding Shui Po	1/1
Mr. Tan Wee Seng	1/1
Dr. Gao Xian Feng	1/1

AUDITOR'S REMUNERATION

The Company has re-appointed Ernst & Young as its external auditor during the year ended 31 December 2017. The external auditor is 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	700,000
Audit services	4,500,000
Total	5,200,000

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 2017, 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 auditor, the financial statements are set out in the section headed "Independent Auditor's 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 2017. 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 risk management and 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 risk management and 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 2017.

Objectives

The Board acknowledges its overall responsibility for overseeing the Group's risk management and internal control systems and ensures that a review of their effectiveness on ongoing basis. The Board has delegated and authorized its responsibilities of risk management to the Audit Committee, which is responsible for assisting the Board to evaluate and determine the nature and extent of the risks that the Group is willing to take to achieve its business strategic objectives of the Group and to ensure that the Group establishes and maintains appropriate and effective risk management and internal control systems and oversees the design, implementation and supervision of risk management and internal control systems. The Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to meet its business strategic objectives and to provide a reasonable, but not absolute, assurance against material misstatement or loss.

The management has confirmed to the Audit Committee and the Board that risk management and internal control systems were effective for the year ended 31 December 2017.

Main Features of the Risk Management and Internal Control Systems

The Company has established a risk governance organization structure with clear responsibilities and authorities.

Risk Governance Organization Structure

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

(a) Board

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

(b) Audit Committee

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

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

(c) Risk Management and Internal Audit Department

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

(d) Management

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

Process for Identification, Assessment and Management of Material Risks

The processes used by the Group for identification, assessment and management of material risks are summarised as follows:

Risk Identification: The Group identifies risks that may potentially and materially affect its strategies, business, operations and finance.

Risk Evaluation: Evaluates the identified risks by using the designated risk assessment criteria developed by the management; and evaluates the potential impacts and the likelihood of their occurrence.

Risk Response: Prioritises the material risks by comparison of the risk assessment results; and determines the risk control strategies and internal control processes to avoid, prevent or mitigate the identified risks.

Risk Reporting and Monitoring: Discusses about the results of risk management to the Board, the Audit Committee and the management regularly; continuously monitors the identified risks and ensures that internal control system processes appropriately; and reassesses the risk control strategies and internal control processes in case of any material changes in business and the external environment.

Process Used to Review the Effectiveness of The Risk Management and Internal Control Systems

During the year under review, the Board have conducted annual review of the effectiveness of the Group's risk management and internal control systems on all major operations of the Group for the year ended 31 December 2017, with assistance from the Group's Audit Committee, risk management and internal audit department and the management. The Group's risk management and internal audit department has reported major risk management and internal control review findings to the Audit Committee. The Board considered that all recommendations from the Audit Committee will be properly followed up to ensure that the effectiveness of risks control and proper internal control systems.

Annual Review

A comprehensive review on the effectiveness of the Group's risk management and internal control system is conducted by the Board and the Audit Committee annually, covering all material controls including financial, operational and compliance monitoring.

The Group has conducted regular review of the effectiveness of the risk management and internal control systems for the year ended 31 December 2017. The Board and the Audit Committee discussed the risk management and internal control systems with management, which includes the adequacy of resources, staff qualifications and experience, training programs and budget to the Group's accounting, internal audit and financial reporting function, to ensure that management has performed its duty to have effective systems. The Board and the Audit Committee also considered the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and the work of the risk management and internal audit department.

During the year under review, the Board and the Audit Committee considered that 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 considered that the risk management and internal audit department and the management are competent to carry out their roles and responsibilities. In accordance with such results, the Board and the Audit Committee are of the view that the Group has adequate workforce to satisfy with accounting and financial reporting duties and to comply with the Listing Rules. The Board and the Audit Committee also discussed the extent and communication of monitoring results annually to enables for the assessment of the Group's control and the effectiveness of risk management.

In annual review, the Group's risk management and internal control system is subject to continuous review and improvement to enable timely responses to any changes of risks facing by the Group. The Board and the Audit Committee have considered major findings on risk management and internal control matters from the risk management and internal audit department and the management. No material control failure or weaknesses to the extent that have resulted in unforeseen outcomes or contingencies in the future which may have material impacts on the Group's financial performance or conditions have been identified by the Group.

The Board confirms that the Group has complied with provisions of the Corporate Governance Code regarding risk management and internal control systems for the year ended 31 December 2017. The Group therefore considers that the risk management and internal control systems are effective and adequate.

Internal Audit Function

The Group's internal audit function is performed by its risk management and internal audit department, which plays an important role in the assessment of the effectiveness of the risk management and internal control systems of the Group and reports regularly. The Board and the Audit Committee considered that the risk management and internal audit department had been provided with adequate resources and budget and comprised qualified staff with sufficient experience and training programs to perform its internal audit function. For the year ended 31 December 2017, the risk management and internal audit department implemented the internal audit functions and reports findings regularly to the Audit Committee, which makes recommendations based on the findings to the Board.

Whistle-blowing

The Group is committed to achieving and maintaining the highest possible standards of openness, integrity and accountability. To prevent as far as possible violations and ensure compliance and operation by the highest ethical standards, the Group has designated specific whistle-blowing policies to allow employees, business partners and other relevant stakeholders to report illegal or non-compliant activities involving the Group to the risk management and internal audit department and the Audit Committee confidentially. The identity of the whistle-blower and the relevant records of the whistle-blowing are treated with the strictest confidential.

Inside Information and Information Disclosure

The Group has established a policy for ensuring that inside information is disclosed to the public in an equal and timely manner in compliance with the relevant laws and regulations. The policy regulates the handling and dissemination of inside information, including designates specific persons to be the main spokesperson of the Group to respond to external enquiries; designates reporting paths to facilitate each party to give an account of potential inside information to the designated responsible personnel; and designates responsible persons and departments to make decision about further actions to be taken and the ways to be disclosed.

COMPANY SECRETARY

The company secretary of the Company is Mr. Yeung Lo Bun, whose biography details are set out in the section headed "Directors and Senior Management" in this annual report.

Mr. Yeung has been informed of the requirement of the Rule 3.29 of the Listing Rules, and he has confirmed that he had attained no less than 15 hours of relevant professional training during the year ended 31 December 2017.

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 Unit A, 27/F, Tower A, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, 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 Unit A, 27/F, Tower A, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, 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 2017.

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 2017.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in the design, development, manufacturing and marketing of sportswear, including footwear, apparel and accessory products, sold mainly under the self-owned Xtep brand.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2017 are set out in note 1 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2017 and the Group's financial position as at that date are set out in the financial statements on pages 85 to 146 of this annual report.

DIVIDENDS

An interim dividend of HK8.5 cents (equivalent to approximately RMB7.3 cents) per Share was paid to our Shareholders during the year. The Board recommended a final dividend of HK4.5 cents (equivalent to approximately RMB3.65 cents) per Share for the year ended 31 December 2017 and a special dividend of HK10 cents (equivalent to approximately RMB8.10 cents) to celebrate the tenth anniversary of the Group's listing, subject to approval by the Shareholders at the annual general meeting to be held on 7 May 2018. The total dividends for the year ended 31 December 2017, which include the interim dividend, final dividend and special dividend, amounted to HK23 cents (equivalent to approximately RMB19.05 cents) per Share, represented an annual payout ratio of approximately 103.8%. Details of the dividend for the year ended 31 December 2017 are set out in note 11 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2017, 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 RMB99.5 million (2016: RMB406.2 million). Details of the reserves of the Company as at 31 December 2017 are set out in note 42 to the financial statements.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2017 amounted to approximately RMB13.7 million.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2017 are set out in note 29 to the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2017 were:

Executive Directors

Ding Shui Po *(Chairman)*
Ding Mei Qing
Ding Ming Zhong
Lin Zhang Li (retired on 8 May 2017)

Non-executive Director

Ho Yui Pok, Eleutherius (re-designated from executive Director to non-executive Director on 1 September 2017)

Independent Non-Executive Directors

Tan Wee Seng
Gao Xian Feng
Bao Ming Xiao
Sin Ka Man (retired on 8 May 2017)

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 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 1 September 2017.

For the independent non-executive Directors, Dr. Gao Xian Feng 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. Ding Ming Zhong and Dr. Gao Xian Feng will retire from the Board by rotation at the forthcoming annual general meeting. Ms. Ding Mei Qing, Mr. Ding Ming Zong and Dr. Gao Xian Feng, 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 50 to 52 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 2017.

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

As at 31 December 2017, 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	Founder and beneficiary of a discretionary trust(2)/Beneficial interests(3)	1,334,360,500	60.02%
Ms. Ding Mei Qing	Founder and beneficiary of a discretionary trust(2)	1,310,059,500	58.93%
Mr. Ding Ming Zhong	Founder and beneficiary of a discretionary trust(2)	1,310,059,500	58.93%
Mr. Ho Yui Pok, Eleutherius	Beneficial interests	2,900,000(4)	0.13%
Mr. Tan Wee Seng	Beneficial interests	880,000(5)	0.04%

Notes:

(1) It was based on 2,223,185,000 issued Shares of the Company as at 31 December 2017.

(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 was also beneficially interested in 24,301,000 Shares of the Company.

(4) 1,500,000 of these shares were subject to the exercise of options granted on 29 July 2009 under the Share Option Scheme. Another 1,000,000 of these shares were subject to the exercise of options granted on 28 May 2010 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.

(5) 600,000 of these shares were subject to the exercise of options granted on 30 March 2010 under the Share Option Scheme. Another 100,000 of these shares were issued to Mr. Tan Wee Seng upon 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 2017, 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 2017 are as follows:

Name	Outstanding as at 1 January 2017	Exercised during the year ended 31 December 2017(1)	Outstanding as at 31 December 2017
Employees			
Total	11,475,000	–	11,475,000

The total number of shares available for issue under the Pre-IPO Share Option Scheme is 11,475,000, representing approximately 0.5% 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 2017.

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 2017 are as follows:

Name	Date of Grant	Exercise price per Share[(1)]	Exercise period[(2)(3)(4)]	Outstanding as at 1 January 2017	Granted during the year ended 31 December 2017	Cancelled during the year ended 31 December 2017	Exercised during the year ended 31 December 2017[(5)]	Lapsed during the year ended 31 December 2017	Outstanding as at 31 December 2017
Directors									
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. 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	7,790,000	–	–	–	–	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	26,745,000	–	–	(3,050,000)	–	23,695,000
Total				46,735,000	–	–	(3,650,000)	–	43,085,000

The total number of shares available for issue under the Share Option Scheme is 43,085,000, representing 1.9% 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 2017.

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$2.95.

Further details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 31 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 2017, 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	58.93%
Wan Xing International Holdings Limited	Interests of controlled corporation(2)	1,310,059,500	58.93%
Ding Wang Fortune Limited	Interests of controlled corporation(3)	1,310,059,500	58.93%
Guan Hong Development Limited	Interests of controlled corporation(3)	1,310,059,500	58.93%
Ming Zhong Family Limited	Interests of controlled corporation(3)	1,310,059,500	58.93%
UBS Trustees (BVI) Limited	Trustee(3)	1,310,059,500	58.93%

Notes:

(1) It was based on 2,223,185,000 issued Shares of the Company as at 31 December 2017.

(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 2017, 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.

On 10 January 2017, the Board resolved to grant a total of 50,000,000 Shares to employees of the Group at nil consideration. These 50,000,000 Shares granted under the Scheme represent approximately 2.25% of the issued share capital of the Company as at the date of grant.

As of 31 December 2017, there were a total of 46,100,000 outstanding awarded Shares granted to certain employees of the Group, details of which are as follows:

		Number of Awarded Shares					
Name	Date of Grant	As at 1 January 2017	Granted during the year	Vested during the year	Forfeited during the year	As at 31 December 2017	Vesting period
Employees	10 January 2017	–	50,000,000	–	(3,900,000)	46,100,000	10 January 2018 to 10 January 2022

Further details of the Scheme are set out in note 32 to the financial statements.

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 2017.

Subsequent to 31 December 2017 and up to the date of this annual report, the Company repurchased a total of 1,800,000 Shares on the Hong Kong Stock Exchange for an aggregate amount (excluding expenses) of HK$6,278,610. Such repurchased Shares were subsequently cancelled. The number of issued Shares of the Company as at the date of this annual report is 2,221,385,000 Shares. Particulars of the Shares repurchased on the Hong Kong Stock Exchange after 31 December 2017 are as follows:

Month of repurchase	Total number of shares repurchased	Highest price paid per share (HK$)	Lowest price paid per share (HK$)	Aggregate amount paid (excluding expenses) (HK$)
February 2018	1,800,000	3.65	3.37	6,278,610

The Directors of the Company believe that the above repurchases are in the best interests of the Company and its shareholders as a whole because:

(1) the Shares have been trading at a level which significantly undervalues the Company's performance and underlying value. The Board is committed to actively manage the Company's capital and the Board believes that the above share repurchases would create benefits to the Shareholders;

(2) as the Group's 3-year transformation as described in the Company's announcement dated 8 December 2017 is near the end, the Board expects the Group's financial performance to turnaround in 2018, and cashflow to be stronger as compared to the past three years; and

(3) the Group's financial position is stable with net cash of RMB1.16 (approximately HK$1.37) per Share, accounting for approximately 48.6% of the Group's net asset, as of 30 June 2017.

The healthy current financial position and cashflow of the Group enables the Company to conduct the share repurchases while maintaining sufficient financial resources for continued growth of the Group's operations.

Saved as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2017 and up to the date of this Annual Report.

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 2017.

SPECIFIC PERFORMANCE OBLIGATIONS ON CERTAIN CONTROLLING SHAREHOLDERS

On 9 January 2014, the Company as borrower entered into a facility agreement (the “2014 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, pursuant to which a 3-year dual currency term loan facility 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 “2014 Facility”) was made available to the Company on the terms and conditions stated therein.

On 3 January 2017, the Company as borrower entered into another facility agreement (together with the 2014 Facility Agreement, the “Facility Agreements”) with a consortium of 9 banks arranged by HASE, The Hongkong and Shanghai Banking Corporation Limited, Bank of China (Hong Kong) Limited, Industrial and Commercial Bank of China (Asia) Limited and CTBC Bank Co., Ltd. as mandated lead arrangers and bookrunners and HASE as the facility agent, pursuant to which a 3.5-year dual currency term loan facility in the principal amount of US$116,000,000 and HK$651,000,000 (equivalent to approximately HK$1,555,800,000 in aggregate) (together with the 2014 Facility, the “Facilities”) was made available to the Company on the terms and conditions stated therein.

The Facilities are guaranteed by certain subsidiaries of the Company.

It is provided in the Facility Agreements, among other things, that an event of default will occur if the following undertakings are not complied with and not remedied within 20 days of the earlier of (i) HASE, as the facility agent, giving notice to the Company and (ii) any of the Company or the guarantors named therein becoming aware of the failure to comply:

(a) Mr. Ding Shui Po will remain as the chairman of the Board;

(b) Mr. Ding Shui Po will maintain control over the management and business of the Group;

(c) Mr. Ding Shui Po and Ms. Ding Mei Qing (the “Majority Shareholders”) collectively will continue 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 will remain to be the single largest shareholder of the Company.

In case of occurrence of an event of default which is continuing, HASE, as the facility agent, may by notice to the Company (a) cancel the whole or any part of the Facilities whereupon the whole or relevant part of the Facilities shall immediately be cancelled; (b) declare that all or part of the Facilities, together with accrued interest, and all other amounts accrued or outstanding under the Facility Agreements 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 Facilities 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 2017 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 58.93% of the issued share capital of the Company. Mr. Ding Shui Po also had personal beneficial interests in approximately 1.09% 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 of the Company dated 21 May 2008). 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 2017 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 31 to the financial statements.

The Company has adopted a share award scheme in which the Group's employees, executives, officers or directors will be entitled to participate. Details of this scheme are set out in this paragraph headed "Share Award Scheme" above and note 32 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 2017 is shown on pages 11 to 46.

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 3.1% (2016: 4.8%) and 13.6% (2016: 15.4%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 5.3% (2016: 3.2%) and 16.5% (2016: 14.9%) of the Group's total purchases respectively.

At no time during the year ended 31 December 2017, 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.

AUDITOR

Ernst & Young will retire and, being eligible, offer themselves for reappointment. A resolution for their re-appointment as auditor 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 2017.

BANK LOANS

Details of bank loans of the Company and the Group as at 31 December 2017 are set out in note 26 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 page 3 of this annual report.

On behalf of the Board
Ding Shui Po
Chairman

Hong Kong, 15 March 2018

INDEPENDENT AUDITOR'S REPORT

EY 安永

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

OPINION

We have audited the consolidated financial statements of Xtep International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 85 to 146, which comprise the consolidated statement of financial position as at 31 December 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables As at 31 December 2017, the Group had gross trade receivables of RMB2,296 million, after netting off the impairment provision of RMB577 million, resulted in a net trade receivables of RMB1,719 million. Significant judgement and estimation by management are involved in the estimate of impairment of trade receivables, based on assessment of the ageing of trade receivable balances, the credit quality of each individual debtor, and the prevailing sportswear market conditions. Where the expectation is different from the original estimate, such difference will impact the carrying value of the trade receivables and the impairment allowance for trade receivables in the year in which such estimate has been changed. The significant judgement and estimates and disclosures for the recognition of impairment of trade receivables are included in notes 3 and 20 to the consolidated financial statements.	Our procedures included, among others, reviewing management's assessment on the recoverability of the trade receivable balances with reference to various factors such as historical settlement trend and settlement received from customers subsequent to the end of the reporting period. We checked the accuracy of the ageing classification of these balances. We also evaluated management's assessment of the credit quality of individual customers based on the historical sales trend and repayment patterns of customers, and also by benchmarking to the trade receivables turnover days of other sportswear companies in the market.
Provision for inventories As at 31 December 2017, the Group had gross inventories of RMB744 million, after netting off the provision of RMB26 million, resulted in a net inventories of RMB718 million. Because of the fast changing market conditions, significant judgement and estimation by management are involved in identifying inventories with net realisable values that are lower than their costs, and obsolescence, with reference to the selling prices and salability of inventories, and the prevailing sportswear sales trend in Mainland China. The related judgement and estimates and the provision for inventories are disclosed in notes 3 and 19 to the consolidated financial statements.	Our procedures included, among others, selecting samples of inventories and reviewing their net realisable values with reference to their selling prices subsequent to the end of the reporting period and the Group's pricing strategy, including any management's plan for significant discounts to be offered which may affect the net realisable values of these inventory items. We evaluated management's assessment of obsolescence of inventories with reference to their ageing, the condition of inventories during our observation of physical inventory count, and the historical and prevailing sales trend of sportswear products. We also evaluated sales forecasts prepared by management through benchmarking to market data, historical sales trend and interviewing with customers of the Group.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Wan Fung.

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

15 March 2018

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5	5,113,434	5,396,615
Cost of sales		(2,868,947)	(3,065,309)
Gross profit		2,244,487	2,331,306
Other income and gains	5	158,316	98,663
Selling and distribution expenses		(911,447)	(850,815)
General and administrative expenses		(766,844)	(662,130)
Operating profit	6	724,512	917,024
Net finance costs	7	(53,800)	(51,441)
PROFIT BEFORE TAX		670,712	865,583
Income tax expense	10	(224,360)	(292,608)
PROFIT FOR THE YEAR		446,352	572,975
Attributable to:			
Ordinary equity holders of the Company		408,139	527,850
Non-controlling interests		38,213	45,125
		446,352	572,975
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
– Basic		RMB18.81 cents	RMB23.89 cents
– Diluted		RMB18.37 cents	RMB23.73 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
PROFIT FOR THE YEAR	**446,352**	572,975
OTHER COMPREHENSIVE 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	**77,444**	(95,061)
Other comprehensive income/(expense) for the year, net of tax	**77,444**	(95,061)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**523,796**	477,914
Attributable to:		
Ordinary equity holders of the Company	**485,583**	432,789
Non-controlling interests	**38,213**	45,125
	523,796	477,914

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**645,928**	618,021
Investment properties	14	**39,615**	–
Prepaid land lease payments	15	**240,630**	226,343
Deposits for acquisition of land use rights	16	**–**	10,467
Intangible assets	17	**7,521**	5,133
Available-for-sale investments	18	**92,000**	82,000
Deposits and other receivables	21	**26,208**	14,915
Total non-current assets		**1,051,902**	956,879
CURRENT ASSETS			
Inventories	19	**717,851**	459,575
Trade receivables	20	**1,719,007**	1,916,209
Bills receivables	20	**87,500**	186,950
Prepayments, deposits and other receivables	21	**572,280**	407,785
Tax recoverable		**1,370**	1,240
Structured bank deposits	22	**715,000**	–
Pledged bank deposits	23	**56,526**	798,770
Time deposits	23	**180,000**	600,000
Cash and cash equivalents	23	**3,832,272**	2,846,532
Total current assets		**7,881,806**	7,217,061
CURRENT LIABILITIES			
Trade payables	24	**1,027,714**	896,052
Deposits received, other payables and accruals	25	**564,617**	543,661
Interest-bearing bank borrowings	26	**830,865**	1,501,581
Tax payable		**65,632**	88,187
Total current liabilities		**2,488,828**	3,029,481
NET CURRENT ASSETS		**5,392,978**	4,187,580
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,444,880**	5,144,459
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	26	**1,019,159**	–
Deferred tax liabilities	27	**97,113**	109,277
Deferred subsidies	28	**–**	12,420
Total non-current liabilities		**1,116,272**	121,697
NET ASSETS		**5,328,608**	5,022,762
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Share capital	29	**19,603**	19,572
Reserves	30	**5,201,266**	4,933,876
		5,220,869	4,953,448
Non-controlling interests		**107,739**	69,314
Total equity		**5,328,608**	5,022,762

Ding Shui Po
Director

Ding Mei Qing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

		Attributable to ordinary equity holders of the Company												
			Reserves											
	Notes	Share capital RMB'000 (note 29)	Share premium account RMB'000 (note 42)	Capital reserve RMB'000 (note 30(i))	Statutory surplus fund RMB'000 (note 30(ii))	Treasury shares RMB'000 (note 32)	Share award reserve RMB'000 (note 42)	Share option reserve RMB'000 (note 42)	Exchange fluctuation reserve RMB'000 (note 30(iii))	Retained profits RMB'000	Total reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016		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
Total comprehensive income/ (expense) for the year		–	–	–	–	–	–	–	(95,061)	527,850	432,789	432,789	45,125	477,914
2015 final dividend declared and paid	11	–	–	–	–	–	–	–	–	(128,551)	(128,551)	(128,551)	–	(128,551)
2015 special dividend declared and paid	11	–	–	–	–	–	–	–	–	(64,276)	(64,276)	(64,276)	–	(64,276)
2016 interim dividend declared and paid	11	–	–	–	–	–	–	–	–	(200,846)	(200,846)	(200,846)	–	(200,846)
Exercise of share options	29(i)	174	53,565	–	–	–	–	(11,349)	–	–	42,216	42,390	–	42,390
Issue of shares	29(ii)	44	19,956	–	–	–	–	–	–	–	19,956	20,000	–	20,000
Transfer of share option reserve upon lapse of share options		–	–	–	–	–	–	(1,606)	–	1,606	–	–	–	–
Transfer to statutory surplus fund		–	–	–	62,754	–	–	–	–	(62,754)	–	–	–	–
Capital contribution from a non-controlling interest		–	–	–	–	–	–	–	–	–	–	–	4,900	4,900
Exchange differences related to foreign operations		–	–	–	–	–	–	–	–	–	–	–	(482)	(482)
At 31 December 2016		19,572	250,628	118,600	583,669	(120,447)	–	91,699	(122,670)	4,132,397	4,933,876	4,953,448	69,314	5,022,762
At 1 January 2017		19,572	250,628	118,600	583,669	(120,447)	–	91,699	(122,670)	4,132,397	4,933,876	4,953,448	69,314	5,022,762
Total comprehensive income for the year		–	–	–	–	–	–	–	77,444	408,139	485,583	485,583	38,213	523,796
Awarded shares granted	32	–	–	–	–	(6,684)	6,684	–	–	–	–	–	–	–
Awarded shares forfeited	32	–	–	–	–	521	(521)	–	–	–	–	–	–	–
Equity-settled share award arrangement	32	–	–	–	–	45,421	–	–	–	–	45,421	45,421	–	45,421
2016 final dividend declared and paid	11	–	–	–	–	–	–	–	–	(63,968)	(63,968)	(63,968)	–	(63,968)
2016 special dividend declared and paid	11	–	–	–	–	–	–	–	–	(54,126)	(54,126)	(54,126)	–	(54,126)
2017 interim dividend declared and paid	11	–	–	–	–	–	–	–	–	(152,746)	(152,746)	(152,746)	–	(152,746)
Exercise of share options	29(i)	31	9,246	–	–	–	–	(2,020)	–	–	7,226	7,257	–	7,257
Transfer to statutory surplus fund		–	–	–	79,440	–	–	–	–	(79,440)	–	–	–	–
Exchange differences related to foreign operations		–	–	–	–	–	–	–	–	–	–	–	212	212
At 31 December 2017		19,603	259,874	118,600	663,109	(81,189)	6,163	89,679	(45,226)	4,190,256	5,201,266	5,220,869	107,739	5,328,608

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		670,712	865,583
Adjustments for:			
Depreciation	13, 14	58,495	53,008
Amortisation of prepaid land lease payments	15	8,273	5,583
Amortisation of intangible assets	17	1,270	707
Loss on write-off of items of property, plant and equipment	6	1,000	860
Bank interest income	7	(51,703)	(51,036)
Interest income on a currency swap	7	(927)	–
Interest income from a loan to an investee company	5	(347)	–
Interest expense on bank loans	7	36,403	43,730
Interest expense on discounted bills receivables	7	67,397	60,586
Amortisation of bank charges on syndicated loans	7	9,881	3,900
Dividend income from an available-for-sale investment	5	(1,500)	–
Fair value gains, net:			
Derivative financial instruments – transactions not qualified as hedges	7	(7,251)	(5,739)
Equity-settled share award scheme expense	32	45,421	–
Provision for impaired trade receivables, net	6	66,762	222,150
Provision for inventories	6	26,035	–
Loss on buy-back of inventories	6	120,825	–
Income derived from available-for-sale investments and structured bank deposits	5	(63,241)	(41,906)
		987,505	1,157,426
Increase in inventories		(284,311)	(61,190)
Decrease/(increase) in trade and bills receivables		88,525	(433,452)
Increase in prepayments, deposits and other receivables		(103,115)	(26,018)
Increase in trade payables		131,662	217
Increase in deposits received, other payables and accruals		48,233	10,670
Cash generated from operations		868,499	647,653
Interest received		52,630	51,036
Interest paid		(103,800)	(104,316)
Overseas taxes paid		(259,209)	(248,556)
Net cash flows from operating activities		558,120	345,817

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	(123,276)	(93,678)
Additions of intangible assets	17	(3,658)	(2,601)
Decrease/(increase) in deposits for purchase of items of property, plant and equipment		(11,293)	10,149
Loan advance to an investee company	21	(60,000)	–
Decrease/(increase) in pledged deposits		742,244	(92,945)
Decrease/(increase) in available-for-sale investments		(10,000)	90,000
Increase in structured bank deposits		(715,000)	–
Decrease/(increase) in time deposits with original maturity more than three months when acquired		420,000	(536,000)
Income derived from available-for-sale investments and structured bank deposits	5	63,241	41,906
Interest income from a loan to an investee company	5	347	–
Dividend income from an available-for-sale investment	5	1,500	–
Addition of deferred subsidies	28	–	29,054
Addition of prepaid land lease payments	15, 33	(49,995)	(18,013)
Receipt of subsidies for acquisition of land use rights	15	20,990	–
Capital contribution from a non-controlling interest		–	4,900
Net cash flows from/(used in) investing activities		275,100	(567,228)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans, net of bank charges on syndicated loans		1,588,359	1,016,180
Repayment of bank loans		(1,167,552)	(1,244,031)
Net proceeds from issue of ordinary shares	29	7,257	62,390
Dividends paid	11	(270,840)	(393,673)
Exchange realignment		(3,406)	16,907
Net cash flows from/(used in) financing activities		153,818	(542,227)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		987,038	(763,638)
Cash and cash equivalents at beginning of year		2,846,532	3,607,000
Effect of foreign exchange rate changes, net		(1,298)	3,170
CASH AND CASH EQUIVALENTS AT END OF YEAR		3,832,272	2,846,532
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		3,832,272	2,846,532

1. CORPORATE AND GROUP INFORMATION

Xtep International Holdings Limited is a limited liability company incorporated in the Cayman Islands. During the year, the Company's principal place of business in Hong Kong was located at Suite 2401-02, 24th floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong. Pursuant to an announcement of the Company dated 21 February 2018, the Company's principal place of business in Hong Kong has been changed to Unit A, 27/F, Tower A, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong with effect from 1 March 2018.

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	Percentage of equity attributable to the Company Indirect	Principal activities
Xtep International Development Limited	BVI	US$10,000	100	–	Investment holding
Xtep International E-Commerce Investment Limited*	BVI	US$50,000	75	–	Investment holding
特步中國有限公司* ("Xtep China") (notes (a) and (c))	People's Republic of China ("PRC")/ Mainland China	HK$830 million	–	100	Manufacture and trading of sportswear
Koling (Fujian) Garment Co., Ltd.* (notes (a) and (c))	PRC/Mainland China	HK$158 million	–	100	Manufacture and trading of sportswear
Xtep Sports Goods Co., Ltd. Jinjiang* (notes (a) and (c))	PRC/Mainland China	US$6 million	–	100	Manufacture and trading of sportswear
Xiamen Xtep Investment Company Limited* (notes (a) and (c))	PRC/Mainland China	RMB50 million	–	100	Trading of sportswear
特步(安徽)有限公司* ("Xtep Anhui") (notes (b) and (c))	PRC/Mainland China	RMB450 million	–	100	Manufacture and 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
特步湖南體育用品有限公司* (notes (b) and (c))	PRC/Mainland China	RMB50 million	–	100	Manufacture of sportswear
晉江特步貿易有限公司* (notes (b) and (c))	PRC/Mainland China	RMB10 million	–	100	Trading of sportswear
廈門市特步兒童用品有限公司* (notes (a) and (c))	PRC/Mainland China	HK$30 million	–	82	Trading of sportswear
廈門特興貿易有限公司* (notes (b) and (c))	PRC/Mainland China	RMB30 million	–	100	Trading of sportswear
江西天鄰商貿有限公司* ("Jiangxi TL") (notes (a) and (d))	PRC/Mainland China	–	–	75	Trading of sportswear

Notes:

(a) The entities are wholly-foreign-owned enterprises and limited liability companies established in the PRC.

(b) The entities are registered as limited liability companies in the PRC.

(c) The registered capital of these entities was fully paid up as at 31 December 2017.

(d) Jiangxi TL was established on 18 September 2014. Its registered capital of RMB5,000,000 was not yet paid up as at 31 December 2017.

* 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.

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 values are rounded to the nearest thousand except when 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 2017. 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 above. 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 HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

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

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Currently, most of the Group's financial assets, including loan to an investee company and structured bank deposits placed with banks are classified and measured at amortised cost, and the Group does not expect the adoption of HKFRS 9 to have material impact on the classification and measurement of its financial assets. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) HKFRS 9 requires an entity to recalculate the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. Any adjustments to the amortised cost of the financial liability would be recognised in profit or loss at the date of the modification or exchange. The classification of financial liabilities is essentially unchanged.

(c) HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months. Based on a preliminary assessment, if the Group were to adopt the new impairment requirement at 31 December 2017, accumulated impairment loss at that date would not be significantly different as compared with that recognised under HKAS 39. As a consequence, no adjustment is expected to be made to the opening balances of net assets and retained profits at 1 January 2018.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group has assessed the impact of this standard and expects that the standard will not have significant impact, when applied, on the consolidated financial statements of the Group.

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17.

Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 35 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB28,988,000.

Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

Other than the above, the Group is also in the process of making an assessment of the impact of the other 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.

Investment properties

Investment properties are land and buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land and buildings held for a currently undetermined future use. Such properties are stated at cost less accumulated depreciation and any impairment losses.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Depreciation is calculated on the straight-line basis to depreciate the cost of each item of investment properties over the estimated useful life.

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 five 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 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 and currency swap to hedge its interest rate risk and foreign currency 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
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.

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 and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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 and a share award scheme 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 the 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. Proposed final dividends are disclosed in note 11 to these 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 dollars 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 the 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 operating 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 operating 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 operating 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.

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. The related disclosures are included in note 19 to these financial statements.

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. The related disclosures are included in note 20 to these financial statements.

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. The related disclosures are included in note 10 to these financial statements.

Withholding taxes arising from the distributions of dividends

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 including future profitability, the dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future. The related disclosures are included in note 27 to these financial statements.

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 2017 and 2016, 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:

	2017 RMB'000	2016 RMB'000
Revenue		
Manufacture and sale of sportswear:		
Footwear	3,257,797	3,525,350
Apparel	1,759,460	1,764,810
Accessories	96,177	106,455
	5,113,434	5,396,615
Other income and gains		
Subsidy income from the PRC government*	79,395	53,651
Rental income	7,278	3,106
Income derived from available-for-sale investments and structured bank deposits	63,241	41,906
Interest income from a loan to an investee company	347	–
Dividend income from an available-for-sale investment	1,500	–
Scrap sales income	6,555	–
	158,316	98,663
	5,271,750	5,495,278

* 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	2017 RMB'000	2016 RMB'000
Cost of inventories sold[1]		2,868,947	3,065,309
Depreciation	13, 14	58,495	53,008
Amortisation of prepaid land lease payments	15	8,273	5,583
Amortisation of intangible assets[2]	17	1,270	707
Advertising and promotional costs		658,034	637,161
Employee benefit expenses (including directors' remuneration – note 8):			
Wages and salaries		511,500	502,274
Other allowances and benefits		51,688	55,856
Pension scheme contributions[3]		17,142	17,927
Equity-settled share award scheme expense[2]	32	45,421	–
		625,751	576,057
Auditor's remuneration		3,916	3,563
Loss on write-off of items of property, plant and equipment		1,000	860
Minimum lease payments under operating leases of land and buildings		16,618	13,063
Provision for impaired trade receivables, net[2]	20	66,762	222,150
Provision for inventories[2]		26,035	–
Loss on buy-back of inventories[2, 5]		120,825	–
Research and development costs[4]		143,427	138,168
Foreign exchange differences, net[2]		2,946	20,776
Fair value gains, net:			
Derivative instruments – transactions not qualified as hedges	7	(7,251)	(5,739)
Write-back of long aged prior year accruals		–	(36,247)

1 The cost of inventories sold for the year includes RMB295,062,000 (2016: RMB304,119,000), 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, provision for impaired trade receivables, net, provision for inventories, loss on buy-back of inventories, equity-settled share award scheme expense and foreign exchange differences, net for the year are included in "General and administrative expenses" in the consolidated income statement.

3 As at 31 December 2017, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2016: Nil).

4 The research and development costs for the year include RMB79,048,000 (2016: RMB75,835,000) 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.

5 During the year ended 31 December 2017, the Group has bought back aged inventories from distributors and customers. A loss of RMB120,825,000, representing trade receivables due from distributors and customers of RMB141,365,000 offset with VAT payables of RMB20,540,000, was charged to the consolidated income statement because the net realisable value of these aged inventories are assessed by management as nil.

7. NET FINANCE COSTS

An analysis of net finance costs is as follows:

	Notes	2017 RMB'000	2016 RMB'000
Interest expense on bank loans		(36,403)	(43,730)
Interest expense on discounted bills receivable		(67,397)	(60,586)
Amortisation of bank charges on syndicated loans		(9,881)	(3,900)
Bank interest income		51,703	51,036
Fair value gains, net:			
Derivative financial instruments – transactions not qualified as hedges*	21, 25	7,251	5,739
Interest income on a currency swap		927	–
		(53,800)	(51,441)

* The Group enters into interest rate and currency swap contracts for its floating-interest loans denominated in United States dollars to manage its exposure to interest rate and exchange 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:

	Group	
	2017 RMB'000	2016 RMB'000
Fees:		
Executive directors	–	–
Non-executive director	–	–
Independent non-executive directors	977	1,128
	977	1,128
Other emoluments of executive directors:		
Salaries, other allowances and benefits in kind	4,642	6,104
Performance related bonuses*	–	985
Pension scheme contributions	163	270
	4,805	7,359
Other emoluments of a non-executive director		
Salaries, other allowances and benefits in kind	183	–
	5,965	8,487

* An executive director of the Company was entitled to bonus payments which were determined based on the Group's performance during the year ended 31 December 2016.

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 31(a) and 31(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
2017					
a) *Executive directors*					
Ding Shui Po[1]	935	–	–	18	953
Ding Mei Qing	467	–	–	14	481
Lin Zhang Li[2]	156	–	–	7	163
Ding Ming Zhong	467	–	–	14	481
Ho Yui Pok, Eleutherius[3]	2,617	–	–	110	2,727
	4,642	–	–	163	4,805
b) *Non-executive director*					
Ho Yui Pok, Eleutherius[3]	183	–	–	–	183
c) *Independent non-executive directors*					
Tan Wee Seng	550	–	–	–	550
Sin Ka Man[4]	67	–	–	–	67
Gao Xian Feng	180	–	–	–	180
Bao Ming Xiao	180	–	–	–	180
	977	–	–	–	977
	5,802	–	–	163	5,965

	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
2016					
a) *Executive directors*					
Ding Shui Po[1]	945	–	–	15	960
Ding Mei Qing	712	–	–	12	724
Lin Zhang Li[2]	232	–	–	12	244
Ding Ming Zhong	712	–	–	12	724
Ye Qi[5]	127	–	–	1	128
Ho Yui Pok, Eleutherius[3]	3,376	985	–	218	4,579
	6,104	985	–	270	7,359
b) *Independent non-executive directors*					
Tan Wee Seng	563	–	–	–	563
Sin Ka Man[4]	205	–	–	–	205
Gao Xian Feng	180	–	–	–	180
Bao Ming Xiao	180	–	–	–	180
	1,128	–	–	–	1,128
	7,232	985	–	270	8,487

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

2 Mr. Lin Zhang Li had retired as an executive director with effect from 8 May 2017.

3 Mr. Ho Yui Pok, Eleutherius was re-designated from an executive director to a non-executive director with effect from 1 September 2017.

4 Mr. Sin Ka Man had retired as an independent non-executive director with effect from 8 May 2017.

5 Mr. Ye Qi had retired as an executive director with effect from 31 March 2016.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2016: 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 bands is as follows:

	Number of employees	
	2017	2016
HK$500,001 – HK$1,000,000	–	1
HK$1,000,001 – HK$1,500,000	2	–
HK$1,500,001 – HK$2,000,000	–	1
	2	2

Details of the remuneration for the year of the remaining two (2016: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Group	
	2017 RMB'000	2016 RMB'000
Salaries, other allowances and benefits in kind	1,749	1,931
Performance-related bonuses	448	234
Pension scheme contributions	46	31
	2,243	2,196

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 (2016: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2017 RMB'000	2016 RMB'000
Current tax – Overseas		
Charge for the year	217,835	269,905
Underprovision in prior years	6,525	7,703
	224,360	277,608
Deferred (note 27)	–	15,000
	224,360	292,608

Xtep China, a wholly-owned subsidiary of the Company, was taxed at a preferential 15% tax rate for the years ended 31 December 2016 and 2017 as Xtep China was qualified as a High-New Technology Enterprise (the "HNTE") in the PRC and obtained the relevant HNTE certificates in 2016.

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 rate is as follows:

	2017 RMB'000	2016 RMB'000
Profit before tax	670,712	865,583
Tax at the applicable tax rates	178,984	227,839
Lower tax rates for specific provinces or tax holidays	(30,404)	(33,472)
Adjustments in respect of current tax of previous years	6,525	7,703
Income not subject to tax	(52)	(1,474)
Expenses not deductible for tax	68,681	81,325
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	–	15,000
Tax losses utilised from previous periods	(141)	(4,738)
Tax losses not recognised	767	425
Tax charge at the Group's effective rate	224,360	292,608

11. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Dividends paid during the year:		
Final – HK3.25 cents (2016: HK7.0 cents) per ordinary share	63,968(ii)	128,551(i)
Special – HK2.75 cents (2016: HK3.5 cents) per ordinary share	54,126(ii)	64,276(i)
Interim – HK8.5 cents (2016: HK10.5 cents) per ordinary share	152,746(iii)	200,846(ii)
	270,840	393,673
Proposed final dividend:		
HK4.5 cents (2016: HK3.25 cents) per ordinary share	81,035	64,120(ii)
Proposed special dividend:		
HK10 cents (2016: HK2.75 cents) per ordinary share	180,078	54,255(ii)
	261,113	118,375

(i) In respect of the financial year ended 31 December 2015
(ii) In respect of the financial year ended 31 December 2016
(iii) In respect of the financial year ended 31 December 2017

The proposed final dividend and special dividend for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect them as 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 RMB408,139,000 (2016: RMB527,850,000) and the weighted average number of ordinary shares in issue during the year of 2,170,073,000 (2016: 2,209,735,000), as adjusted to exclude shares held under the share award scheme of the Company (note 32).

(b) Diluted earnings per share

The calculation of the diluted earnings per share amount for the year ended 31 December 2017 is based on the profit for that year attributable to ordinary equity holders of the Company of RMB408,139,000 (2016: RMB527,850,000). The weighted average number of ordinary shares of 2,221,543,000 (2016: 2,224,056,000) used in the calculation is the weighted average number of 2,170,073,000 ordinary shares (2016: 2,209,735,000) in issue during the year, as used in the basic earnings per share calculation, the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options into 5,370,000 ordinary shares (2016: 14,321,000) during the year and 46,100,000 outstanding awarded shares (note 32) held under the share award scheme of the Company.

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 2017							
Cost:							
At beginning of year	356,646	29,108	127,033	68,783	140,351	211,625	933,546
Additions	94,747	–	8,515	329	17,501	2,184	123,276
Transfer	192,740	–	–	–	–	(192,740)	–
Transfer to investment properties (note 14)	(62,377)	–	–	–	–	–	(62,377)
Transfer from deposits for acquisition of land use rights (note 16)	–	–	–	–	–	3,749	3,749
Write-off	–	–	(3,887)	(163)	(372)	–	(4,422)
Exchange realignment	–	(25)	–	(23)	(68)	–	(116)
At 31 December 2017	581,756	29,083	131,661	68,926	157,412	24,818	993,656
Accumulated depreciation:							
At beginning of year	87,160	27,983	71,646	43,138	85,598	–	315,525
Provided during the year	23,854	283	8,509	8,642	15,565	–	56,853
Transferred to investment properties (note 14)	(21,120)	–	–	–	–	–	(21,120)
Write-off	–	–	(3,071)	(22)	(329)	–	(3,422)
Exchange realignment	–	(25)	–	(15)	(68)	–	(108)
At 31 December 2017	89,894	28,241	77,084	51,743	100,766	–	347,728
Net carrying amount:							
At 31 December 2017	491,862	842	54,577	17,183	56,646	24,818	645,928

	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 2016							
Cost:							
At beginning of year	351,082	32,202	121,087	68,617	122,478	164,404	859,870
Additions	151	1,150	6,793	134	19,369	66,081	93,678
Transfer	18,860	–	–	–	–	(18,860)	–
Release of deferred subsidies (note 28)	(13,292)	–	–	–	–	–	(13,292)
Write-off	(155)	(4,282)	(847)	(3)	(1,596)	–	(6,883)
Exchange realignment	–	38	–	35	100	–	173
At 31 December 2016	356,646	29,108	127,033	68,783	140,351	211,625	933,546
Accumulated depreciation:							
At beginning of year	71,529	28,023	63,276	33,047	72,512	–	268,387
Provided during the year	15,631	3,915	8,964	10,073	14,425	–	53,008
Write-off	–	(3,993)	(594)	(2)	(1,434)	–	(6,023)
Exchange realignment	–	38	–	20	95	–	153
At 31 December 2016	87,160	27,983	71,646	43,138	85,598	–	315,525
Net carrying amount:							
At 31 December 2016	269,486	1,125	55,387	25,645	54,753	211,625	618,021

Included in "Buildings" are certain self-used properties with a net carrying amount of approximately RMB247,063,000 at 31 December 2017 (2016: RMB54,845,000), for which the Group has not obtained the building ownership certificates. The Group was 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 2017 of RMB239,984,000 out of the total of RMB247,063,000 (2016: RMB53,089,000 out of the total of RMB54,845,000).

14. INVESTMENT PROPERTIES

	Note	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January		–	–
Transferred from property, plant and equipment	13	41,257	–
Depreciation provided during the year		(1,642)	–
Carrying amount at 31 December		39,615	–

The Group's investment properties are commercial properties situated at certain floors of a building located at No. 168, Tabu East Road, Siming District, Xiamen City, Fujian Province, the PRC.

As at 31 December 2017, the fair value of the Group's investment properties was based on valuations performed by Knight Frank Petty Limited, a firm of independent and professionally qualified valuers.

The investment properties were valued by the sales comparison approach with reference to comparable market transactions. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors. The fair value of these properties was RMB107,300,000, which falls into the category of fair value measurements using significant unobservable inputs (Level 3) including comparable prices in the market.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 35(a) to the financial statements.

15. PREPAID LAND LEASE PAYMENTS

	Note	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January		**231,575**	213,479
Additions during the year		**56,713**	70,336
Release of subsidies	(a)	**(20,990)**	–
Resumed during the year (note 28)		**(12,420)**	(46,657)
Recognised for the year		**(8,273)**	(5,583)
Carrying amount at 31 December		**246,605**	231,575
Current portion included in prepayments, deposits and other receivables		**(5,975)**	(5,232)
Non-current portion		**240,630**	226,343

Note:

(a) During the year ended 31 December 2017, subsidies of RMB20,990,000 were received by the Group from PRC government. The subsidies were offset with prepaid land lease payment of the same balance in respect of the land use right of Fujian Land (as defined in note 16) acquired in prior years.

16. 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 (the "Deposits"), in connection with the acquisition in progress with respect to a parcel of land in Fujian Province, the PRC (the "Fujian Land") in prior years.

During the year ended 31 December 2016, the Group has utilised RMB52,323,000 out of the Deposits for the acquisition of certain portion of the Fujian Land. As at 31 December 2016, RMB10,467,000 of the Deposits remained unutilised.

During the year ended 31 December 2017, the Group has entered into a sale and purchase agreement with the local government authority for acquiring the remaining portion of the Fujian Land at a cash consideration of RMB27,170,000, of which RMB6,718,000 was settled by utilising the Deposits and the remaining balance was settled by cash. The remaining balance of the Deposits amounting to RMB3,749,000 was utilised for the relevant construction work during the year ended 31 December 2017.

17. INTANGIBLE ASSETS

Patents and trademarks

	2017 RMB'000	2016 RMB'000
Cost:		
At beginning of year	8,309	5,708
Additions	3,658	2,601
At 31 December	11,967	8,309
Accumulated amortisation:		
At beginning of year	3,176	2,469
Amortisation provided during the year	1,270	707
At 31 December	4,446	3,176
Net carrying amount:		
At 31 December	7,521	5,133

18. AVAILABLE-FOR-SALE INVESTMENTS

	2017 RMB'000	2016 RMB'000
Unlisted equity investments, at cost	92,000	82,000

As at 31 December 2017, the unlisted equity investments with carrying values of RMB35,000,000 (2016: RMB25,000,000), RMB33,000,000 (2016: RMB33,000,000) and RMB24,000,000 (2016: RMB24,000,000) represented 5%, 11% and 3% equity interests in three (2016: three) corporate entities, which were established in the PRC on 22 December 2014, 22 October 2012 and 10 September 2010 with paid-up capital of RMB700,000,000 (2016: RMB500,000,000), RMB300,000,000 (2016: RMB300,000,000) and RMB800,000,000 (2016: RMB800,000,000), respectively.

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

19. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	140,826	71,191
Work in progress	73,498	63,073
Finished goods	529,562	325,311
	743,886	459,575
Less: Provision for inventories	(26,035)	–
	717,851	459,575

20. TRADE AND BILLS RECEIVABLES

	Notes	2017 RMB'000	2016 RMB'000
Trade receivables		2,295,708	2,426,148
Less: Provision for impaired receivables	(a)	(576,701)	(509,939)
	(b), (c)	1,719,007	1,916,209
Bills receivables	(d)	87,500	186,950

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 to four 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.

Notes:

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

	2017 RMB'000	2016 RMB'000
At 1 January	509,939	287,789
Provision for impaired receivables, net	66,762	222,150
At 31 December	576,701	509,939

Included in the above provision for impairment of trade receivables is provisions for individually impaired trade receivables of RMB576,701,000 (2016: RMB509,939,000) with aggregate carrying amounts before provision of RMB1,045,050,000 (2016: RMB779,941,000). 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 ageing 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:

	2017 RMB'000	2016 RMB'000
Within 3 months	1,232,647	1,381,366
4 to 6 months	267,327	431,884
Over 6 months	219,033	102,959
At 31 December	1,719,007	1,916,209

(c) An ageing 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:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	976,357	1,201,571
Less than 3 months past due	148,298	341,677
Past due over 3 months	126,003	102,959
	1,250,658	1,646,207

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. 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:

	2017 RMB'000	2016 RMB'000
Within 3 months	63,000	–
3 to 6 months	24,500	186,950
	87,500	186,950

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2017 RMB'000	2016 RMB'000
Prepayments		**205,107**	206,493
Deposits and advance payments to suppliers		**213,395**	158,583
Loan to an investee company	(a)	**60,000**	–
Deposits for construction contracts		**–**	3,296
Other deposits		**13,815**	9,077
Value added tax ("VAT") recoverable		**85,270**	24,333
Other receivables		**20,264**	20,918
Derivative financial instrument	(b)	**637**	–
		598,488	422,700
Less: Non-current portion		**(26,208)**	(14,915)
		572,280	407,785

Notes:

(a) The loan granted to an investee company with a carrying value of investment of RMB24,000,000 (note 18) bears interest at 4.5675% per annum and repayable in twelve months. The loan is secured by the guarantor's land and building located at Putian, Fujian Province, the PRC.

(b) The Group has entered into a currency swap contract to manage its exchange rate exposures which did not meet the criteria for hedge accounting. Changes in fair value of non-hedging currency derivative instrument for the year amounting to RMB656,000 (2016: Nil) (note 7) were credited to the consolidated income statement.

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

22. STRUCTURED BANK DEPOSITS

The structured bank deposits are time deposits with fixed maturity periods of five to twelve months and interest-bearing at floating rates based on the fluctuation in the London Interbank Offered Rate ("LIBOR"). These structured bank deposits are stated at amortised cost as at the end of the reporting period.

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

	Note	2017 RMB'000	2016 RMB'000
Time deposits		503,151	1,243,152
Cash and bank balances		3,565,647	3,002,150
		4,068,798	4,245,302
Less: Pledged deposits for:			
– short term bank loans	26	(44,526)	(785,115)
– bank guarantees*		(12,000)	(13,655)
		(56,526)	(798,770)
Less: Time deposits with original maturity of more than three months when acquired		(180,000)	(600,000)
Cash and cash equivalents		3,832,272	2,846,532

* These pledged deposits were time deposits 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 RMB3,467,535,000 (2016: RMB2,957,980,000) and RMB503,151,000 (2016: RMB1,243,152,000), 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 six months (2016: one day to one year) 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.

24. TRADE PAYABLES

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

	2017 RMB'000	2016 RMB'000
Within 3 months	918,923	771,755
3 to 6 months	38,159	68,129
Over 6 months	70,632	56,168
Trade payables	1,027,714	896,052

The trade payables are non-interest-bearing and are normally settled within 60 to 120 days.

25. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000
Deposits and advances from customers	65,396	59,755
Other payables	163,645	140,178
VAT payables	8,205	21,214
Derivative financial instruments	–	6,737
Accruals	327,371	315,777
	564,617	543,661

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

The Group had entered into interest rate swap contracts to manage its interest rate exposures which did not meet the criteria for hedge accounting and these contracts were fully matured during the year. Changes in fair value of non-hedging interest derivative instruments for the year amounting to RMB6,595,000 (2016: RMB5,739,000) (note 7) were credited to the consolidated income statement.

26. INTEREST-BEARING BANK BORROWINGS

		2017		
	Notes	Effective interest rate per annum (%)	Maturity	RMB'000
Current:				
Syndicated loans	(a)	HIBOR/LIBOR +1.65%	2018	284,586
Other bank loans	(b)	HIBOR+1.1% to 1.35%	2018	546,279
				830,865
Non-current:				
Syndicated loans	(a)	HIBOR/LIBOR +1.65%	2019–2020	1,019,159
				1,850,024

	Notes	2016 Effective interest rate per annum (%)	Maturity	RMB'000
Current:				
Syndicated loans	(a)	HIBOR/LIBOR +2.2%	2017	148,036
Other bank loans	(b)	HIBOR+1.0% to 1.5%	2017	1,353,545
				1,501,581

	2017 RMB'000	2016 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year and on demand	**830,865**	1,501,581
In the second year	**580,882**	–
In the third to fifth years, inclusive	**438,277**	–
	1,850,024	1,501,581

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$651,000,000 (equivalent to approximately RMB550,746,000) (2016: HK$452,400,000 (equivalent to approximately RMB402,138,000)) and US$116,000,000 (equivalent to approximately RMB766,442,000) (2016: US$92,000,000 (equivalent to approximately RMB634,268,000)) as at the end of the reporting period.

(b) The bank loans are supported by:

(i) the pledge of certain of the Group's deposits amounting to RMB44,526,000 (2016: RMB785,115,000) in aggregate; and

(ii) corporate guarantees provided by a wholly-owned subsidiary of the Company to the extent of HK$1,350,473,000 (equivalent to approximately RMB1,142,500,000) (2016: HK$1,095,624,000 (equivalent to approximately RMB973,900,000)) as at the end of the reporting period.

As at 31 December 2017, except for the bank loan of RMB758,384,000 (2016: RMB90,596,000) which was denominated in United States dollars ("US$"), all bank borrowings are denominated in Hong Kong dollars.

27. DEFERRED TAX LIABILITIES

	Note	Withholding taxes RMB'000
At 1 January 2016		109,705
Withholding tax paid on repatriation of earnings from PRC subsidiaries		(15,428)
Deferred tax charged to the consolidated income statement during the year	10	15,000
At 31 December 2016 and 1 January 2017		109,277
Withholding tax paid on repatriation of earnings from PRC subsidiaries		(12,164)
At 31 December 2017		97,113

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.

In the opinion of the directors, it is not probable that those subsidiaries will distribute all earnings after 31 December 2007 in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB110,233,000 as at 31 December 2017 (31 December 2016: RMB97,806,000).

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

28. DEFERRED SUBSIDIES

	Notes	2017 RMB'000	2016 RMB'000
Carrying amount at 1 January		12,420	43,315
Received during the year		–	29,054
Release to prepaid land lease payments (note 15)	(a)	(12,420)	(46,657)
Release to property, plant and equipment (note 13)	(b)	–	(13,292)
Carrying amount at 31 December		–	12,420

Notes:

Subsidies were received in prior year 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.

(a) During the year ended 31 December 2016, a certain portion of the Land was resumed and transferred at nil consideration to three independent third parties as agreed with the Bengbu Government. The Bengbu Government has confirmed to the Group that no repayment of any subsidies granted to the Group in prior years is required.

During the year ended 31 December 2017, a certain portion of the Land was resumed by the Bengbu Government upon its request at nil consideration.

In the opinion of the directors, with reference to the agreements in relation to the acquisition of the Land, the subsidies received by Xtep Anhui in prior years were based on the purchase cost of the Land paid by Xtep Anhui. Therefore, deferred subsidies of the same amount of the cost of the resumed portion of the Land were released to the prepaid land lease payments upon resumption as no construction of manufacturing facilities was required for that resumed portion of the Land.

(b) During the year ended 31 December 2016, a deferred subsidy of RMB13,292,000 was released to property, plant and equipment to offset the construction costs incurred by the Group upon the completion of certain production facilities and a staff quarter in Anhui.

29. SHARE CAPITAL

At 31 December 2017

	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: 2,223,185,000 ordinary shares of HK$0.01 each	22,232	19,603

At 31 December 2016

	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: 2,219,535,000 ordinary shares of HK$0.01 each	22,195	19,572

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

	Notes	Number of ordinary shares of HK$0.01 each	Share capital HK$'000	Share capital RMB'000
At 1 January 2016		2,194,995,000	21,950	19,354
Exercise of share options	(i)	19,540,000	195	174
Issue of shares	(ii)	5,000,000	50	44
At 31 December 2016 and 1 January 2017		2,219,535,000	22,195	19,572
Exercise of share options	(i)	3,650,000	37	31
At 31 December 2017		2,223,185,000	22,232	19,603

Notes:

(i) During the year ended 31 December 2017, the subscription rights attaching to 3,650,000 share options granted under the Share Option Scheme (as defined in note 31) were exercised at the subscription price of HK$2.35. During the year ended 31 December 2016, 17,550,000 share options granted under the Share Option Scheme and 1,990,000 share options granted under the Pre-IPO Scheme (as defined in note 31) were exercised at the subscription prices of HK$2.35 and HK$3.24 per share, respectively. The exercise of these share options resulted in the issue of a total of 3,650,000 shares (2016: 19,540,000 shares) of HK$0.01 (2016: HK$0.01) each for a total cash consideration before expenses of approximately HK$8,578,000 (equivalent to approximately RMB7,257,000) (2016: approximately HK$47,690,000 (equivalent to approximately RMB42,390,000)) representing the nominal value of ordinary shares of RMB31,000 (2016: RMB174,000) and share premium of RMB7,226,000 (2016: RMB42,216,000).

An amount of HK$2,388,000 (equivalent to approximately RMB2,020,000) (2016: HK$12,768,000 (equivalent to approximately RMB11,349,000)) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

(ii) During the year ended 31 December 2016, 5,000,000 shares of HK$0.01 each were issued for cash at a subscription price of HK$4.50 per share to a third party for a total cash consideration of HK$22,500,000 (equivalent to approximately RMB20,000,000), representing the nominal value of ordinary shares of HK$50,000 (equivalent to approximately RMB44,000) and share premium of HK$22,450,000 (equivalent to approximately RMB19,956,000).

Share option schemes

Details of the Company's share option schemes and the share options issued under the schemes are included in note 31 to the financial statements.

30. 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.

31. 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 on 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:

	2017		2016	
	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	11,475	3.24	13,465
Exercised during the year	–	–	3.24	(1,990)
At 31 December	3.24	11,475	3.24	11,475

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2016 was HK$3.85 per share.

The subscription rights attaching to 1,990,000 share options granted under the Pre-IPO Scheme were exercised at the subscription price of HK$3.24 per share during the year ended 31 December 2016, resulting in the issue of 1,990,000 shares.

The exercise prices and exercise periods of the Pre-IPO Share Options outstanding at 31 December 2017 and 2016 were as follows:

Number of options	Exercise price per share	Exercise period
2,583,000	HK$3.24*	3 June 2009 to 6 May 2018
3,408,000	HK$3.24*	3 June 2010 to 6 May 2018
5,484,000	HK$3.24*	3 June 2011 to 6 May 2018
11,475,000		

* 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 11,475,000 shares under the Pre-IPO Scheme, which represented approximately 0.5% 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 11,475,000 additional ordinary shares of the Company and additional share capital of approximately HK$115,000 (equivalent to approximately RMB97,000) and share premium account of approximately HK$37,064,000 (equivalent to approximately RMB31,356,000), 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:

	2017		2016	
	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	3.48	46,735	3.22	65,285
Exercised during the year	2.35	(3,650)	2.35	(17,550)
Lapsed during the year	–	–	2.35	(1,000)
At 31 December	3.58	43,085	3.48	46,735

The weighted average share price at the date of exercise for share options exercised during the year was HK$2.95 (2016: HK$3.89) per share.

The subscription rights attaching to 3,650,000 (2016: 17,550,000) share options granted under the Share Option Scheme were exercised at the subscription price of HK$2.35 per share during the year, resulting in the issue of 3,650,000 shares (2016: 17,550,000 shares).

The exercise prices and exercise periods of the share options outstanding at 31 December 2017 and 2016 were as follows:

2017

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
2,700,000	HK$6.00	28 May 2012 to 27 May 2020
6,300,000	HK$6.00	28 May 2013 to 27 May 2020
6,181,000	HK$2.35	14 January 2012 to 13 January 2021
8,757,000	HK$2.35	14 January 2013 to 13 January 2021
8,757,000	HK$2.35	14 January 2014 to 13 January 2021
43,085,000		

2016

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
2,700,000	HK$6.00	28 May 2012 to 27 May 2020
6,300,000	HK$6.00	28 May 2013 to 27 May 2020
9,831,000	HK$2.35	14 January 2012 to 13 January 2021
8,757,000	HK$2.35	14 January 2013 to 13 January 2021
8,757,000	HK$2.35	14 January 2014 to 13 January 2021
46,735,000		

At the end of the reporting period, the Company had total outstanding share options for the subscription of 43,085,000 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 43,085,000 additional ordinary shares of the Company and additional share capital of approximately HK$431,000 (equivalent to approximately RMB365,000) (2016: HK$467,000 (equivalent to approximately RMB415,000)) and share premium of approximately HK$153,617,000 (equivalent to approximately RMB129,960,000) (2016: HK$162,158,000 (equivalent to approximately RMB144,142,000)), before related issuance expenses.

At the date of approval of these financial statements, the Company had outstanding share options for the subscription of 43,085,000 shares under the Share Option Scheme, which represented approximately 1.9% of the issued share capital of the Company as at that date.

32. SHARE AWARD SCHEME

On 1 August 2014, the board of directors of the Company (the "Board") adopted a share award scheme as a means to recognise the contributions by the key management personnel and to give incentives in order to retain them for their continual operation and development and to attract suitable personnel for further development of the Group (the "Share Award Scheme").

The Share Award Scheme is valid and effective for a period of 10 years from 1 August 2014 (the "Adoption Date"). The shares to be awarded under the Share Award Scheme (the "Awarded Shares") will either be acquired by the trustee of the Share Award Scheme (the "Trustee") from the open market or be new shares allotted and issued to the Trustee under general mandates granted by shareholders of the Company to the directors at general meetings of the Company from time to time, both of which will be out from cash contributed by the Group. The Trustee will hold the Awarded Shares in trust for the awardees until such shares are vested with the awardees in accordance with the provisions of the Share Award Scheme. The Trustee shall not exercise the voting rights in respect of any shares held under the trust.

The Board shall not make any further award of Awarded Shares which will result in the nominal value of the Shares awarded by the Board under the Scheme exceeding 5% of the issued share capital of the Company from time to time. The maximum number of Shares which may be awarded to a selected participant under the Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

The vesting of shares awarded to the awardees is subject to conditions and vesting schedules as determined by the Board in its sole discretion.

The shares granted will be vested in the respective proportions in accordance with the vesting schedule. The trustee shall cause the Awarded Shares to be transferred to such selected participant on the vesting date. Vested shares will be transferred to the selected participants at no cost save that transaction fees and expenses will be payable by the selected participants as transferees.

In 2015, the Company repurchased 50,000,000 ordinary shares of the Company at HK$3.052 per share at an aggregate consideration of HK$152,600,000 (equivalent to approximately RMB120,447,000) through the Trustee for the Share Award Scheme.

Prior to 10 January 2017, no Awarded Shares has been granted. On 10 January 2017, the Board resolved to grant 50,000,000 Awarded Shares to certain selected participants, who are not a director, chief executive or substantial shareholder of the Company, nor an associate (as defined under the Listing Rules) of any of them at nil consideration, resulted in the recognition of share award scheme expense of RMB45,421,000 (2016: Nil) in the consolidated income statement during the year.

Details of each category of Awarded Shares granted on 10 January 2017 under the Share Award Scheme are as follows:

Grant date	Number of Awarded Shares to vest	Vesting Period	Fair value at grant date RMB
10 January 2017	5,000,000	10 January 2017 to 10 January 2018	3.21
10 January 2017	7,500,000	10 January 2017 to 10 January 2019	3.21
10 January 2017	10,000,000	10 January 2017 to 10 January 2020	3.21
10 January 2017	10,000,000	10 January 2017 to 10 January 2021	3.21
10 January 2017	17,500,000	10 January 2017 to 10 January 2022	3.21

Fair values of the Awarded Shares at dates of awards are measured by the quoted market price of the shares at the award date.

Movement in the number of Awarded Shares were as follows:

	Number of Awarded Shares
Outstanding at 1 January 2017	–
Awarded shares granted	50,000,000
Awarded shares forfeited	(3,900,000)
Outstanding at 31 December 2017	46,100,000

During the year ended 31 December 2017, an amount of HK$7,900,000 (equivalent to approximately RMB6,684,000) was transferred from the share award reserve (note 42) to the treasury shares account upon the 50,000,000 Awarded Shares were granted, and an amount of HK$616,000 (equivalent to approximately RMB521,000) was transferred from the treasury shares account to the share award reserve upon the forfeiture of the 3,900,000 Awarded Shares.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transaction:

During the year ended 31 December 2017, deposits for acquisition of land use rights of RMB6,718,000 (2016: RMB52,323,000) and RMB3,749,000 (2016: Nil) were utilised to settle the partial consideration for the purchase of land use rights and relevant construction work, respectively (note 16).

34. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities (2016: Nil).

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms of three years (2016: Nil). The terms of the leases also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	2017 RMB'000	2016 RMB'000
Within one year	5,936	–
In the second to fifth years, inclusive	7,720	–
	13,656	–

(b) As lessee

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 (2016: 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:

	2017 RMB'000	2016 RMB'000
Within one year	5,216	6,531
In the second to fifth years, inclusive	15,213	16,240
After five years	8,559	12,162
	28,988	34,933

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group had the following commitments at the end of the reporting period:

	2017 RMB'000	2016 RMB'000
Contracted for commitments in respect of:		
– construction of new buildings	43,876	51,841
– construction of new manufacturing facilities	17,989	15,901
– acquisition of land use rights	–	20,452
– advertising and promotional expenses	216,628	227,665
– software	100	100
– investment in an available-for-sale investment	25,000	–
	303,593	315,959

37. 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, is as follows:

	2017 RMB'000	2016 RMB'000
Short term employee benefits	**4,825**	7,089
Post-employment benefits	**163**	270
Total compensation paid to key management personnel	**4,988**	7,359

38. 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

	2017 RMB'000	2016 RMB'000
Available-for-sale investments	**92,000**	82,000
Financial assets of fair value through profit or loss		
– Held for trading		
Derivative financial instrument	**637**	–
Loans and receivables:		
Trade receivables	**1,719,007**	1,916,209
Bills receivables	**87,500**	186,950
Other receivables	**20,264**	20,918
Loan to an investee company	**60,000**	–
Structured bank deposits	**715,000**	–
Pledged bank deposits	**56,526**	798,770
Time deposits	**180,000**	600,000
Cash and cash equivalents	**3,832,272**	2,846,532
	6,670,569	6,369,379
Total	**6,763,206**	6,451,379

Financial liabilities

	2017		
	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 payables	–	1,027,714	1,027,714
Financial liabilities included in deposits received, other payables and accruals	–	249,696	249,696
Interest-bearing bank borrowings	–	1,850,024	1,850,024
	–	3,127,434	3,127,434

	2016		
	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 payables	–	896,052	896,052
Financial liabilities included in deposits received, other payables and accruals	6,737	223,297	230,034
Interest-bearing bank borrowings	–	1,501,581	1,501,581
	6,737	2,620,930	2,627,667

39. FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY

At 31 December 2017, the Group discounted certain commercial bills receivable with a carrying amount in aggregate of approximately RMB1,267,500,000 (2016: bank and commercial bills receivable of RMB1,167,900,000) to one bank (2016: three banks) in the PRC (the "Derecognised Bills") for cash. The Derecognised Bills had a remaining maturity from 27 days to 326 days (2016: 25 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 2017, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills (2016: 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 RMB1,978,200,000 (31 December 2016: RMB2,460,200,000) have been made near the year ended 31 December 2017.

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, time deposits, structured bank deposits, pledged bank deposits, trade and bills receivables, trade 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 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 2017 was assessed to be insignificant.

Fair value hierarchy

As at 31 December 2017 and 2016, 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 2017, 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 (2016: Nil).

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise available-for-sale investments, interest-bearing bank borrowings, deposits, 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 payables and financial liabilities included in deposits received, other payables and accruals, which arise directly from its operations. The Group also enters into currency swap and interest rate swap transactions. The purpose is to manage the foreign currency risk and 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. Currency swap contract is used by the Group to manage its foreign currency risk exposure.

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, arises 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 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
2017		
Hong Kong dollar and US$	100	(18,635)
Hong Kong dollar and US$	(100)	18,635
2016		
Hong Kong dollar and US$	100	(23,900)
Hong Kong dollar and US$	(100)	23,900

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:

	2017		
	On demand and within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade payables	1,027,714	–	1,027,714
Financial liabilities included in deposits received, other payables and accruals	249,696	–	249,696
Interest-bearing bank borrowings	877,077	1,048,187	1,925,264
	2,154,487	1,048,187	3,202,674

	2016		
	On demand and within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade payables	896,052	–	896,052
Financial liabilities included in deposits received, other payables and accruals	230,034	–	230,034
Interest-bearing bank borrowings	1,504,089	–	1,504,089
	2,630,175	–	2,630,175

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 2017 and 31 December 2016.

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:

	2017 RMB'000	2016 RMB'000
Cash and cash equivalents	**3,832,272**	2,846,532
Less: Interest-bearing bank borrowings	**(1,850,024)**	(1,501,581)
Net cash	**1,982,248**	1,344,951
Total equity	**5,328,608**	5,022,762
Net cash-to-capital ratio	**0.372**	0.268

42. 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:

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSET		
Investments in subsidiaries	1,174,240	1,127,096
Other receivable	637	–
Total non-current assets	1,174,877	1,127,096
CURRENT ASSETS		
Due from a subsidiary	768,717	773,463
Prepayments	27,532	24,157
Cash and cash equivalents	21,140	40,810
Total current assets	817,389	838,430
CURRENT LIABILITIES		
Due to subsidiaries	3,669	3,899
Other payables and accruals	19,490	34,320
Interest-bearing bank borrowings	830,865	1,501,581
Total current liabilities	854,024	1,539,800
NET CURRENT LIABILITIES	(36,635)	(701,370)
TOTAL ASSETS LESS CURRENT LIABILITIES	1,138,242	425,726
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	1,019,159	–
NET ASSETS	119,083	425,726
EQUITY		
Share capital	19,603	19,572
Reserves (note)	99,480	406,154
Total equity	119,083	425,726

Note:

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

	Share premium account RMB'000	Treasury shares RMB'000	Share award reserve RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2016	177,107	(120,447)	–	104,654	(107,558)	22,592	76,348
Profit for the year	–	–	–	–	–	645,446*	645,446
Other comprehensive income:							
Exchange realignment	–	–	–	–	15,863	–	15,863
Total comprehensive income for the year	–	–	–	–	15,863	645,446	661,309
2015 final dividend declared and paid	–	–	–	–	–	(128,551)	(128,551)
2015 special dividend declared and paid	–	–	–	–	–	(64,276)	(64,276)
2016 interim dividend declared and paid	–	–	–	–	–	(200,848)	(200,848)
Exercise of share options	53,565	–	–	(11,349)	–	–	42,216
Issue of shares	19,956	–	–	–	–	–	19,956
Transfer of share option reserve upon lapse of share options	–	–	–	(1,606)	–	1,606	–
At 31 December 2016 and 1 January 2017	250,628	(120,447)	–	91,699	(91,695)	275,969	406,154
Loss for the year	–	–	–	–	–	(72,483)	(72,483)
Other comprehensive expense:							
Exchange realignment	–	–	–	–	(15,998)	–	(15,998)
Total comprehensive income for the year	–	–	–	–	(15,998)	(72,483)	(88,481)
Awarded shares granted	–	(6,684)	6,684	–	–	–	–
Awarded shares forfeited	–	521	(521)	–	–	–	–
Equity-settled share award arrangement	–	45,421	–	–	–	–	45,421
2016 final dividend declared and paid	–	–	–	–	–	(63,968)	(63,968)
2016 special dividend declared and paid	–	–	–	–	–	(54,126)	(54,126)
2017 interim dividend declared and paid	–	–	–	–	–	(152,746)	(152,746)
Exercise of share options	9,246	–	–	(2,020)	–	–	7,226
At 31 December 2017	259,874	(81,189)	6,163	89,679	(107,693)	(67,354)	99,480

* The balance included a dividend from a subsidiary of RMB726,551,000.

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 the 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.

The share award reserve represents the difference between the fair value at the grant date and cost of repurchased shares for the Share Award Scheme. The amount will be transferred to treasury shares account upon forfeiture of the corresponding Awarded Shares.

43. EVENTS AFTER THE REPORTING PERIOD

On 12 February 2018, the Company purchased 1,800,000 of its shares on the Stock Exchange and the purchased shares were entirely cancelled on 26 February 2018. The Group had issued and fully paid shares of 2,221,385,000 upon the completion of the cancellation of the shares.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 March 2018.

GLOSSARY

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

"APP"	A software program for download onto mobile devices
"ASP"	Average selling price
"Authorized retailers"	Authorized sellers of XTEP products, who purchase these products from the Group's exclusive distributors
"B2C"	Business-to-Consumer
"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
"CAGR"	Compound annual growth rate
"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
"ERP system"	Enterprise Resource Planning System
"Euromonitor"	Euromonitor International Limited
"Exclusive distributors"	Distributors which only sells XTEP products, and the Group sells products exclusively to them within their designated region
"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
"IMF"	International Monetary Fund
"IP"	Intellectual Property
"Joyrun"	A leading Chinese APP for runners
"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
"Omni-channel"	Multi-channel sales approach that provides customer with a seamless experience online, offline, or mobile
"O2O"	Online to Offline
"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$0.01 each in the share capital of the Company
"Share Option Scheme"	The share option scheme adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed "Share Option Scheme" in Appendix VI to the prospectus of the Company dated 21 May 2008
"Shareholder(s)"	Shareholder(s) of the Company
"U.S."	United States of America
"US$"	U.S. dollars, the lawful currency of the U.S.
"XTEP"	Xtep brand
"XTEP Kids"	The children's sportswear business of the Group

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