XTEP INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with Limited Liability)

Stock Code: 1368

2018 ANNUAL REPORT

BEGINNING OF A NEW ERA

FOUNDATION
BUILT TO LAST LIKE
THE GREAT WALL

XTEP

To be the Chinese runners' favorite brand

ABOUT THE GROUP

The Group established its own sportswear brand Xtep in 2002. Xtep is now a leading professional sports brand with stylish and functional sportswear products. The Group manages an extensive distribution network with exclusive distributors that operate over 6,200 stores nationwide covering 31 provinces, autonomous regions and municipalities across the PRC, as well as some POS overseas. The Group has 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.

CONTENTS

ANNUAL RESULTS AT A GLANCE

2018 Financial Highlights

Revenue
▲ 25%
RMB6,383m

Operating profit
▲ 44%
RMB1,044m

Profit attributable to equity shareholders
▲ 61%
RMB657m

Trade receivables turnover
▼ 25days
105days
(31 December 2017: 130 days)

Net cash and cash equivalent
RMB2,438m

Full year dividend per Share
HK20.0cents[1]
(Dividend payout ratio: 60.0%)

Note:
1 Included an interim dividend of HK 10.5 cents per Share and a proposed final dividend of HK 9.5 cents per Share. The proposed final dividend per Share is subject to the approval of ordinary shareholders at the forthcoming annual general meeting.

2018 Operational Highlights

No. 1
Among all domestic brands in marathons in China

Mid-teens
Same store sales growth in 2018

6,230
Number of stores spanning across China and overseas as at 31 December 2018

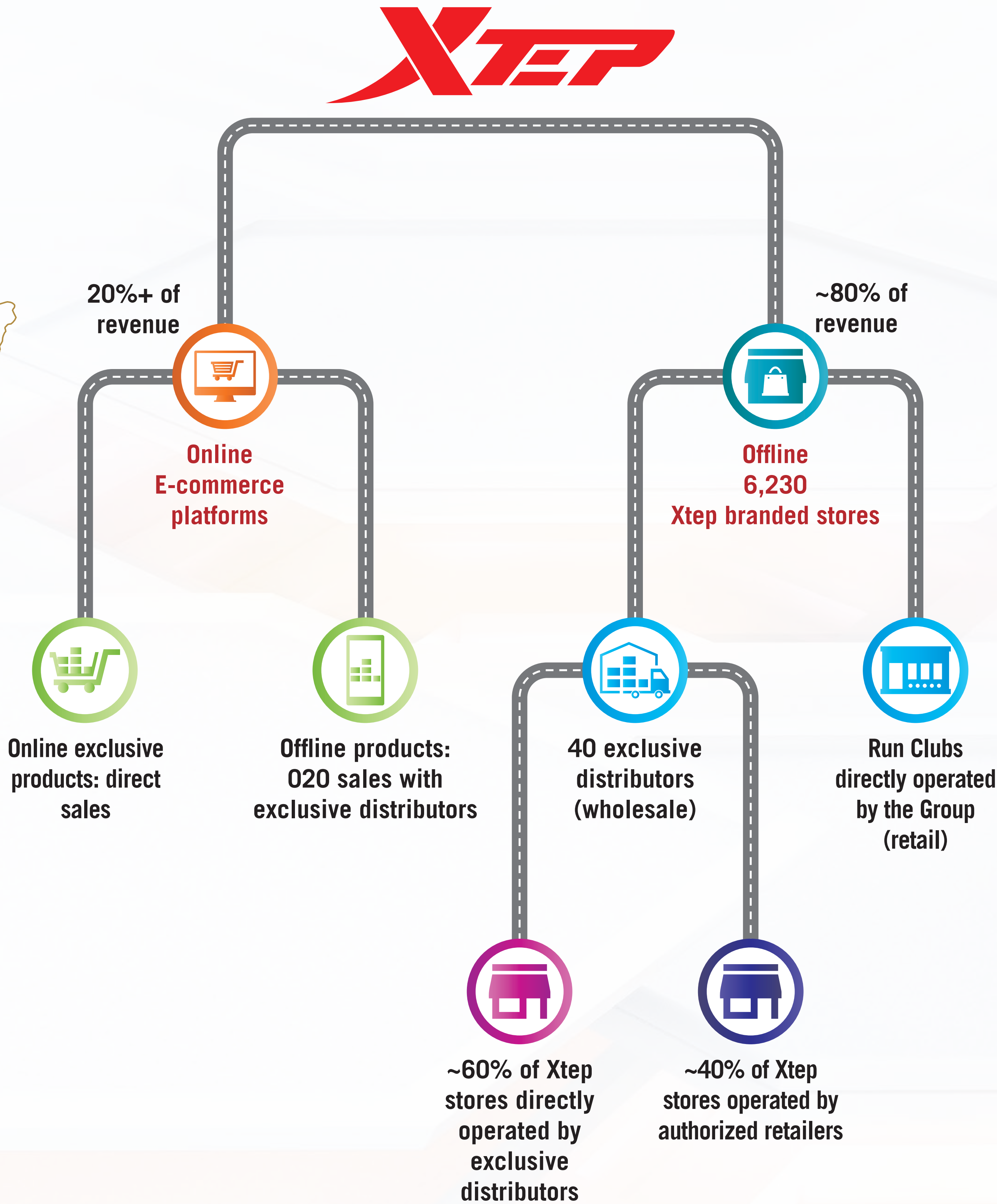
6
Xtep Run Clubs as at 31 December 2018

20%+
E-commerce contribution to Group's revenue

2 product directions
Performance sports and lifestyle products

BUSINESS STRUCTURE

6,230 Xtep branded stores
spanning across China and overseas markets


20%+ of revenue
~80% of revenue
Online E-commerce platforms
Offline 6,230 Xtep branded stores
Online exclusive products: direct sales
Offline products: O2O sales with exclusive distributors
40 exclusive distributors (wholesale)
Run Clubs directly operated by the Group (retail)
~60% of Xtep stores directly operated by exclusive distributors
~40% of Xtep stores operated by authorized retailers

FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December

	2018	2017	2016	2015	2014
Profitability data (RMB million)					
Revenue	6,383.2	5,113.4	5,396.6	5,295.1	4,777.6
Gross profit	2,828.3	2,244.5	2,331.3	2,236.7	1,946.9
Operating profit	1,044.3	724.5	917.0	921.0	808.7
Profit attributable to ordinary equity holders	656.5	408.1	527.9	622.6	478.0
Basic earnings per Share (RMB cents) (Note 1)	30.19	18.81	23.89	28.97	21.95
Profitability ratios (%)					
Gross profit margin	44.3	43.9	43.2	42.2	40.8
Operating profit margin	16.4	14.2	17.0	17.4	16.9
Net profit margin	10.3	8.0	9.8	11.8	10.0
Effective tax rate	31.4	33.5	33.8	28.7	36.9
Return on average total equity holders' equity (Note 2)	12.4	8.0	10.8	13.0	10.4
Operating ratios (as a percentage of revenue) (%)					
Advertising and promotional costs	15.2	12.9	11.8	14.7	13.1
Staff costs	11.6	12.1	10.5	9.0	9.4
R&D costs	2.6	2.8	2.6	2.3	2.2

As at 31 December

	2018	2017	2016	2015	2014
Assets and liabilities data (RMB million)					
Non-current assets	1,139.0	1,051.9	956.9	1,063.2	917.3
Current assets	8,059.6	7,881.8	7,217.0	7,050.8	6,947.1
Current liabilities	3,277.8	2,488.8	3,029.4	2,966.4	2,350.3
Non-current liabilities	589.8	1,116.3	121.7	275.9	803.8
Non-controlling interests	4.7	107.7	69.3	19.8	9.9
Shareholders' equity	5,326.3	5,220.9	4,953.5	4,851.9	4,700.4
Asset and working capital data					
Current asset ratio	2.5	3.2	2.4	2.4	3.0
Gearing ratio (%) (Note 3)	21.1	20.7	18.4	19.8	23.4
Net asset value per Share (RMB) (Note 4)	2.38	2.4	2.26	2.22	2.16
Average inventory turnover days (days) (Note 5)	80	75	51	58	71
Average trade receivables turnover days (days) (Note 6)	105	130	119	98	91
Average trade payables turnover days (days) (Note 7)	98	122	107	96	85
Overall working capital days (days)	87	83	63	60	77

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).

CORPORATE INFORMATION

Board of Directors

Executive Directors
Ding Shui Po *(Chairman)*
Ding Mei Qing
Ding Ming Zhong

Non-executive Director
Ho Yui Pok, Eleutherius

Independent Non-executive Directors
Tan Wee Seng
Gao Xian Feng
Bao Ming Xiao

Board Committees

Audit Committee
Tan Wee Seng *(Chairman)*
Gao Xian Feng
Bao Ming Xiao

Remuneration Committee
Gao Xian Feng *(Chairman)*
Ding Mei Qing
Bao Ming Xiao

Nomination Committee
Ding Shui Po *(Chairman)*
Tan Wee Seng
Gao Xian Feng

Company Secretary
Yeung Lo Bun, FCPA

Authorized Representatives
Ding Shui Po
Yeung Lo Bun

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
Loeb & Loeb LLP

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

Public Relations Consultant
Strategic Financial Relations Limited

Company Website
www.xtep.com.hk

Ding Shui Po

Chairman

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am pleased to announce the annual results of the Group for the year ended 31 December 2018.

The year 2018 marked the beginning of a new era for Xtep. Our three-year strategic transformation across brand positioning, product innovation, retail network and operations management has begun to bear fruit. Despite the rising macro uncertainties and the slowing economy in China, the sportswear market continued to gain momentum and has outperformed the retail industry. The Chinese government has been actively promoting sporting events and encouraging an active lifestyle in the country. Alongside the increasing health awareness and enthusiasm in fitness activities among the Chinese people, we are fully confident in the prospects of the sportswear market in 2019 and beyond.

Performance Review

In 2018, the Group's revenue increased by 24.8% to RMB6,383.2 million (2017: RMB5,113.4 million). Gross profit margin increased to 44.3% (2017: 43.9%). Profit attributable to ordinary equity holders of the Company grew 60.9% to RMB656.5 million (2017: RMB408.1 million). Basic earnings per share amounted to RMB30.2 cents (2017: RMB18.8 cents). The Board has proposed a final dividend of HK 9.5 cents per Share. Together with an interim dividend of HK10.5 cents per Share, the dividend payout ratio for the full year was approximately 60.0% (2017: 103.8%).

Foundation Built to Last

Xtep is now well-placed as a brand management company with a clear brand image focusing on professional running that distinguishes ourselves from the industry. Transforming from a fashion sportswear company to a Chinese runners' favorite brand, Xtep continued to rank first among all domestic brands and fourth among all global sports brands in international class marathons held in Beijing, Shanghai, Guangzhou and Xiamen, with the market share ranging from 10% to 20% in 2018[1].

Adhering to our brand positioning, we benchmark our product technology against international running specialty brands to provide value-for-money professional products to the mass market. During the year, we designed and manufactured one of the most popular running shoes in China, and have sold more than one million pairs within two months since its launch. Our hands-on approach in Xtep retail network management has also steered us to solid business growth. We have scaled up our effort in lifting store productivity, strengthening customer experience, reinforcing O2O interaction and omni-channel retailing. In 2018, same store sales in the Xtep retail network exhibited strong growth at mid-teens level, which signified our success in transformation and made our business evolving faster than ever.

Embark on Creating our 2020 and Beyond

Thanks to our solid foundation built after the three-year transformation, we are optimistic about the growth in the coming few years. Our retail sales registered approximately RMB12.2 billion in 2018, which further solidified our leading position as one of the top three Chinese sportswear brands and one of the top five global sportswear brands in China. Nonetheless, it is essential for us to stay vigilant and strive hard for the sustainable growth in 2020 and beyond. We have adopted a two-pronged strategy to capitalize on the new opportunities. Since 2018, we have been proactively expanding our presence in the Asian markets such as India, Thailand and Vietnam, where the local consumers share similar background or culture with the Chinese people. At the same time, our envision is to transform from a single brand company to a multi-brand portfolio group in the next phase of our development. We have been exploring opportunities to collaborate with international sportswear brands to complement Xtep's product portfolio, while enabling us to reach out to a vast customer base especially the more sophisticated group by nurturing their brands' presence in Greater China.

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 faith in Xtep. I would also like to express my deepest appreciation to the Board members, management team and the employees for their dedication and contributions. Looking forward, we will continue to diligently execute our strategies to create more value for our Shareholders and to achieve long term sustainability of the Group.

Mr. Ding Shui Po
Chairman
Hong Kong, 12 March 2019

1 Source: Joyrun: footwear worn by participants who finished the full marathon within three hours

MARKET REVIEW

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

China's retail sales and GDP growth moderated to 9.0% and 6.6%, respectively in 2018[2]. Underpinned by the growing popularity of fitness and healthy lifestyles, coupled with the government's efforts in promoting sport events, the sportswear market has showed no sign of slowing down, with the expected year-on-year retail sales growth in 2018 to outpace the retail industry. In addition, the market size is expected to grow at a CAGR of 8.0% in the next few years, amounting to RMB 318 billion in retail sales in 2022[3].

Running is regarded as one of the most popular sports among the Chinese people, and the marathon boom in China continues to fuel the business for professional running sportswear products. In 2017, nearly 5 million people took part in 1,100 marathons and running events in China[4], representing a year-on-year growth of 77.9% in the total participants. That number could exceed 10 million in 2020, with the market size of the marathon industry reaching approximately RMB 120 billion[5]. The marathon boom has further penetrated into lower tier cities since the second half of 2017, and is expected to accelerate further in the coming years. In 2017, over 900 marathon events were held in tier II and lower tier cities, representing a year-on-year growth of over 200%[6].

Consumer appetite is also evolving in China as a result of the rising millennial generation, expanding middle class and surging consumer demand for sportswear. Chinese consumers are becoming more health-conscious on the back of increasing urbanization and better living standard. In the meantime, rising disposable income tends to shift their discretionary spending towards participation in leisure activities and sports. In recent publication, sports consumption in China is expected to reach RMB1.5 trillion by 2020[7], supported by the government's initiatives in boosting the per capita consumption expenditure in sports-related products.

Chinese consumers are also leaning towards having sportswear for both sports and casual occasions, which offers the sportswear brands ample business opportunities. Despite the preference for the prestige of foreign brands in China, consumers' appetite for domestic brands is apparent. Based on a consumer survey[8], "Buying Chinese" tends to be more fashionable among local consumers, as indicated by a higher proportion of people willing to spend more on local sportswear brands in 2017 as compared with that in 2010. The millennial generation also considered personal and peer experience to be more important in shopping, while foreign brands were no longer their key focus[9].

Riding the sweeping trend of sports and the evolving consumer appetite for sportswear in China, we believe that Xtep is well-placed to leverage its business strength and deliver value-for-money yet professional sportswear products for both sports and casual occasions to the mass market.

2 Source: National Bureau of Statistics of the People's Republic of China
3 Source: Sportswear in China (Euromonitor, February 2018)
4 Source: Chinese Athletic Association
5 Source: Plans for the China's Marathon Industry (General Administration of Sport of China, January 2018)
6 Source: Marathon's Penetration to the Second/Third Tier Cities, Benefiting the Running Shoes Sales of the Company (GF Securities, November 2018)
7 Source: Two-year National Plan for Boosting Sports Consumption (2019-2020) (January 2019, General Administration of Sport of China, National Development and Reform Commission)
8 Source: Emerging Consumer Survey 2018 (Credit Suisse, March 2018)
9 Source: Tencent Post-00s Generation Research Report (Tencent, May 2018)

XTEP BRAND

XTEP BRAND

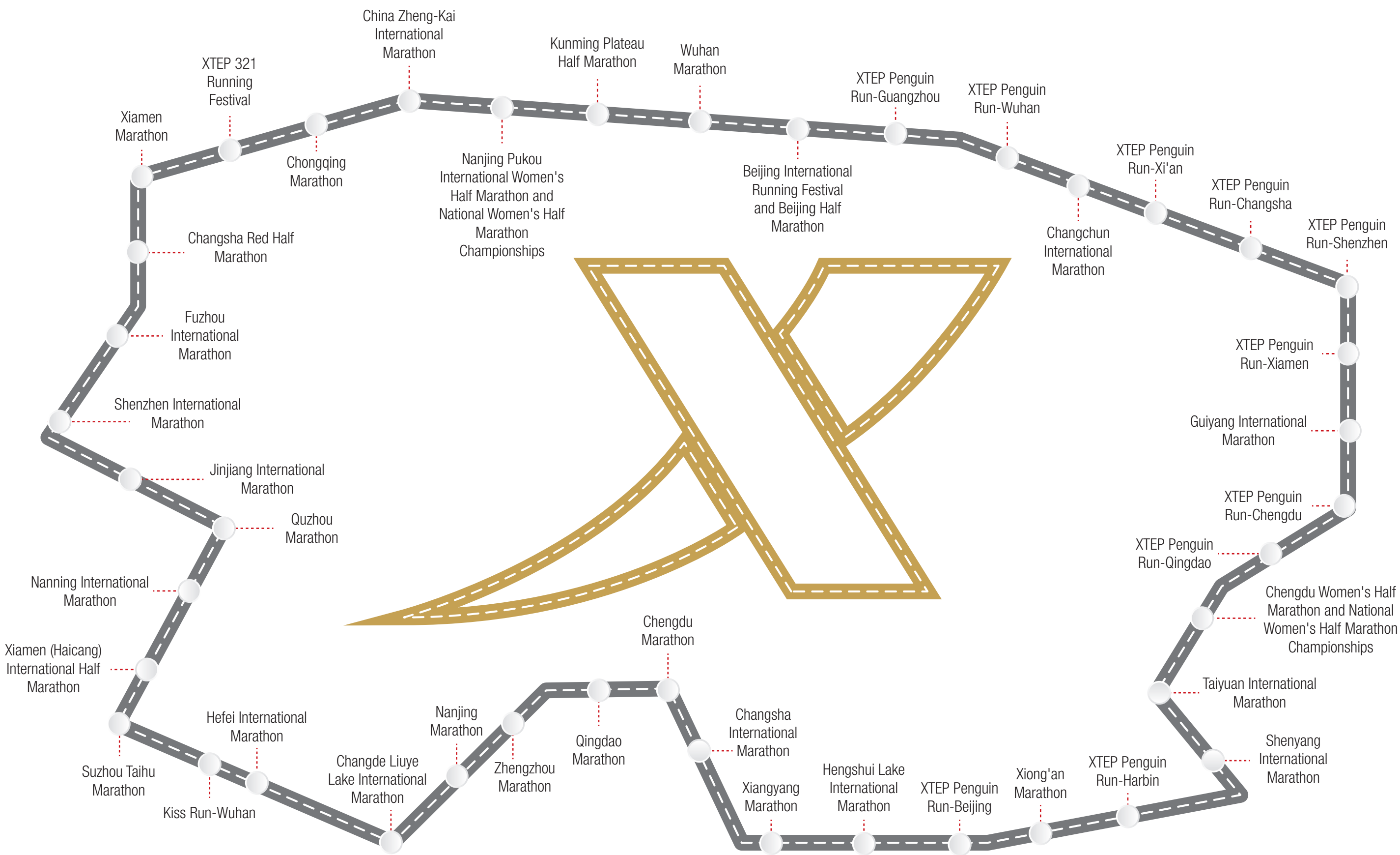
Striving to be the "Chinese runners' favorite brand", we have repositioned our brand towards professional running while remaining at the fashion edge.

Sports Marketing

Running

Marathon

We continued to be the sportswear sponsor of the highest number of marathons in China for the fourth consecutive year with a total of 42 major marathons and running events in 2018. 31 of them were major marathons, coupled with 10 "Xtep Penguin Runs" in cooperation with Tencent and a "Xtep 321 Running Festival". The number of total participants reached around 700,000. Similar to last year, we were also the official partner of "Run China" recognized by the Chinese Athletic Association. Furthermore, we continued to be the title sponsor of "Xtep Penguin Run" supported by Tencent Sports, which enabled us to reach vast consumer base more effectively. Fun running events also appeal to our target customers who are young, fashionable and active. Our third annual "Xtep 321 Running Festival" registered 330 million online ad hits and 300 million reads on Weibo. E-commerce revenue related to the event grew over 120% compared to 2017.




特步
动力觉醒


特步


动能升级
弹力加倍


特步


START
2018特步企鹅跑·北京站
START

Xtep Run Club

We launched Xtep Run Club across the runner communities to elevate Xtep as a running professional brand. A total of six Xtep Run Clubs were opened in China, which were located in Beijing Olympic Forest Park, Changsha Orange Isle, Hefei Binhu Forest Park, Nanjing Xuanwu Lake, Xiamen Sports Center and Suzhou Aegean Shopping Park, respectively. Going forward, we will continue to roll out Xtep Run Club to other popular running places such as Wuhan, Qingdao, Nanjing and other major cities in China.

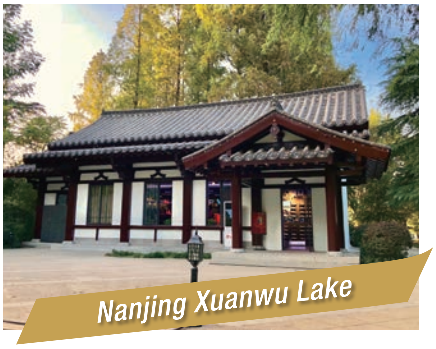
Highlights of Xtep Run Club since establishment in 2016:

No. of members in 2018:	**123,000+**
Running events organized:	**1,000+**
Running track built:	**~20km**
Rest stops for running related services:	**10+**

Beijing Olympic Forest Park


Changsha Orange Isle


Hefei Binhu Forest Park


Nanjing Xuanwu Lake


Xiamen Sports Center

Suzhou Aegean Shopping Park

Sports spokespersons

Xu Zhouzheng: Xu won the Men's 60m final in the 2018 National Indoor Track and Field Championship in 6.48 seconds, becoming the second sprinter in Chinese track and field history to reach 6.50 seconds.

Kazakhstan National Track and Field Team: Xtep sponsored competition sportswear for Kazakhstan's National Track and Field Team, the team members wore Xtep clothes in all competitions, notably, the Asian Games held in Jin Jakarta and Palembang in 2018.

Football

Apart from running, we viewed football as an integral part of our branding strategy. We serve the China's football youth and offer value-for-money football related products to students ranging from primary schools to colleges and universities. We will continue to sponsor celebrity football clubs to increase our media exposure.

ZSFL
浙江省中小学生校园足球联赛

ZSFL Xtep League
(sponsorship since 2010)

China All Star Football Team
(sponsorship since 2012)

Hong Kong All Star Sports Association
(sponsorship since 2009)

International and national sporting events

We were the official apparel sponsor for the Chinese delegation team to the 17th Gymnasiade held from 2-9 May 2018, and will continue to support the event in 2020.

Chinese delegation team at Gymnasiade 2018 in Morocco

We are also the title sponsor of the Xtep National Performance, the largest physical competition in China organized by General Administration of Sport of China. The competition fully evaluated participants' power, speed, stamina, agility, balance, coordination and flexibility. It also guided them to optimize action pattern, develop energy metabolism, choose suitable programs according to their individual constitutions, and eventually improved their athletic performance in an efficient, safe and scientific way. The event covered nearly 300 fitness clubs and training institutions in more than ten cities in China.

Entertainment Marketing

We served as the official designated sports brand sponsor of "The Rap of China" Season 2, one of the most popular TV reality show in China hitting over 2.9 billion views last season[10]. We leveraged the show to promote our "Street" lifestyle series to attract the younger generation. Celebrity judge MC Hotdog and the competitors wore Xtep products and Xtep was promoted as a sponsor in each episode. We launched a namesake series of footwear and apparel products in the second half of 2018.

We organized our second annual "Xtep Storming the Streets", a trendy street sports event held in Zhengzhou, Dalian and Chongqing. The event incorporated skateboarding, street basketball and street dance competition. Famous Chinese rappers were invited to perform and it attracted over 1 million participants, which further increased our brand's exposure among the young customers.

Chinese famous b-boy Yang Kai at "Xtep Storming the Street"

Celebrity judge MC Hotdog wearing Xtep products for "The Rap of China"

Xtep National Performance

10 Source: 1 Billion Plays Within 4 hours! Has "The Rap of China" changed to "Red Song Compilation"? (https://www.pintu360.com, July 2018)

New seven-member boy group formed by music giant Yuehua Entertainment. They became popular to post-90s and millennial generation audiences since popular reality show “Idol Producer” made and exclusively broadcasted by iQiyi. They are expected to be the next superstar Chinese pop boy band.

One of the most popular young actors in China. He impressed audiences with his TV Series debut in “Each Step Escape”, and gained enormous popularity by playing the male lead in “Princess Agents” in 2017.

Entertainment celebrity spokespersons

A widely-known artist and young successful entrepreneur, Tse was Xtep’s first celebrity spokesperson, and has remained our spokesperson for over a decade. 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.

A Taiwanese singer and actor, he gained popularity as a member of the former Taiwanese boy-band Fahrenheit and has over 17 million page views on his Baidu Baike page and over 16 million followers on his official Weibo account.

One of the most popular Chinese actresses, Zhao won national fame for her lead role in the TV series “The Journey of Flower” in 2015 and “Princess Agents” in 2017.

Brand Awards and Recognition

Xtep won Contribution Award for Development of the Marathon in China at Marathon Gala-China 2017 held in January 2018. Our running shoes have been well recognized by the industry and accepted by Chinese runners, garnering prestigious awards such as Top Ten Domestic Running Shoes in 2017 at the second China Marathon Expo held in January 2018.

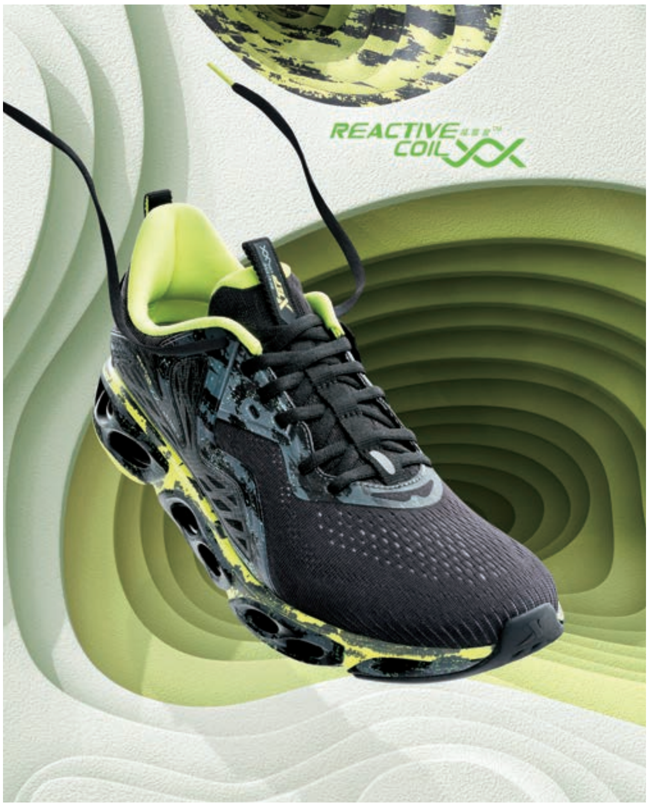
XTEP PRODUCTS

First place winning marathon shoes-RC160

Mou Zhenhua Champion of Public Men's Grand Slam of 2017-2018 Season China Marathon 02:23:19

Cheng Qianyu Champion of National Men's Full Marathon of 2018 Shenyang International Marathon 02:20:00

Jin Mingming Women's Full Marathon Champion (National) of 2018 Nanjing Marathon 02:35:34



XTEP PRODUCTS

Xtep-branded products are driven by two distinctive directions: performance sports and lifestyle. Our performance sports products revolve around running and feature technology to enhance functionality and performance. Lifestyle products, on the other hand, tap the prevailing athleisure trend in the market.

Product Innovation

Performance sports products

We set up a dedicated designer team based in Xiamen. The team consisted of international design talents and combined solid expertise in global sportswear brands with design and technology knowledge, to offer creative sportswear products for both performance and comfort. We also established our first and the only dedicated running research laboratory in China. It is led by more than 40 international scientists and engineers, applying international standard research methodologies. Collaboration with leading international fiber material developers such as 3M, the Dow Chemical Company and INVISTA, we will continue to work on new proprietary technologies for improving footwear. In 2018, the laboratory have designed and manufactured our first-place winning marathon shoes as seen in various international class marathons in China.

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

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

RUN DYNAMIC

FOR INTERMEDIATE RUNNERS

Who look for both performance and comfort

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 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

气能环® AIR MEGA 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 舒步魔立方™
Uses cube modules to support pressure from the foot and ground, plus memory foam-like material to bring increased cushioning

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

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

3M Thinsulate™ 新雪丽 高效暖绒
Material from the 3M Company provides lightweight insulation for winter products

APPAREL TECHNOLOGIES

XTEP-DRY

KEEP YOU DRY

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

KEEP YOU COOL

Polar Ice Fiber

Innovative silky material, laced with rapid heat conduction and dissipation technologies, providing cooling comfort

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

KEEP YOU WARM

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

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

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

XTEP-ENERGY technology

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

Lifestyle products

In 2018, we retailored our fashion sports products to international athleisure styles. Three distinctive series based on style "Urban", "Street" and "Active" were developed to cater different customer needs. Lifestyle sports footwear would be presented with our trademark "π Series", using the subtle "π" logo. We also collaborated with our celebrity spokespersons and third-party IPs to launch various crossover collections targeting the younger generation.

"The Rap of China": Products worn by judges and competitors in the show

Smiley® Series: Collaborating with Smiley Company to launch crossover products

"Transformer" Series: Riding the blockbuster movie "Bumblebee" to launch Transformers lifestyle sports products

Production and Distribution

Our in-house production for footwear and apparel products accounted for approximately 46% (2017: 50%) and 13% (2017: 15%) of the corresponding total sales volume in 2018, respectively. To enhance our inventory management, we increased the flexibility in production and delivery cycle, where inventory distribution during the quarter would be split into three batches, each consisting of the product for the quarter and new product for the respective month. Delivery of the last batch would depend on the retail sales performance of the first batch.


ATHLETICS

RETAIL MANAGEMENT

RETAIL MANAGEMENT

Offline Retail Network

As at 31 December 2018, there were 6,230 stores across China and overseas markets, with approximately 200 net openings in 2018 which were mainly located in shopping malls to tap customer traffic there. In the long run, we expect the retail network to be divided into three approximately equal parts by revenue: online, shopping malls, and traditional street-side stores. Our number of exclusive distributors remained stable at 40, with around 60% of the total store count directly operated by them. Upon store opening, exclusive distributors would be responsible for associated capital expenditure. Decisions such as store location and layout, universal tag price, guidelines on product ordering, discount level and training to all staff in stores, would be advised by our professional retail management team.

New store image

75% of the stores were refurbished into new international-style sports store format in 2018. Gross floor area of our stores in the new format is over 100 m^2 on average, with the design emphasising on running features and collections from head-to-toe to boost the cross-selling opportunities.

Xtep Run Club

We directly operated a total of six Xtep Run Clubs as at 31 December 2018. The Xtep Run Club provides one-stop professional running services from events and facilities to other running-related services for runners. Examples include dressing & shower rooms, foot measuring & gait analysis, medal lettering & apparel printing, safety lectures & social running events, running training camps and entry for marathon events. Some of the services are also available via WeChat community and “321GO” App.

Embracing new retail experience in flagship store

Embracing the trend of new retail, the new retail team strategically collaborated with Alibaba Group in June 2018 to explore the new way of customer-centric retail marketing covering branding, e-commerce, omni-channel, community marketing, Xtep Run Club etc. New initiatives and features have been gradually implemented in our flagship stores. For example, customers can try the products under different weather and terrain simulations, explore exclusive launches of our highest technology products, experience intelligent recommendations based on cloud data, and enjoy the convenience of omni-channel retail environment that efficiently links e-commerce and physical stores together. During the year, we garnered the New Retail Brand of the Year Award for Innovative Upgrade in Organizations by Alibaba Group. We will continue to collaborate with Alibaba Group and other business partners to conduct in-depth research in new retail and ride the wave of transformation from traditional retail into a new era fueled by big data and technological innovations.

Big data analysis and monitoring

We deployed full coverage of ERP system in the entire retail network coupled with a professional team of big data experts to monitor the sales progress and inventory level in real-time, among other key performance indicators. Data collected from the ERP system empowers us with useful insights to set out and spearhead a range of business strategies including precise discount and inventory levels, merchandize assortment and display for each store, improving customer service quality, formulating accurate product ordering instructions and so on.

Training and development

In order to deliver impactful customer experience, we proactively support the ongoing training and development programs particularly for the retail staff so that consistency and excellence in customer experience and services can be reinforced and embedded in daily retail operations. Since 2014, we started to offer universal training to the retail staff via our "Xtep Retail Learning Center". The Center provides various courses including store manager training, product display instruction, store efficiency improvement skills, etc. We have also made these courses available online, which achieved over 1.3 million hits in 2018. We also introduced our retail management App "Super Shopping Guide", which has been rolled out to over 90% of our stores covering around 23,000 staff. The App provides training videos and articles which are frequently updated to complement new sales campaigns and new product launches. Staff would be evaluated through the App, which would serve as an integral part of their annual performance assessment. Surprise channel checks are regularly conducted by our retail management team, with retail stores and retail staff to be rewarded with their delivery of excellent and impressive services.

E-Commerce and O2O Business

Our e-commerce business has been gaining strength, with its contribution to the Group's revenue continued to be over 20% in 2018. Thanks to our stronger brand and product portfolio, we became the top sales by volume in running and casual footwear products on Tmall.com again in 2018, and achieved record-breaking of around 50% YoY growth in Double 11 Global Shopping Festival during the year. We were one of the first sportswear brands in China to initiate O2O with our exclusive distributors starting from late 2016. To foster O2O, we shared the inventory pool where products were available online and offline at the same time, with identical prices and promotions. In 2018, popular offline items that were available online recorded high sales volume online as well. O2O created a win-win situation where Xtep products could be aligned online and offline, coupled with synergies in branding and promotions. Profitability for the Group and the exclusive distributors could thus be maximized, while inventory turnover could stay at a healthy level. In 2018, the O2O system was fully rolled out to the retail network directly operated by our exclusive distributors.

Xtep Kids

We realigned our resources between Xtep kids and Xtep adult divisions by integrating their operational management, branding and marketing, new product research and development, material sourcing and production, retail management system and retail network from 2016-2017. Xtep Kids' POS count was approximately 450 as at 31 December 2018. While its revenue contribution to the Group remained small during the year, the growth exhibited strong momentum with more than 50% YoY driven by our enhancement in product design and quality. In light of the current fragmented market condition in China, we would be selective in expanding the footprint of the kid's business to complement our product portfolio.

Overseas Markets

In 2018, we started to reach out to other Asian markets including store opening in Vietnam and India. Expansion will continue in 2019 and we will also explore the opportunities in the Middle East and Central Asia, where we could leverage the network of local business partners to launch of our brand and capture the opportunities there.

Bangalore, India

Hanoi, Vietnam

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

	2018 Revenue		2017 Revenue		Change in revenue
	(RMB Million)	(% of Revenue)	(RMB Million)	(% of Revenue)	(%)
Footwear	3,925.0	61.5	3,257.8	63.7	+20.5
Apparel	2,326.9	36.4	1,759.4	34.4	+32.3
Accessories	131.3	2.1	96.2	1.9	+36.5
Total	6,383.2	100.0	5,113.4	100.0	+24.8

The Group's total revenue for the year ended 31 December 2018 amounted to approximately RMB6.4 billion (2017: RMB5.1 billion).

Benefiting from the completion of the three-year strategic transformation, revenue had started growth momentum in 2018 and increased by approximately 24.8% compared to last year. It was mainly due to:

- strong product offerings and recognitions which led to higher sell-through rates and replenishment orders from distributors;
- stronger demand for restocking by distributors as a result of the inventory buy-back by the Group in 2017; and
- the robust sales performance at downstream retail stores as a result of store upgrades and retail network optimization.

XTEP continued to focus on the mass market in the PRC providing value-for-money sportswear. XTEP brand's positioning in running and lifestyle sports products has strong traction with young consumers and hence led to increasing revenue contribution from e-commerce channels, which accounted for more than 20% of the Group's total revenue.

During the year, XTEP recorded steady demand for functional sports products mostly related to the running category. On the other hand, the Group consistently applied a prudent approach when accepting product orders from distributors and authorized retailers in each quarter. The Group continues to closely monitor the inventory level and achieved efficient retail sell-through with our comprehensive ERP system which covers approximately all retail channels. Prompt responses were taken to adjust the delivery of products to the retail channels according to the data reflected in 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

	2018		2017		Changes in gross profit margin (% point)
	Gross profit (RMB Million)	Gross profit margin (%)	Gross profit (RMB Million)	Gross profit margin (%)	
Footwear	1,789.8	45.6	1,465.1	45.0	+0.6
Apparel	991.8	42.6	741.7	42.2	+0.4
Accessories	46.7	35.6	37.7	39.2	-3.6
Total	2,828.3	44.3	2,244.5	43.9	+0.4

The Group's overall gross profit margin increased by 0.4 percentage point to 44.3% (2017: 43.9%). The increase in the overall gross profit margin was mainly contributed by the well-received of functional footwear products by the consumers.

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 2018, other income and gains of the Group mainly represented the subsidized income from the PRC government, which amounted to approximately RMB94.7 million (2017: RMB79.4 million); and the income derived from financial investments and structured bank deposits was approximately RMB82.6 million (2017: RMB63.2 million), which was interest income from treasury deposit products.

Selling and Distribution Expenses

For the year ended 31 December 2018, the Group's selling and distribution expenses amounted to approximately RMB1,357.3 million (2017: RMB911.4 million), representing approximately 21.3% (2017: 17.8%) of the Group's total revenue. The increase in selling and distribution expenses was mainly due to the increase in advertising and promotional costs.

The advertising and promotional costs for the year amounted to approximately RMB968.2 million (2017: RMB658.0 million), representing approximately 15.2% (2017: 12.9%) of the Group's total revenue. The increase in advertising and promotional costs mainly related to the increase investments in channel development and market penetration, entertainment celebrity sportspersons endorsements, running events promotion and the expenses related to Xtep Run Club.

General and Administrative Expenses

For the year ended 31 December 2018, the Group's general and administrative expenses amounted to approximately RMB622.4 million (2017: RMB766.8 million), which represented approximately 9.8% (2017: 15.0%) of the Group's total revenue. The decrease in general and administrative expenses was mainly attributed to:

1) the Group maintains a prudent approach towards financial management. After considering the credit loss history of the outstanding debtors as of 31 December 2018 and macroeconomic condition, a write-back of impairment provision for trade receivables amounted to RMB79.2 million was made during the year (2017: Impairment provision amounted to RMB66.8 million);

which where offset by:

1) an increase in staff costs amounted to RMB35.8 million during the year; and

2) an increase in R&D cost – the R&D cost for the year amounted to approximately RMB166.3 million (2017: RMB143.4 million), representing approximately 2.6% (2017: 2.8%) 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.

Net Finance Costs

The total net finance cost of the Group for the year ended 31 December 2018 amounted to approximately RMB68.1 million (2017: RMB53.8 million). The increase was mainly due to the increase in interest expenses of bank borrowings and interest expense on discounted bills receivables to RMB127.9 million (2017: RMB103.8 million) primarily caused by the increase in interest rate during the year.

Operating Profit Margin

The operating profit margin for the year ended 31 December 2018 increased by 2.2 percentage points to 16.4% (2017: 14.2%). This was mainly due to the increase in gross profit, other income and gains and decrease in general and administrative expenses ratios to 9.8% (2017: 15.0%), but partially offset by the increase in selling and distribution expenses ratio to 21.3% (2017: 17.8%).

Income Tax Expenses

Income tax provision of the Group for the year ended 31 December 2018 was approximately RMB306.2 million (2017: RMB224.4 million). The income tax provision included profit tax provision relating to operating companies, which amounted to approximately RMB274.9 million (2017: RMB217.9 million). Also, there was an under-provision of income tax of approximately RMB7.3 million (2017: RMB6.5 million). The Company holds certain PRC subsidiary companies which have retained profits that can be distributed to the Company in the future. In this connection, the Company had provided a provision of withholding tax amounted to RMB24.0 million (2017: Nil) during the year.

Profit Attributable to Ordinary Equity Holders and Net Profit Margin

For the year ended 31 December 2018, the profit attributable to ordinary equity holders was approximately RMB656.5 million (2017: RMB408.1 million), representing an increase of approximately 60.9% over the same period last year. The increase was mainly due to the significant improvement in operating profit, which partially offset by the increase in net finance costs and income tax expenses during the year.

The Group's net profit margin amounted to 10.3% (2017: 8.0%).

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 HK9.5 cents per Share (2017: a final dividend of HK4.5 cents per Share and a special dividend of HK10 cents per Share). Together with the interim dividend of HK10.5 cents (2017: HK8.5 cents) per Share, total dividend for 2018 was HK20.0 cents (2017: HK23.0 cents), equivalent to a dividend payout ratio of 60.0% (2017: 103.8%).

Working Capital Cycle

For the year ended 31 December 2018, the Group's overall working capital turnover days was 87 days (2017: 83 days).

For the year ended 31 December:

WORKING CAPITAL TURNOVER DAYS	2018 Days	2017 Days	Changes Days
Inventories	80	75	+5
Trade receivables	105	130	-25
Trade payables	98	122	-24
Overall working capital turnover days	87	83	+4

Inventories

INVENTORIES	2018 RMB million	2017 RMB million
Balance at 1 January	717.9	459.6
Balance at 31 December	835.8	717.9
Average balance (note 1)	776.9	588.8
Cost of sales for the year ended 31 December	3,554.8	2,868.9
Average turnover days (note 2)	80 days	75 days

As at 31 December 2018, the Group's net balance of inventory was approximately RMB835.8 million (2017: RMB717.9 million). The increase was mainly due to the increase of finished goods by 22%. The increase was mainly due to the increase in inventories for upcoming seasons. Retail channels have responded positively to the Group's products, and therefore, have increased replenishment orders close to the year end of 31 December 2018.

Trade Receivables

TRADE RECEIVABLES	2018 RMB million	2017 RMB million
Balance at 1 January	1,719.0	1,916.2
Balance at 31 December	1,953.3	1,719.0
Average balance (note 1)	1,836.2	1,817.6
Revenue for the year ended 31 December	6,383.2	5,113.4
Average turnover days (note 2)	105 days	130 days

As of 31 December 2018, the Group's net balance of trade receivables was approximately RMB1,953.3 million (2017: RMB1,719.0 million). The decrease in trade receivables turnover days compared to last year was due to the improvement in profitability and cash inflow of its distributors and hence an significant improvement in cash collection from these distributors.

Trade Payables

	2018 RMB million	2017 RMB million
Balance at 1 January	1,027.7	896.0
Balance at 31 December	878.7	1,027.7
Average balance (note 1)	953.2	961.9
Cost of sales for the year ended 31 December	3,554.8	2,868.9
Average turnover days (note 2)	98 days	122 days

As at 31 December 2018, the Group's trade payables balance was approximately RMB878.7 million (2017: RMB1,027.7 million). The decrease in trade payables turnover days was mainly due to incentives from suppliers where we could enjoy discounts if we paid our suppliers early. The average trade payable turnover days for the year decreased 24 days to 98 days (2017: 122 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 2018, the bills receivables amounted to approximately RMB161.8 million (2017: RMB87.5 million). For the year ended 31 December 2018, the number of turnover days of bills receivables was 7 days (2017: 10 days).

Liquidity and Capital Resources

As of 31 December 2018, the Group's cash and cash equivalents amounted to approximately RMB3,195.8 million (2017: RMB3,832.3 million), representing a decrease of approximately RMB636.5 million. This was mainly attributable to:

(a) net cash inflow from operating activities that amounted to RMB154.4 million, which was due to the cash generated from operations of approximately RMB518.0 million, but offset by the payment of income and withholding tax amounting to RMB308.7 million and the payment of net interest expenses of approximately RMB54.9 million;

(b) net cash outflow from investing activities that amounted to RMB281.1 million, which was mainly due to the increase in pledged deposits and structured bank deposits amounting to RMB149.0 million and RMB265.0 million respectively but offset by the decrease in time deposits with original maturity more than three months when acquired amounting to RMB180.0 million; and

(c) net cash outflow from financing activities that amounted to RMB510.8 million, which was mainly due to dividends paid amounting to RMB459.3 million.

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

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

The net cash and cash equivalents (including time deposits with original maturity more than three months when acquired, structured bank deposits and pledged deposits, minus bank loans) was approximately RMB2,437.6 million as at 31 December 2018 (2017: RMB2,933.8 million).

	2018 RMB million	2017 RMB million
Cash and cash equivalents	3,195.8	3,832.3
Bank deposits	1,185.5	951.5
Total bank deposits and bank balances	4,381.3	4,783.8
Less: Bank borrowings	(1,943.7)	(1,850.0)
Net cash and cash equivalents	2,437.6	2,933.8

As of 31 December 2018, the Group's gearing ratio was 21.1% (2017: 20.7%), which is defined as the total bank borrowings divided by the Group's total assets.

As of 31 December 2018, the total assets of the Group amounted to RMB9,198.6 million (2017: RMB8,933.7 million), represented by non-current assets of RMB1,139.0 million (2017: RMB1,051.9 million) and current assets of RMB8,059.6 million (2017: RMB7,881.8 million). The total liabilities of the Group amounted to RMB3,867.6 million (2017: RMB3,605.1 million), represented by non-current liabilities of RMB589.8 million (2017: RMB1,116.3 million) and current liabilities of RMB3,277.8 million (2017: RMB2,488.8 million). The total non-controlling interests of the Group amounted to RMB4.7 million (2017: RMB107.7 million). Hence, the total net assets of the Group amounted to RMB5,331.0 million (2017: RMB5,328.6 million), representing an increase of 0.1%. Net assets per Share as at 31 December 2018 were approximately RMB2.38 (2017: RMB2.40), representing an decrease of 0.8%.

Impairment Provision for Inventories

For the year ended 31 December 2018, the Group recorded an impairment provision for inventories amounted to RMB26.2 million (2017: RMB26.0 million).

Write-Back of Impairment Provision for Trade Receivables

For the year ended 31 December 2018, the Group recorded a write-back of impairment provision for trade receivables amounted to RMB79.2 million (2017: Impairment provision amounted to RMB66.8 million).

Commitments

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

Contingent Liabilities

As of 31 December 2018, 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 2018.

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. It is the Group's plan to continue to seek opportunities to acquire or work with international sportswear brands in order to generate more returns to its Shareholders. If any opportunity crystalize into substantive investments or acquisition of capital assets, the Group intends finance such investments with a combination of internal resources and external debt financing.

Human Resources

As of 31 December 2018, the Group had approximately 8,500 employees (31 December 2017: 8,500 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.

BUSINESS OUTLOOK AND STRATEGIES

The year 2018 marked the beginning of a new era for Xtep. We are delighted to enjoy a resilient business performance followed by the successful three-year strategic transformation across brand positioning, products and services to operations. Amid the slowing economy in China, however, we remain confident in the prospects of the sportswear market in 2019 and beyond, energised by the trends of the fitness boom and pursuing a healthier lifestyle.

Looking ahead, we will continue to strive for excellence and capture market opportunities through our well-established brand and professional product portfolio. To this end, we are committed to the following critical areas: (i) strengthening our brand image by focusing on professional running and fashion athleisure products for mass market consumers, while continuing to invest in product technologies and innovations to increase our competitive edge; (ii) uplifting store productivity and customer experience via new store image, flagship stores and Xtep Run Club, coupled with centralised retail management complemented with ERP system and big data analytics; (iii) reinforcing O2O and omni-channel retailing especially the collaboration with our exclusive distributors to make the popular offline items available on our e-commerce platforms; and (iv) stepping up effort in expanding business footprint by reaching out to overseas markets in addition to the openings in China, while looking into developing a multi-brand portfolio group via collaborations with international brands for the sustainable growth in 2020 and beyond.

Supported by the dedication and contribution from our employees to embark on creating a new era for Xtep, we are gratified to witness the strong business momentum resulting from our strategic transformation, and to emerge as the Chinese runners' favorite brand in the sportswear market.

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 and Corporate Communications Contact

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Share Information

Listing Date: 3 June 2008
Board lot: 500 Shares
Number of issued shares as at 31 December 2018: 2,243,380,000 Shares
Stock code: 1368.HK

INDEXES

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

MSCI Index since November 2008

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 Galaxy, CICC, Cinda, Citics, CMBI, Crosby, Daiwa

Eastmoney, Everbright, First SH, Founder, GF, Gousen, Goutai Junan

HSBC, Huatai, Jefferies, KGI, Oriental Patron, Southwest, Sunwah Kingsway, UOB

Number of investment bank and securities firm coverage in 2018: 22

Investor Relation Activities as at 31 December 2018

Results presentations to investors (2017 annual results and 2018 interim results)	2
Press conferences	2
Annual general meeting	1 (Year 2017)
Non-deal Roadshows	10 (46 meetings in aggregate)
Countries/Regions where roadshows and investor conferences were held	Hong Kong, Taiwan, New York, San Francisco, Chicago, Frankfurt Beijing/Shanghai/Hangzhou/ Shenzhen/Singapore

Investment Conferences Organized by Major Investment Banks	11 (63 meetings in aggregate)
Major Investor Conferences Attended	J. P. Morgan, Morgan Stanley, Credit Suisse, CITIC, CLSA, Bank of America Merrill Lynch, Daiwa, HSBC, CICC, Guosen
Media Interviews	3
Reverse Roadshows	3

Reverse roadshow to Xtep Run Club in Nanjing on 25 April 2018


Reverse roadshow with Zhitong Finance at Xiamen headquarter on 20 September 2018

Investor Relation Activities as at 31 December 2018

HKIRA Investor Relations Awards

- Best IRO – Small Cap
- Best Investor Meeting – Small Cap
- Best Digital IR – Small Cap
- Best Investor Presentation Material – Small Cap
- Best Annual Report – Small Cap
- Best IR Company – Small Cap

Hong Kong Investor Relations Association

Best IR HK Listed Company

- Best IR HK Listed Company

New Fortune

2017 "Golden HK Stock" Poll

- Best Value Award for Consumer and Service Companies

Zhitong Finance and Hithink RoyalFlush Finance

BDO ESG Awards 2018

- Best in ESG – Mid Cap

BDO Limited

Securities Times 2018 "Golden Wing Award" Poll

- Best Hong Kong Stock Connect Companies on Returns to Investors

Securities Time

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Ding Shui Po (丁水波), aged 48, is the founder, chairman and chief executive officer of the Group. He has over 30 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
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
2017	Next Generation Education and Charity Motivation Award 2017 by the China Next Generation Education Foundation
2018	China Footwear Grand Ceremony 2018, 40th anniversary of the Chinese Economic Reform – Ingenious Person Award

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
2017	Permanent Honorary Chairman of the Fourth Session of the Board of Education Fund Council of Quanzhou City
2018	Deputy President of the Seventh Session of the Board of the China National Garment 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, Shanghai Advanced Institute of Finance CEO Program in 2016 and Harvard University's Global CEO Program in 2018. He is a brother of Ms. Ding Mei Qing and Mr. Ding Ming Zhong.

Ms. Ding Mei Qing (丁美清), aged 46, is our executive Director and a vice president of the Company. Ms. Ding has over 20 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 sister of Mr. Ding Shui Po and Mr. Ding Ming Zhong.

Mr. Ding Ming Zhong (丁明忠), aged 42, is our executive Director and a vice president of the Company. He has over 20 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 a brother of Mr. Ding Shui Po and Ms. Ding Mei Qing.

Non-executive Director

Mr. Ho Yui Pok, Eleutherius (何睿博), aged 53, 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 29 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 63, 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, an independent non-executive director and chairman of audit committee of Sinopharm Group Company Limited, an independent non-executive director and chairman of the audit committee of CIFI Holdings (Group) Company Limited, and an independent non-executive director, chairman of the audit committee and remuneration committee of Shineroad International Holdings 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 39 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 56, 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 56, was appointed as our independent non-executive Director on 21 December 2012. Dr. Bao has over 26 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 doctoral 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 (中國體育經濟研究中心).

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 41, 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, merger and acquisition, investor relations and company secretarial matters of the Group. He has over 18 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.

Mr. Yeung Lo Bun, Dr. Bao Ming Xiao, Mr. Tan Wee Seng, Ms. Ding Mei Qing, Mr. Ding Shui Po, Mr. Ding Ming Zhong, Mr. Ho Yui Pok, Eleutherius and Dr. Gao Xian Feng (from left to right).

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 2018, 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 standards set out in the Model Code for the year ended 31 December 2018.

Board of Directors

Board Composition

As at 31 December 2018 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 2018 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	5/5	1/1
Ms. Ding Mei Qing	5/5	1/1
Mr. Ding Ming Zhong	5/5	1/1
Non-executive Director		
Mr. Ho Yui Pok, Eleutherius	5/5	1/1
Independent Non-Executive Directors		
Mr. Tan Wee Seng	5/5	1/1
Dr. Gao Xian Feng	5/5	1/1
Dr. Bao Ming Xiao	5/5	1/1

All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the company secretary of the Company at all times and may seek independent professional advice at the Company's expense. When queries are raised by Directors, steps would be taken to respond as promptly and as fully as possible. All Directors have the opportunity to include matters in the agenda of board meetings. Notices of at least 14 days of board meetings are given to the Directors and 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 Corporate Governance 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 trainings 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 2018:

	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	✓	✓	✓	✓
Non-executive Director				
Mr. Ho Yui Pok, Eleutherius	✓	✓	✓	✓
Independent Non-Executive Directors				
Mr. Tan Wee Seng	✓	✓	✓	✓
Dr. Gao Xian Feng	✓	✓	✓	✓
Dr. Bao Ming Xiao	✓	✓	✓	✓

Directors' and Officers' Insurance

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

Appointments and Re-Election of Directors

Each of the executive Directors, 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.

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 terms of reference of the Audit Committee have been recently revised on 19 February 2019. The Audit Committee consists of three members, namely, Mr. Tan Wee Seng, Dr. Gao Xian Feng and Dr. 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 have any financial interest in or is a former partner of the existing external auditor 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 auditor, 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 2018, the Audit Committee mainly performed the following duties:

– reviewed the Group's unaudited interim results for the six months ended 30 June 2018 and the audited annual results for the year ended 31 December 2018, 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 2018, two 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	2/2

There had been no disagreement between the Board and the Audit Committee during the financial year ended 31 December 2018.

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 2018, 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 2018.

During the year ended 31 December 2018, one meeting was held by the Remuneration Committee. The attendance record of each member of the Remuneration Committee at the meeting 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	1/1

Nomination Committee

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

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

During the year ended 31 December 2018, the Nomination Committee mainly performed the following duties:

– reviewed the annual confirmations 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 2018.

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.

A "Nomination Policy" for Directors was formally adopted and this incorporated the nomination criteria and principles for Directors that are set out in the Nomination Committee's terms of reference. The Nomination Policy applies to the directors of the Company and where applicable, senior management prepared for Board positions under the succession planning of the Company.

The Nomination Policy aims to (i) set out the criteria and process in the nomination and appointment of directors of the Company; (ii) ensure that the Board of the Company has a balance of skills, experience and diversity of perspectives appropriate to the Company; and (iii) ensure the Board continuity and appropriate leadership at Board level.

In evaluating and selecting any candidate for directorship, the following criteria should be considered:

- character and integrity;
- qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy;
- any measurable objectives adopted for achieving diversity on the Board;
- requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;
- any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
- such other perspectives that am appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

Nomination Process

Appointment of New Director

i. The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents.

ii. The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

iii. If the process yields one or more desirable candidates, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

iv. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.

v. For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Where appropriate, the Nomination Committee and/or the Board should make recommendation to shareholders in respect of the proposed election of director at the general meeting.

Re-election of Director at General Meeting

i. The Nomination Committee and/or the Board should review the overall contribution and service to the Company of the retiring director and the level of participation and performance on the Board.

ii. The Nomination Committee and/or the Board should also review and determine whether the retiring director continues to meet the criteria as set out above.

iii. The Nomination Committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

Where the Board proposes a resolution to elect or re-elect a candidate as director at the general meeting, the relevant information of the candidate will be disclosed in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules and/or applicable laws and regulations.

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.

During the year ended 31 December 2018, one meeting was held by the Nomination Committee. The attendance record of each member of the Nomination Committee at the meeting 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 2018. 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	770,000
Audit services	5,000,000
Total	5,770,000

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 financial year. The Directors acknowledge their responsibilities for preparing the accounts of the Company. As at 31 December 2018, 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, 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 associated with the achievement of its operational objective. This process is subject to continuous improvement and was in place throughout 2018. The day-to-day operations are entrusted to individual departments, which are accountable for their own conducts and performance, and are 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 2018.

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 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 2018.

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 authorized to (i) design, implement and maintain risk management and internal control systems appropriately and effectively; (ii) identify, evaluate, manage and control the risks that may have potential and material impacts on the processes of the operations; (iii) monitor risks and take appropriate methods to mitigate risks; (iv) respond promptly to and follow up the findings of the risk management and internal control issues raised by the 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 summarized 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: Prioritizes 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 2018, 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 2018. 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 the 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 2018. 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 2018, 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 2018.

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 2018.

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.

Dividend Policy

On 19 February 2019, the Board has approved and adopted a dividend policy that, in recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements, future business growth and its shareholding value.

REPORT OF THE DIRECTORS

The Directors are pleased to present their report together with the audited financial statements for the year ended 31 December 2018.

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 2018 are set out in note 1 to the financial statements.

Financial Statements

The profit of the Group for the year ended 31 December 2018 and the Group's financial position as at that date are set out in the financial statements on pages 73 to 138 of this annual report.

Dividends

An interim dividend of HK10.5 cents (equivalent to approximately RMB9.1 cents) per Share was paid to our Shareholders during the year. The Board recommended a final dividend of HK9.5 cents (equivalent to approximately RMB8.4 cents) per Share for the year ended 31 December 2018, subject to approval by the Shareholders at the annual general meeting to be held on 6 May 2019. The total dividends for the year ended 31 December 2018, which included the interim dividend and final dividend, amounted to HK20.0 cents (equivalent to approximately RMB17.5 cents) per Share and they represented a dividend payout ratio of approximately 60.0%. Details of the dividends for the year ended 31 December 2018 are set out in note 11 to the financial statements.

Distributable Reserves of the Company

As at 31 December 2018, 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 RMB371.7 million (2017: RMB99.5 million). Details of the reserves of the Company as at 31 December 2018 are set out in note 42 to the financial statements.

Charitable Donations

Charitable donations made by the Group during the year ended 31 December 2018 amounted to approximately RMB42.6 million.

Share Capital

Details of the movements in share capital of the Company during the year ended 31 December 2018 are set out in note 29 to the financial statements.

Directors

The Directors during the year ended 31 December 2018 were:

Executive Directors

Ding Shui Po *(Chairman)*
Ding Mei Qing
Ding Ming Zhong

Non-executive Director

Ho Yui Pok, Eleutherius

Independent Non-Executive Directors

Tan Wee Seng
Gao Xian Feng
Bao Ming Xiao

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

Each of the executive Directors on the Board 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, Mr. Ho Yui Pok, Eleutherius, Mr. Tan Wee Seng and Dr. Bao Ming Xiao will retire from the Board by rotation at the forthcoming annual general meeting. Save for Mr. Ho Yui Pok, Eleutherius, Mr. Tan Wee Seng and Dr. Bao Ming Xiao, being eligible, offer themselves for re-election. Mr. Ho Yui Pok, Eleutherius has informed the Board that he would not offer himself for re-election, and accordingly, will retire from office at the conclusion of the annual general meeting.

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 38 to 41 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 2018.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2018, 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)]	1,344,974,500	59.95%
Ms. Ding Mei Qing	Founder and beneficiary of a discretionary trust[(2)]	1,310,059,500	58.40%
Mr. Ding Ming Zhong	Founder and beneficiary of a discretionary trust[(2)]	1,310,059,500	58.40%
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 2,243,380,000 issued Shares of the Company as at 31 December 2018.

(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 34,915,000 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.

Save as disclosed above, as at 31 December 2018, 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 2018 are as follows:

Name	Outstanding as at 1 January 2018	Exercised during the year ended 31 December 2018	Outstanding as at 31 December 2018
Employees			
Total	11,475,000	(11,475,000)	–

The total number of shares available for issue under the Pre-IPO Share Option Scheme is nil, representing none 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 2018.

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 2018 are as follows:

Name	Date of Grant	Exercise price per Share[1]	Exercise period[2][3][4]	Outstanding as at 1 January 2018	Granted during the year ended 31 December 2018	Cancelled during the year ended 31 December 2018	Exercised during the year ended 31 December 2018[5]	Lapsed during the year ended 31 December 2018	Outstanding as at 31 December 2018
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
Employees									
In aggregate	29 July 2009	HK$4.11	29 July 2010 – 28 July 2019	7,790,000	–	–	(2,480,000)	–	5,310,000
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	23,695,000	–	–	(8,040,000)	–	15,655,000
Total				43,085,000	–	–	(10,520,000)	–	32,565,000

The total number of shares available for issue under the Share Option Scheme is 32,565,000, representing 1.5% 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 2018.

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$5.04.

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 2018, 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	58.40%
Wan Xing International Holdings Limited	Interests of controlled corporation(2)	1,310,059,500	58.40%
Ding Wang Fortune Limited	Interests of controlled corporation(3)	1,310,059,500	58.40%
Guan Hong Development Limited	Interests of controlled corporation(3)	1,310,059,500	58.40%
Ming Zhong Family Limited	Interests of controlled corporation(3)	1,310,059,500	58.40%
UBS Trustees (BVI) Limited	Trustee(3)	1,310,059,500	58.40%

Notes:

(1) It was based on 2,243,380,000 issued Shares of the Company as at 31 December 2018.

(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 2018, 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 2018, there were a total of 41,210,000 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 2018	Granted during the year	Vested during the year	Forfeited during the year	As at 31 December 2018	Vesting period
Employees	10 January 2017	46,100,000	–	(4,590,000)	(300,000)	41,210,000	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

During the year ended 31 December 2018, 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. Particulars of the Shares repurchased on the Hong Kong Stock Exchange after 31 December 2018 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 three-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 Company's listed securities during the year ended 31 December 2018 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 2018.

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 2018 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 58.40% of the issued share capital of the Company. Mr. Ding Shui Po also had personal beneficial interests in approximately 1.55% 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 2018 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 2018 is shown on pages 10 to 35.

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 3.3% (2017: 3.1%) and 15.1% (2017: 13.6%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 5.8% (2017: 5.3%) and 19.6% (2017: 16.5%) of the Group's total purchases respectively.

At no time during the year ended 31 December 2018, 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 2018.

Bank Loans

Details of bank loans of the Company and the Group as at 31 December 2018 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 6 of this annual report.

On behalf of the Board
Ding Shui Po
Chairman

Hong Kong, 12 March 2019

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 73 to 138, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables As at 31 December 2018, the Group had gross trade receivables of RMB2,451 million, after netting off the impairment provision of RMB498 million, resulted in a net trade receivables of RMB1,953 million. Significant judgement and estimation by management are involved in the assessment of impairment, based on the lifetime expected credit loss to be incurred, by taking into account the ageing of trade receivable balances, the credit quality and credit loss history of debtors, and the prevailing sportswear market conditions. Both current and future general economic conditions are also taken into consideration by management in the estimation. Where the expectation is different from the original estimate, such difference will impact the carrying value of the trade receivables and the loss 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 test 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. In addition, we examined the information used by management to estimate the loss allowance for trade receivables, including testing of the historical default data, evaluating adjustment made to the historical loss rates based on current economic conditions and forward-looking information by checking to the published macroeconomics factors, and examining the actual losses recorded during the current financial year.
Provision for inventories As at 31 December 2018, the Group had gross inventories of RMB888 million, after netting off the provision of RMB52 million, resulted in a net inventories of RMB836 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

12 March 2019

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	6,383,165	5,113,434
Cost of sales		(3,554,827)	(2,868,947)
Gross profit		2,828,338	2,244,487
Other income and gains	5	195,620	158,316
Selling and distribution expenses		(1,357,294)	(911,447)
General and administrative expenses		(622,360)	(766,844)
Operating profit		1,044,304	724,512
Net finance costs	7	(68,136)	(53,800)
PROFIT BEFORE TAX	6	976,168	670,712
Income tax expense	10	(306,189)	(224,360)
PROFIT FOR THE YEAR		669,979	446,352
Attributable to:			
Ordinary equity holders of the Company		656,518	408,139
Non-controlling interests		13,461	38,213
		669,979	446,352
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
– Basic		RMB30.19 cents	RMB18.81 cents
– Diluted		RMB29.50 cents	RMB18.37 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
PROFIT FOR THE YEAR		**669,979**	446,352
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements of operations outside Mainland China		**(92,856)**	77,444
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		**(92,856)**	77,444
Fair value changes of equity investments designated at fair value through other comprehensive income	18	**18,000**	–
Income tax effect	27	**(2,700)**	–
		15,300	–
Other comprehensive income/(expense) for the year, net of tax		**(77,556)**	77,444
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**592,423**	523,796
Attributable to:			
Ordinary equity holders of the Company		**578,962**	485,583
Non-controlling interests		**13,461**	38,213
		592,423	523,796

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	640,687	645,928
Investment properties	14	36,800	39,615
Prepaid land lease payments	15	234,119	240,630
Deposits for acquisition of land use rights	16	60,105	–
Intangible assets	17	7,919	7,521
Equity investments designated at fair value through other comprehensive income	18	114,200	–
Available-for-sale investments	18	–	92,000
Deposits	21	45,122	26,208
Total non-current assets		1,138,952	1,051,902
CURRENT ASSETS			
Inventories	19	835,758	717,851
Trade receivables	20	1,953,303	1,719,007
Bills receivables	20	161,800	87,500
Prepayments, other receivables and other assets	21	727,408	572,280
Tax recoverable		85	1,370
Structured bank deposits	22	980,000	715,000
Pledged bank deposits	23	205,480	56,526
Time deposits	23	–	180,000
Cash and cash equivalents	23	3,195,809	3,832,272
Total current assets		8,059,643	7,881,806
CURRENT LIABILITIES			
Trade payables	24	878,686	1,027,714
Other payables and accruals	25	861,393	564,617
Interest-bearing bank borrowings	26	1,482,775	830,865
Deferred subsidies	28	577	–
Tax payable		54,377	65,632
Total current liabilities		3,277,808	2,488,828
NET CURRENT ASSETS		4,781,835	5,392,978
TOTAL ASSETS LESS CURRENT LIABILITIES		5,920,787	6,444,880
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	26	460,875	1,019,159
Deferred tax liabilities	27	107,295	97,113
Deferred subsidies	28	21,651	–
Total non-current liabilities		589,821	1,116,272
NET ASSETS		5,330,966	5,328,608
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Share capital	29	19,782	19,603
Reserves	30	5,306,497	5,201,266
		5,326,279	5,220,869
Non-controlling interests		4,687	107,739
Total equity		5,330,966	5,328,608

Ding Shui Po
Director

Ding Mei Qing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

		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))	Fair value reserve RMB'000 (note 30(iv))	Retained profits RMB'000	Total reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
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
Profit for the year		–	–	–	–	–	–	–	–	–	408,139	408,139	408,139	38,213	446,352
Other comprehensive income for the year		–	–	–	–	–	–	–	77,444	–	–	77,444	77,444	–	77,444
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
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
Effect of adoption of Hong Kong Financial Reporting Standard ("HKFRS") 9	2.2	–	–	–	–	–	–	–	–	3,200	–	3,200	3,200	–	3,200
At 1 January 2018 (restated)		19,603	259,874	118,600	663,109	(81,189)	6,163	89,679	(45,226)	3,200	4,190,256	5,204,466	5,224,069	107,739	5,331,808
Profit for the year		–	–	–	–	–	–	–	–	–	656,518	656,518	656,518	13,461	669,979
Other comprehensive expense for the year		–	–	–	–	–	–	–	(92,856)	15,300	–	(77,556)	(77,556)	–	(77,556)
Total comprehensive income/(expense) for the year		–	–	–	–	–	–	–	(92,856)	15,300	656,518	578,962	578,962	13,461	592,423
Awarded shares forfeited	32	–	–	–	–	(261)	(40)	–	–	–	301	–	–	–	–
Equity-settled share award arrangement	32	–	–	–	–	32,680	–	–	–	–	–	32,680	32,680	–	32,680
Awarded shares vested	32	–	–	–	–	–	(644)	–	–	–	644	–	–	–	–
2017 final and special dividends declared and paid	11	–	–	–	–	–	–	–	–	–	(258,081)	(258,081)	(258,081)	–	(258,081)
2018 interim dividend declared and paid	11	–	–	–	–	–	–	–	–	–	(201,248)	(201,248)	(201,248)	–	(201,248)
Cancellation of repurchased shares	29(ii)	(15)	(5,556)	15	–	–	–	–	–	–	(15)	(5,556)	(5,571)	–	(5,571)
Exercise of share options	29(i)	194	72,229	–	–	–	–	(13,625)	–	–	–	58,604	58,798	–	58,798
Repurchase of shares	30(v)	–	–	–	–	(83,921)	–	–	–	–	–	(83,921)	(83,921)	–	(83,921)
Transfer to statutory surplus fund		–	–	–	170,248	–	–	–	–	–	(170,248)	–	–	–	–
Acquisition of additional interests of non-controlling interests	1	–	–	–	–	–	–	–	–	–	(19,409)	(19,409)	(19,409)	(116,271)	(135,680)
Exchange differences related to foreign operations		–	–	–	–	–	–	–	–	–	–	–	–	(242)	(242)
At 31 December 2018		19,782	326,547	118,615	833,357	(132,691)	5,479	76,054	(138,082)	18,500	4,198,718	5,306,497	5,326,279	4,687	5,330,966

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		976,168	670,712
Adjustments for:			
Depreciation	13, 14	83,936	58,495
Amortisation of prepaid land lease payments	15	5,934	8,273
Amortisation of intangible assets	17	1,755	1,270
Loss on write-off of items of property, plant and equipment	6	411	1,000
Loss on disposal of intangible assets	6	18	–
Bank interest income	7	(72,404)	(51,703)
Interest income on a currency swap	7	(577)	(927)
Interest income from a loan to a then investee company	5	(2,072)	(347)
Interest expense on bank loans	7	56,729	36,403
Interest expense on discounted bills receivables	7	71,165	67,397
Amortisation of bank charges on syndicated loans	7	12,589	9,881
Dividend income from an available-for-sale investment	5	–	(1,500)
Fair value loss/(gains), net:			
Derivative financial instruments – transactions not qualified as hedges	7	634	(7,251)
Equity-settled share award scheme expense	32	32,680	45,421
Impairment/(write-back of impairment) of trade receivables, net	6	(79,181)	66,762
Provision for inventories	6	26,166	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)
Income derived from financial assets at fair value through profit or loss and structured bank deposits	5	(82,587)	–
		1,031,364	987,505
Increase in inventories		(144,073)	(284,311)
Decrease/(increase) in trade and bills receivables		(229,415)	88,525
Increase in prepayments, other receivables and other assets		(155,765)	(103,115)
Increase/(decrease) in trade payables		(149,028)	131,662
Increase in other payables and accruals	33(a)(i)	164,916	48,233
Cash generated from operations		517,999	868,499
Interest received		72,981	52,630
Interest paid		(127,894)	(103,800)
Overseas taxes paid		(308,677)	(259,209)
Net cash flows from operating activities		154,409	558,120

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	(72,399)	(123,276)
Additions of intangible assets	17	(2,171)	(3,658)
Increase in deposits for purchase of items of property, plant and equipment		(18,914)	(11,293)
Loan advance to a then investee company	21	–	(60,000)
Decrease/(increase) in pledged deposits		(148,954)	742,244
Increase in available-for-sale investments		–	(10,000)
Increase in structured bank deposits		(265,000)	(715,000)
Decrease in time deposits with original maturity more than three months when acquired		180,000	420,000
Increase in deposits for acquisition of land use right	16	(60,105)	–
Capital injection in an equity investment designated at fair value through other comprehensive income	18	(25,000)	–
Proceeds from disposal of an equity investment designated at fair value through other comprehensive income	18	24,000	–
Income derived from available-for-sale investments and structured bank deposits	5	–	63,241
Income derived from financial assets at fair value through profit or loss and structured bank deposits	5	82,587	–
Interest income from a loan to a then investee company	5	2,072	347
Dividend income from an available-for-sale investment	5	–	1,500
Addition of prepaid land lease payments		–	(49,995)
Receipt of subsidies for acquisition of land use rights	15, 28	22,805	20,990
Net cash flows from/(used in) investing activities		(281,079)	275,100
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans, net of bank charges on syndicated loans		539,148	1,588,359
Repayment of bank loans		(549,174)	(1,167,552)
Net proceeds from issue of ordinary shares	29(i)	58,798	7,257
Cancellation of repurchased shares	29(ii)	(5,571)	–
Repurchase of shares under share award scheme	30(v)	(83,921)	–
Acquisition of a non-controlling interest	1	(3,820)	–
Dividends paid	11	(459,329)	(270,840)
Exchange realignment		(6,941)	(3,406)
Net cash flows from/(used in) financing activities		(510,810)	153,818
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(637,480)	987,038
Cash and cash equivalents at beginning of year		3,832,272	2,846,532
Effect of foreign exchange rate changes, net		1,017	(1,298)
CASH AND CASH EQUIVALENTS AT END OF YEAR		3,195,809	3,832,272
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		3,195,809	3,832,272

1. CORPORATE AND GROUP INFORMATION

Xtep International Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. Pursuant to an announcement of the Company dated 21 February 2018, the Company's principal place of business in Hong Kong has been changed from Suite 2401–02, 24th floor, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong 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		Principal activities
			Direct	Indirect	
Xtep International Development Limited	BVI	US$10,000	100	–	Investment holding
Xtep International E-Commerce Investment Limited ("E-Commerce")(note (d))	BVI	US$50,000	100	–	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
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

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

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

Name	Place of incorporation or establishment/ business	Issued ordinary share/registered and paid-up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
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
廈門天鄰緣電子商務有限公司* (notes (a) and (c))	PRC/Mainland China	HK$20 million	–	100	Trading of sportswear
福建省特步一名服飾有限公司* ("Xtep YiMing")(notes (b), (c) and (e))	PRC/Mainland China	RMB10 million	–	100	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 2018.

(d) Pursuant to the sale and purchase agreements entered by the Group and non-controlling interests dated 31 December 2018, the Group acquired the remaining 25% equity interest in E-Commerce at a cash consideration of RMB131,860,000. On 31 December 2018, E-Commerce and its subsidiaries became wholly-owned subsidiaries of the Group. The difference of RMB19,513,000 between the consideration of RMB131,860,000 and the carrying amount of the non-controlling interests of RMB112,347,000 was debited to the retained profits during the year. According to the sales and purchase agreements, the Group is required to settle the consideration within 90 days after signing the sale and purchase agreements. Thus, the entire unsettled consideration of RMB131,860,000 was included in "Other payables" in the consolidated statement of financial position (note 25).

(e) Pursuant to the sale and purchase agreement entered by the Group and a non-controlling interest, the Group acquired the remaining 49% equity interest in Xtep YiMing at a cash consideration of RMB3,820,000. As at 31 December 2018, Xtep YiMing became a wholly-owned subsidiary of the Group. The difference of RMB104,000 between the consideration of RMB3,820,000 and the carrying amount of the non-controlling interest of RMB3,924,000 was credited to the retained profits during the year.

* 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.

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 financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income 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 2018. 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 new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

HKFRS 9 Financial Instruments replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39. The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position.

(a) Classification and measurement

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

		HKAS 39 measurement				HKFRS 9 measurement	
	Notes	Category	Amount RMB'000	Reclassification RMB'000	Remeasurement RMB'000	Amount RMB'000	Category
Financial assets							
Available-for-sale investments	(i)	AFS[1]	92,000	(92,000)	–	–	N/A
Equity investments designated at fair value through other comprehensive income	(i)	N/A	–	92,000	3,200	95,200	FVOCI[2] (equity investments)
Structured bank deposits	(ii)	L&R[3]	715,000	(715,000)	715,000	715,000	FVPL[4]
Derivative financial instruments		FVPL[4]	637	–	–	637	FVPL[4]
Trade receivables		L&R[3]	1,719,007	–	–	1,719,007	AC[5]
Bills receivables	(iii)	L&R[3]	87,500	–	–	87,500	FVOCI[2] (debt instruments)
Other receivables		L&R[3]	20,264	–	–	20,264	AC[5]
Loan to a then investee company		L&R[3]	60,000	–	–	60,000	AC[5]
Pledged bank deposits		L&R[3]	56,526	–	–	56,526	AC[5]
Time deposits		L&R[3]	180,000	–	–	180,000	AC[5]
Cash and cash equivalents		L&R[3]	3,832,272	–	–	3,832,272	AC[5]
			6,763,206	(715,000)	718,200	6,766,406	

1 AFS: Available-for-sale investments
2 FVOCI: Financial assets at fair value through other comprehensive income
3 L&R: Loans and receivables
4 FVPL: Financial assets at fair value through profit or loss
5 AC: Financial assets at amortised cost

Notes:

(i) The Group has elected the option to irrevocably designate its previous available-for-sale equity investments as equity investments at fair value through other comprehensive income.

(ii) The Group has reclassified its structured bank deposits from loan and receivables to financial assets at fair value through profit or loss as these structured bank deposits did not pass the contractual cash flow characteristics test in HKFRS 9.

(iii) The Group has reclassified its bills receivables from loan and receivables to financial assets at fair value through other comprehensive income. The objective of the Group of holding the bills receivables is to collect contractual cash flows and to sell before its contractual maturity for working capital management. The Group considered these receivables are managed within a business model to collect contractual cash flows and to sell the financial assets.

(b) Impairment

The effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs") is disclosed in notes 20, 21 and 41 to the consolidated financial statements. The Group concluded that there is no material impact for the initial adoption of the new impairment calculation.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) Impairment (Continued)

HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 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 liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The Group's contracts with customers for the sale of sportswear goods include only single performance obligation. The Group has concluded that revenue from sale should be recognised at the point of time when a customer obtains control of goods. The Group has concluded that the initial application of HKFRS 15 does not have a significant impact on the Group's revenue recognition.

Before the adoption of HKFRS 15, the Group recognised advances from customers as other payables. Under HKFRS 15, a contract liability is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue, or when the Group receives consideration from a customer and expects to refund some or all of that consideration to the customer (i.e. refund liability).

Therefore, upon adoption of HKFRS 15, the Group reclassified RMB65,396,000 from advances from customers to contract liabilities as at 1 January 2018 in relation to the short-term advances received from customers as at 1 January 2018. Both advances from customers and contract liabilities are included in other payables and accruals.

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 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]	Annual Improvements 2015–2017 Cycle

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

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

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

HKFRS 16 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 elective 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 will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During the year ended 31 December 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of RMB51,880,000 and lease liabilities of RMB53,785,000 will be recognised at 1 January 2019 with a corresponding adjustment of RMB1,905,000 to the opening balance of retained profits.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement

The Group measures its financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

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 of 20 years.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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.

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt instruments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the income statement and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement (continued)

Financial assets at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the income statement. Dividends are recognised as other income in the income statement when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement. This category includes derivative financial instruments and structured bank deposits.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

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, trade and bills receivables, available-for-sale financial investments, derivative financial instrument and other receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

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 cost 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 fair value 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 fair value 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 (applicable before 1 January 2018)" 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 (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

General approach (continued)

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt instruments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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 (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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 (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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 (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

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 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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 (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Revenue from the sale of sportswear goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the sportswear goods.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Rental income is recognised on a time proportion basis over the lease terms.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable before 1 January 2018)

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.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

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.

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 the financial statements.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of the Company and 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 the financial statements.

Provision for expected credit losses on trade receivables and other receivables

The Group uses a provision matrix to calculate ECLs for trade receivables and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by product type and customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products and inflation) are expected to deteriorate over the next year which can lead to an increased number of defaults in the retail and manufacturing sectors, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and other receivables is disclosed in notes 20 and 21 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

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 27 to the financial statements.

Fair values of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 40 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3. The fair values of the unlisted equity investments at 31 December 2018 was RMB114,200,000. The related disclosures are included in notes 18 and 40 to the 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 the 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 2018 and 2017, 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

An analysis of revenue is as follows:

(i) Revenue

Revenue represents the net invoiced value of goods sold during the year, after allowances for returns and trade discounts. The performance obligation is satisfied upon delivery of the sportswear goods and the payment is generally due within 90 to 120 days from delivery, except for new customers, where payment in advance is normally required. Disaggregation of revenue from contracts with customers by product categories is as follows:

	2018 RMB'000	2017 RMB'000
Product categories		
Footwear	**3,924,962**	3,257,797
Apparel	**2,326,861**	1,759,460
Accessories	**131,342**	96,177
	6,383,165	5,113,434

(ii) Other income and gains

	2018 RMB'000	2017 RMB'000
Other income and gains		
Subsidy income from the PRC government *	**94,677**	79,395
Rental income	**6,885**	7,278
Income derived from financial assets at FVPL and structured bank deposits	**82,587**	–
Income derived from available-for-sale investments and structured bank deposits	**–**	63,241
Interest income from a loan to a then investee company	**2,072**	347
Dividend income from an available-for-sale investment	**–**	1,500
Scrap sales income	**6,284**	6,555
Others	**3,115**	–
	195,620	158,316

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

6. PROFIT BEFORE TAX

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

	Notes	2018 RMB'000	2017 RMB'000
Cost of inventories sold [1]		3,554,827	2,868,947
Depreciation	13, 14	83,936	58,495
Amortisation of prepaid land lease payments	15	5,934	8,273
Amortisation of intangible assets [2]	17	1,755	1,270
Advertising and promotional costs		968,195	658,034
Employee benefit expenses (including directors' remuneration – note 8):			
Wages and salaries		632,887	511,500
Other allowances and benefits		56,152	51,688
Pension scheme contributions [3]		16,334	17,142
Equity-settled share award scheme expense [2]	32	32,680	45,421
		738,053	625,751
Auditor's remuneration		4,209	3,916
Loss on write-off of items of property, plant and equipment		411	1,000
Loss on disposal of intangible assets		18	–
Minimum lease payments under operating leases of land and buildings		21,981	16,618
Impairment/(write-back of impairment) of trade receivables, net [2]	20	(79,181)	66,762
Provision for inventories [2]		26,166	26,035
Loss on buy-back of inventories [2, 5]		–	120,825
Research and development costs [4]		166,260	143,427
Foreign exchange differences, net [2]		1,834	2,946
Fair value loss/(gains), net:			
Derivative financial instruments - transactions not qualified as hedges	7	634	(7,251)

1 The cost of inventories sold for the year includes RMB346,070,000 (2017: RMB295,062,000) 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, impairment/(write-back of impairment) of 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 2018, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2017: Nil).

4 The research and development costs for the year include RMB91,916,000 (2017: RMB79,048,000) 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 is assessed by management as nil.

7. NET FINANCE COSTS

An analysis of net finance costs is as follows:

	Note	2018 RMB'000	2017 RMB'000
Interest expense on bank loans		(56,729)	(36,403)
Interest expense on discounted bills receivable		(71,165)	(67,397)
Amortisation of bank charges on syndicated loans		(12,589)	(9,881)
Bank interest income		72,404	51,703
Fair value gains/(loss), net:			
Derivative financial instruments - transactions not qualified as hedges *	21	(634)	7,251
Interest income on a currency swap		577	927
		(68,136)	(53,800)

* The Group enters into a currency swap contract (2017: interest rate and currency swap contracts) for its floating-interest loans denominated in United States dollars ("US$") to manage its exposure to exchange rate (2017: 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	
	2018 RMB'000	2017 RMB'000
Fees:		
Executive directors	–	–
Non-executive director	–	–
Independent non-executive directors	916	977
	916	977
Other emoluments of executive directors:		
Salaries, other allowances and benefits in kind	1,879	4,642
Performance related bonuses	–	–
Pension scheme contributions	46	163
	1,925	4,805
Other emoluments of a non-executive director:		
Salaries, other allowances and benefits in kind	556	183
	3,397	5,965

8. DIRECTORS' REMUNERATION (CONTINUED)

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.

	Fees RMB'000	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
2018						
a) *Executive directors*						
Ding Shui Po[1]	–	939	–	–	18	957
Ding Mei Qing	–	470	–	–	14	484
Ding Ming Zhong	–	470	–	–	14	484
	–	1,879	–	–	46	1,925
b) *Non-executive director*						
Ho Yui Pok, Eleutherius[3]	–	556	–	–	–	556
c) *Independent non-executive directors*						
Tan Wee Seng	556	–	–	–	–	556
Gao Xian Feng	180	–	–	–	–	180
Bao Ming Xiao	180	–	–	–	–	180
	916	–	–	–	–	916
	916	2,435	–	–	46	3,397

8. DIRECTORS' REMUNERATION (CONTINUED)

	Fees RMB'000	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
	977	4,825	–	–	163	5,965

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.

9. FIVE HIGHEST PAID EMPLOYEES

During the year ended 31 December 2018, there was no director included in the five highest paid employees.

During the year ended 31 December 2017, the five highest paid employees included three directors, details of whose remuneration are set out in note 8 above.

Details of the remuneration for the year of the five (2017: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, other allowances and benefits in kind	6,658	1,749
Performance-related bonuses	–	448
Pension scheme contributions	69	46
Equity-settled share award scheme expense	7,492	–
	14,219	2,243

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	
	2018	2017
HK$1,000,001 – HK$1,500,000	–	2
HK$1,500,001 – HK$2,000,000	2	–
HK$2,500,001 – HK$3,000,000	2	–
HK$5,000,001 – HK$5,500,000	1	–
	5	2

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 (2017: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2018 RMB'000	2017 RMB'000
Current tax – Overseas		
Charge for the year	274,912	217,835
Underprovision in prior years	7,277	6,525
	282,189	224,360
Deferred (note 27)	24,000	–
	306,189	224,360

Xtep China, a wholly-owned subsidiary of the Company, was taxed at a preferential 15% tax rate for the years ended 31 December 2017 and 2018 as Xtep China was qualified as a High-New Technology Enterprise (the "HNTE") in the PRC and obtained the relevant HNTE certificates in 2016.

10. INCOME TAX (CONTINUED)

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:

	2018 RMB'000	2017 RMB'000
Profit before tax	976,168	670,712
Tax at the applicable tax rates	256,653	178,984
Lower tax rates for specific provinces or tax holidays	(30,331)	(30,404)
Adjustments in respect of current tax of previous years	7,277	6,525
Income not subject to tax	(20,203)	(52)
Expenses not deductible for tax	44,315	68,681
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	24,000	–
Tax losses utilised from previous periods	(363)	(141)
Tax losses not recognised	24,841	767
Tax charge at the Group's effective rate	306,189	224,360

11. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Dividends paid during the year:		
Final – HK4.5 cents (2017: HK3.25 cents) per ordinary share	80,094 (ii)	63,968 (i)
Special – HK10 cents (2017: HK2.75 cents) per ordinary share	177,987 (ii)	54,126 (i)
Interim – HK10.5 cents (2017: HK8.5 cents) per ordinary share	201,248 (iii)	152,746 (ii)
	459,329	270,840
Proposed final dividend:		
HK9.5 cents (2017: HK4.5 cents) per ordinary share	189,252 (iii)	81,035 (ii)
Proposed special dividend:		
Nil (2017: HK10 cents) per ordinary share	–	180,078 (ii)
	189,252	261,113

(i) In respect of the financial year ended 31 December 2016
(ii) In respect of the financial year ended 31 December 2017
(iii) In respect of the financial year ended 31 December 2018

The proposed final 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 dividends payable.

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

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company of RMB656,518,000 (2017: RMB408,139,000) and the weighted average number of ordinary shares in issue during the years as adjusted to reflect the share options exercised, the Awarded Shares vested (note 32), repurchase of treasury shares and shares repurchased and cancelled, which is calculated as follows:

	2018	2017
Issued ordinary shares at 1 January	2,223,185,000	2,219,535,000
Effect of share options exercised	14,730,867	537,808
Effect of Awarded Shares vested	4,476,822	–
Less: Repurchase of treasury shares	(66,224,468)	(50,000,000)
Less: Shares repurchased and cancelled	(1,601,096)	–
Weighted average number of ordinary shares	2,174,567,125	2,170,072,808

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company of RMB656,518,000 (2017: RMB408,139,000) and the weighted average number of ordinary shares in issue during the years, as used in the basic earnings per share calculation, as adjusted to reflect the Awarded Shares granted, vested and forfeited, and dilutive effect of shares under the Company's share option schemes (note 31), which is calculated as follows:

	2018	2017
Weighted average number of ordinary shares as used in the basis earnings per share calculation	2,174,567,125	2,170,072,808
Effect of Awarded Shares forfeited	(4,200,000)	(3,900,000)
Effect of Awarded Shares vested	(4,476,822)	–
Effect of Awarded Shares granted	50,000,000	50,000,000
Effect of dilutive potential shares under share option schemes	9,482,084	5,369,950
Weighted average number of ordinary shares	2,225,372,387	2,221,542,758

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 2018							
Cost:							
At beginning of year	581,756	29,083	131,661	68,926	157,412	24,818	993,656
Additions	–	2,414	7,078	821	29,490	32,596	72,399
Transfer	24,630	–	–	–	–	(24,630)	–
Write-off	–	–	(431)	(240)	(1,446)	–	(2,117)
Exchange realignment	4,068	25	–	22	65	–	4,180
At 31 December 2018	610,454	31,522	138,308	69,529	185,521	32,784	1,068,118
Accumulated depreciation:							
At beginning of year	89,894	28,241	77,084	51,743	100,766	–	347,728
Provided during the year	27,685	620	12,697	7,746	32,373	–	81,121
Write-off	–	–	(192)	(216)	(1,298)	–	(1,706)
Exchange realignment	159	41	–	21	67	–	288
At 31 December 2018	117,738	28,902	89,589	59,294	131,908	–	427,431
Net carrying amount:							
At 31 December 2018	492,716	2,620	48,719	10,235	53,613	32,784	640,687
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

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included in "Buildings" are certain self-used properties with a net carrying amount of approximately RMB6,483,000 at 31 December 2018 (2017: RMB247,063,000), for which the Group has not obtained the building ownership certificates.

14. INVESTMENT PROPERTIES

	Note	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January		39,615	–
Transferred from property, plant and equipment	13	–	41,257
Depreciation provided during the year		(2,815)	(1,642)
Carrying amount at 31 December		36,800	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. These investment properties are stated at cost less accumulated depreciation and less any impairment losses.

As at 31 December 2018, the fair value of the Group's investment properties was RMB107,800,000 (2017: RMB107,300,000), based on a valuation 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 falls into the category of fair value measurements using significant unobservable inputs (Level 3) including adjusted 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	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January		246,605	231,575
Additions during the year		–	56,713
Release of subsidies	(a)	(577)	(20,990)
Resumed during the year (note 28)		–	(12,420)
Recognised for the year		(5,934)	(8,273)
Carrying amount at 31 December		240,094	246,605
Current portion included in prepayments, other receivables and other assets		(5,975)	(5,975)
Non-current portion		234,119	240,630

Note:

(a) During the year ended 31 December 2018, subsidies of RMB22,805,000 were received by the Group from the PRC government in respect of a parcel of land acquired in prior years. During the year, balance of RMB577,000 out of the subsidies received were offset with prepaid land lease payment of the same balance.

During the year ended 31 December 2017, subsidies of RMB20,990,000 were received by the Group from the PRC government. The subsidies were offset with prepaid land lease payment of the same balance in respect of the land use right of another parcel of land acquired in prior years.

16. DEPOSITS FOR ACQUISITION OF LAND USE RIGHTS

During the year ended 31 December 2018, the Group has entered into a sale and purchase agreement with local government authority and paid RMB60,105,000 in connection with the acquisition of a parcel of land in Fujian Province, the PRC. As at 31 December 2018, the Group is still in the process of obtaining the land use right certificate of this land parcel.

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 a land in Fujian Province, the PRC, at a cash consideration of RMB27,170,000, of which RMB6,718,000 was settled by utilising deposits of RMB10,467,000 brought forward from prior years and the remaining balance was settled by cash. The remaining balance of deposits brought forward from prior years amounting to RMB3,749,000 was fully utilised for the relevant construction work during the year ended 31 December 2017.

17. INTANGIBLE ASSETS

Patents and trademarks

	2018 RMB'000	2017 RMB'000
Cost:		
At beginning of year	11,967	8,309
Additions	2,171	3,658
Disposal	(18)	–
At 31 December	14,120	11,967
Accumulated amortisation:		
At beginning of year	4,446	3,176
Amortisation provided during the year	1,755	1,270
At 31 December	6,201	4,446
Net carrying amount:		
At 31 December	7,919	7,521

18. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	Notes	Equity investments designated at fair value through other comprehensive income RMB'000	Available-for-sale investments RMB'000
At 31 December 2017	(a)	–	92,000
Reclassification by adoption of HKFRS 9 (note 2.2)		92,000	(92,000)
Remeasurement by adoption of HKFRS 9 (note 2.2)		3,200	–
At 1 January 2018		95,200	–
Addition	(b)	25,000	–
Disposal	(c)	(24,000)	–
Change in fair values	(d)	18,000	–
At 31 December 2018		114,200	–

The above unlisted equity investments were irrevocably designated at fair value through other comprehensive income as at 1 January 2018 as the Group considered these investments to be strategic in nature.

Notes:

(a) As at 31 December 2017, the Group held three unlisted investments with carrying values of RMB35,000,000, RMB33,000,000 and RMB24,000,000, representing 5%, 11% and 3% equity interests in 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, RMB300,000,000 and RMB800,000,000, respectively. The above investments were stated at cost less impairment as at 31 December 2017.

(b) During the year ended 31 December 2018, the Group paid a further RMB25,000,000 as capital into an investment.

(c) During the year ended 31 December 2018, the Group disposed of its 3% equity interest in an investment with a carrying value of RMB24,000,000 for a cash consideration of RMB24,000,000 to a non-controlling interest with no material gain or loss resulted.

(d) During the year ended 31 December 2018, the fair value gains of RMB18,000,000 (2017: Nil) in respect of the Group's equity investments designated at fair value through other comprehensive income were recognised in the consolidated statement of comprehensive income.

19. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	126,738	140,826
Work in progress	93,967	73,498
Finished goods	667,253	529,562
	887,958	743,886
Less: Provision for inventories	(52,200)	(26,035)
	835,758	717,851

20. TRADE AND BILLS RECEIVABLES

	Notes	2018 RMB'000	2017 RMB'000
Trade receivables		2,450,823	2,295,708
Less: Impairment of trade receivables	(a)	(497,520)	(576,701)
	(b)	1,953,303	1,719,007
Bills receivables	(c)	161,800	87,500

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 impairment of trade receivables are as follows:

	2018 RMB'000	2017 RMB'000
At 1 January	576,701	509,939
Impairment/(write-back of impairment) of trade receivables, net	(79,181)	66,762
At 31 December	497,520	576,701

Impairment under HKFRS 9 for the year ended 31 December 2018
An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by product type and customer type), adjusted for factors that are specific to debtors. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Expected credit loss rate	Gross carrying amount excluding specific trade receivables RMB'000	Loss allowance excluding specific trade receivables RMB'000	Gross carrying amount of specific trade receivables RMB'000	Loss allowance of specific trade receivables RMB'000	Total loss allowance RMB'000
Current	5.0%	1,370,991	(68,204)	13,419	(13,419)	(81,623)
Less than 3 months past due	11.9%	418,329	(49,640)	10,406	(10,406)	(60,046)
Past due over 3 months	40.3%	471,880	(190,053)	165,798	(165,798)	(355,851)
		2,261,200	(307,897)	189,623	(189,623)	(497,520)

The impairment included the amount of specific trade receivables which were considered in default due to indicators which showed that the Group was unlikely to receive the outstanding contractual amount in full.

Impairment under HKAS 39 for the year ended 31 December 2017
Included in the above impairment of trade receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of RMB576,701,000 with an aggregate carrying amount before provision of RMB1,045,050,000.

The individually impaired trade receivables as at 31 December 2017 related to customers that were in default or delinquency in payments and only a portion of the receivables is expected to be recovered.

20. TRADE AND BILLS RECEIVABLES (CONTINUED)

Notes: (continued)

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

Impairment under HKAS 39 for the year ended 31 December 2017 (continued)

An ageing analysis of the trade receivables as at 31 December 2017, based on the payment due date, that were not considered to be impaired under HKAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	976,357
Less than 3 months past due	148,298
Past due over 3 months	126,003
	1,250,658

Receivables that were neither past due nor impaired related to a number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good repayment record with the Group. Based on past experience, the directors of the Company were of the opinion that no impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

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

	2018 RMB'000	2017 RMB'000
Within 3 months	1,028,713	1,232,647
4 to 6 months	703,013	267,327
Over 6 months	221,577	219,033
At 31 December	1,953,303	1,719,007

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

	2018 RMB'000	2017 RMB'000
Within 3 months	30,000	63,000
3 to 6 months	111,800	24,500
Over 6 months	20,000	–
	161,800	87,500

Management considers that there were minimal expected credit loss associated with bills receivables in view of the fact that these balances are not yet past due.

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Notes	2018 RMB'000	2017 RMB'000
Prepayments to contracted manufacturers		90,899	79,870
Deposits and advance payments to suppliers		297,225	213,395
Deposits and advance payments to subcontractors		97,953	125,237
Loan to a then investee company	(a)	60,000	60,000
Other deposits		38,670	13,815
Value added tax ("VAT") recoverable		130,107	85,270
Other receivables		57,676	20,264
Derivative financial instrument	(b)	–	637
		772,530	598,488
Less: Non-current portion		(45,122)	(26,208)
		727,408	572,280

Notes:

(a) As at 31 December 2017, the loan granted to a then investee company with a carrying value of investment of RMB24,000,000 (note 18) bore interest at 4.5675% per annum and was repayable in twelve months. The loan was secured by land and building of a related party of the then investee company located at Putian, Fujian Province, the PRC. During the year ended 31 December 2018, the Group disposed of this investee company (note 18(c)).

As at 31 December 2018, the balance was overdue and the Group was in the progress of recovering the balance through the secured land and building. The fair value of the secured land and building at 31 December 2018 was estimated by the directors with reference to the valuation report performed by an independent valuer at an amount higher than the loan's carrying amount and no impairment in value is considered necessary accordingly.

(b) The Group has entered into a currency swap contract to manage its exchange rate exposures which the documentation did not meet the criteria for hedge accounting. A loss in fair value of non-hedging currency derivative instrument for the year amounting to RMB634,000 (2017: gains of RMB7,251,000) (note 7) was debited to the consolidated income statement.

Except for the loan aforesaid in (a), 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. The expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. No loss allowance was provided because management estimated that the expected credit losses as at 31 December 2018 were not significant.

22. STRUCTURED BANK DEPOSITS

The structured bank deposits are wealth management products issued by a bank in Mainland China with fixed maturity periods of one to twelve months (2017: five to twelve months) and bear interest at floating rates based on the fluctuation in the London Interbank Offered Rate ("LIBOR"). They were classified as financial assets at fair value through profit or loss at 31 December 2018 as their contractual cash flows are not solely payments of principal and interest. As at 31 December 2017, the structured bank deposits were stated at amortised cost.

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

	Note	2018 RMB'000	2017 RMB'000
Time deposits		442,105	503,151
Cash and bank balances		2,959,184	3,565,647
		3,401,289	4,068,798
Less: Pledged deposits for:			
– short term bank loans	26	(205,480)	(44,526)
– bank guarantees*		–	(12,000)
		(205,480)	(56,526)
Less: Time deposits with original maturity of more than three months when acquired		–	(180,000)
Cash and cash equivalents		3,195,809	3,832,272

* As at 31 December 2017, 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. The pledged deposits were released during the year upon completion of construction.

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB2,942,342,000 (2017: RMB3,467,535,000) and RMB442,105,000 (2017: RMB503,151,000), 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 for one day to seven days (2017: one day to six months) 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:

	2018 RMB'000	2017 RMB'000
Within 3 months	747,501	918,923
3 to 6 months	53,872	38,159
Over 6 months	77,313	70,632
Trade payables	878,686	1,027,714

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

25. OTHER PAYABLES AND ACCRUALS

	Notes	2018 RMB'000	2017 RMB'000
Advances from customers		–	65,396
Contract liabilities	(a)	86,280	–
Other payables	(b)	310,109	163,645
VAT payables		12,172	8,205
Accruals		452,832	327,371
		861,393	564,617

Notes:

(a) Contract liabilities represented short-term advances received before delivery of sportswear goods to customers. Revenue that was included in the contract liabilities at the beginning of the reporting period amounting to RMB65,396,000 was recognised during the year ended 31 December 2018.

(b) Balance as at 31 December 2018 included a consideration payable of RMB131,860,000 due to non-controlling interests for the acquisition of 25% equity interests in E-Commerce as detailed in note 1 to the financial statements.

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

26. INTEREST-BEARING BANK BORROWINGS

	Notes	2018 Effective interest rate per annum (%)	Maturity	RMB'000
Current:				
Syndicated loans	(a)	HIBOR/LIBOR+1.65%	2019	613,939
Other bank loans	(b)	HIBOR+1.0% to 1.35%	2019	868,836
				1,482,775
Non-current:				
Syndicated loans	(a)	HIBOR/LIBOR+1.65%	2020	460,875
				1,943,650

	Notes	2017 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

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year and on demand	1,482,775	830,865
In the second year	460,875	580,882
In the third to fifth years, inclusive	–	438,277
	1,943,650	1,850,024

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 RMB577,632,000) (2017: HK$651,000,000 (equivalent to approximately RMB550,746,000)) and US$116,000,000 (equivalent to approximately RMB805,556,000) (2017: US$116,000,000 (equivalent to approximately RMB766,442,000)) 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 RMB205,480,000 (2017: RMB44,526,000) in aggregate; and

(ii) corporate guarantees provided by a wholly-owned subsidiary of the Company to the extent of HK$1,345,796,000 (equivalent to approximately RMB1,194,125,000) (2017: HK$1,350,473,000 (equivalent to approximately RMB1,142,500,000)) as at the end of the reporting period.

As at 31 December 2018, except for the bank loan of RMB625,516,000 (2017: RMB758,384,000) which was denominated in US$, all bank borrowings are denominated in Hong Kong dollars.

27. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the year were as follows:

	Fair value changes on equity investments designated at fair value through other comprehensive income RMB'000	Withholding tax levied on dividend RMB'000	Total RMB'000
At 1 January 2017	–	109,277	109,277
Withholding tax paid on repatriation of earnings from PRC subsidiaries	–	(12,164)	(12,164)
Deferred tax liabilities at 31 December 2017 and 1 January 2018	–	97,113	97,113
Withholding tax paid on repatriation of earnings from PRC subsidiaries	–	(16,518)	(16,518)
Deferred tax charged to the consolidated income statement during the year (note 10)	–	24,000	24,000
Deferred tax charged to the fair value reserve during the year	2,700	–	2,700
Deferred tax liabilities at 31 December 2018	2,700	104,595	107,295

The Group has tax losses arising in Hong Kong of RMB36,448,000 (2017: RMB34,610,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Group also has tax losses arising in Mainland China of RMB134,490,000 (2017: RMB39,141,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets are recognised for the tax losses carried forward to the extent that realisation of the related tax benefits through taxable profit is probable. The Group did not recognise deferred tax assets in respect of these losses.

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 RMB90,478,000 as at 31 December 2018 (31 December 2017: RMB110,233,000).

The Company has no significant unprovided deferred tax in respect of the reporting period and at the end of the reporting period. There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

28. DEFERRED SUBSIDIES

	Notes	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January		–	12,420
Received during the year	(a)	22,805	–
Released to/resumed as prepaid land lease payments (note 15)	(a), (b)	(577)	(12,420)
Carrying amount at 31 December		22,228	–
Current portion		(577)	–
Non-current portion		21,651	–

Notes:

(a) During the year ended 31 December 2018, a subsidy of RMB22,805,000 was received by the Group from the local government for the acquisition of a parcel of land in Jinjiang, Fujian, the PRC. The deferred subsidy is offset with prepaid land lease payments over the life of the land use rights of this parcel of land.

(b) 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 manufacturing facilities to be incurred by the Group on a parcel of land in Bengbu, Anhui Province, the PRC (the "Land") to facilitate the construction of manufacturing facilities on the Land.

During the year ended 31 December 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.

29. SHARE CAPITAL

At 31 December 2018

	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: 2,243,380,000 ordinary shares of HK$0.01 each	22,434	19,782

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

29. SHARE CAPITAL (CONTINUED)

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 2017		2,219,535,000	22,195	19,572
Exercise of share options	(i)	3,650,000	37	31
At 31 December 2017 and 1 January 2018		2,223,185,000	22,232	19,603
Cancellation of repurchased shares	(ii)	(1,800,000)	(18)	(15)
Exercise of share options	(i)	21,995,000	220	194
At 31 December 2018		2,243,380,000	22,434	19,782

Notes:

(i) During the year ended 31 December 2018, the subscription rights attaching to 11,475,000 (2017: Nil) share options granted under the Pre-IPO Share Option Scheme (as defined in note 31) and 8,040,000 (2017: 3,650,000) and 2,480,000 (2017: Nil) share options granted under the Share Option Scheme (as defined in note 31) were exercised at the subscription price of HK3.24, HK$2.35 and HK$4.11 per share, respectively. During the year ended 31 December 2017, 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 per share. The exercise of these share options resulted in the issue of a total of 21,995,000 shares (2017: 3,650,000 shares) of HK$0.01 (2017: HK$0.01) each for a total cash consideration before expenses of approximately HK$66,266,000 (equivalent to approximately RMB58,798,000) (2017: approximately HK$8,578,000 (equivalent to approximately RMB7,257,000)) representing the nominal value of ordinary shares of RMB194,000 (2017: RMB31,000) and share premium of RMB58,604,000 (2017: RMB7,226,000).

An amount of HK$15,356,000 (equivalent to approximately RMB13,625,000 (2017: HK$2,388,000 (equivalent to approximately RMB2,020,000)) 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 2018, the Company repurchased 1,800,000 (2017: Nil) ordinary shares at prices ranging from HK$3.37 to HK$3.65 per share at a total consideration of approximately HK$6,279,000 (equivalent to RMB5,571,000) (2017: Nil). All these repurchased ordinary shares were cancelled during the year. The premium of approximately HK$6,261,000 (equivalent to approximately RMB5,556,000) (2017: Nil) paid for the repurchase of these shares was debited to the share premium account and an amount of HK$18,000 (equivalent to approximately RMB15,000) (2017: Nil) was transferred from retained profits to the capital reserve of the Company.

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.

30. RESERVES (CONTINUED)

(iv) Fair value reserve

The fair value reserve represents the subsequent changes in fair value of the equity investments designated at fair value through other comprehensive income since their initial measurement. With the exception of dividends received, the associated gains and losses are recognised in the fair value reserve. Amounts presented in the fair value reserve are transferred to retained profits upon derecognition of the financial assets.

(v) Treasury shares

Treasury shares reacquired and held by the Company are recognised directly in equity at cost. During the year ended 31 December 2018, 23,239,000 (2017: Nil) treasury shares were purchased at a cash consideration of RMB83,921,000 (2017: Nil).

(vi) Share award reserve

The share award reserve represents the differences between the cost of repurchase of shares and fair value of Awarded Shares at grant date.

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.

31. SHARE OPTION SCHEMES (CONTINUED)

(a) Pre-IPO share option scheme (continued)

The movement of share options under the Pre-IPO Scheme during the years were as follows:

	2018 Weighted average exercise price HK$ per share	2018 Number of options '000	2017 Weighted average exercise price HK$ per share	2017 Number of options '000
At 1 January	3.24	11,475	3.24	11,475
Exercised during the year	3.24	(11,475)	–	–
At 31 December	–	–	3.24	11,475

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2018 was HK$4.27 (2017: Nil) per share. During the year ended 31 December 2018, 11,475,000 (2017: Nil) share options granted under the Pre-IPO Scheme were exercised at the subscription price of HK$3.24 per share, resulting in the issue of 11,475,000 additional ordinary shares (2017: Nil) of the Company and additional share capital of approximately HK$114,750 (equivalent to approximately RMB101,000) (2017: Nil) and share premium account of approximately HK$37,064,000 (equivalent to approximately RMB32,887,000) (2017: Nil), before related issuance expenses.

The exercise prices and exercise periods of the Pre-IPO Share Options outstanding at 31 December 2017 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.

At the end of the reporting period and up to the date of approval of these financial statements, no Pre-IPO Share Options remained outstanding (2017: 11,475,000).

31. SHARE OPTION SCHEMES (CONTINUED)

(b) Share option scheme

The Company has also adopted a share option scheme (the "Share Option Scheme") pursuant to the shareholders' written resolution passed on 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 movement of share options under the Share Option Scheme during the years were as follows:

	2018		2017	
	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	**3.58**	**43,085**	3.48	46,735
Exercised during the year	**2.76**	**(10,520)**	2.35	(3,650)
At 31 December	**3.84**	**32,565**	3.58	43,085

The weighted average share price at the date of exercise for share options exercised during the year was HK$5.05 (2017: HK$2.95) per share.

The subscription rights attaching to 8,040,000 (2017: 3,650,000) and 2,480,000 (2017: Nil) share options granted under the Share Option Scheme were exercised at the subscription price of HK$2.35 and HK$4.11 per share during the year, resulting in the issue of 10,520,000 shares (2017: 3,650,000 shares) and additional share capital of approximately HK$105,000 (equivalent to approximately RMB93,000) (2017: Nil) and share premium of approximately HK$28,982,000 (equivalent to approximately RMB25,717,000) (2017: Nil), before related issuance expenses.

31. SHARE OPTION SCHEMES (CONTINUED)

(b) Share option scheme (continued)

The exercise prices and exercise periods of the share options outstanding at 31 December 2018 and 2017 were as follows:

2018

Number of options	Exercise price per share	Exercise period
55,000	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
6,898,000	HK$2.35	14 January 2013 to 13 January 2021
8,757,000	HK$2.35	14 January 2014 to 13 January 2021
32,565,000		

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		

At the end of the reporting period, the Company had total outstanding share options for the subscription of 32,565,000 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 32,565,000 additional ordinary shares of the Company and additional share capital of approximately HK$326,000 (equivalent to approximately RMB289,000) (2017: HK$431,000 (equivalent to approximately RMB364,000)) and share premium of HK$124,635,000 (equivalent to approximately RMB110,589,000) (2017: HK$153,617,000 (equivalent to approximately RMB129,960,000)), before related issuance expenses.

At the date of approval of these financial statements, the Company had outstanding share options for the subscription of 32,565,000 shares under the Share Option Scheme, which represented approximately 1.5% 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 mean 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 settled by 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 awarded 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 were 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.

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 HK$ per share
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. A share award reserve of RMB6,684,000, representing the cost of purchase of these 50,000,000 shares in 2015 and the fair value at grant date, was created.

32. SHARE AWARD SCHEME (CONTINUED)

Movement in the number of Awarded Shares were as follows:

	Number of Awarded Shares 2018	2017
Outstanding at 1 January	**46,100,000**	–
Awarded Shares granted	**–**	50,000,000
Awarded Shares forfeited	**(300,000)**	(3,900,000)
Awarded Shares vested	**(4,590,000)**	–
Outstanding at 31 December	**41,210,000**	46,100,000

During the year ended 31 December 2018, share award scheme expense of RMB32,680,000 (2017: RMB45,421,000) was charged to the consolidated income statement and an amount of HK$725,000 (equivalent to approximately RMB644,000) was transferred from share award reserve to retained profits in respect of vesting of 4,590,000 Awarded Shares (2017: Nil).

During the year ended 31 December 2018, an amount of HK$46,000 (equivalent to approximately RMB40,000)(2017: HK$616,000 (equivalent to approximately RMB521,000) was transferred from the treasury share account to the share award reserve (note 42), and an amount of HK$340,000 (equivalent to approximately RMB301,000) was credited to retained profits (2017: Nil) upon the forfeiture of the 300,000 (2017: 3,900,000) Awarded Shares.

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 to the treasury shares account upon the 50,000,000 Awarded Shares were granted, representing the differences between the cost of repurchase of shares and fair value of Awarded Shares at grant date.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

(i) As at 31 December 2018, a cash consideration of RMB131,860,000 for the acquisition of additional 25% equity interests in E-Commerce (note 25 (b)) remained unsettled by the Group and was included in “Other payables and accruals”.

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

(b) Changes in liabilities arising from financing activities

2018

	Bank borrowings RMB’000
At 1 January 2018	**1,850,024**
Changes from financing cash flows	**(10,026)**
Amortisation of bank charges on syndicated loans	**12,589**
Foreign exchange movement	**91,063**
At 31 December 2018	**1,943,650**

2017

	Bank borrowings RMB’000
At 1 January 2017	1,501,581
Changes from financing cash flows	420,807
Amortisation of bank charges on syndicated loans	9,881
Foreign exchange movement	(82,245)
At 31 December 2017	1,850,024

34. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities (2017: 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 (2017: three years). 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:

	2018 RMB'000	2017 RMB'000
Within one year	4,495	5,936
In the second to fifth years, inclusive	4,554	7,720
	9,049	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 fourteen months to ten years (2017: 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:

	2018 RMB'000	2017 RMB'000
Within one year	15,619	5,216
In the second to fifth years, inclusive	42,172	15,213
After five years	4,955	8,559
	62,746	28,988

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:

	2018 RMB'000	2017 RMB'000
Contracted for commitments in respect of:		
– construction of new buildings	21,103	43,876
– construction of new manufacturing facilities	16,689	17,989
– advertising and promotional expenses	129,280	216,628
– software	100	100
– investment in an available-for-sale investment	–	25,000
– investment in an equity investment designated at fair value through other comprehensive income	35,000	–
	202,172	303,593

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:

	2018 RMB'000	2017 RMB'000
Short term employee benefits	3,351	5,802
Post-employment benefits	46	163
Total compensation paid to key management personnel	3,397	5,965

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

	2018 RMB'000
Financial assets at fair value through other comprehensive income:	
Equity investments designated at fair value through other comprehensive income	114,200
Bills receivables	161,800
	276,000
Financial assets at fair value through profit or loss:	
Structured bank deposits	980,000
Financial assets at amortised cost:	
Trade receivables	1,953,303
Other receivables	57,676
Loan to a then investee company	60,000
Pledged bank deposits	205,480
Cash and cash equivalents	3,195,809
	5,472,268
Total	6,728,268

	2017 RMB'000
Available-for-sale investments	92,000
Financial assets at fair value through profit or loss	
– Held for trading	
Derivative financial instrument	637
Loans and receivables:	
Trade receivables	1,719,007
Bills receivables	87,500
Other receivables	20,264
Loan to a then investee company	60,000
Structured bank deposits	715,000
Pledged bank deposits	56,526
Time deposits	180,000
Cash and cash equivalents	3,832,272
	6,670,569
Total	6,763,206

38. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial liabilities

	2018 RMB'000	2017 RMB'000
Financial liabilities at amortised cost:		
Trade payables	878,686	1,027,714
Financial liabilities included in other payables and accruals	413,311	249,696
Interest-bearing bank borrowings	1,943,650	1,850,024
	3,235,647	3,127,434

39. FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY

At 31 December 2018, the Group discounted certain commercial bills receivable with a carrying amount in aggregate of approximately RMB1,603,200,000 (2017: commercial bills receivable of RMB1,267,500,000) to one bank (2017: one bank) in the PRC (the "Derecognised Bills") for cash. The Derecognised Bills had a remaining maturity from 27 days to 322 days (2017: 27 days to 326 days) 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"). According to the bank discounting agreements, the bank has waived the right of recourse against the Group and such that 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 2018, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills (2017: Nil). No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The amounts of bills receivable of RMB2,382,700,000 (31 December 2017: RMB1,978,200,000) have been discounted during the year ended 31 December 2018.

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, time deposits, pledged bank deposits, trade and bills receivables, trade payables, financial assets included in other receivables and other assets, financial liabilities included in other payables and accruals and the current portion of interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

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 value of structured bank deposits and 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 2018 was assessed to be insignificant. The fair values of structured bank deposits and the interest-bearing bank borrowings approximate to their carrying amounts as at the end of the reporting period. The fair value of the unlisted equity investments designated at fair value through other comprehensive income, which were previously classified as available-for-sale investments, have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry and geography, and calculates an appropriate price multiple, such as price to net book value ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the net book value per share of the comparable company by the market price per share. The trading multiple is then discounted for considerations such as marketability between the comparable companies based on company-specific facts and circumstances.

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The discounted multiple is applied to the corresponding P/B multiple of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

Below is a summary of significant unobservable inputs to the valuation of unlisted equity investments together with a quantitative sensitivity analysis as at 31 December 2018:

Description	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Unlisted equity investments	Market multiples	P/B multiple of peers	0.08x to 6.73x	The higher the P/B multiple, the higher the fair value
		Discount for lack of marketability ("DLOM")	20%	The higher the DLOM, the lower the fair value

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:
As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	–	114,200	114,200
Structured bank deposits	–	980,000	–	980,000
Bills receivables	–	161,800	–	161,800
	–	1,141,800	114,200	1,256,000

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instrument	–	637	–	637

During the year ended 31 December 2018, 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 (2017: Nil).

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise equity investments designated at fair value through other comprehensive income, interest-bearing bank borrowings and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as trade and bills receivables, other receivables, trade payables and financial liabilities included in other payables and accruals, which arise directly from its operations. The Group also enters into currency swap transactions. The purpose is to manage the foreign currency 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. In addition, the Group has currency exposures from its interest-bearing bank borrowings. The Group has used a foreign currency swap contract to reduce the exposure to US$ arising from the borrowings.

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.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk.

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Trade receivables*	–	–	–	1,953,303	1,953,303
Other receivables**	57,676	–	–	–	57,676
Loan to a then investee company***	–	–	60,000	–	60,000
Pledged bank deposits**	205,480	–	–	–	205,480
Cash and cash equivalents**	3,195,809	–	–	–	3,195,809
Total	3,458,965	–	60,000	1,953,303	5,472,268

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

** The expected credit losses of the financial assets included in other receivables, pledged bank deposits and cash and cash equivalents are considered to be minimal because the balance are not yet past due.

*** The loan was considered as credit-impaired because it was overdue in the current year (note 21(a)).

Maximum exposure and year-end staging as at 31 December 2017

The credit risk of the Group's other financial assets, which comprise cash and bank balances, available-for-sale investments and other receivables, loan to a then investee company and trade and bills receivables, arises from default of the counterparties with maximum exposure equal to the carrying amounts of these instruments.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 following table demonstrates the sensitivity to a reasonably possible change in interest rates, 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
2018		
Hong Kong dollar and US$	100	(19,445)
Hong Kong dollar and US$	(100)	19,445
2017		
Hong Kong dollar and US$	100	(18,635)
Hong Kong dollar and US$	(100)	18,635

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:

	2018		
	On demand and within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade payables	878,686	–	878,686
Financial liabilities included in other payables and accruals	413,311	–	413,311
Interest-bearing bank borrowings	1,507,250	464,634	1,971,884
	2,799,247	464,634	3,263,881

	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 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

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.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 2018 and 31 December 2017.

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:

	2018 RMB'000	2017 RMB'000
Cash and cash equivalents	3,195,809	3,832,272
Less: Interest-bearing bank borrowings	(1,943,650)	(1,850,024)
Net cash	1,252,159	1,982,248
Total equity	5,330,966	5,328,608
Net cash-to-capital ratio	0.235	0.372

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:

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	1,390,490	1,174,240
Other receivable	–	637
Total non-current assets	1,390,490	1,174,877
CURRENT ASSETS		
Due from a subsidiary	1,110,849	768,717
Prepayments	9,559	27,532
Cash and cash equivalents	11,873	21,140
Total current assets	1,132,281	817,389
CURRENT LIABILITIES		
Due to subsidiaries	3,715	3,669
Other payables and accruals	183,953	19,490
Interest-bearing bank borrowings	1,482,775	830,865
Total current liabilities	1,670,443	854,024
NET CURRENT LIABILITIES	(538,162)	(36,635)
TOTAL ASSETS LESS CURRENT LIABILITIES	852,328	1,138,242
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	460,875	1,019,159
NET ASSETS	391,453	119,083
EQUITY		
Share capital	19,782	19,603
Reserves (note)	371,671	99,480
Total equity	391,453	119,083

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

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

	Share premium account RMB'000	Capital reserve 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 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 expense 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 and 1 January 2018	259,874	–	(81,189)	6,163	89,679	(107,693)	(67,354)	99,480
Profit for the year	–	–	–	–	–	–	712,321*	712,321
Other comprehensive income:								
Exchange realignment	–	–	–	–	–	17,392	–	17,392
Total comprehensive income for the year	–	–	–	–	–	17,392	712,321	729,713
Awarded shares forfeited	–	–	(261)	(40)	–	–	301	–
Equity-settled share award arrangement	–	–	32,680	–	–	–	–	32,680
Awarded shares vested	–	–	–	(644)	–	–	644	–
2017 final and special dividends declared and paid	–	–	–	–	–	–	(258,081)	(258,081)
2018 interim dividend declared and paid	–	–	–	–	–	–	(201,248)	(201,248)
Repurchase of shares	–	–	(83,921)	–	–	–	–	(83,921)
Cancellation of repurchased shares	(5,556)	15	–	–	–	–	(15)	(5,556)
Exercise of share options	72,229	–	–	–	(13,625)	–	–	58,604
At 31 December 2018	326,547	15	(132,691)	5,479	76,054	(90,301)	186,568	371,671

* The balance as at 31 December 2018 included a dividend from a subsidiary of RMB746,563,000 (2017: Nil).

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. EVENT AFTER THE REPORTING PERIOD

On 4 March 2019, the Group entered into certain joint venture agreements for the establishment of joint ventures for carrying out the development, marketing and distribution of footwear, apparel and accessories under the Merrell and Saucony brands in Mainland China, Hong Kong and Macau.

The agreed initial capital contribution from each of the Group and the joint venture partner to the joint ventures shall be approximately RMB155 million. Details are set out in the announcement of the Company dated 4 March 2019.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 12 March 2019.

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
"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
"Company"	Xtep International Holdings Limited
"Corporate Governance Code"	The Corporate Governance Code as set out in Appendix 14 of the Listing Rules
"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" and "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"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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