Xtep International Holdings Limited
特步國際控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1368)

2019 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the "**Board**") of Xtep International Holdings Limited (the "**Company**") is pleased to announce the interim results of the Company and its subsidiaries (together referred to as the "**Group**") for the six months ended 30 June 2019. This announcement, containing the full text of the 2019 Interim Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") in relation to information to accompany preliminary announcements of interim results.

To be the Chinese runners' favorite brand

ABOUT THE GROUP

Xtep International Holdings Limited (SEHK stock code: 1368) is a leading multi-brand sportswear company listed on the Main Board of the Hong Kong Stock Exchange on 3 June 2008. The Group engages mainly in the design, development, manufacturing, sales, marketing and brand management of sports products, including footwear, apparel and accessories. Established since 2001, its own signature brand "Xtep" is a leading professional sports brand with an extensive distribution network of over 6,300 stores covering 31 provinces, autonomous regions and municipalities across the PRC and overseas. In 2019, the Group has further diversified its brand portfolio which now includes four internationally acclaimed brands, namely K-Swiss, Palladium, Saucony and Merrell.

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2019 Financial Highlights

Revenue

RMB 3,357 m ▲23%

Operating profit

RMB 717 m ▲21%

Profit attributable to ordinary equity holders

RMB 463 m ▲23%

Net Cash inflow from operating activities

RMB 422 m

(1H2018: RMB 225 m)

Net cash and cash equivalents

RMB 3,618 m

Interim dividend per Share

HK 12.5 cents

(Dividend payout ratio: 59.3%)

2019 Operational Highlights

Number of Xtep branded stores in Mainland China and overseas as at 30 June 2019

6,312 ▲82 in 1H2019

Same store sales growth in 1H2019

Low-teens

Market share expansion via

Multi-brand portfolio

New Xtep brand celebrity spokesperson

Jeremy Lin

FIVE-YEAR FINANCIAL SUMMARY

For the six months ended 30 June

	2019	2018	2017	2016	2015
Profitability data (RMB million)					
Revenue	**3,356.9**	2,729.0	2,310.8	2,534.6	2,390.6
Gross profit	**1,497.3**	1,193.1	1,015.6	1,098.5	999.4
Operating profit	**717.3**	592.0	479.1	583.4	500.6
Profit attributable to ordinary equity holders	**463.0**	375.2	310.3	380.1	343.5
Basic earnings per Share (RMB cents) (Note 1)	**20.19**	17.26	13.98	17.25	15.86
Profitability ratios (%)					
Gross profit margin	**44.6**	43.7	43.9	43.3	41.8
Operating profit margin	**21.4**	21.7	20.7	23.0	20.9
Net profit margin	**13.8**	13.7	13.4	15.0	14.4
Effective tax rate	**32.0**	31.8	28.1	29.9	29.6
Return on average total equity holders' equity (annualized) (Note 2)	**15.2**	14.1	12.2	15.3	14.4
Operating ratios (as a percentage of revenue) (%)					
Advertising and promotional costs	**13.4**	12.3	12.2	9.3	13.4
Staff costs	**10.8**	10.7	10.6	9.4	8.7
R&D costs	**2.4**	2.6	2.8	2.3	2.0

As at 30 June

	2019	2018	2017	2016	2015
Assets and liabilities data (RMB million)					
Non-current assets	**1,438.6**	1,117.7	946.4	1,090.6	941.9
Current assets	**9,238.7**	8,320.1	7,493.7	7,140.2	7,253.8
Current liabilities	**3,458.3**	3,091.9	2,267.4	2,979.5	2,854.0
Non-current liabilities	**320.7**	830.1	889.2	156.5	548.4
Non-controlling interests	**64.5**	108.3	94.7	48.3	6.8
Shareholders' equity	**6,833.8**	5,407.4	5,188.8	5,046.5	4,786.5
Asset and working capital data					
Current asset ratio	**2.7**	2.7	3.3	2.4	2.5
Gearing ratio (%) (Note 3)	**16.7**	21.0	19.1	18.9	26.2
Net asset value per Share (RMB) (Note 4)	**2.76**	2.46	2.38	2.31	2.20
Average inventory turnover days (days) (Note 5)	**81**	104	67	55	72
Average trade receivables turnover days (days) (Note 6)	**107**	113	164	122	104
Average trade payables turnover days (days) (Note 7)	**90**	134	128	120	91
Overall working capital days (days)	**98**	83	103	57	85

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 period.

2 Return on average total equity holders' equity is equal to the profit attributable to ordinary equity holders of the Company for the period 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 period.

4 The calculation of net asset value per Share is based on the total number of Shares in issue at the end of the period.

5 Average inventory turnover days is equal to the average of opening and closing inventory divided by costs of sales and multiplied by 183 days.

6 Average trade receivables turnover days is equal to the average of opening and closing trade receivables divided by revenue and multiplied by 183 days.

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 183 days.

CORPORATE INFORMATION

Board of Directors

Executive Directors

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

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

Company Website

www.xtep.com.hk

CHAIRMAN'S STATEMENT

Dear shareholders,

I am pleased to announce another set of remarkable results of the Group for the first half of 2019. Over the past few years, we were dedicated to completing our strategic transformation from wholesales business model to branding plus retail management business model. Against the backdrop of the fitness boom and the increasing health awareness among the Chinese people, we continued to capitalize on the market opportunities through our well-established foundation, leading to vibrant performance of the Group.

Performance review

In the first half of 2019, the Group's revenue increased by 23.0% to RMB3,356.9 million (1H2018: RMB2,729.0 million) on the back of our product enhancement and the strong momentum in sportswear market in Mainland China. Gross profit margin lifted to 44.6% (1H2018: 43.7%). Profit attributable to ordinary equity holders of the Company grew 23.4% to RMB463.0 million (1H2018: RMB375.2 million). Basic earnings per Share amounted to RMB20.2 cents (1H2018: RMB17.3 cents). The Board declares an interim dividend of HK12.5 cents (1H2018: HK10.5 cents) per Share, which is equivalent to a payout ratio of 59.3% (1H2018: 54.5%).

Ding Shui Po
Chairman

Two-pronged strategies to fuel organic growth

Our well-established foundation underpinned by strong management team continued to drive Xtep's organic growth and accelerated the business development in overseas markets. In the first half of 2019, same store sales of Xtep brand retail network continued to grow at low-teens level.

Xtep brand is now well-placed with a clear brand differentiation. We have been consistently focusing on professional running and continuing to invest in product technology, benchmarking international running specialty brands to offer value-for-money professional products to the mass market. Xtep's current top ranking among the domestic brands and the top four ranking among all global brands in international class marathons in Mainland China[1] further solidify our leading position in running. As an integral part of branding strategy, we have been increasingly establishing our presence in tier II and III cities in Mainland China, coupled with the enlarged store size, modernized store images and enhanced customer experience to fully capture the purchasing power of consumers there and ultimately lifting our store productivity.

Revolutionary move for our future

2019 is an evolving year to us as the kick-off of multi-brand portfolio signifies another milestone of Xtep. The Group is devoted to striving for synergies such as the supply chain, R&D, marketing, sales channel development, etc and eventually diversifying our product mix and expanding our market share.

In our collaboration with Wolverine announced in March 2019, Saucony perfectly demonstrates our synergies in R&D and marketing as well as harnesses our sales network to address to a new group of more sophisticated customers, while Merrell further enriches our product offerings to unleash the potential of outdoor market in Mainland China. A thorough planning from branding, products to retail network and supply chain operations are well in the pipeline. The first standalone store of Saucony and Merrell are expected to be launched in the first half and second half of 2020, respectively. Saucony's sales on e-commerce channel have already commenced in July 2019.

Riding on the popularity of the athleisure trend and the retro sportswear style, we completed our acquisition of K-Swiss Holdings, Inc. (previously known as E-Land Footwear USA Holdings Inc.) on 1 August 2019 to acquire two internationally acclaimed heritage sportswear and lifestyle brands — K-Swiss and Palladium. The acquisition is another excellent example of leveraging Xtep's existing resources to engage our business with different customer segments. K-Swiss and Palladium will undergo a seamless integration with Xtep to maximize its operational efficiency and will shift its business focus to the Asia-Pacific region.

Outlook

For the rest of 2019, we expect that the ongoing US-China trade negotiation would continue to impact the global retail market. Yet, stable economic development and urbanization in Mainland China, coupled with the government support in bolstering sports activities and events bode well for sportswear development in the next three to five years.

Adhering to our mission to being the "Chinese runners' favorite brand", we will stay very focused on product innovation and store efficiency enhancement to drive organic growth. At the same time, we are proud of our solid foundation built which keeps us moving forward to strive to be a global sportswear player engaging in multi-brand portfolio.

I would like to extend my gratitude to our shareholders, business partners and customers for their continuous support 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 contribution. With our relentless effort in executing our strategies, we are confident of enhancing shareholder value and delivering a long-term a sustainable growth.

Mr. Ding Shui Po
Chairman
Hong Kong, 21 August 2019

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

MANAGEMENT DISCUSSION AND ANALYSIS

Market Development

Mainland China's sportswear market in 2018[2]
RMB billion

264.8 ▲19.6% YoY change

Number of marathons and related sports events in Mainland China in 2018[3]

1,581 ▲43.5% YoY change

Sportswear market overview

While the macro-economic environment continued to stay volatile due to the ongoing US-China trade tensions, economic development in Mainland China remained steady in the first half of 2019. Retail sales and GDP for the country registered stable growth of 9.8%[4] and 6.3%[4] year on year, respectively, during the period. In particular, sportswear industry in Mainland China continued to gain momentum, mainly driven by the health and wellness boom and the government initiatives along with the urbanization and improvement in living standards.

Considerable attention has been paid to marathons and running events in Mainland China in recent years. We saw a surge in the number of running competitions and participants in 2018 as well as a vast improvement in the quality and standard of the competitions. Total number of participants in marathons and related sports competitions in Mainland China reached 5.8 million during the year. The continued appeal of marathons has contributed to its success in penetrating lower tier cities in Mainland China since 2017. The trend is expected to hasten further in the coming years, which resonates well with our strategy to focus on professional running.

(2) Source: Sportswear in China (Euromonitor, April 2019)

(3) Source: Chinese Athletics Association

(4) Source: National Bureau of Statistics of the People's Republic of China

A paradigm shift in customer experience

As sport has become a lifestyle for many Chinese people, Chinese consumers are now searching for ways to interact with brands and understand their core values. Sportswear companies including us are putting more efforts into creating exceptional customer experiences to communicate with consumers and encouraging them to engage in sports activities. For instance, stores are revamped and enlarged to international-style format and professional running tracks are built for total beginners and seasoned runners. More importantly, Chinese consumers are increasingly making buying decisions driven by perceptions rather than purely based on necessity. They are also more inclined to be loyal to brands that share their values. Emotional marketing has become the key to differentiate brands from its competitors in this changing environment. As a result, sportswear brands in Mainland China have shifted their focus from promoting product functionality to building customer emotional attachment and brand loyalty, such as the launch of apparel and footwear collections that deliver different messages to consumers.

The evolution of the athleisure trend

The impact of social media, celebrities and KOLs have accentuated the growth of the athleisure trend globally. Although Mainland China saw growth in athleisure wear sales, that trend has only just begun to manifest itself in the younger generation, leaving enormous room for growth in the coming years. Classic athletic brands are in the midst of a major transformation into lifestyle brands, blurring the lines between performance sportswear and casual wear. In addition, health and wellness aspirations has continued to act as a major factor pushing the evolution of the athleisure trend. Among the 802 million mobile users in Mainland China, over 104 million have at least one fitness App on their phones[5]. About 15 million Chinese consumers have gym memberships while the country counts 10 million yoga practitioners[5]. Consumers nowadays are in search of chic and comfortable athleisure wear for sports activities, more of them are purchasing products from local sportswear brands rather than international brands to stand out from the crowd.

[5] Source: 2019 Global Wellness Trends (Global Wellness Summit)


XTEP
弹无边
DYNAMIC
FOAM 动力巢X2
跑无束


K-SWISS


saucony


MERRELL


K·SWISS


L'ORIGINALE
PALLADIUM
DEPUIS 1947
FREEDOM OF SPEECH

Xtep Brand

Branding and marketing

Adhering to our mission to becoming "Chinese runners' favorite brand", we continued to focus our brand and marketing resources in three categories, namely marathon and running event sponsorships sponsorship, celebrities and KOL endorsement and other entertainment marketing.

Marathon and running event sponsorships

For the fifth consecutive year, we remained as the sportswear sponsor of the highest number of marathons in Mainland China. Among the 21 sponsorships, 15 events were major marathons, three "Xtep Penguin Runs", two "Campus Running Leagues" and one "Xtep 321 Running Festival". We continued to be the official partner recognized by the Chinese Athletic Association for "Run China", as well as the title sponsor of "Xtep Penguin Run" hosted by Tencent Sports. Through these running events and marathons, we successfully connected with different target audiences, which included professional runners, young athletes and the general mass market.

Number of sponsored marathons and running events in 1H2019

21

Number of participants

340,000+

List of marathons and running events' sponsorships:

1H 2019

1. Xiamen Marathon (January 2019)
2. Jinmen Marathon (February 2019)
3. Xtep 321 Running Festival-Xiamen (March 2019)
4. Nanjing Pukou International Women's Half Marathon and National Women's Half Marathon Championships (March 2019)
5. Wuhan East Lake Sakura Campus Half Marathon and Running Carnival (March 2019)
6. Chongqing Marathon (March 2019)
7. China ZhengKai International Marathon (March 2019)
8. Wuhan Marathon (April 2019)
9. Beijing International Running Festival and Beijing Half Marathon (April 2019)
10. Xi'an City Wall International Half Marathon (April 2019)
11. Yangzhou Jianzhen Half Marathon (April 2019)
12. Chang'an University City International Half Marathon (May 2019)
13. Campus Running League-Qinghai University (May 2019)
14. Campus Running League-Xiamen University (May 2019)
15. Hohhot Marathon (May 2019)
16. Changchun International Marathon (May 2019)
17. Xtep Penguin Run-Shanghai (June 2019)
18. The first Chinese Police Officers' Half Marathon (Jinjiang) (June 2019)
19. Guiyang International Marathon (June 2019)
20. Xtep Penguin Run-Hangzhou (June 2019)
21. Xtep Penguin Run-Wuhan (June 2019)

2H 2019

1. Xtep Penguin Run-Changsha (July 2019)
2. Xtep Penguin Run-Guangzhou (July 2019)
3. Xtep Penguin Run-Shenzhen (July 2019)
4. Xtep Penguin Run-Xiamen (August 2019)
5. Xtep Penguin Run-Suzhou (August 2019)
6. Xtep Penguin Run-Kunming (September 2019)
7. Taiyuan International Marathon (September 2019)
8. Shenyang International Marathon (September 2019)
9. Xiong'an Marathon (September 2019)
10. Xi'an Women's Half Marathon (September 2019)
11. Xtep Penguin Run-Chengdu (September 2019)
12. Hengshui Lake International Marathon (September 2019)
13. Zhengzhou Marathon (October 2019)
14. Changsha International Marathon (October 2019)
15. Chengdu Marathon (October 2019)
16. Ji'nan Marathon (November 2019)
17. Nanjing Marathon (November 2019)
18. Hefei International Marathon (November 2019)
19. Liuye Lake Marathon (November 2019)
20. Quzhou Marathon (November 2019)
21. Xiamen (Haicang) International Half Marathon (November 2019)
22. Nanning International Marathon (December 2019)
23. Jinjiang International Marathon (December 2019)
24. Shenzhen International Marathon (December 2019)
25. Fuzhou International Marathon (December 2019)
26. Changsha Red Half Marathon (December 2019)


Heilongjiang
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Jilin
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Liaoning
Xinjiang
Inner Mongolia
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Beijing
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Celebrities and KOL endorsement

We continue to employ the two-pronged strategy of sports and entertainment marketing to reach out to the young, energetic and trendy athletes.

As one of the first sports brands to engage entertainment celebrities as spokespersons in Mainland China, we believe that the collaboration served as an efficient way to convey our messages to our target customers, especially beginner sports lovers and young trendy athletes. Celebrity spokespersons were carefully selected according to their capabilities to make a positive impact on the media and social media, which could in turn increase our brand awareness and product sales.

On 9 August 2019, we appointed Jeremy Lin, a famous Asian basketball player as Xtep's brand spokesperson and build our new basketball business. We unveiled our "Basketball Product Co-Creation Plan" with Jeremy to develop basketball business and lifestyle products that can truly meet consumers' needs. Lin also took on another role as Xtep public welfare ambassador to support youngsters living in poverty-stricken areas in pursuing their basketball dreams. We believe that the collaboration with Jeremy will increase our brand awareness and uplift Xtep's brand image.

NEX7: The next superstar Chinese pop boy band

Jeremy Lin: A famous Asian basketball player

Jing Tian: A popular Chinese actress

Nicholas Tse: An influential artist and young successful entrepreneur, Tse was our first celebrity spokesperson and he has been our spokesperson for over a decade.

Jiro Wang: A well-known Taiwanese singer and actor

Xu Zhouzheng: A young Chinese sprinter

For sports marketing, we appointed Xu Zhouzheng as our spokesperson. Xu is a young Chinese sprinter who won the Men's 60m final in the 2018 National Indoor Track and Field Championship in 6.48 seconds, he was also the second sprinter in Chinese track and field history to reach 6.50 seconds. As our spokesperson, Xu was dressed in Xtep's sportswear products when he participated in IAAF Diamond League and IAAF World Challenge. We were also the sportswear sponsor of the Kazakhstan's National Track and Field Team for all the competitions they participated in, notably the Asian Games held in Jakarta and Palembang in 2018. In addition to sports celebrities, we engaged renowned Chinese marathon runners as our KOLs, champions who wore professional Xtep gear in international class marathons, to solidify the association between our sportswear and professional athletes.

Lin Gengxin:
A famous young Chinese actor

"Street Dance of China" TV sponsorship

"Street Dance of China" series

"The Coming One" TV sponsorship

Other entertainment marketing

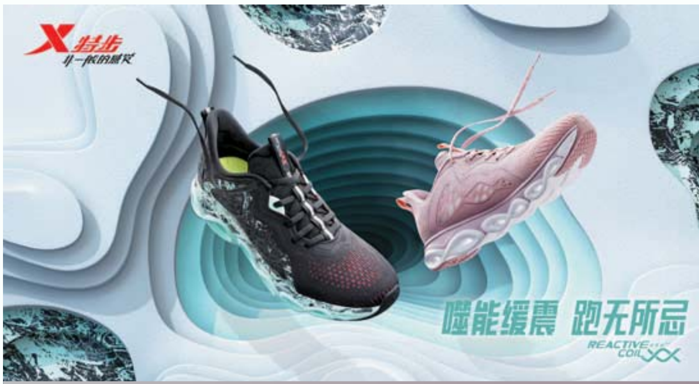
We served as the official designated apparel sponsor of "Street Dance of China" Season 2, one of the most popular and top-rated TV programs in Mainland China. The program last season was broadcasted on Youku, one of the top online entertainment service giants, reaching over 1.5 billion views. Celebrity judge Han Geng and all competitors wore Xtep's products in each episode to emphasize our brand as a sponsor and showcase our "Street" lifestyle series to the younger generation. A crossover series of footwear and apparel products were launched specially for "Street Dance of China" in the first half of 2019.

During this summer, we were the official designated footwear and apparel sponsor for another highly sought-after Chinese talent show launched by Tencent Video, "The Coming One" Season 3. It was one of the most successful online singing competition programs with approximately 3 billion views each episode. Designed to groom new music idols, the program successfully helped us attract and retain young customers.

Performance product: RC160

Performance product: Dynamic Foam

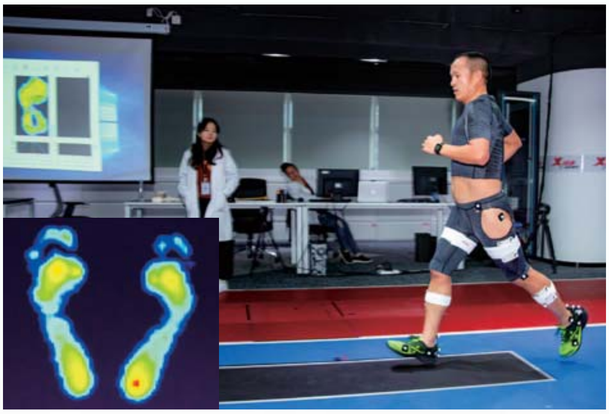
Performance product: Air Mega



Performance product: Reactive Coil

Products

We remained focused on providing customers with sportswear products of two categories, performance sports and lifestyle. Our performance sports products embrace advanced running and feature technologies to enhance functionality and performance. Lifestyle products, on the other hand, tap into the prevailing athleisure trend in the market.



Performance sports products

A dedicated designer team consisting of international design talents with solid expertise in design and technological knowledge in global sportswear brands was set up. Adhering to the core values of optimizing performance and comfort in sportswear products, we established a dedicated world-class running science laboratory in 2018. Led by over 40 international scientists and engineers, the laboratory is the first footwear R&D center in the Chinese sports industry specialized in scientific research, footwear design, development and testing. We continued to enhance our footwear products and develop new proprietary technologies through working in close collaboration with leading international fiber material developers, namely 3M, The Dow Chemical Company and INVISTA. During the period, the laboratory upgraded various first-place winning marathon shoes as seen in the international class marathons in Mainland China.

FOOTWEAR TECHNOLOGIES

RUN FAST

FOR EXPERT/ ADVANCED RUNNERS

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

RUN DYNAMIC

FOR INTERMEDIATE RUNNERS

Who look for both performance and comfort

RUN FIT

FOR BEGINNER RUNNERS

Who prioritize comfort in their exercise experience

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

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

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

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

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

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

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

DupontTM Sorona® material
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-STRONGER

MAKE YOU STRONGER

XTEP-ENERGY technology
Releases negative ions to alleviate sports fatigue, helping runners harness more energy during professional sports

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

Lifestyle products

We continued to increase our efforts in providing our customers with fashionable athleisure sportswear. As consumers grow more sophisticated and selective, we launched three distinctive series, "Urban", "Street" and "Active", to satisfy their needs and wants. Various crossover collections were launched in collaboration with our celebrity spokespersons and third-party IPs to attract younger customers.

Crossover with A.Four Labs

Crossover with Smiley®

Crossover with Muhammad Ali for Combat series

Crossover with Transformers

Retail management

Distribution network

Number of Xtep stores in Mainland China and overseas

6,312 ▲82 net openings

Stores in international style format

80% of total store count

Xtep branded store

New store openings were mainly located in high-traffic shopping malls and we expect the trend to continue in the coming years. The number of our exclusive distributors remained stable at 40 as at 30 June 2019, with approximately 60% of total store count directly operated by them. While our exclusive distributors were responsible for the associated capital expenditure arising from new store openings, our professional retail management team provided guidance on store location and design layout, universal tag price, product ordering controls, discount offerings and staff training.

Changsha, Hunan province, Mainland China

In the first half of 2019, we continued to expand our footprint to Southeast Asia , South Asia and Middle East, through the network of our local business partners. We will continue to increase our efforts to solidify our position and seize business opportunities in these regions. A dedicated overseas business team was established to conduct research and understand the consumption behavior and preference in foreign markets. For instance, the team will analyze the foot type, size and preference of the local customers and provide feedback to our R&D team. Looking ahead, we will continue to adopt a cautious approach on our overseas expansion.

Xtep kids

To enhance resource utilization, we completed the integration of Xtep kids and Xtep along the supply chain from operational management, branding and marketing, product R&D and production, material procurement, retail management system to retail network in 2017. As of 30 June 2019, Xtep's Kids' POS reached 650. Although revenue contribution from Xtep Kids remained small, we saw strong growth momentum in the first half of 2019, which was primarily attributable to the enhancement in product design and quality. In light of the current fragmented retail market condition in Mainland China, we will remain prudent in the expansion of our kid's business in 2019.

Customer experience

Our new retail team strove to deliver superior customer experience to our target audiences through the collaboration with Alibaba Group in June 2018, which empowered us to establish innovative customer-oriented retail marketing in branding, e-commerce, omni-channel, community marketing and Xtep Run Club. New initiatives and features were gradually implemented in our Run Clubs and flagship stores for our customers. For instance, product testing with tools that simulate different weather and terrain, exclusive high-tech product experience, intelligent recommendations from cloud data and omni-channel retail that connects e-commerce and brick and mortar stores. Companies armed with data-driven insight can lead to better decisions and strategic moves, we will continue to carry out detailed analysis on the ever-changing retail landscape together with Alibaba Group and other business partners.

Ongoing store revamp

As at 30 June 2019, over 80% of the stores were refurbished into new international-style sports store format. The new stores have a gross floor area of over 105 sq.m. on average, with tailored design to display full set sportswear collections in running feature and boost cross-selling opportunities.

Jilin, Jilin province, Mainland China

Shuozhou, Shanxi province, Mainland China

Xiamen, Fujian province, Mainland China

Anqing, Anhui province, Mainland China

Xtep Run Clubs

As at 30 June 2019, our Xtep Run Clubs are located in Beijing Olympic Forest Park, Changsha Orange Isle, Hefei Binhu Forest Park, Nanjing Xuanwu Lake, Xiamen Sports Center, Suzhou Aegean Shopping Park and Wuhan East Lake. Runners can enjoy one-stop professional running services and facilities in our Xtep Run Clubs, including running tracks, rest stops, dressing & shower rooms, foot measuring & gait analysis and medal lettering & apparel printing.

In addition, athletes can also participate in safety lectures & social running events, running training camps and marathon events organized by our Run Clubs. In the first half of 2019, approximately 15,000 participants took part in over 400 sports events organized by Xtep. Some of the services are also available via our WeChat community and "321GO" App. The establishment of Xtep Run Clubs for the runner communities were to elevate Xtep as a professional running brand. Moving forward, we will continue to launch our Xtep Run Club in other major cities in Mainland China, where running is considered as a popular activity.

Number of Xtep Run Clubs as at 30 June 2019

7

Highlights of Xtep Run Club since establishment in 2016:

Number of members as at 30 June 2019:	200,000+
Running events organized:	430+
Running track built:	~20km
Rest stops for running related services:	14

Wuhan East Lake, Hubei province, Mainland China

Xtep's Tmall flagship store

E-commerce and O2O

Our e-commerce business saw a stable growth in the first half of 2019, contributing over 20% of the Group's revenue. The success of our e-commerce platform was mainly driven by our swift adaptation to consumer trends and direct management by our well-executed team comprising over 400 professionals. Our strong brand positioning and diversified product portfolio enabled us to become the top sales products by volume in running footwear on Tmall for the second consecutive year in 2019. Majority of our online products was exclusive lifestyle sportswear on the ecommerce platform, which accounted for 60% of the total online products. As one of the first sportswear brands in Mainland China to adopt O2O initiatives with our exclusive distributors since late 2016, the Group fully rolled out the O2O system covering all our exclusive distributors in the first half of 2019. Prices of the O2O products online are the same as the in-store prices. Our seamless O2O platform successfully increased synergies in our branding and promotions, thereby maximizing profitability of the Group and its exclusive distributors.

Operations management

Production capacity allocation

Supply chain

The Group is fully committed to operating a seamless and vertically integrated business with the support of an efficiently managed supply chain. We utilized outsourced suppliers in Mainland China to produce footwear and apparel products, and sourced the materials for production collectively. All of the outsourced suppliers were constantly monitored by the Group's quality control team to uphold high quality standards.

Inventory distribution

To enhance our inventory management, we increased our flexibility in production and delivery cycle. During the period, inventory distribution in each quarter was split into three batches, consisting of existing products for the quarter and new products for the respective month. Production and delivery of the third batch of products would entirely depend on the retail sales performance of the first batch of products.

ERP system and big data analytics

We deployed comprehensive coverage of ERP system for the entire retail network to improve the quality of customer service and formulate accurate product ordering instructions. Key performance indicators such as sales progress and real-time inventory level were constantly monitored and analyzed by a professional team of big data experts. Data collected from the ERP system provided us with useful insights to roll out a range of business strategies, including discount and inventory levels, merchandize assortment and display design for each store.

Staff training and development

We proactively allocated resources on ongoing training and development programs for all retail staff to ensure consistency and excellence in customer experience and services. Our "Xtep Retail Learning Center" provides various online and offline trainings to the retail staff including store manager workshops, product display instruction, store efficiency improvement skills, etc. The online courses recorded over 1.4 million views in the first half of 2019.

Our retail management App "Super Shopping Guide" was launched in 2015 and used by over 90% of Xtep branded stores covering approximately 24,000 staff. Training videos and articles are frequently updated to complement new sales campaigns and new product launches. Staff would also be evaluated through the App, which serves as an integral part of their annual performance assessment.

Other Brands

Following our successful three-year strategic transformation, we began our search for additional catalysts to drive the Group's sustainable growth for 2020 and beyond. In the first half of 2019, we embarked on a new strategic plan to adopt multi-brand operations in our business model. Our diversified product portfolio will enable us to attract customers from different sports types. In March 2019, we announced collaboration with the Wolverine Group to carry out the development, marketing and distribution of footwear, apparel and accessories under the Merrell and Saucony brands in Mainland China, Hong Kong and Macau. In May 2019, the Group entered into a stock purchase agreement to acquire K-Swiss, Palladium and Supra. As of 30 June 2019, K-Swiss and Palladium have a global presence in over 80 countries and territories.

Saucony

Saucony is among the top four most sought-after running shoe brands in the world, offering professional and high-tech products of excellent quality. Saucony footwear combines award-winning product design and innovative performance-enhancing technology, which is perfect for both elite and casual runners. As a leading running shoe brand within the industry, the brand continues to achieve technological breakthrough to satisfy runners' needs and provide customers with maximum comfort and protection.

saucony

MERRELL

Merrell

Merrell is one of the most popular global outdoor lifestyle brands and is appreciated for its high quality and cutting-edge technology. Adhering to their core values of design, durability, versatility and comfort, Merrell prides itself on being a pioneer to create products that make outdoor activities perfectly enjoyable.

K-Swiss

K-Swiss, a heritage American athletic shoe brand founded in California in 1966, offers performance tennis footwear, lifestyle and fitness footwear to meet the high-performance demands of world-class athletes and trendsetters. K-Swiss developed the world's first real leather tennis shoes, it has been regarded as a premium sports brand across the world over the past decades. K-Swiss is mainly engaged in wholesale business in North America, with over 40 self-operated stores in the Asia-Pacific region as at 30 June 2019.

Palladium

As one of the best-known global boot brands established in France in 1947, Palladium is famous for its signature military boots and canvas shoes. A majority of Palladium's business operations is in Asia. Over 150 Palladium stores are opened by its distributors in Mainland China, coupled with 28 self-operated stores in Hong Kong, United States, Europe and Taiwan as at 30 June 2019.

Our Prospect

The Group concluded the first half of 2019 with fruitful results on the back of our underlying strong competence and foundation. Against the backdrop of the ongoing volatility in China-US trade tensions, the growth of sportswear market in Mainland China remains intact in 2019, primarily attributable to its stable economic development, supportive government policies and the growing public enthusiasm for participatory athletic events.

The Group will continue to strive for a new era of organic growth by enhancing product design and technology to exhilarate increasingly sophisticated consumers, revamping and expanding existing stores to maximize store productivity and enhance customer experience. Riding on the fitness boom in Mainland China, we will further increase our penetration into tier II and tier III cities to address to the rapidly rising demand for professional sportswear there. In addition to our home market, we have been very well received in other Asian markets such as India, Thailand and Vietnam. Following our initial success, we will continue our overseas expansion to capitalize on the business potential there.

To achieve sustainable growth in 2020 and beyond, we injected two new impetus into the Group – the collaboration with Wolverine Group and the acquisition of K-Swiss Holdings, Inc. (previously known as E-Land Footwear USA Holdings Inc.). We believe that these two corporate actions would bring strong synergies to our current business in terms of branding, customer base, product portfolio and operational efficiency. The multi-brand strategy will enable us to tap into new customer segments and further strengthen Xtep's image as a global multi-brand sportswear player. The two brands, Saucony and Merrell, will offer customers high-end performance athletic and outdoor sportswear, while K-Swiss and Palladium will offer quality while fashionable athleisure sportswear. Saucony's products debut online in July 2019 and is expected to be available in-store in the second quarter of 2020. Merrell's products will be available online in early 2020 and in-store in the second half of 2020.

Looking forward, we will accelerate our growth momentum and further solidify the foundation for growth by reinforcing our competitiveness in new business areas. The Group is excited to embrace the next stage of development for a new era of growth in Xtep's history.

Bangalore, Karnataka state, India

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 period:

For the period ended 30 June	**2019**		2018		Change
	Revenue		Revenue		in revenue
	(RMB Million)	**(% of Revenue)**	(RMB Million)	(% of Revenue)	(%)
Footwear	**1,911.9**	**57.0**	1,769.2	64.9	+8.1
Apparel	**1,356.0**	**40.4**	901.7	33.0	+50.4
Accessories	**89.0**	**2.6**	58.1	2.1	+53.2
Total	**3,356.9**	**100.0**	2,729.0	100.0	+23.0

The Group's total revenue for the period amounted to approximately RMB3.36 billion (2018: RMB2.73 billion).

Benefiting from the growth momentum in 2018, the Group continues to excel in 2019 and the revenue increased by approximately 23.0% compared to the same period last year. It was mainly due to:

- strong product offerings and recognitions (especially for our apparel products) which led to high sell-through rates and replenishment orders from distributors;
- restocking demand on healthier channel inventory; and
- the robust sales performance at downstream retail stores resulting from store upgrades and retail network optimization.

Xtep continues 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 period.

During the period, Xtep recorded steady demand for functional 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 has maintained at a healthy level during the period.

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 period:

For the period ended 30 June	2019		2018		
	Gross profit (RMB Million)	Gross profit margin (%)	Gross profit (RMB Million)	Gross profit margin (%)	Change in gross profit margin (% point)
Footwear	857.2	44.8	792.7	44.8	–
Apparel	606.4	44.7	378.9	42.0	+2.7
Accessories	33.7	37.9	21.5	37.0	+0.9
Total	1,497.3	44.6	1,193.1	43.7	+0.9

The Group's overall gross profit margin increased by 0.9 percentage point to 44.6% (2018: 43.7%). The increase in the overall gross profit margin was mainly contributed by the sale of functional apparel products which were well-received by the consumers.

With Xtep positioned as a professional sports brand, the average selling price of the products among footwear and apparel categories has increased due to the higher average selling price of functional products. The increase in manufacturing costs was offset by the increase in average product selling prices. 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

Other income and gains of the Group mainly represented the subsidy income from the PRC government, which amounted to approximately RMB88.4 million (2018: RMB77.6 million); and the investment income derived from financial investments and structured bank deposits amounted to approximately RMB39.6 million (2018: RMB48.6 million), which was mainly derived from the interest income from treasury deposit products.

Selling and Distribution Expenses

For the period, the Group's selling and distribution expenses amounted to approximately RMB636.8 million (2018: RMB480.2 million), representing approximately 19.0% (2018: 17.6%) 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 period amounted to approximately RMB449.3 million (2018: RMB336.0 million), representing approximately 13.4% (2018: 12.3%) of the Group's total revenue. The increase in advertising and promotional costs was mainly related to the increased investments in channel development and market penetration, entertainment celebrity sportspersons endorsements, and running events promotion, and the expenses related to Xtep Run Club.

General and Administrative Expenses

For the period, the Group's general and administrative expenses amounted to approximately RMB281.0 million (2018: RMB263.7 million), representing approximately 8.4% (2018: 9.7%) of the Group's total revenue. The increase in general and administrative expenses were mainly attributable to an increase in R&D cost — the R&D costs for the period amounted to approximately RMB81.7 million (2018: RMB70.2 million), representing approximately 2.4% (2018: 2.6%) of the Group's total revenue. The R&D costs were mainly related to 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 net finance costs of the Group for the period amounted to approximately RMB35.3 million (2018: RMB41.4 million). The decrease was mainly due to the decrease in amortization of bank charges of bank borrowings to RMB0.7 million (2018: RMB8.2 million).

Operating Profit Margin

The operating profit margin for the period decreased by 0.3 percentage point to 21.4% (2018: 21.7%). The decrease was mainly due to the increase in selling and distribution expenses ratio to 19.0% (2018: 17.6%) of the Group's total revenue. The decrease in the operating profit margin was offset by the increase in gross profit margin for the period to 44.6% (2018: 43.7%).

Income Tax Expenses

Income tax provision of the Group for the period was approximately RMB218.2 million (2018: RMB175.0 million). The income tax provision included profit tax provision relating to operating companies amounted to approximately RMB164.9 million (2018: RMB147.7 million). The profit tax provision was recorded according to the profit derived from the underlying operating companies. However, certain provisions and interest expenses incurred by the Group were not subject to income tax deduction. Also, there was an under provision of income tax of approximately RMB5.2 million (2018: RMB7.3 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 RMB48.0 million during the period (2018: RMB20.0 million).

Profit Attributable to Ordinary Equity Holders and Net Profit Margin

For the period, the profit attributable to ordinary equity holders was approximately RMB463.0 million (2018: RMB375.2 million), representing an increase of approximately 23.4% over the same period in last year. The increase was mainly due to the improvement in operating profit, which was partially offset by the increase in income tax expenses during the period.

The Group's net profit margin increased to 13.8% for the period (2018: 13.7%).

Dividend

The Group maintained a high level of cash and bank balances. The Board continued to improve Shareholders' dividend return and therefore declared an interim dividend of HK12.5 cents (2018: HK10.5 cents) per Share. The interim dividend payout ratio for the period is equivalent to 59.3% (2018: 54.5%).

The Board has also resolved that the interim dividend should be satisfied in cash, with an option to elect scrip dividend of Shares in respect of part or all of such dividend. The issue price of each Share to be issued under the scrip dividend scheme will be fixed by reference to the average of the closing prices of a Share for the three consecutive trading days ending 4 September 2019. The scrip dividend scheme is conditional upon the Stock Exchange granting the listing of, and permission to deal in, the new Shares to be issued. A circular containing the details of the scrip dividend scheme and a form of election, together with this interim report, will be published and sent to the Shareholders.

Working Capital Cycle

For the period, the Group's overall working capital turnover days amounted to 98 days (2018: 83 days).

For the period ended 30 June:

Working capital turnover days	**2019 Days**	2018 Days	Changes Days
Inventories	**81**	104	-23
Trade receivables	**107**	113	-6
Trade payables	**90**	134	-44
Overall working capital turnover days	**98**	83	+15

Inventories

	2019 RMB million	2018 RMB million
Balance at 1 January	**835.8**	717.9
Balance at 30 June	**806.3**	1,028.6
Average balance (note 1)	**821.1**	873.3
Cost of sales for the period ended 30 June	**1,859.6**	1,535.8
Average turnover days (note 2)	**81 days**	104 days

As at 30 June 2019, the Group's net balance of inventory was approximately RMB806.3 million (31 December 2018: RMB835.8 million). The turnover days of inventories for the period improved by 23 days to 81 days (2018: 104 days), which was mainly due to the enhanced inventory management with shorter production and delivery lead time.

Trade receivables

	2019 RMB million	2018 RMB million
Balance at 1 January	**1,953.3**	1,719.0
Balance at 30 June	**1,989.1**	1,650.3
Average balance (note 1)	**1,971.2**	1,684.7
Revenue for the period ended 30 June	**3,356.9**	2,729.0
Average turnover days (note 2)	**107 days**	113 days

As of 30 June 2019, the Group's net balance of trade receivables was approximately RMB1,989.1 million (31 December 2018: RMB1,953.3 million). The decrease in trade receivables turnover days compared to the same period in last year was due to the improvement in profitability and cash inflow of its distributors and hence a notable improvement in cash collection from these distributors.

Trade payables

	2019 RMB million	2018 RMB million
Balance at 1 January	**878.7**	1,027.7
Balance at 30 June	**959.8**	1,216.3
Average balance (note 1)	**919.3**	1,122.0
Cost of sales for the period ended 30 June	**1,859.6**	1,535.8
Average turnover days (note 2)	**90 days**	134 days

As at 30 June 2019, the Group's trade payables balance was approximately RMB959.8 million (31 December 2018: RMB878.7 million). The decrease in trade payables turnover days was mainly due to incentives from suppliers where we could enjoy discounts for early settlements. The average trade payables turnover days for the period decreased by 44 days to 90 days (2018: 134 days).

Note 1: The average balance is equal to the average of balance as at 1 January and 30 June of the relevant period.

Note 2: The average turnover days is equal to the average balance divided by the corresponding cost of sales or revenue and multiplied by 183 days.

Bills receivables

In order to have more flexibility in utilizing working capital facilities, the Group utilized the acceptance and usage of bills receivables. As of 30 June 2019, the bills receivables amounted to approximately RMB269.0 million (31 December 2018: RMB161.8 million) and the number of turnover days of bills receivables was 12 days (2018: 5 days).

Liquidity and Capital Resources

As at 30 June 2019, the Group's cash and cash equivalents amounted to approximately RMB3,956.9 million (31 December 2018: RMB3,195.8 million), representing an increase of approximately RMB761.1 million. This was mainly attributable to:

(a) Net cash inflow from operating activities amounted to RMB421.5 million. The cash generated from operating activities amounted to RMB618.4 million, which was partially offset by the income taxes and net interest expenses paid amounted to RMB196.9 million during the period;

(b) Net cash outflow used in investing activities amounted to RMB488.4 million, and was mainly due to the increase in placement of fixed deposits at banks with structured bank deposits, pledged bank deposits and deposit paid for acquisition of subsidiaries amounted to RMB80.0 million, RMB168.2 million and RMB179.2 million respectively; and

(c) Net cash inflow from financing activities amounted to RMB836.0 million, mainly due to net proceeds from issue of ordinary shares under share placing and subscription amounted to RMB1,160.2 million, which was partially offset by the dividends paid in respect of the 2018 financial year amounted to RMB203.0 million and the net proceeds from bank borrowings amounted to RMB139.2 million.

The increase/(decrease) in the Group's cash and cash equivalents is summarised as follows:

	Six months ended 30 June	
	2019	2018
	RMB million	RMB million
Cash generated from operating activities	**618.4**	433.8
Income and withholding tax paid	**(168.4)**	(176.3)
Others	**(28.5)**	(32.6)
Net cash flow generated from operating activities	**421.5**	224.9
Deposit paid for acquisition of subsidiaries	**(179.2)**	–
Increase in placement of fixed deposits with maturity over three months	**–**	(400.0)
Increase in pledged bank deposits	**(168.2)**	(89.7)
Decrease/(increase) in structured bank deposits	**(80.0)**	225.0
Increase in equity investments	**(35.0)**	(77.5)
Dividends paid	**(203.0)**	(258.1)
Net proceeds from/(repayment of) bank borrowings	**(139.2)**	178.8
Net proceeds from issue of ordinary shares under share placing and subscription	**1,160.2**	–
Others	**(16.0)**	(9.2)
Net increase/(decrease) in cash and cash equivalents	**761.1**	(205.8)

As at 30 June 2019, the Group's gearing ratio was 16.7% (31 December 2018: 21.1%), which is defined as the total bank borrowings divided by the Group's total assets.

As at 30 June 2019, the total assets of the Group amounted to RMB10,677.3 million (31 December 2018: RMB9,198.6 million), represented by non-current assets of RMB1,438.6 million (31 December 2018: RMB1,139.0 million) and current assets of RMB9,238.7 million (31 December 2018: RMB8,059.6 million). The total liabilities of the Group amounted to RMB3,779.0 million (31 December 2018: RMB3,867.6 million), represented by non-current liabilities of RMB320.7 million (31 December 2018: RMB589.8 million) and current liabilities of RMB3,458.3 million (31 December 2018: RMB3,277.8 million). The total non-controlling interests of the Group amounted to RMB64.5 million (31 December 2018: RMB4.7 million). Hence, the total net assets of the Group amounted to RMB6,898.3 million (31 December 2018: RMB5,331.0 million), representing an increase of 29.4%. Net assets per Share as at 30 June 2019 were approximately RMB2.76 (31 December 2018: RMB2.38), representing an increase of 16.0%.

Provision for Inventories

During the period, the Group recorded an provision for inventories which amounted to approximately RMB2.8 million (2018: RMB26.1 million).

Write-Back of Impairment Provision for Trade Receivables

During the period, the Group recorded a write-back of impairment provision for trade receivables which amounted to approximately RMB60.9 million (2018: Write-back of impairment provision amounted to RMB22.8 million).

Commitments

Details of the Group's commitments are stated in note 25 of the interim financial statements.

Contingent Liabilities

As at 30 June 2019, the Group did not have any material contingent liabilities.

Charge of Assets

Save as disclosed in notes 16 and 19 of the interim financial statements relating to certain amounts of bank deposits pledged to secure the banking facilities, none of the Group's assets were pledged as at 30 June 2019.

Foreign Currency Risks

The Group mainly operates in the PRC with most of its transactions settled in RMB. Except for the bank borrowings which were denominated in Hong Kong Dollar and United States Dollar, 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 the Group's operation. The Group has not used any forward contracts to hedge its foreign currency risks. However, the management will continue to monitor foreign currency risks and adopt prudent measures as appropriate.

Significant Investments and Material Acquisitions and Disposals of Subsidiaries

On 2 May 2019, a wholly-owned subsidiary of the Company and the Company entered into a stock purchase agreement with E-Land USA Holdings Inc., and E-Land World Limited, pursuant to which the Group agreed to acquire all of the outstanding shares of the capital stock of the K-Swiss Holdings, Inc. (previously known as E-Land Footwear USA Holdings Inc.) for a cash consideration of US$260,000,000. The acquisition was successfully completed on 1 August 2019.

Placing of Existing Shares and Subscription of New Shares under General Mandate and the Use of Proceeds

Pursuant to a placing and subscription agreement entered into by the Company dated 29 March 2019 (the "Agreement"), the Company completed (i) a placing of a total of 247,078,000 existing shares of the Company (the "Placing Share(s)") on 2 April 2019 at a placing price of HK$5.56 per Placing Share, to not less than six (6) placees who and whose ultimate beneficial owners were third parties independent of the Company and its connected persons (the "Placing"); and (ii) the allotment and issue of a total of 247,078,000 new Shares (the "Subscription Share(s)") to Group Success Investments Limited (群成投資有限公司), a controlling shareholder of the Company, on 10 April 2019 at the subscription price of HK$5.56 per Subscription Share (the "Subscription"). The net proceeds from the Subscription, after deducting the related placing commission, professional fees and all related expenses, were approximately HK$1,355.1 million (equivalent to approximately RMB1,160.2 million). It was planned that the net proceeds from the Subscription would be used (a) to finance potential acquisition of international sportswear brands; (b) for overseas expansion and/or (c) as general working capital of the Group. As at 30 June 2019, the unutilised proceeds amounted to approximately HK$1,151.1 million.

Details of the Placing and the Subscription are set out in the Company's announcements dated 29 March 2019 and 10 April 2019.

Human Resources

As at 30 June 2019, the Group had approximately 9,000 employees (31 December 2018: approximately 8,500 employees). The Group provided introductory orientation programs and continuous training to its employees. Topics covered include industry knowledge, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and standards of its staff. The Group will strive to strengthen human resources management to provide strong support for the development of the Group's business through staff recruitment initiatives, optimization of the organizational structure and promulgation of its corporate culture to ensure that the Group will be able to maintain sustainable development in the future.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions contained in the Corporate Governance Code throughout the period, except for the deviation from code provision A.2.1 as disclosed below.

Under code provision A.2.1 of the Corporate Governance Code, the roles of the chairman and chief executive officer 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 chief executive officer. Mr. Ding Shui Po is the chairman and chief executive officer of the Group. He has extensive experience in sportswear industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board considers 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 are comprised of experienced and high caliber individuals. As at the date of this report, the Board consisted of three executive Directors and three independent non-executive Directors and has a strong independence element in its composition.

MODEL CODE

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors have confirmed that they have complied with the required standard set out in the Model Code and its code of conduct during the period.

REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules. The audit committee of the Company has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of the interim results and the unaudited condensed consolidated interim financial statements for the period.

The external auditor of the Group has reviewed the interim financial information for the period in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period.

DISCLOSURE OF INTERESTS

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

As at 30 June 2019, 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). They have 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]	1,347,974,500	53.95%
Ms. Ding Mei Qing	Founder and beneficiary of a discretionary trust[2]	1,310,059,500	52.43%
Mr. Ding Ming Zhong	Founder and beneficiary of a discretionary trust[2]	1,310,059,500	52.43%
Mr. Tan Wee Seng	Beneficial interests	880,000[4]	0.04%

Notes:

(1) It was based on 2,498,503,000 issued Shares of the Company as at 30 June 2019.

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

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

(3) Mr. Ding Shui Po is also beneficially interested in 37,915,000 Shares of the Company.

(4) 600,000 of these shares are 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 of these shares were acquired by Mr. Tan Wee Seng on the Stock Exchange.

Saved as disclosed above, as at 30 June 2019, 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 Stock Exchange pursuant to the Model Code.

At no time was the Company, or any of its holding company 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).

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 30 June 2019, the persons or corporations (other than the Directors 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 issued share capital of the Company(1)
Group Success	Beneficial interests	1,310,059,500	52.43%
Wan Xing International Holdings Limited	Interests of controlled corporation(2)	1,310,059,500	52.43%
Ding Wang Fortune Limited	Interests of controlled corporation(3)	1,310,059,500	52.43%
Guan Hong Development Limited	Interests of controlled corporation(3)	1,310,059,500	52.43%
Ming Zhong Family Limited	Interests of controlled corporation(3)	1,310,059,500	52.43%
UBS Trustees (BVI) Limited	Trustee(3)	1,310,059,500	52.43%

Notes:

(1) It was based on 2,498,503,000 issued Shares of the Company as at 30 June 2019.

(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 30 June 2019, 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 OPTION SCHEMES

Share Option Scheme

The Company 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 which 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 30 June 2019 are as follows:

Name	Date of Grant	Exercise price per Share	Exercise period[(1)(2)(3)]	Outstanding as at 1 January 2019	Granted during the period	Cancelled during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30 June 2019
Director									
Mr. Tan Wee Seng	30 March 2010	HK$6.13	30 March 2011 – 29 March 2020	600,000	–	–	–	–	600,000
Former Director									
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
Employees									
In aggregate	29 July 2009	HK$4.11	29 July 2010 – 28 July 2019	5,310,000	–	–	(4,045,000)	–	1,265,000
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	15,655,000	–	–	(2,500,000)	–	13,155,000
Total				32,565,000	–	–	(8,045,000)	–	24,520,000

The total number of shares available for issue under the Share Option Scheme is 24,520,000, representing 1.0% of the Company's issued share capital as at the date of this interim report.

Save as disclosed above, during the period, no share options were granted, exercised, lapsed or cancelled under the Share Option Scheme.

Notes:

(1) 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

(2) 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

(3) Share options replaced under the Share Option Scheme on 7 December 2011 shall vest in the grantee in accordance with the timetable below:

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

(4) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$5.07.

(5) Mr. Ho Yui Pok, Eleutherius retired from the office as a non-executive Director with effect from 6 May 2019.

Further details of the Share Option Scheme are set out in note 23 to the interim financial statements.

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 30 June 2019, there were a total of 34,270,000 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 2019	Granted during the period	Vested during the period	Forfeited during the period	As at 30 June 2019	Vesting period
Employees	10 January 2017	41,210,000	–	(6,940,000)	–	34,270,000	10 January 2018 to 10 January 2022

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

Further details of Share Award Scheme are set out in note 24 to the interim financial statements.

SPECIFIC PERFORMANCE OBLIGATIONS ON CERTAIN CONTROLLING SHAREHOLDERS

On 3 January 2017, the Company as borrower entered into a facility agreement (the "Facility Agreement") with a consortium of nine banks arranged by Hang Seng Bank Limited ("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) (the "Facility") was made available to the Company on the terms and conditions stated therein.

The Facility is guaranteed by certain subsidiaries of the Company.

It is provided in the Facility Agreement, among other things, that an event of default will occur if 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 Facility whereupon the whole or relevant part of the Facility shall immediately be cancelled; (b) declare that all or part of the Facility, together with accrued interest, and all other amounts accrued or outstanding under the Facility 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 Facility be payable on demand, whereupon they shall immediately become payable on demand by HASE on the instructions of the majority lenders.

As at 30 June 2019 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 52.43% of the issued share capital of the Company. Mr. Ding Shui Po also had personal beneficial interests in approximately 1.52% of the issued share capital of the Company.

REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

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

INTRODUCTION

We have reviewed the interim financial statements set out on pages 50 to 78, which comprise the condensed consolidated statement of financial position of Xtep International Holdings Limited and its subsidiaries as at 30 June 2019, and the related condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The directors are responsible for the preparation and presentation of these interim financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants

22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

21 August 2019

CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
REVENUE	5	**3,356,913**	2,728,952
Cost of sales		**(1,859,626)**	(1,535,825)
Gross profit		**1,497,287**	1,193,127
Other income and gains	5	**137,784**	142,810
Selling and distribution expenses		**(636,780)**	(480,164)
General and administrative expenses		**(281,035)**	(263,730)
Operating profit	6	**717,256**	592,043
Net finance costs	7	**(35,273)**	(41,443)
Share of losses of associates		**(1,043)**	–
PROFIT BEFORE TAX		**680,940**	550,600
Income tax expense	8	**(218,166)**	(174,956)
PROFIT FOR THE PERIOD		**462,774**	375,644
Attributable to:			
Ordinary equity holders of the Company		**463,012**	375,164
Non-controlling interests		**(238)**	480
		462,774	375,644
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10		
Basic		**RMB20.19 cents**	RMB17.26 cents
Diluted		**RMB19.80 cents**	RMB16.75 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**462,774**	375,644
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements of operations outside Mainland China	**59,639**	62,850
	59,639	62,850
Other comprehensive income/(expense) that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income	**(5,000)**	6,300
Income tax effect	**750**	–
	(4,250)	6,300
Other comprehensive income for the period, net of tax	**55,389**	69,150
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**518,163**	444,794
Attributable to:		
Ordinary equity holders of the Company	**518,401**	444,314
Non-controlling interests	**(238)**	480
	518,163	444,794

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**627,632**	640,687
Investment properties		**35,392**	36,800
Right-of-use assets		**300,843**	–
Prepaid land lease payments		**–**	234,119
Deposits for acquisition of land use right		**60,105**	60,105
Intangible assets		**8,130**	7,919
Investments in associates		**39,085**	–
Equity investments designated at fair value through other comprehensive income	14	**144,200**	114,200
Deposits	13	**223,226**	45,122
Total non-current assets		**1,438,613**	1,138,952
CURRENT ASSETS			
Inventories	11	**806,277**	835,758
Trade receivables	12	**1,989,132**	1,953,303
Bills receivables	12	**269,000**	161,800
Prepayments, other receivables and other assets	13	**772,546**	727,408
Tax recoverable		**153**	85
Structured bank deposits	15	**1,071,000**	980,000
Pledged deposits	16	**373,679**	205,480
Cash and cash equivalents	16	**3,956,924**	3,195,809
Total current assets		**9,238,711**	8,059,643
CURRENT LIABILITIES			
Trade payables	17	**959,769**	878,686
Other payables and accruals	18	**735,816**	861,393
Interest-bearing bank borrowings	19	**1,631,296**	1,482,775
Lease liabilities		**19,530**	–
Deferred subsidies		**577**	577
Tax payable		**111,321**	54,377
Total current liabilities		**3,458,309**	3,277,808
NET CURRENT ASSETS		**5,780,402**	4,781,835
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,219,015**	5,920,787
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	19	**152,339**	460,875
Lease liabilities		**47,556**	–
Deferred tax liabilities	20	**99,434**	107,295
Deferred subsidies		**21,361**	21,651
Total non-current liabilities		**320,690**	589,821
NET ASSETS		**6,898,325**	5,330,966
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Share capital	21	**21,967**	19,782
Reserves	22	**6,811,832**	5,306,497
		6,833,799	5,326,279
Non-controlling interests		**64,526**	4,687
Total equity		**6,898,325**	5,330,966

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2019

SIX MONTHS ENDED 30 JUNE 2019 (UNAUDITED)

		Attributable to ordinary equity holders of the Company													
			Reserves												
	Notes	Share capital RMB'000	Share premium account RMB'000	Capital reserve RMB'000	Statutory surplus fund RMB'000	Treasury shares RMB'000	Share award reserve RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Fair value reserve RMB'000	Retained profits RMB'000	Total reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019 (audited)		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
Effect of adoption of Hong Kong Financial Reporting Standard ("HKFRS") 16	2.2(a)	–	–	–	–	–	–	–	–	–	(2,252)	(2,252)	(2,252)	–	(2,252)
At 1 January 2019 (restated) (unaudited)		19,782	326,547	118,615	833,357	(132,691)	5,479	76,054	(138,082)	18,500	4,196,466	5,304,245	5,324,027	4,687	5,328,714
Profit/(loss) for the period		–	–	–	–	–	–	–	–	–	463,012	463,012	463,012	(238)	462,774
Other comprehensive income/ (expense) for the period		–	–	–	–	–	–	–	59,639	(4,250)	–	55,389	55,389	–	55,389
Total comprehensive income/ (expense) for the period		–	–	–	–	–	–	–	59,639	(4,250)	463,012	518,401	518,401	(238)	518,163
2018 final dividend declared and paid	9(b)	–	–	–	–	–	–	–	–	–	(202,994)	(202,994)	(202,994)	–	(202,994)
Exercise of share options	23	70	31,828	–	–	–	–	(6,711)	–	–	–	25,117	25,187	–	25,187
Repurchase of shares	24	–	–	–	–	(3,029)	–	–	–	–	–	(3,029)	(3,029)	–	(3,029)
Share placing	21	2,115	1,158,123	–	–	–	–	–	–	–	–	1,158,123	1,160,238	–	1,160,238
Formation of subsidiaries		–	–	–	–	–	–	–	–	–	–	–	–	58,800	58,800
Equity-settled share award arrangement	24	–	–	–	–	11,969	–	–	–	–	–	11,969	11,969	–	11,969
Vesting of awarded shares	24	–	–	–	–	–	(965)	–	–	–	965	–	–	–	–
Exchange differences related to foreign operations		–	–	–	–	–	–	–	–	–	–	–	–	1,277	1,277
At 30 June 2019 (unaudited)		21,967	1,516,498	118,615	833,357	(123,751)	4,514	69,343	(78,443)	14,250	4,457,449	6,811,832	6,833,799	64,526	6,898,325

SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

		Attributable to ordinary equity holders of the Company													
			Reserves												
	Notes	Share capital RMB'000	Share premium account RMB'000	Capital reserve RMB'000	Statutory surplus fund RMB'000	Treasury shares RMB'000	Share award reserve RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Fair value reserve RMB'000	Retained profits RMB'000	Total reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018 (audited)		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 HKFRS 9		–	–	–	–	–	–	–	–	3,200	–	3,200	3,200	–	3,200
At 1 January 2018 (restated) (unaudited)		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 period		–	–	–	–	–	–	–	–	–	375,164	375,164	375,164	480	375,644
Other comprehensive income for the period		–	–	–	–	–	–	–	62,850	6,300	–	69,150	69,150	–	69,150
Total comprehensive income for the period		–	–	–	–	–	–	–	62,850	6,300	375,164	444,314	444,314	480	444,794
2017 final and special dividends declared and paid	9(b)	–	–	–	–	–	–	–	–	–	(258,081)	(258,081)	(258,081)	–	(258,081)
Cancellation of repurchased shares		(15)	(5,115)	15	–	–	–	–	–	–	(15)	(5,115)	(5,130)	–	(5,130)
Exercise of share options	23	171	63,457	–	–	–	–	(11,888)	–	–	–	51,569	51,740	–	51,740
Repurchase of shares	24	–	–	–	–	(65,363)	–	–	–	–	–	(65,363)	(65,363)	–	(65,363)
Equity-settled share award arrangement	24	–	–	–	–	15,896	–	–	–	–	–	15,896	15,896	–	15,896
Vesting of awarded shares	24	–	–	–	–	–	(593)	–	–	–	593	–	–	–	–
Exchange differences related to foreign operations		–	–	–	–	–	–	–	–	–	–	–	–	107	107
At 30 June 2018 (unaudited)		19,759	318,216	118,615	663,109	(130,656)	5,570	77,791	17,624	9,500	4,307,917	5,387,686	5,407,445	108,326	5,515,771

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Operating activities:		
Cash from operations	**618,361**	433,840
Income tax paid	**(168,401)**	(176,345)
Others	**(28,459)**	(32,601)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**421,501**	224,894
NET CASH FLOWS USED IN INVESTING ACTIVITIES(i)	**(488,405)**	(339,467)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES(ii)	**836,028**	(87,785)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**769,124**	(202,358)
Cash and cash equivalents at beginning of period	**3,195,809**	3,832,272
Effect of foreign exchange rate changes, net	**(8,009)**	(3,369)
Cash and cash equivalents at end of period	**3,956,924**	3,626,545
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	**3,956,924**	3,626,545

The accompanying notes form part of these interim financial statements.

(i) Net cash flows used in investing activities for the period included increase in structured bank deposits of RMB80,000,000 (2018: decrease in structured bank deposits of RMB225,000,000), investment income derived from financial assets at fair value through profit or loss ("FVPL") and structured bank deposits of RMB35,368,000 (2018: RMB48,599,000), increase in pledged bank deposits of RMB168,199,000 (2018: decrease in pledged bank deposits of RMB89,674,000), increase in deposit for acquisition of subsidiaries of RMB179,228,000 (2018: Nil), increase in an equity investment designated at fair value through other comprehensive income ("FVOCI") of RMB35,000,000 (2018: RMB25,000,000) and addition of investments in associates of RMB40,128,000 (2018: Nil).

(ii) Net cash flows from/(used in) financing activities for the period included the dividends paid to ordinary equity holders of the Company of RMB202,994,000 (2018: RMB258,081,000), net repayment of bank borrowings of RMB139,207,000 (2018: net proceeds from bank borrowings of RMB178,772,000), net proceeds from exercise of share options of RMB25,187,000 (2018: RMB51,740,000), net proceeds from share placing of RMB1,160,238,000 (2018: Nil), payment for repurchase of shares for the share award scheme of RMB3,029,000 (2018: RMB65,363,000), capital contribution from non-controlling interests of RMB58,800,000 (2018: Nil) and cash paid for acquisition of non-controlling interests of RMB98,644,000 (2018: Nil).

1. CORPORATE AND GROUP INFORMATION

Xtep International Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The Company's principal place of business in Hong Kong is located at Unit A, 27/F, Tower A, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong.

During the period, 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 period.

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.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

2.1 Basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The condensed consolidated interim financial statements do not include all the information and disclosures required in the financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2018.

The condensed consolidated interim financial statements have been prepared under the historical cost convention, except for bills receivables, financial assets at FVPL, equity investments designated at FVOCI and structured bank deposits. The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018 except for the changes in accounting policies made after the adoption of the new and revised HKFRSs as further detailed in note 2.2 below.

2.2 Changes in accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2019.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (Continued)

Other than as explained below regarding the impact of HKFRS 16 *Leases* and Amendments to HKAS 28 *Long-term Interests in Associates and Joint Ventures*, the new and revised standards are not relevant to the preparation of the Group's condensed consolidated interim financial statements. The nature and impact of the new and revised HKFRSs are described below:

(a) 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 account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standalone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components as a single lease component.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (Continued)

(a) (Continued)

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for plant, building and prepaid land lease payments. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in lease liabilities.

The right-of-use assets were 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 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application;

- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease;

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (Continued)

(a) (Continued)

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) RMB'000 (Unaudited)
Assets	
Increase in right-of-use assets	292,364
Decrease in prepaid land lease payments	(234,119)
Decrease in prepayments, other receivables and other assets	(5,975)
Increase in total assets	52,270
Liabilities	
Increase in lease liabilities and total liabilities	54,522
Decrease in retained profits	(2,252)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	(Unaudited)
Operating lease commitments as at 31 December 2018 (in RMB'000)	**62,746**
Weighted average incremental borrowing rate as at 1 January 2019	5.28%
Discounted operating lease commitments as at 1 January 2019 (in RMB'000)	54,522
Lease liabilities as at 1 January 2019 (in RMB'000)	**54,522**

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (Continued)

(a) (Continued)

Summary of new accounting policies (Continued)

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Amounts recognised in the condensed consolidated statement of financial position and income statement.

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movements during the period are as follows:

	Right-of-use assets				
	Plant RMB'000	Building RMB'000	Prepaid land lease payments RMB'000	Total RMB'000	Lease liabilities RMB'000
As at 1 January 2019	22,219	30,051	240,094	292,364	54,522
Additions	–	23,349	–	23,349	23,349
Release of deferred subsidy	–	–	(290)	(290)	–
Depreciation charge	(3,249)	(8,365)	(2,966)	(14,580)	–
Interest expense	–	–	–	–	1,857
Payment	–	–	–	–	(12,642)
As at 30 June 2019	18,970	45,035	236,838	300,843	67,086

The Group recognised rental expenses from short-term leases of RMB2,953,000 for the six months ended 30 June 2019.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies (continued)

(b) The amendments to HKAS 28 clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under HKFRS 9 before applying the loss allocation and impairment requirements in HKAS 28. These amendments did not have any material impact on the Group's condensed consolidated interim financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the condensed consolidated interim financial statements in conformity with HKAS 34 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.

In preparing the condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those used by management in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

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 People's Republic of China (the "PRC"). Therefore, no analysis by geographical region is presented.

5. REVENUE, OTHER INCOME AND GAINS

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

(i) Revenue

Revenue represents the net invoiced value of goods sold during the period, 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:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Product categories		
Footwear	**1,911,867**	1,769,219
Apparel	**1,356,032**	901,667
Accessories	**89,014**	58,066
	3,356,913	2,728,952

5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

(ii) Other income and gains

	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Subsidy income from the PRC government *	**88,401**	77,562
Rental income	**3,789**	2,257
Income derived from financial assets at FVPL and structured bank deposits	**39,646**	48,599
Dividend income from an equity investment designated at FVOCI	**3,600**	–
Scrap sales income	**–**	6,284
Others	**2,348**	8,108
	137,784	142,810

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

6. OPERATING PROFIT

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

	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Advertising and promotional costs	**449,344**	335,959
Write-back of impairment of trade receivables, net	**(60,877)**	(22,757)
Provision for inventories	**2,839**	26,058
Research and development costs*	**81,744**	70,246
Depreciation of property, plant and equipment	**36,322**	32,091
Depreciation of right-of-use assets	**14,580**	–
Amortisation of intangible assets	**751**	843
Amortisation of prepaid land lease payments	**–**	2,966
Staff costs	**364,119**	293,317
Equity-settled share award scheme expense	**11,969**	15,896

* The research and development costs for the six months ended 30 June 2019 included RMB48,414,000 (six months ended 30 June 2018: RMB42,542,000) relating to the depreciation of research and development centres and staff costs for research and development activities, which were also included in the total amounts disclosed above for each of these types of expenses.

7. NET FINANCE COSTS

An analysis of net finance costs is as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expense on bank loans	**30,235**	25,356
Interest expense on discounted bills receivables	**29,457**	35,050
Interest expense on lease liabilities	**1,857**	–
Amortisation of bank charges on syndicated loans	**680**	8,230
Fair value loss, net:		
Derivative instruments — transactions not qualified as hedges*	**–**	612
Bank interest income	**(26,956)**	(27,246)
Interest income on a currency swap	**–**	(559)
	35,273	41,443

* The Group entered into currency swap contracts for its floating-interest rate loans denominated in United States dollars ("US$") to manage its exposure to exchange rate fluctuation.

8. 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 for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax — Overseas		
Charge for the period	**164,944**	147,674
Underprovision in prior periods	**5,222**	7,282
	170,166	154,956
Deferred tax	**48,000**	20,000
	218,166	174,956

9. DIVIDENDS

(a) Dividends payable attributable to ordinary equity holders of the Company during the period:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interim dividend — HK12.5 cents (six months ended 30 June 2018: HK10.5 cents) per ordinary share	**274,429**	204,374

At the board meeting held on 21 August 2019, the board of directors declared and approved an interim dividend of HK12.5 cents (equivalent to approximately RMB11.0 cents) per ordinary share, totalling approximately HK$312,313,000 (equivalent to approximately RMB274,429,000), for the six months ended 30 June 2019. The interim dividend will be payable in cash with a scrip dividend alternative. This interim dividend has not been recognised as a liability in the condensed consolidated interim financial statements.

At the board meeting held on 22 August 2018, the board of directors declared and approved an interim dividend of HK10.5 cents (equivalent to approximately RMB9.1 cents) per ordinary share, totalling approximately HK$235,439,000 (equivalent to approximately RMB204,374,000), for the six months ended 30 June 2018. This interim dividend has not been recognised as a liability in the condensed consolidated interim financial statements.

(b) Dividends paid to ordinary equity holders of the Company during the period:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends paid during the period:		
Final dividends in respect of the financial years ended:		
31 December 2018 — HK9.5 cents per ordinary share	**202,994**	–
31 December 2017 — HK4.5 cents per ordinary share	**–**	80,094
Special dividend in respect of the financial year ended:		
31 December 2017 — HK10.0 cents per ordinary share	**–**	177,987
	202,994	258,081

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

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2019 is based on the profit for the period attributable to ordinary equity holders of the Company of RMB463,012,000 (six months ended 30 June 2018: RMB375,164,000) and the weighted average number of ordinary shares in issue during the period as adjusted to reflect the effects of share options exercised, the Awarded Shares vested (note 24), the share placing (note 21), the repurchase of treasury shares and shares repurchased and cancelled as follows:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Issued ordinary shares at 1 January	**2,243,380,000**	2,223,185,000
Effect of share options exercised	**2,183,287**	8,009,318
Effect of Awarded Shares vested	**9,958,950**	4,361,768
Effect of share placing	**111,935,890**	–
Less: Repurchase of treasury shares	**(73,643,751)**	(60,222,210)
Less: Shares repurchased and cancelled	**–**	(1,398,895)
Weighted average number of ordinary shares	**2,293,814,376**	2,173,934,981

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2019 is based on the profit for the period attributable to ordinary equity holders of the Company of RMB463,012,000 (six months ended 30 June 2018: RMB375,164,000) and the weighted average number of ordinary shares in issue during the period as used in the basic earnings per share calculation, as adjusted to reflect the effects of Awarded Shares granted, vested and forfeited, the repurchase of treasury shares and dilutive effect of shares under the Company's share option schemes (note 23) as follows:

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares as used in the basic earnings per share calculation	**2,293,814,376**	2,173,934,981
Effect of Awarded Shares forfeited	**(4,200,000)**	–
Effect of Awarded Shares vested	**(9,958,950)**	(4,361,768)
Effect of Awarded Shares granted	**50,000,000**	50,000,000
Effect of repurchase of treasury shares	**–**	10,222,210
Effect of dilutive potential shares under share option schemes	**8,330,400**	9,864,369
Weighted average number of ordinary shares	**2,337,985,826**	2,239,659,792

11. INVENTORIES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Raw materials	**209,952**	126,738
Work in progress	**92,189**	93,967
Finished goods	**559,175**	667,253
	861,316	887,958
Less: Provision for inventories	**(55,039)**	(52,200)
	806,277	835,758

12. TRADE AND BILLS RECEIVABLES

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade receivables		**2,425,775**	2,450,823
Less: Provision for impaired receivables		**(436,643)**	(497,520)
	(a)	**1,989,132**	1,953,303
Bills receivables	(b)	**269,000**	161,800

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

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 3 months	**1,201,328**	1,028,713
4 to 6 months	**478,665**	703,013
Over 6 months	**309,139**	221,577
	1,989,132	1,953,303

(b) The maturity dates of the bills receivables at the end of the reporting period are analysed as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 3 months	**30,000**	30,000
4 to 6 months	**139,000**	111,800
Over 6 months	**100,000**	20,000
	269,000	161,800

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

13. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Notes	**30 June 2019 RMB'000 (Unaudited)**	31 December 2018 RMB'000 (Audited)
Prepayments		**87,658**	90,899
Deposits and advance payments to suppliers		**363,446**	297,225
Deposits and advance payments to subcontractors		**106,781**	97,953
Loan to a then investee company	(a)	**60,000**	60,000
Deposit paid for acquisition of subsidiaries	(b)	**179,228**	–
Value added tax ("VAT") recoverable		**113,934**	130,107
Other receivables		**41,318**	57,676
Amounts due from associates	(c)	**2,178**	–
Other deposits		**41,229**	38,670
		995,772	772,530
Less: Non-current portion		**(223,226)**	(45,122)
		772,546	727,408

Notes:

(a) Balance represented a loan granted to a then investee company in prior year. The loan 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.

As at 31 December 2018 and 30 June 2019, 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 30 June 2019 was estimated by the directors with reference to the valuation report performed by an independent valuer of the secured land and building as at 31 December 2018, of which the fair value is higher than the loan's carrying amount as at 30 June 2019 and no impairment in value was considered necessary accordingly.

(b) Balance as at 30 June 2019 included a deposit of US$26,000,000 (equivalent to RMB179,228,000) (31 December 2018: Nil) paid for the acquisition of the entire equity interest in E-Land Footwear USA Holdings Inc. (subsequently changed name to K-Swiss Holdings, Inc.) ("K-Swiss Holdings") (the "Acquisition"). On 2 May 2019, a wholly-owned subsidiary of the Company, the Company, E-Land USA Holding Inc., and E-Land World Limited ("E-Land World"), entered into an agreement pursuant to which the Group agreed to acquire the entire shares of K-Swiss Holdings, the ultimate owner of several brands, for a cash consideration of US$260,000,000 (equivalent to approximately RMB1,749,800,000) from E-Land World. Details of the Acquisition were set out in the announcement of the Company dated 2 May 2019.

A deposit of US$26,000,000, representing 10% of the total cash consideration, was paid by the Group to E-Land World in May 2019. The remaining consideration of US$234,000,000 was settled on the completion date of the Acquisition which was 1 August 2019. Further details are set out in the announcement of the Company dated 1 August 2019.

(c) Balance was unsecured, interest-free and repayable on demand.

Except for the loan mentioned in note (a) above, 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 30 June 2019 were not significant.

14. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Notes	RMB'000
At 1 January 2019		**114,200**
Addition	(a)	**35,000**
Change in fair values	(b)	**(5,000)**
At 30 June 2019		**144,200**

As at 30 June 2019, the Group held two unlisted investments with fair values of RMB115,100,000 (31 December 2018: RMB82,400,000) and RMB29,100,000 (31 December 2018: RMB31,800,000), representing 5% and 11% (31 December 2018: 5% and 11%) equity interests in two corporate entities, which were established in the PRC on 22 December 2014 and 22 October 2012 with paid-up capital of RMB1,900,000,000 and RMB300,000,000, respectively.

The above unlisted equity investments were irrevocably designated at FVOCI as at 1 January 2018 as the Group considered these investments to be strategic in nature.

Notes:

(a) During the period, the Group paid a further RMB35,000,000 as capital into an investee company with an enlarged paid-up capital of RMB1,900,000,000.

(b) During the period, fair value losses of RMB5,000,000 (six months ended 30 June 2018: fair value gains of RMB6,300,000) in respect of the Group's equity investments designated at FVOCI were recognised in the condensed consolidated statement of comprehensive income.

15. STRUCTURED BANK DEPOSITS

The structured bank deposits are wealth management products with fixed maturity periods of six to eleven months (31 December 2018: one to twelve months) and interest-bearing 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 as their contractual cash flows are not solely payments of principal and interest.

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

	Note	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Time deposits		**1,081,597**	442,105
Cash and bank balances		**3,249,006**	2,959,184
		4,330,603	3,401,289
Less: Pledged deposits for:			
— short term bank loans	19	**(373,679)**	(205,480)
Cash and cash equivalents		**3,956,924**	3,195,809

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB2,613,523,000 (2018: RMB2,942,342,000) and RMB97,025,000 (2018: RMB442,105,000), respectively. RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and one month (2018: between one day and seven days) 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.

17. TRADE PAYABLES

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

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 3 months	**809,846**	747,501
4 to 6 months	**48,007**	53,872
Over 6 months	**101,916**	77,313
Trade payables	**959,769**	878,686

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

18. OTHER PAYABLES AND ACCRUALS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Contract liabilities	82,223	86,280
Other payables	194,233	310,109
VAT payables	–	12,172
Accruals	459,360	452,832
	735,816	861,393

19. INTEREST-BEARING BANK BORROWINGS

		30 June 2019 (Unaudited)			31 December 2018 (Audited)		
	Notes	Effective interest rate per annum %	Maturity	RMB'000	Effective interest rate per annum %	Maturity	RMB'000
Current							
Current portion of syndicated loans	(a)	HIBOR/LIBOR +1.65%	2020	609,200	HIBOR/LIBOR +1.65%	2019	613,939
Other bank loans	(b)	HIBOR+1.1% to 1.35%	2020	1,022,096	HIBOR+1.0% to 1.35%	2019	868,836
				1,631,296			1,482,775
Non-current							
Syndicated loans	(a)	HIBOR/LIBOR +1.65%	2020	152,339	HIBOR/LIBOR +1.65%	2020	460,875
				1,783,635			1,943,650

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Analysed into:		
Bank loans repayable:		
Within one year and on demand	1,631,296	1,482,775
In the second year	152,339	460,875
	1,783,635	1,943,650

19. INTEREST-BEARING BANK BORROWINGS (CONTINUED)

Notes:

(a) The bank loans were supported by a corporate guarantee provided by certain wholly-owned subsidiaries of the Company, to the extent of HK$651,000,000 (equivalent to approximately RMB572,034,000) (2018: HK$651,000,000 (equivalent to approximately RMB577,632,000)) and US$116,000,000 (equivalent to approximately RMB799,054,000) (2018: US$116,000,000 (equivalent to approximately RMB805,556,000)) at the end of the reporting period.

(b) The bank loans were supported by:

(i) the pledge of certain of the Group's time deposits amounting to RMB373,679,000 (31 December 2018: RMB205,480,000); and

(ii) corporate guarantees provided by wholly-owned subsidiaries of the Company to the extent of HK$1,346,734,000 (equivalent to approximately RMB1,183,375,000) (31 December 2018: HK$1,345,796,000 (equivalent to approximately RMB1,194,125,000)) at the end of the reporting period.

As at 30 June 2019, except for a bank loan of RMB443,205,000 (31 December 2018: RMB625,516,000) which was denominated in the US$, all bank borrowings were denominated in Hong Kong dollars.

20. DEFERRED TAX LIABILITIES

Pursuant to the income tax law of the PRC, a 10% withholding tax rate 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 the factors which included the dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future.

At 30 June 2019, there were no significant unrecognised deferred tax liabilities (31 December 2018: Nil) for withholding taxes that would be payable on the unremitted earnings of the Company's subsidiaries expected to be distributed, after considering the abovementioned factors, in the foreseeable future.

21. SHARE CAPITAL

The share capital as at 30 June 2019 and 31 December 2018 represented the issued capital of the Company and a summary of the authorised and issued share capital of the Company is as follows:

At 30 June 2019

	HK'000 (Unaudited)	RMB'000 (Unaudited)
Authorised:		
100,000,000,000 ordinary shares of HK$0.01 each	**1,000,000**	**935,629**
Issued and fully paid:		
2,498,503,000 ordinary shares of HK$0.01 each	**24,985**	**21,967**

21. SHARE CAPITAL (CONTINUED)

At 31 December 2018

	HK'000 (Audited)	RMB'000 (Audited)
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

The following changes in the Company's share capital took place during the current period:

	Notes	Number of shares of HK$0.01 each	Share capital HK$'000	Share capital RMB'000
At 1 January 2019		**2,243,380,000**	**22,434**	**19,782**
Share placing	(a)	**247,078,000**	**2,471**	**2,115**
Exercise of share options	(b)	**8,045,000**	**80**	**70**
At 30 June 2019		**2,498,503,000**	**24,985**	**21,967**

Notes:

(a) In April 2019, the Company completed the share placing of 247,078,000 ordinary shares of HK$0.01 each at a subscription price of HK$5.56 per share. The placing resulted in net proceeds of HK$1,355,102,000 (equivalent to approximately RMB1,160,238,000), representing the addition of nominal value of ordinary shares of HK$2,471,000 (equivalent to approximately RMB2,115,000) and share premium of HK$1,352,631,000 (equivalent to approximately RMB1,158,123,000) during the six months ended 30 June 2019.

(b) During the six months ended 30 June 2019, 2,500,000 and 5,545,000 share options under the Share Option Scheme (as defined in note 23) were exercised at the subscription prices of HK$2.35 and HK$4.11 per share, respectively. During the six months ended 30 June 2018, the subscription rights attaching to 11,475,000 share options granted under the Pre-IPO Scheme (as defined in note 23 below) and 7,140,000 and 2,280,000 share options under the Share Option Scheme were exercised at the subscription prices of HK$3.24, HK$2.35 and HK$4.11 per share, respectively. The exercise of the Company's share options resulted in the issue of a total of 8,045,000 shares (six months ended 30 June 2018: 20,895,000 shares) of HK$0.01 (six months ended 30 June 2018: HK$0.01) each for a total cash consideration before expenses of HK$28,665,000 (equivalent to approximately RMB25,187,000) (six months ended 30 June 2018: HK$63,329,000 (equivalent to approximately RMB51,740,000)) representing the nominal value of ordinary shares of HK$80,000 (equivalent to approximately RMB70,000) (six months ended 30 June 2018: HK$209,000 (equivalent to approximately RMB171,000)) and share premium of HK$28,585,000 (equivalent to approximately RMB25,117,000) (six months ended 30 June 2018: HK$63,120,000 (equivalent to approximately RMB51,569,000)).

During the six months ended 30 June 2019, an amount of HK$7,637,000 (equivalent to approximately RMB6,711,000) (six months ended 30 June 2018: HK$14,551,000 (equivalent to approximately RMB11,888,000)) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

Details of the Company's share option schemes are included in note 23 to the condensed consolidated interim financial statements.

22. RESERVES

The amounts of the Group's reserves and movements therein for the six months ended 30 June 2019 are presented in the condensed consolidated statement of changes in equity.

(a) Share premium

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

(b) 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. It also includes the nominal amount of the shares repurchased.

(c) 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.

(d) Share option reserve

The share option reserve comprises the fair value of share options granted which are yet to be exercised. 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.

(e) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Mainland China.

(f) Fair value reserve

The fair value reserve represents the subsequent changes in fair value of the financial assets at fair value through other comprehensive income upon 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.

(g) Treasury shares

Treasury shares reacquired and held by the Company are recognised directly in equity at cost. During the six months ended 30 June 2019, 660,000 (six months ended 30 June 2018: 18,662,500) treasury shares were purchased at a cash consideration of HK$3,550,000 (equivalent to approximately RMB3,029,000) (six months ended 30 June 2018: HK$79,415,000 (equivalent to approximately RMB65,363,000)). As at 30 June 2019, the Group has purchased treasury shares of 23,899,000 (31 December 2018: 23,239,000).

(h) Share award reserve

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

23. 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"). Further details of the Pre-IPO Scheme were disclosed in the Company's annual report for the year ended 31 December 2018.

As at 30 June 2019 and 31 December 2018, no share options (the "Pre-IPO Share Options") under the Pre-IPO Scheme remained outstanding. During the six months ended 30 June 2018, 11,475,000 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 of the Company and additional share capital of approximately HK$114,750 (equivalent to approximately RMB94,000) and share premium account of approximately HK$37,064,000 (equivalent to approximately RMB30,281,000), before related issuance expenses.

(b) Share option scheme

The Company has also adopted a share option scheme (the "Share Option Scheme") pursuant to the shareholders' written resolution passed on 7 May 2008. Further details of the Share Option Scheme were disclosed in the Company's annual report for the year ended 31 December 2018.

As at 30 June 2019, a total of 24,520,000 (31 December 2018: 32,565,000) share options (the "Share Options") under the Share Option Scheme remained outstanding. During the six months ended 30 June 2019, the subscription rights attaching to 2,500,000 (six months ended 30 June 2018: 7,140,000) and 5,545,000 (six months ended 30 June 2018: 2,280,000) share options granted under the Share Option Scheme were exercised at the subscription prices of HK$2.35 and HK$4.11 per share, resulting in the issue of 8,045,000 additional ordinary shares (six months ended 30 June 2018: 9,420,000) of the Company and additional share capital of approximately HK$80,000 (equivalent to approximately RMB70,000) (six months ended 30 June 2018: HK$94,000 (equivalent to approximately RMB77,000)) and share premium account of approximately HK$28,585,000 (equivalent to approximately RMB25,117,000) (six months ended 30 June 2018: HK$26,056,000 (equivalent to approximately RMB21,288,000)), before related issuance expenses.

At the date of approval of these interim financial statements, the Company had 24,520,000 Share Options outstanding under the Share Option Scheme, which represented approximately 1.0% of the issued share capital of the Company as at that date.

24. 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 out from cash contributed by the Group. The Trustee will hold the Awarded Shares in trust for the awardees until such shares are vested with the awardees in accordance with the provisions of the Share Award Scheme. The Trustee shall not exercise the voting rights in respect of any shares held under the trust.

24. SHARE AWARD SCHEME (CONTINUED)

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

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

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

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

Prior to 10 January 2017, no Awarded Shares have been granted. On 10 January 2017, the Board resolved to grant 50,000,000 Awarded Shares to certain selected participants, who are not a director, chief executive or substantial shareholder of the Company, nor an associate (as defined under the Listing Rules) of any of them at nil consideration, resulting in the recognition of share award scheme expense of RMB11,969,000 (six months ended 30 June 2018: RMB15,896,000) in the condensed consolidated income statement in the current period.

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 grant date were measured by the quoted market price of the shares at the grant date.

Movements in the number of Awarded Shares were as follows:

	Number of Awarded Shares
Outstanding at 1 January 2018	46,100,000
Awarded Shares forfeited	(300,000)
Awarded Shares vested	(4,590,000)
Outstanding as at 31 December 2018 and 1 January 2019	**41,210,000**
Awarded Shares vested	**(6,940,000)**
Outstanding as at 30 June 2019	**34,270,000**

During the period, an amount of RMB965,000 (six months ended 30 June 2018: RMB593,000) was credited to retained profits in respect of vesting of 6,940,000 Awarded Shares (30 June 2018: 4,590,000).

25. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Contracted for commitments in respect of:		
— construction of new buildings	**14,298**	21,103
— construction of new manufacturing facilities	**16,689**	16,689
— advertising and promotional expenses	**231,854**	129,280
— software	**100**	100
— investment in an equity investment designated at fair value through other comprehensive income	**–**	35,000
— acquisition of subsidiaries (note 13(b))	**1,611,886**	–
	1,874,827	202,172

26. FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY

At 30 June 2019, the Group discounted certain commercial bills receivable with a carrying amount in aggregate of approximately RMB1,254,500,000 (31 December 2018: RMB1,603,200,000) to a bank (31 December 2018: one bank) in the PRC (the "Derecognised Bills") for cash. The Derecognised Bills had a remaining maturity from approximately 29 days to 262 days (31 December 2018: 27 days to 322 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"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair value of the Group's Continuing Involvement in the Derecognised Bills is not significant.

During the six months ended 30 June 2019, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills (six months ended 30 June 2018: Nil). No gains or losses were recognised from the Continuing Involvement, both during the period or cumulatively. The discount of bills receivables of RMB1,282,300,000, RMB2,382,700,000 and RMB1,059,000,000 has been made during the period ended 30 June 2019, the year ended 31 December 2018 and the period ended 30 June 2018, respectively.

27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged bank deposits, structured 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.

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

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 methods and assumptions were used to estimate the fair values:

The fair values of structured bank deposits, bills receivables and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 30 June 2019 was assessed to be insignificant. The fair values of structured bank deposits, bills receivables and 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 has 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 calculate 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.

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 condensed consolidated statement of financial position, and the related changes in fair values, which are recorded in the condensed consolidated statement of 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 30 June 2019:

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	30 June 2019: 0.27x to 12.06x (31 December 2018: 0.08x to 6.73x)	5% (31 December 2018: 5%) increase/ decrease in multiple would result in increase/decrease in fair value by RMB7.2 million (31 December 2018: RMB5.7 million)
		Discount for lack of marketability ("DLOM")	30 June 2019: 20% (31 December 2018: 20%)	2.5% (31 December 2018: 2.5%) increase/decrease in multiple would result in decrease/ increase in fair value by RMB4.5 million (31 December 2018: RMB3.6 million)

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

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 30 June 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000 (Unaudited)	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Significant unobservable inputs (Level 3) RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Equity investments designated at fair value through other comprehensive income	–	–	144,200	144,200
Structured bank deposits	–	1,071,000	–	1,071,000
Bills receivables	–	269,000	–	269,000
	–	1,340,000	144,200	1,484,200

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000 (Audited)	Significant observable inputs (Level 2) RMB'000 (Audited)	Significant unobservable inputs (Level 3) RMB'000 (Audited)	Total RMB'000 (Audited)
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

28. EVENT AFTER THE REPORTING PERIOD

As set out in note 13(b) to the condensed consolidated interim financial statements, the Group had completed the acquisition of all of the entire equity interest in K-Swiss Holdings on 1 August 2019. Due to the short duration from the completion date of the Acquisition, the financial impact arising from the Acquisition including the purchase price allocation exercise and price adjustment based on the agreed closing statement of K-Swiss Holdings on the completion date is still in progress as of the date of this report. Certain disclosures in relation to the business combination have not been presented.

29. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 21 August 2019.

GLOSSARY

In this interim 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
"Board"	The Board of Directors of the Company
"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
"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
"Period"	For the six months ended 30 June 2019
"POS"	Points of sale
"PRC" or "China"	The People's Republic of China excluding, for the purpose of this report, Hong Kong, Macau and Taiwan
"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

REVIEW OF INTERIM RESULTS

The audit committee and the independent auditors of the Company have reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the interim results and the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2019.

BOOK CLOSURE

The transfer books and register of members of the Company will be closed from Thursday, 5 September 2019 to Monday, 9 September 2019, both days inclusive, for the purpose of determining shareholders' entitlements to the interim dividend. The record date for entitlement to the interim dividend is on Monday, 9 September 2019. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 4 September 2019. The payment date of the interim dividend is expected to be on Friday, 25 October 2019.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is available for viewing on the websites of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the Company at http://www.xtep.com.hk. The 2019 Interim Report for the six months ended 30 June 2019 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and available on the same websites in due course.

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

Hong Kong, 21 August 2019

As at the date of this announcement, the executive Directors of the Company are Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong; and the independent non-executive Directors are Mr. Tan Wee Seng, Dr. Gao Xian Feng and Dr. Bao Ming Xiao.