

2017

INTERIM REPORT



XTEP SPOKESPERSON
XIE ZHENYE



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

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



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ABOUT THE GROUP

The Group established its own sportswear brand XTEP in 2002 and XTEP is now a leading professional sports brand with stylish and functional products in the PRC. The Group manages an extensive distribution network with Exclusive Distributors that operates approximately 6,500 stores nationwide covering 31 provinces, autonomous regions and municipalities across the PRC. The Group has been principally engaged in design, development, manufacturing, sales and marketing and brand management of sports footwear, apparel and accessories. The Company's Shares commenced trading on the Main Board of Hong Kong Stock Exchange on 3 June 2008.

6,500 STORES

COVERING

31 PROVINCES



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ding Shui Po (丁水波) (Chairman)
Ding Mei Qing (丁美清)
Ding Ming Zhong (丁明忠)
Ho Yui Pok, Eleutherius (何睿博)

Independent Non-executive Directors

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

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

COMPANY SECRETARY

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

AUTHORIZED REPRESENTATIVES

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

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISER AS TO HONG KONG LAWS

Luk & Partners in association with Morgan, Lewis & Bockius

AUDITOR

Ernst & Young

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

INVESTOR RELATIONS CONSULTANTS

Strategic Financial Relations Limited

COMPANY WEBSITE

www.xtep.com.hk

2017 INTERIM FINANCIAL HIGHLIGHTS

- The Group's revenue dropped slightly to RMB2,310.8 million due to restructuring of the XTEP Kids division.
- Gross profit margin continued to expand for the 5th year in a row, by 0.6 pp to 43.9%, attributable to the shift of product mix towards higher margin professional sportswear products and increased contribution from e-commerce.
- Apparel gross profit margin increased significantly by 1.8 pp to 43.5%, while footwear and accessories gross profit margin expanded to 44.3% and 39.3% respectively.
- Net profit declined by 18.4% to RMB310.3 million, due to normalization of advertising and promotional cost for 1H2017 to 12.2% of revenue.
- E-commerce continued to hold top sales volume position for sports footwear on both Tmall & JD.com. E-commerce is now around 20% of the Group's revenue.
- Strong net cash position, with RMB2,565.3 million of net cash and cash equivalent, which is equivalent to 48.6% of net assets.
- Proposed interim dividend HK8.5 cents, dividend payout ratio maintained at 52.4%.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

Interim Dividend per Share

HK8.5 cents

Dividend Payout Ratio

52.4%



Total Revenue

RMB **2,310.8** million

Gross Profit Margin

43.9%

Profit Attributable to Equity Shareholders

RMB **310.3** million

FIVE-YEAR FINANCIAL SUMMARY

For the six months ended 30 June

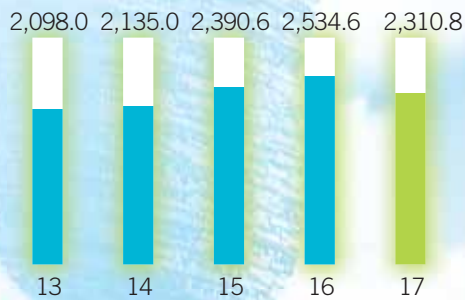
| | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|---------|---------|---------|---------|---------|
| Profitability data (RMB million) | | | | | |
| Revenue | 2,310.8 | 2,534.6 | 2,390.6 | 2,135.0 | 2,098.0 |
| Gross profit | 1,015.6 | 1,098.5 | 999.4 | 862.1 | 843.1 |
| Operating profit | 479.1 | 583.4 | 500.6 | 425.8 | 475.5 |
| Profit attributable to equity Shareholders | 310.3 | 380.1 | 343.5 | 284.2 | 340.9 |
| Basic earnings per Share (RMB cents) (Note 1) | 13.98 | 17.25 | 15.86 | 13.05 | 15.66 |
| Profitability ratios (%) | | | | | |
| Gross profit margin | 43.9 | 43.3 | 41.8 | 40.4 | 40.2 |
| Operating profit margin | 20.7 | 23.0 | 20.9 | 19.9 | 22.7 |
| Net profit margin | 13.4 | 15.0 | 14.4 | 13.3 | 16.2 |
| Effective tax rate | 28.1 | 29.9 | 29.6 | 31.1 | 28.6 |
| Return on average total equity holders' equity (annualized) (Note 2) | 12.2 | 15.3 | 14.4 | 12.3 | 15.6 |
| Operating ratios (as a percentage of revenue) (%) | | | | | |
| Advertising and promotional costs | 12.2 | 9.3 | 13.4 | 12.5 | 9.0 |
| Staff costs | 10.6 | 9.4 | 8.7 | 9.8 | 8.5 |
| R&D costs | 2.8 | 2.3 | 2.0 | 2.4 | 2.3 |

As of 30 June

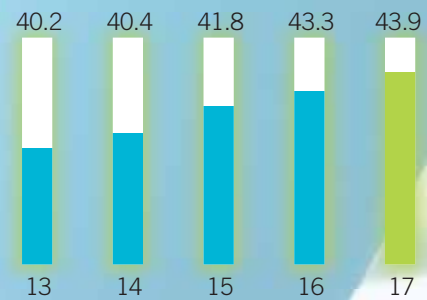
| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---------|---------|---------|---------|---------|
| Assets and liabilities data (RMB million) | | | | | |
| Non-current assets | 946.4 | 1,090.6 | 941.9 | 1,039.8 | 813.5 |
| Current assets | 7,493.7 | 7,140.2 | 7,253.8 | 6,729.4 | 6,137.6 |
| Current liabilities | 2,267.4 | 2,979.5 | 2,854.0 | 2,140.2 | 1,941.1 |
| Non-current liabilities | 889.2 | 156.5 | 548.4 | 999.4 | 611.2 |
| Non-controlling interests | 94.7 | 48.3 | 6.8 | 2.3 | 4.9 |
| Shareholders' equity | 5,188.8 | 5,046.5 | 4,786.5 | 4,627.3 | 4,393.9 |
| Asset and working capital data | | | | | |
| Current asset ratios | 3.3 | 2.4 | 2.5 | 3.1 | 3.2 |
| Gearing ratio (%) (Note 3) | 19.1 | 18.9 | 26.2 | 22.4 | 19.0 |
| Net asset value per Share (RMB) (Note 4) | 2.38 | 2.31 | 2.20 | 2.13 | 2.02 |
| Average inventory turnover days (days) (Note 5) | 67 | 55 | 72 | 94 | 86 |
| Average trade receivables turnover days (days) (Note 6) | 164 | 122 | 104 | 96 | 96 |
| Average trade payables turnover days (days) (Note 7) | 128 | 120 | 91 | 101 | 84 |
| Overall working capital days (days) | 103 | 57 | 85 | 89 | 98 |

FIVE-YEAR FINANCIAL SUMMARY

REVENUE (RMB MILLION) (FOR THE SIX MONTHS ENDED 30 JUNE)

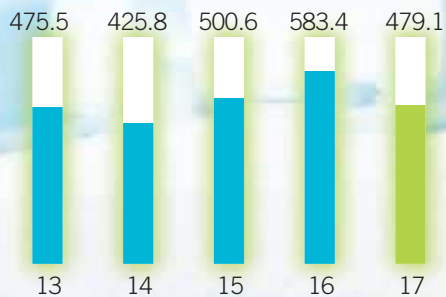


GROSS PROFIT MARGIN (%) (FOR THE SIX MONTHS ENDED 30 JUNE)



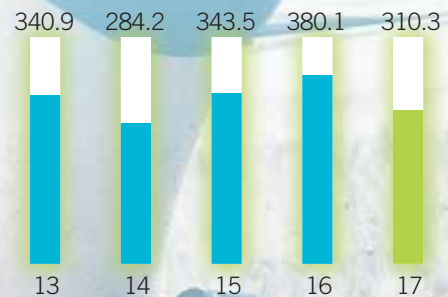
OPERATING PROFIT

(RMB MILLION) (FOR THE SIX MONTHS ENDED 30 JUNE)

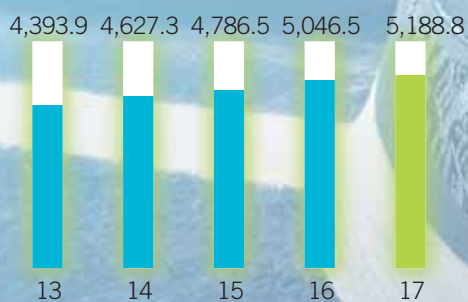


PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS

(RMB MILLION) (FOR THE SIX MONTHS ENDED 30 JUNE)

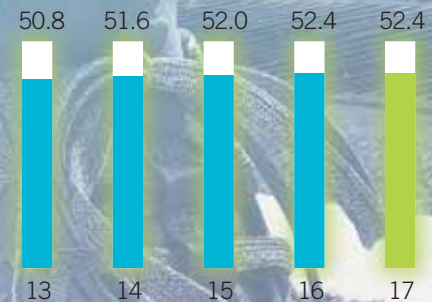


SHAREHOLDERS' EQUITY (RMB MILLION) (AS AT 30 JUNE)



INTERIM DIVIDEND PAYOUT RATIO

(%) (FOR THE SIX MONTHS ENDED 30 JUNE)



NOTES:

- 1) The calculation of basic earnings per Share is based on the profit attributable to equity Shareholders 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 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.

CHAIRMAN'S STATEMENT



DING SHUI PO
Chairman

A YEAR OF CHANGE

Dear Shareholders,

On behalf of the Board, I am pleased to announce the unaudited interim results of the Group for the six months ended 30 June 2017.

A SPORTS BRAND EMPHASIZING FUNCTIONALITY FOR FUTURE SUSTAINABLE GROWTH

2017 the Group continues to restructure towards being a professional sports brand with stylish and functional products. XTEP's brand image has been successfully solidified as the "China's Runner's Choice" brand. We have streamlined our comprehensive management of products, branding and marketing, and retail management. We also continued to revamp our retail stores image and distribute our products efficiently through our exclusive distribution network and online e-commerce platform, working together to best represent the XTEP brand.

Due to restructuring of the XTEP Kids division, and coming off of the higher base of the first half of 2016, the Group's revenue declined slightly to RMB2,310.8 million (2016: RMB2,534.6 million) in the first half of 2017. Gross profit margin continue to expand for the 5th year in a row, by 0.6 percentage point to 43.9% (2016: 43.3%). Margin expansion was driven by product mix shift towards higher margin professional sportswear products and the increasing proportion of e-commerce contribution to revenue. Profit attributable to Shareholders declined by 18.4% to RMB310.3 million (2016: RMB380.1 million), mainly due to normalization of advertising and promotional cost for the first half of 2017, which accounted for 12.2% (2016: 9.3%) of the Group's revenue. Basic earnings per Share amounted to RMB13.98 cents (2016: RMB17.25 cents). To show our appreciation to Shareholders for their long-term support of the Group, the Board recommends and has resolved to declare an interim dividend of HK8.5 cents (2016: HK10.5 cents) per Share, which is equivalent to a payout ratio of 52.4% (2016: 52.4%).

PROFESSIONAL SPORTS BRAND IMAGE THRU SPORTS MARKETING

We want to "manage branding like running a marathon". The Group approaches branding holistically with a long-term vision. Coinciding with XTEP transforming to a professional sports brand, we increased our promotion and sponsorship of running and football, and added new sports celebrities as our spokespersons. We continued to be the sportswear sponsor of the most number of marathons in China in the first half of 2017, with 13 marathons and running events sponsored by the Group and continued to have well-known Chinese track and field athletes to represent our professional sports products. With strong government and national media attention on football, we continue to sponsor national student football leagues in China, XTEP China College Futsal League for the 6th consecutive year since 2011, XTEP China University Football League for the 5th consecutive year, as well as China High School Football League, serving nearly 17,000 participants each year in total.

CHAIRMAN'S STATEMENT

Our branding's advertising and promotional efforts utilized XTEP stores as a physical experience center of our brand. Thus, we continued our store upgrades from a fashion to a sports-oriented setup with new generation designs, completely changing color-tones and display methods, giving customers enhanced experiences of the new XTEP sports image.

INNOVATIVE PRODUCTS, ALWAYS VALUE FOR MONEY

The Group believes that innovation is absolutely necessary in assessing the value of a brand, from staying ahead of competition to increasing consumer demand. We continued to hire international designers from leading global sportswear brands to help drive both technical and aesthetics upgrades. We also partner with global giants in fiber material technology, such as Toray from Japan, and the Dow Chemical Company and 3M from the United States, to co-develop materials in which we hold exclusive usage rights. We set up China's first dedicated running research lab in 2016, which has helped us gain more knowledge about making the best fitting products for Chinese runners. As consumers become more sophisticated, they will be increasingly looking for comfort as a top priority alongside eye-catching design, which XTEP has always been strong in. Therefore, we introduced and combined different technologies together to best fit the needs of Chinese runners. The Group introduced three core series of running shoes, which are RUN FAST (競速快跑), RUN STRONG (動力暢跑) and RUN FIT (舒適易跑) in the first half of 2017, to better serve marathon runners, routine runners and entry-level runners respectively. We also introduced six new core apparel technology platforms, which are XTEP-DRY (酷乾科技), XTEP-COOL (釋冰科技), XTEP-WARM (熱能科技), XTEP-SHIELD, XTEP-COMFORT and XTEP-STRONGER, to better acclimate to different weather conditions runners encounter.

RETAIL REORGANIZATION CONTINUED, OMNI-CHANNEL RETAIL BOOST FUTURE GROWTHS

The Group continued to flatten our distribution channel and enforced detailed management controls to improve overall retail store operational efficiency and profitability. The Group's DRP system covers over 95% of XTEP retail stores to collect real-time data and analyze buyer behavior. By collecting and analyzing these big data, our product research team can develop products with better sell-through at the retail-end. As a result, retail inventory level has been maintained at the optimal level.

XTEP e-commerce has generated stellar sales because we treat it as a sales channel within the Group's entire retail network. We believe that omni-channel sales where online and offline retail channels complement each other is the way for maximizing profitability to the Group and our distributors in the future. The O2O system launched in 2016 has allowed our e-commerce channel to act as an additional sales platform for offline distributors, where inventories were shared and sold quicker, resulting in increased revenue and profit for both the Group and our distributors.

RUNNERS' BRAND OF CHOICE, AN ECOSYSTEM

The Group will continue on the path of the "3+" strategy, which fuels our organic growth through "Products+," "Sports+" and "Internet+." Each of these will be a part of the long-term business strategy of the Group, creating a running ecosystem centered around the runners. This differentiates us from our competitors. In "Products+," the Group focuses on Chinese runners rather than singular technologies. We have already restructured our running product offerings to be based on the runner's usage level, and we will take one step further, to structure shoes and apparel based on Chinese runners' unique attributes. Our dedicated research lab and scientists will provide us with the most in-depth knowledge of the Chinese runner, in both behavior and physique. We believe that if we made the best tailored products for our target customers, we would retain their loyalty.

CHAIRMAN'S STATEMENT

“Sports+” exemplifies the Group’s dedication to running that goes beyond products. Similar to “Product+”, we center “Sports+” on the individual Chinese runner. We intend to create an ecosystem where runners not only can shop omni-channel, but can also run omni-channel. Our website and Wechat official accounts provide followers with running events information. Our local XTEP Runner’s Club and XTEP Run Club facilities as well as our physical stores act as gathering and training centers for runners. Our mobile APP links the runner to his/her own performance and friends, and locally sponsored running events tie the runner to the XTEP brand. The annual XTEP 321 Running Festival is the perfect example of such, where runners can run together online and offline, share their experiences, enjoy a live entertainment show centered around the running theme, and enjoy a special omni-channel shopping experience during all of the individual events that is a part of the festival.

“Internet+” links with “Products+” and “Sports+”, where XTEP uses technology to create a seamless retail and social network. In addition to those mentioned above, big data gathered and analyzed from our DRP network will provide us with insights to customer targeting and product positioning, and we plan to continue to roll-out smart retail and payments in our offline stores and use big data to increase sales and profitability, customer stickiness, and better serve the running community.

ACKNOWLEDGEMENTS

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

Ding Shui Po

Chairman

Hong Kong, 23 August 2017

A full-page advertisement featuring Xie Zhenye, the spokesperson for Xtep. He is captured in a dynamic running pose, wearing a bright cyan t-shirt with the Xtep logo and 'STEP RUNNING' text, black shorts, and black running shoes with cyan and orange accents. The background is a futuristic, blue-toned environment with circular perforated patterns and large, faint Xtep logos. The overall aesthetic is high-tech and athletic.

**XTEP SPOKESPERSON
XIE ZHENYE**



XTEP MISSION

To be the Runners' Brand of Choice

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In the first half of 2017, the IMF revised up its projection for global economic growth for 2017 from 3.4 percent to 3.5 percent, an increase from the 3.1 percent in 2016. This is supported by stronger activity, expectations of more robust global demand, reduced deflationary pressures, and optimistic financial markets. The outlook for emerging markets maintained at 4.5% in 2017 improving from 4.1% of 2016. China remains the bright spot, with GDP growth expected to be 6.6% according to the IMF, much more robust in comparison to the global forecast¹. China retail sales grew by 10.4% in the first six months of 2017, ahead of overall GDP growth of 6.9%². Signs of rebalancing towards consumption and services remain clear.

Euromonitor reports that the sales of sportswear in China increased by 12.0% to reach RMB186.6 billion in 2016, and predicted it to grow at CAGR of 8.0% at constant 2016 prices over the forecast period, reaching RMB269.6 billion in 2021, much faster than the 5.6% CAGR in the past five years³. Yet, spending was a mere USD18.04 per capita in 2016, in comparison to over USD100 in most developed countries, and USD57 in Taiwan⁴, leaving plenty of room for growth. Functional footwear is expected to outpace overall sportswear growth at CAGR of 10.0% over the same period, supported by the sustainable increase in sports participation as both health consciousness increases and health becomes a symbol of wealth³.

Around 100 marathons were registered through the Chinese Athletic Association in the first half of 2017 and the number is expected to exceed 400 by end of the year, compared to 328 in 2016 and 134 in 2015. Total number of marathons is expected to reach over 800 and the total number of participants to reach over 10 million by 2020 according to Mr. Du Zhao Cai, director of the athletics management center of the General Administration of Sport of China (國家體育總局田徑運動管理中心主任), far greater than around 2.8 million participants in 2016, 1.5 million in 2015, and only around 400,000 in 2011. Those registered to run far exceeded actual participants as many popular marathons use a lottery system due to capacity constraint. We see marathons have become one of the most popular and influential sporting events for mass participation in China, and marathons have become an important platform for brand marketing for well-known enterprises both at home and abroad, as the sport gains more attention from consumers. In 2016, there were more than 2 million articles on marathons, with monthly count on an upward trend. In terms of areas of popularity, most of the articles concentrated on first tier cities and coastal areas, showing a positive correlation between relative wealth and leisure time with attention paid to marathons⁵. This should spread to a broader area with the rising wealth of the overall Chinese population.

E-commerce remains one of the fastest growing retail channels in China. In the first half of 2017, China e-commerce sales reached RMB3.1 trillion, (2016: RMB2.2 trillion) with year-on-year growth of 33.4%². Online retail sales accounted for 18.0% of total retail sales of consumer goods, compared with 14.3% in the first half of 2016, but is still very low compared to developed markets. The overall internet user population amounted to around 731 million people in 2016 (2015: 688 million), growing by 6.3% year-on-year, but penetration rate is only 53.2% compared to 80-90% in most of the developed countries⁶. China e-commerce retail is expected to remain high growth in the near future.

¹ Source: World Economic Outlook, April 2017: Gaining Momentum? (IMF, April 2017)

² Source: National Bureau of Statistics of the People's Republic of China

³ Source: Sportswear in China (Euromonitor, February 2017)

⁴ Source: Sportswear: Policy and Consumption Habits Drive Industry Growth, Domestic Brands will Benefit Soon (Everbright Securities, September 2016)

⁵ Source: China Marathon Publication Report 2016 (2016中國馬拉松傳播報告) (people.cn, March 2017)

⁶ Source: China Internet Network Information Center (中國互聯網絡信息中心)

BUSINESS REVIEW

The Group continued to reposition XTEP as a professional sports brand with stylish and functional products. Transformation continued to lead to improvements in branding, product, and retail management in 2017, as we increased the overall effectiveness of resources allocated by increasing the cooperation between these business units. Product mix shift towards higher margin functional sportswear led to the expansion of our gross profit margin by 0.6 percentage point to 43.9%. The consecutive gross profit margin improvement showed the success of our transformation towards being a functional sports brand. We believe that the Group's gross profit margin will continue to expand as our product offerings become increasingly performance based.

Running remained the core sports category focus for the Group. While the number of marathons and participants in China has grown exponentially in recent years, the number of marathons is still less than half and the scale of marathons are far smaller compared with developed markets such as the US. From media data, it is clear that the focus on marathons is still in first tier cities and coastal areas⁵. We believe that marathon penetration will gradually reach 3rd/4th tier cities, where XTEP has strong consumer base and brand loyalty. As running is a participatory sport, with low entry requirements for space and fitness competency, we believe that it will have a long growth cycle in China rising with increased level of health awareness.

The Group expects further market share gains with increasing participation in running from lower tier cities, as XTEP focuses on providing professional running products for mass market consumers. We expect to see stronger demand for our products over the next five years in comparison with the past five years. We have already shown our lead as a preferred brand among runners, where Joyrun conducted field research on the brands of footwear worn by marathon finishers in Beijing, Shanghai, Guangzhou and Xiamen Marathons in 2016, and found that XTEP was the brand worn by the highest number of runners who finished the full marathon within three hours, amongst our domestic peers.

With strong media attention on football, we view this as an integral part of our branding strategy to raise consumer conviction for XTEP's professional sports image. While mass participation is still fairly low, we believe that XTEP is positioned well ahead of peers to take advantage of this sport segment's growth in the future. We believe that the future of this sport lies within the youth and student population, therefore we continue to sponsor national student football leagues in China. We are sponsoring the XTEP China College Futsal League for the 6th consecutive year since 2011, XTEP China University Football League for the 5th consecutive year, the China High School Football League, and several elementary school teams. Nearly 17,000 participants each year sport XTEP products during competition. The Group launched its comprehensive football strategy in April 2016, completed the related new product launch in June 2016, and will continue to support this category's growth in China through sponsorships and new products.

E-commerce has become more important for our business growth as it is a rapidly growing sales channel. We have enhanced this business in 2017 to include more apparel product offerings in addition to footwear products that top industry e-commerce by volume. E-commerce now contributes to around 20% of our overall revenue, which continue to outpace our domestic competitors. Our online flagship stores have maintained leading sales positions on prominent B2C (Business-to-Consumer) platforms such as Tmall.com and JD.com. We maintained our position as the top sports footwear products seller on Tmall.com and JD.com by volume, surpassing all other domestic and international brands in the first half of 2017. E-commerce will continue to be a key growth driver for the Group, as we continue to extend omni-channel retail to become more seamless with our offline distribution channels through our O2O model.



A man with short dark hair is performing a workout in a brick building. He is wearing a grey t-shirt with 'TRAIN PRO' printed on it, black athletic pants with a white logo on the left leg, and dark sneakers. He is holding two black dumbbells with both hands raised above his head. His right leg is extended back and held in place by a grey resistance band that is anchored to a vertical post on the left. The background features a red brick wall and several windows with white frames. The lighting is dramatic, highlighting his physique.

**XTEP SPOKESPERSON
JIRO WANG**

XTEP BRAND

Professional Sports Brand with
Stylish and Functional Products



BRAND PROMOTION

In the first half of 2017, the Group continued to transform XTEP into a professional sports brand with stylish and functional products. We focused our branding resources on sports marketing by increasing the number of sporting events and adding on new sports spokespersons. Further, we have changed our new entertainment celebrities and media partnerships to those with strong affiliation to healthy and active lifestyle, as well as increased the proportion of online media sponsorship versus traditional channels. Our brand image remains young, creative and fashionable in both functional and lifestyle sportswear categories.

The Group's advertising and promotional costs for the six months end 30 June 2017 normalized to approximately 12.2% of the Group's revenue (2016: 9.3%), to approximately RMB282.0 million (2016: RMB234.6 million). Last year, said cost was disproportionately skewed towards the second half of the year.

Sports Marketing

Running

As running remained the core strategic focus sports category of XTEP, it is where the Group foremost allocated our marketing resources. XTEP continued to carry the title of the sportswear sponsor for the most number of marathons in China in the first half of 2017, where we were the sole sports brand sponsor for each event. As XTEP is branded as the "China's Runner's Choice", we feel that marathons are one of the best ways for us to directly reach our target consumers – Chinese runners, and sales of running products generally show positive momentum around the time a marathon is held locally. This was a good way to increase brand exposure by involving a large number of runners in each event and capturing high levels of media attention. The Group sponsored 9 major marathons in major cities such as Beijing, Tianjin, Chongqing, Xiamen and other 4 additional running events for the six months ended 30 June 2017, including 3 Penguin Run in cooperation with Tencent and XTEP 321 Running Festival. Total participants in these 13 events exceeded 280,000.

Running events sponsored by the Group for the six months ended 30 June 2017 are as follows:

-  Xiamen International Marathon (廈門國際馬拉松賽)
-  Chongqing International Marathon (重慶國際馬拉松賽)
-  XTEP 321 Running Festival (特步 321 跑步節)
-  China Zheng-kai International Marathon (中國鄭開國際馬拉松賽)
-  Wuhan Marathon (武漢馬拉松)
-  Kiss Run Nanjing Women's Half Marathon (南京女子半程馬拉松)
-  Beijing Half Marathon (北京半程馬拉松)
-  Yangzhou Jianzhen International Half Marathon (揚州暨真國際半程馬拉松)
-  Tianjin (Wuqing) International Marathon (天津(武清)國際馬拉松賽)
-  XTEP Penguin Run – Beijing (特步企鵝跑 — 北京站)
-  Changchun International Marathon (長春國際馬拉松)
-  XTEP Penguin Run – Shenyang (特步企鵝跑 — 沈陽站)
-  XTEP Penguin Run – Chongqing (特步企鵝跑 — 重慶站)





In the first half of 2017, we continued to be the official partner of China Marathon (中國馬拉松官方合作夥伴) recognized by the China Athletic Association (中國田徑協會), and won the 2016 Contribution Award for Development of Marathon in China (2016年中國馬拉松發展貢獻獎) and Contribution Award at Marathon Gala-China 2016 (2016年中國馬拉松年會貢獻獎) in March 2017. After nearly ten years of cultivation in running in China, XTEP won the 2016 Most Popular Running Shoe Brand in China (2016年度最受歡迎中國路跑跑鞋品牌) at the 2016 Sina Running Ceremony (2016年度新浪跑步盛典) in May 2017. XTEP stood out amongst our domestic peers as our footwear products were worn by the highest number of runners who finished a full marathon within three hours in four of the most prominent marathons in China: Beijing Marathon, Shanghai International Marathon, Guangzhou Marathon and Xiamen International Marathon, according to research by Joyrun in 2016. In the first half of 2017, during the Beijing Half Marathon, Philip Kimaiyo from Kenya and Sisilia Ginoka from Tanzania won the men and women's half marathon competition respectively wearing XTEP's RC160 series.

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

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



XTEP Runner's Club

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

SPORTS CELEBRITY SPOKESPERSONS

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



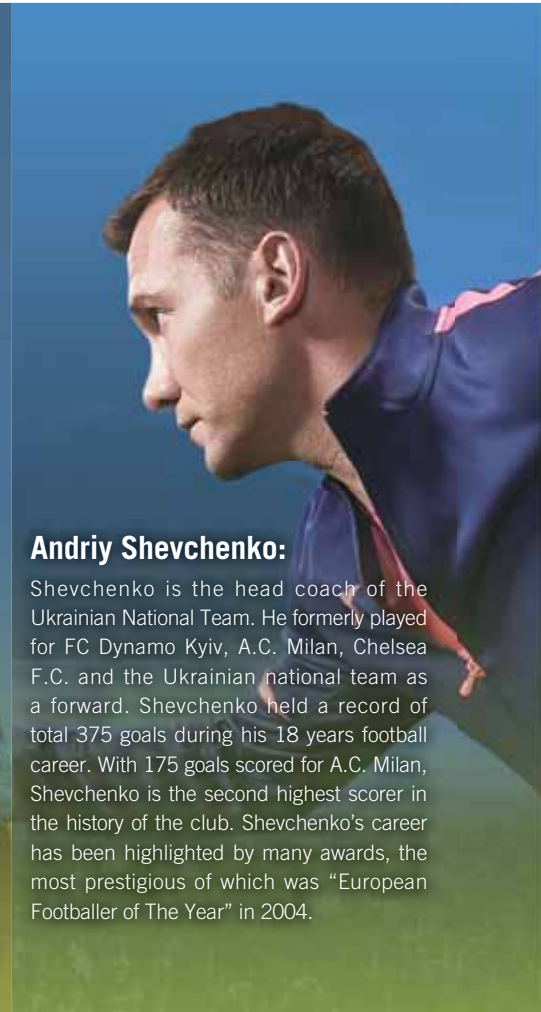
Xie Zhenye (謝震業):

Xie competed in the 4x100m relay and 100m dash for the China team during the 2016 Olympics. He made history with his 4x100m relay teammates on 8 August 2015 at the Beijing IAAF World Championships, setting the best results ever achieved by an Asian team. The relay team beat USA and won Gold at the 2017 IAAF Diamond League Monaco. He refreshed the Chinese Men's 200m record previously also held by him with a 20.40 seconds finish at the IAAF Diamond League Shanghai on 13 May 2017.



Wang Zhen (王鎮):

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



Andriy Shevchenko:

Shevchenko is the head coach of the Ukrainian National Team. He formerly played for FC Dynamo Kyiv, A.C. Milan, Chelsea F.C. and the Ukrainian national team as a forward. Shevchenko held a record of total 375 goals during his 18 years football career. With 175 goals scored for A.C. Milan, Shevchenko is the second highest scorer in the history of the club. Shevchenko's career has been highlighted by many awards, the most prestigious of which was "European Footballer of The Year" in 2004.



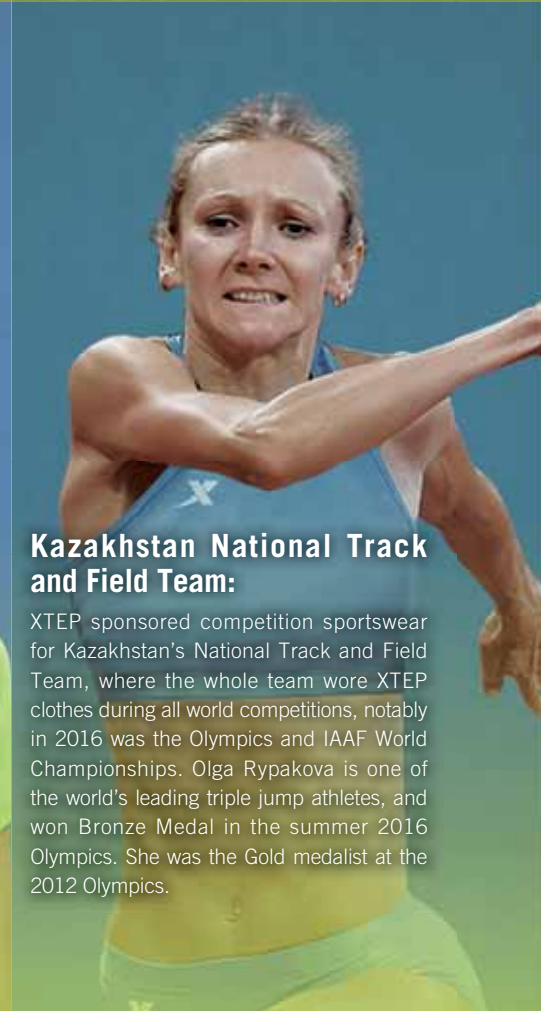
Chen Ding (陳定):

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



Cai Zelin (蔡澤林):

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



Kazakhstan National Track and Field Team:

XTEP sponsored competition sportswear for Kazakhstan's National Track and Field Team, where the whole team wore XTEP clothes during all world competitions, notably in 2016 was the Olympics and IAAF World Championships. Olga Rypakova is one of the world's leading triple jump athletes, and won Bronze Medal in the summer 2016 Olympics. She was the Gold medalist at the 2012 Olympics.

Football

In addition to running, the Group views football as an integral part of our branding strategy to raise more consumer conviction for XTEP’s professional sports image. We continued to sponsor various national and international football leagues and football clubs to capture the high potential growth of football as a sports category in the future. We believe that the future of this sport lies within the youth and student population, and XTEP has the unique advantage of brand recognition associated with football with our sponsorships since 2010 that served over 70,000 primary to university school student players over the years.



XTEP China University Football League (CUFL)
(特步中國大學生足球聯賽)
(sponsorship since 2012)



XTEP China College Futsal League (CCFL)
(特步中國大學生五人制足球聯賽)
(sponsorship since 2011)



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



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



3rd R&F Cup Guangzhou Primary and Secondary School Football League
(“富力杯”第三屆廣州市中小學足球聯賽)
(sponsorship since 2016)



In 2016, we announced our comprehensive football strategy – “Blade Project”(鋒芒計劃), with the goal of serving over 5 million Chinese football youths by 2021. As a part of the Blade Project, we have established official sportswear partnerships with many Chinese youth football education and training service providers, who will promote XTEP products through their events. We also signed former “European Footballer of The Year”, current Ukraine National Football Team head coach – Andriy Shevchenko, as XTEP football ambassador to promote both XTEP football products and development of Chinese youth football. The Group also sponsored a number of domestic and foreign football clubs to expand XTEP’s presence both nationally and internationally. All of these football club players wore XTEP professional football products during their matches and achieved stellar performances. These football matches were broadcasted on TV and through other media channels, where worldwide audiences, including PRC fans, can watch.



Guangzhou R&F Football Club
(廣州富力俱樂部)
(sponsorship since 2016)



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



China Football Press United
(中國足球記者聯隊)
(sponsorship since 2013)



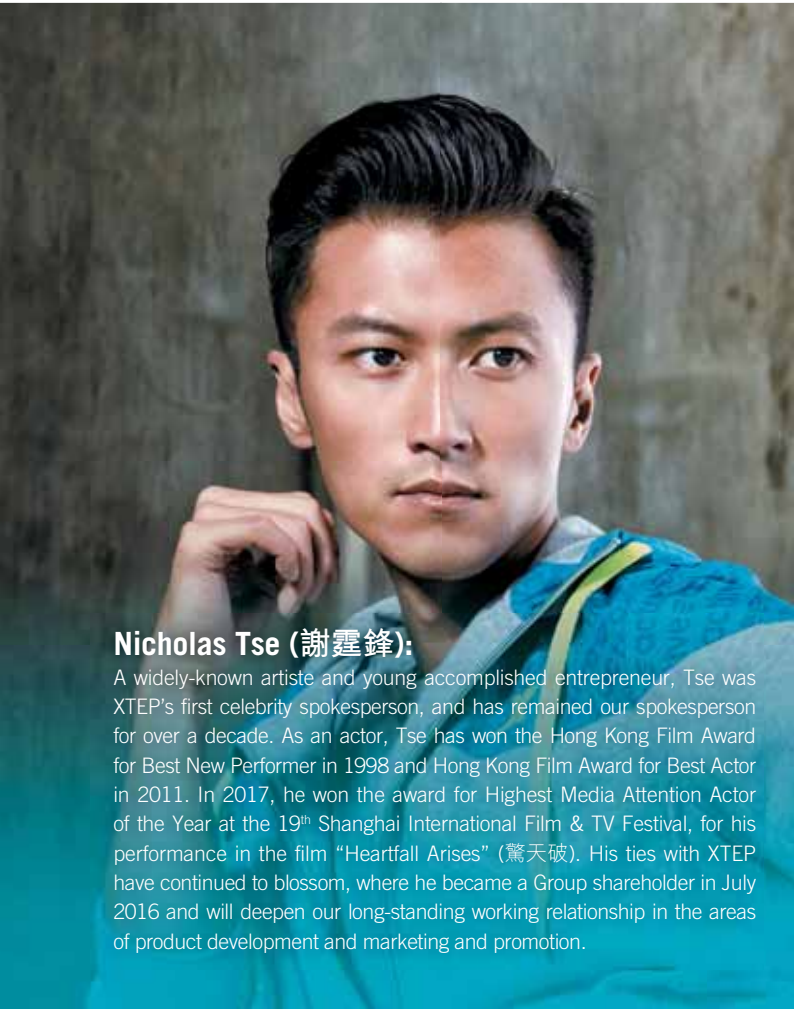
Hong Kong All Star Sports Association
(香港明星足球隊)
(sponsorship since 2009)



Hong Kong Rangers FC
(香港標準流浪足球會)
(sponsorship since 2010)

ENTERTAINMENT CELEBRITY SPOKESPERSONS

In the first half of 2017, the Group reduced the number of entertainment celebrity spokespersons with the strategy of concentrating our resources. We added Zhao Liying, who is one of the most popular female artists in China, to our celebrity portfolio. She has been tremendous in helping promote our new female indoor training product line, as well as our sports lifestyle product lines.



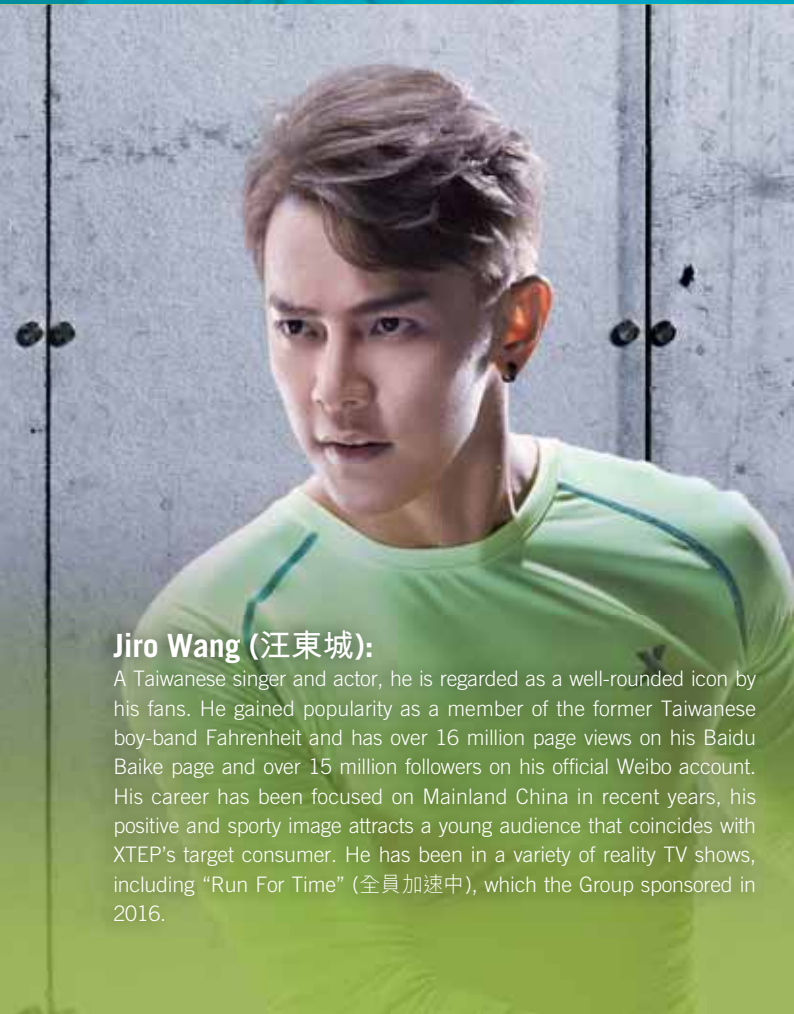
Nicholas Tse (謝霆鋒):

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



Zhao Liying (趙麗穎):

Currently one of the most popular Chinese actresses, Zhao won national fame for her lead role in the TV series "The Journey of Flower" (花千骨). Zhao holds the title of "100 billion queen" ("千億女王") in 2016 for her gaining 100 billion combined online views for all the TV series she appeared in. In 2017, she won the TV Series Actor of the Year at China TV Series Quality Awards (中國電視劇品質盛典) and the College Student's Choice Actress award at the 24th Beijing College Student Film Festival. In 2016, she won the Audience's Choice for Actress at 28th China TV Golden Eagle Award (第28屆中國電視金鷹獎), the most highly regarded TV award in China.



Jiro Wang (汪東城):

A Taiwanese singer and actor, he is regarded as a well-rounded icon by his fans. He gained popularity as a member of the former Taiwanese boy-band Fahrenheit and has over 16 million page views on his Baidu Baike page and over 15 million followers on his official Weibo account. His career has been focused on Mainland China in recent years, his positive and sporty image attracts a young audience that coincides with XTEP's target consumer. He has been in a variety of reality TV shows, including "Run For Time" (全員加速中), which the Group sponsored in 2016.



Calvin Tu (杜天皓):

A Taiwanese-born, rising young actor active in Mainland China, he made his debut in 2013 in "Tiny Times" (小時代), one of the hottest series films in the PRC film industry which currently has four films, and gained wide popularity. He has numerous followers on his official Weibo account, generally attracting a young fan base. Since then, he has been in TV variety shows and acted in other films. (XTEP spokesperson until 31 July 2017)



**XTEP SPOKESPERSON
ZHAO LIYING**



XTEP PRODUCTS

Innovation

PRODUCT INNOVATION

XTEP products have been restructured to be centered around the consumer, especially Chinese runners. We did not stress singular technologies, but tailored our products to directly fulfill the needs of runner. We have built China's first dedicated running research laboratory, led by international scientists and employing global leading research technologies. The team of over 20 researchers tested and studied the different types of feet, body figure, and postures of Chinese runners, in order to develop the best fitting running products for them.

To complement the perfect fit, XTEP provided both high functionality and fashionable design. We have built a team of designers led by international design talents with extensive working experience in top international sports brands. Not only did they bring their keen vision for fashion trend, but also applied their years of know-how in creating sportswear for performance and comfort. We also cooperated with leading international fiber material developers, such as the Dow Chemical Company, 3M and INVISTA in the United States, and Toray in Japan, to co-develop fiber technology for XTEP's exclusive use, in order to stay ahead of global trends. We have trademarked technologies such as "Softpad™", where material co-developed with the Dow Chemical Company is applied to XTEP's unique scientific designs. Both parties will strengthen the cooperation with an aim to launch more professional sports products applying international state-of-the-art technologies in the future. We are confident that our products are competitive with international brands both in style and in quality.




Centering around running, we have expanded our organic growth to multiple sports categories' products under the XTEP brand umbrella, including the first football series in June 2016, first outdoor series in the fourth quarter of 2016 and first indoor fitness products in the second quarter of 2017. All of these are natural extensions of the running series and have been warmly received by consumers. They complement the existing product lines, leading to higher revenue per customer. In the first half of 2017, we continued to launch new high performance value-for money products under the XTEP brand.

Running Products

Footwear

For footwear, we have changed the way we design and market our running products, from focusing on single technology series to combining different technologies to best fit the needs of Chinese runners of different experience levels. The Group introduced three core series of running shoes in the first half 2017, which are RUN FAST (競速快跑), RUN STRONG (動力暢跑) and RUN FIT (舒適易跑), to better serve marathon runners, routine runners and entry-level runners respectively.

The three core running series:

-  RUN FAST (競速快跑) series employed silicon technology to create a light-weight comfortable running experience for consumers. One of the highlights is the RC160 (競速160), which is one of the lightest running shoes in China, weighing only 160 grams. It is designed for professional marathon runners with high permeability and strong shock absorbance.
-  RUN STRONG (動力暢跑) series applied the new generation of our core Dynamic Foam (動力巢), Reactive Coil (減震旋), and Air Mega (氣能環) technologies, emphasizing professional shock absorption for routine runners. "Dynamic Foam" (動力巢) technology offers bounce and soft rebound in shock absorption with improved new soft and high resilience material. "Reactive Coil" (減震旋) combines stabilization technology with XTEP's signature DNA hollow loop structure, supporting shape recovery from compression and impact. "Air Mega" (氣能環) technology utilizes a multi-segmented connected support structure around the entire sole, forming an air-cushion system, providing overall shock absorbing protection during foot impact.
-  RUN FIT (舒適易跑) series uses "Softpad™" (柔軟墊), "COMFYCUBES" (柔立方), and "X-Flex" (易彎折) technologies to offer entry-level runners a comfortable running experience. "Softpad™" (柔軟墊) is a key new shoe insole technology the Group co-developed with the Dow Chemical Company. Softpad™ is world-leading, combining XTEP's design technology and the Dow Chemical Company's VORALAST™ polyurethane memory materials. The insole provides memory foam-like comfort to the wearer and protects the feet from injuries. "COMFYCUBES" (柔立方) technology uses cube modules to support pressure from the foot and ground, while applying memory type of material to bring increased softness and cushioning for footwear products. "X-Flex" (易彎折) technology uses regular cutting grooves on the sole to preserve shoe flexibility and ensure stability of the foot, which results in barefoot-like comfort.



Other sports footwear technologies and materials include: “ENERGETEX” (聚能彈) material made from high elasticity TPU bubbles, which absorbs and releases more energy during running, making each step easier; “Air Comfort” (透氣網) material has a uni-body customized breathable mesh surface, relieves the feet from the sweat and stiffness and provides a lightweight and comfortable experience during hot weather; “NITEOPTICS” (馭光科技) technology using special reflective or light-emitting materials to enable better visibility in the dark, improving the safety of outdoor sports at night; “Dow” (仙護盾) is a chemical agent added to shoe insoles with intelligent silver ions that effectively restrain odor and pathogenic microorganisms; “Thinsulate™” (新雪麗) material from the 3M Company provides lightweight insulation to winter footwear products, and is especially popular in northern regions; and “Xtep-Aroma” (芳香科技) is added to footwear for long-lasting refreshing scent release.

Apparel

For running apparel, the Group consolidated our technologies into six core technology platforms, which are XTEP-DRY (酷乾科技), XTEP-COOL (釋冰科技), XTEP-WARM (熱能科技), XTEP-SHIELD, XTEP-COMFORT and XTEP-STRONGER, to match different weather conditions and motion states runners encounter.

The six core technology platforms:

- “XTEP-DRY” platform materials absorb and transfer moisture on the skin quickly to the surface of the fabric through special yarn and combination, which is then evaporated in the air to achieve the effect of instant absorption and immediate dryness.
- “XTEP-COOL” platform applies cooling Xylitol technology in clothing fibers, which increases the fiber’s rate of heat dispersion, leading to long-lasting coolness during exercise. This technology is mostly applied to summer season apparel.
- “XTEP-WARM” platform employs ceramic printing within apparel products, which can effectively absorb and reflect the far-infrared of human body heat, to improve thermal insulation and provide increased warmth without extra weight for cold weather in the winter. We also use 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-SHIELD” platform protects the wearer from harmful ultraviolet radiation during outdoor sports and restrains the reproduction and growth of bacteria on the fabric to keep clothes odor-free and fresh; “X-REFLECT” (反光科技) within this platform uses special reflective and light-emitting materials to enable better visibility in the dark, thus improving the safety of outdoor sport at night. It also has waterproof and windproof features to guard against formidable natural conditions.
- “XTEP-COMFORT” platform includes features such as X-organic cotton, a soft environmental-friendly organic cotton; Dupont™ Sorona® material, which is lightweight, soft, elastic and easily recovers shape; “Xtep Sports Elastic Technology” (X-S.E.T. 特步運動彈性科技), uses high quality elastic fiber that allows athletes and sports participants to stretch freely during exercise, specifically this is applied to XTEP indoor training series; and “X-SEAMLESS-TECH” (無縫一體工藝) uses seamless knitting technique in professional sports apparel to reduce friction during sport.
- “XTEP-STRONGER” platform uses XTEP-ENERGY (馭能科技) technology, which releases negative ions to alleviate sports fatigue, helping runners harness more energy during professional sports.



Transformers Series

The Group cooperated with world-class global play and entertainment company Hasbro (孩之宝) to use Transformers images in its products. To coincide with the launch of the “Transformers: The Last Knight” movie in the summer of 2017, the Group launched XTEP Blade II x TRANSFORMERS co-branded limited edition football shoe and Transformers sports lifestyle series products in June 2017. The Transformers football shoe is based on the 2nd generation of XTEP professional football product series “Blade II”, with trendy mid-top collar made of elastic knitting plus uni-body design that fits snug to the feet, hollow lightweight body, and shoe sole and conical cleats which give better traction on the predominantly artificial grass fields Chinese players compete on. The shoe uses TPU membrane on top of fabric for shoe surface, providing both excellent ball contact and comfort. The launch of XTEP Blade II x TRANSFORMERS football shoe helped us attract younger consumers, which we view as the target audience for our football products.

Transformers lifestyle sports series captures the essence of trend, by bringing a popular summer movie to life. We approached the design concept from the futuristic and powerful direction, deemphasizing the comic character elements, and emphasizing the heroic spirit it encapsulates. This series has both footwear and apparel products.

Sports Lifestyle Products

Sports lifestyle products captured the growing “athleisure” trend and offers fashionable and comfortable streetwear for Chinese consumers. We have two main lines of sports lifestyle footwear: Casual sports shoes, which are light sport shoes designed mainly for walking, and skateboard shoes under the unique trademarked “π Series”. Sports lifestyle apparel was separated into two series based on age and style: Campus series is geared towards the student population with colorful designs, while Urban series is dominated by black and white colors, and captures the feel of city life. These products have historically been the strength of XTEP; we continue to gradually incorporate additional sports elements into these products to match our ever increasing functional sports image.

Supply Chain

The Group is fully committed to operating a seamless and vertically-integrated business with the support of an efficiently managed supply chain. For the first six months of 2017, the in-house production mix for footwear and apparel products accounted for approximately 51% (2016: 56%) and 11% (2016: 15%) of the corresponding total sales volume for the Period, respectively. We also utilized out-sourced suppliers in the PRC to produce footwear and apparel products, but the Group controlled the sourcing of all materials. All of the out-sourced suppliers were constantly monitored by the Group’s quality control team to uphold our top quality standards. The products were manufactured and inspected continuously by batch, and the same batch of products was delivered to stores across China according to the logistic delivery schedule.

FOOTWEAR TECHNOLOGIES



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



Combines stabilization technology with XTEP's signature DNA hollow loop structure, supporting shape recovery from compression and impact



Utilizes a multi-segmented connected support structure around the entire sole, forming an air-cushion system, providing overall shock absorbing protection during foot impact



A key new shoe insole technology the Group co-developed with the Dow Chemical Company, combining XTEP's design technology and the Dow Chemical Company's VORALAST™ polyurethane memory materials. The insole provides memory foam-like comfort to the wearer and protects the feet from injuries



Uses cube modules to support pressure from the foot and ground, while applying memory type of material to bring increased softness and cushioning for footwear products



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



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



Has a uni-body customized breathable mesh surface, relieving the feet from the sweat and stuffiness and providing a lightweight and comfortable experience during hot weather



A chemical agent added to shoe insoles with intelligent silver ions that effectively restrain odor and pathogenic microorganisms

APPAREL TECHNOLOGIES

XTEP-DRY



酷干科技

KEEP YOU DRY

XTEP-COOL



释冰科技

KEEP YOU COOL

XTEP-WARM



热能科技

KEEP YOU WARM

XTEP-SHIELD



KEEP YOU PROTECTED

XTEP-COMFORT



KEEP YOU COMFORTABLE

XTEP-STRONGER



MAKE YOU STRONGER



Instant Absorption
Constant dry and continuous comfort, enhancing sports performance



Cooling Prints
Body surface temperature drops when sweat comes in contact with the cooling prints, bringing instant coolness to the skin



Heat Containment
A newly developed baffle-type heat containment structure, using different materials to reduce heat loss from pores, achieving a higher level of heat locking



Waterproof and Raise Moisture Permeation
Protection from rainwater and quick evaporation of moisture on the body surface, keeping body dry and comfortable



Soft cotton, highly elastic fiber, seamless knitting and form moulding



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

XTEP RETAIL MANAGEMENT

Omni - Channel





RUNNER

XTEP RUNNING

XTEP RUNNING

清爽畅跑

鞋类专区

服装专区

永不歇

WALKER

RETAIL MANAGEMENT

Domestic Market

It is through detailed and effective retail channel management where the Group can capture consumers' confidence and trust in our XTEP brand. We view our retail network as an integrated omni-channel network, capturing sales offline, online, mobile, domestic and overseas. Flattening of the distribution channel and detailed management down to the store level has contributed to significant improvements in overall operational efficiency and profitability. The management process has helped to boost per store operational efficiency by increasing sales per customer, reducing human errors, lowering staff cost, and streamlining discounting periods and scale. The Group saw more unified brand image and lower inventory. As such, the Group's inventory turnover days as at 30 June 2017 remained low at 67 days (2016: 55 days). The amount of XTEP products in the retail channels was maintained at a healthy 4-5 months level.

The Group carried out detailed weekly monitoring on the operational efficiency of all XTEP retail stores. We were able to do this using real-time data gathered through the Group's DRP-system. The DRP-system covered over 95% of XTEP retail stores as at 30 June 2017. The Group discussed with the distributors on a regular basis on the decision to open stores in areas with higher market potential or close down those retail stores which under-performed. The total number of XTEP retail stores as at 30 June 2017 was approximately 6,500 (31 December 2016: 6,800).

Retail store as an experience center for the new professional sports XTEP

The XTEP store is not only a shop, but also a physical experience center for consumers on our brand's transformation to a professional sportswear brand. Our Exclusive Distributors opened more flagship stores in the first half of 2017 to give consumers an enhanced experience. The Group continued to execute the universal retail store image upgrade to the "6Sth generation", equipped with international-style sports store design, latest promotion campaign posters and experience materials, and emphasized the running focus of XTEP's products and brand image. Consumers can test different products under different weather and terrain condition demonstrations simulations, in order to experience our technology upgrades personally. Even XTEP entertainment celebrity spokesperson adorn professional sports outfits on in-store advertisement posters. We understand that consumers are increasingly looking for a shopping experience when they visit physical stores, in addition to quality products. Upgrading of store image leads to increased sales.

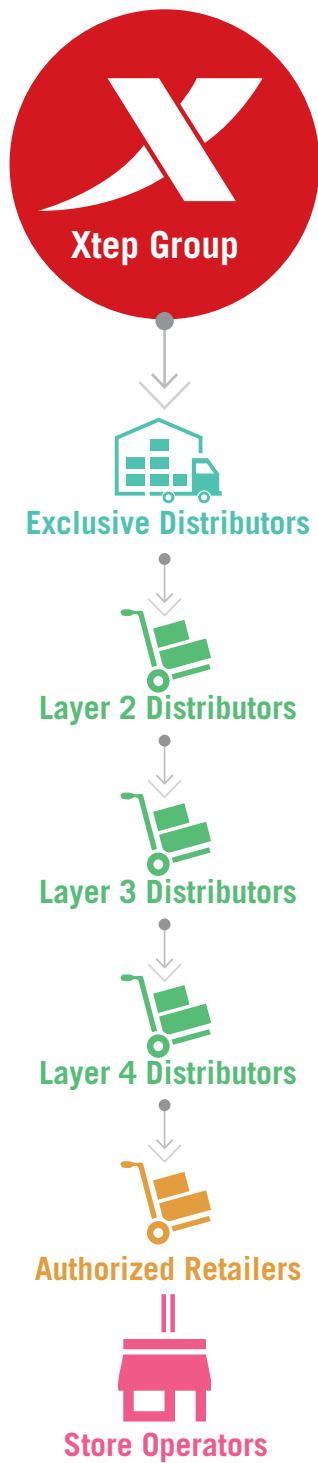
In each regional market, we have established benchmark stores. These are exemplary stores with the highest operational standard, best trained personnel, and fastest sales growth. The Group helps distributors design and setup these stores in order to facilitate the overall transformation of store images within a region, where the benchmark store can be used as a guideline and a teaching center.

XTEP store staff received universal training through a detailed in-store instruction menu and with videos available through our internal "Super Shopping Guide" (超級導購) retail management APP. We want to standardize XTEP's high-level customer service and make it replicable throughout our retail network. Training videos and information on the APP are constantly updated to complement new sales campaigns and new product specifications. Retail Staff's understanding of the Group's requirements is tested through quizzes on the APP, and the test results serve as support for upward employment promotion. Our retail management team does surprise store visits to ensure thorough execution. The Group plans to offer more direct training to retail staff through the "XTEP Retail Learning Center" (特步零售學院), where the XTEP retail management team goes to local regions to offer more insights on the Group's retail strategy and offer guidance on increasing sales efficiency.

Flattening of distribution channels increased the manageability of stores, adding transparency and decreasing inventory risk.

Retail channel comparison before and after flattening of distribution channels:

RETAIL CHANNEL BEFORE FLATTENING



RETAIL CHANNEL AFTER FLATTENING





Real-time monitoring, rapid feedback loop, precise action

The Group set detailed guidelines on controlling inventory, unifying store image, and product pricing based on real-time data gathered through the Group's DRP-system. The analyzed data is then communicated among all parts of the retail distribution network, to both the Group's retail management team and to network distributors and store staff, through the "Super Shopping Guide" APP. This communication method feeds data quickly to where it is needed. Retail store staff can see their own store sales data, compare their achievements against other stores, give feedback to distributors and the Group's retail management about first-hand observations on product and customer behavior, ask questions about new product campaigns, and learn how they can achieve higher sales for their personal benefit and increase sales efficiency for the Group overall. The distributors can give feedback to the Group on regional reactions to products and promotion campaigns, send encouragements and instructions to their network of stores, and send requests to the Group whether it is for product ordering, for store openings and closings, or for advice on increasing per store sales. The Group gained more insight into customer preferences in different geographical locations, quickly provided distributors with accurate product pricing and product mix strategies, sped up product movement to effectively control the retail inventory within a healthy level, and increased the translation of XTEP's branding efforts to sales by unifying promotion timing and strengthening staff education. This all-round communication system has allowed the Group to quickly act upon customer retail behavior anywhere and anytime. The APP has been rolled out to over 80% of stores, covering over 21,000 staffs as at 30 June 2017. We target to have 90% store inclusion by the end of 2017.

Universal pricing and discounting policy

Although new product ordering was conducted on a quarterly basis, the Group has systematically divided the quarterly new product collections into monthly new product cycles, with different product styles delivered on a monthly basis to all the retail stores at the same time. This shorter product cycle allows us to increase the proportion of replenishment products going forward.

The Group set the universal retail sales price for all XTEP products that applied to all retail stores no matter where they are located, to ensure standardized pricing policies were adopted throughout the nation. In general, no discount is allowed when new products are first launched in the market. The timing and rate of retail discounts in each retail store must be authorized by the Group. The Group separated stores into different tiers based on their locations and revenue generation expectations, and each category of stores was only allowed a certain range of discount rates. Overall retail discount rate was maintained at a comfortable level during the first half of 2017 without major fluctuations from season to season.

E-Commerce

XTEP has captured top sales volume positions in the sports footwear product category on both Tmall.com and JD.com, and continues to generate high sales growth with our dedicated team of over 300 professionals. The success of the e-commerce business depended on our ability to quickly evolve with consumer trend and our detailed direct management. In 2017, e-commerce business transformed into a new “branding + retail” model (“品牌+零售”新模式), where the e-commerce platforms increased brand communication and event marketing, and integrated platform resources to help multiply the impact of offline branding efforts intended to increase sales overall for the Group. E-commerce will continue to be a key growth driver for the Group.

O2O seamless linkage between online and offline

As one of the first brands to emphasize e-commerce in the Chinese sportswear sector, the Group’s e-commerce business has gone through three phases of development since 2013, closely timed with sportswear industry trends. During 2013-14, our e-commerce platform was primarily used to clear inventory while we developed close working partnership with Tmall.com, JD.com, and other leading internet shopping platforms, and developed our own team of professional e-commerce platform managers. In 2015, the Group’s e-commerce business focused on providing online exclusive products that differentiated from those available in offline stores, in order to coordinate interests between offline distributors and the Group to maximize sales. In 2016, XTEP was the first of the sportswear companies in China to start using O2O model with our Exclusive Distributors. As at 30 June 2017, around half of the products listed on the e-commerce platform were part of the O2O system, and the other half were online exclusive products. Some immensely popular online exclusive items were later made available for sale in offline stores as well, such as the shoe we co-designed with our celebrity spokesperson Zhao Liying.

We define O2O as inventory sharing. The Group launched new products online and offline at the same time, and set identical prices for the same products, as well as the same promotion periods. With permission from the Group, e-commerce can also hold special promotions for those slower moving items from offline channels. Little inventory is kept by the e-commerce business for those products available offline, instead, we rely on inventory from the offline retail channel. Products ordered by consumers are delivered by their nearby distributor, ensuring quick to doorstep customer service. In the reverse direction, customers can order a product from a physical store and we can deliver from the online platform or another Exclusive Distributor that has inventory. In effect, XTEP e-commerce platform functions as another retail channel for not only the Group, but also for our Exclusive Distributors. With our proven success in e-commerce, O2O is a win-win situation where XTEP products are aligned, branding and promotional efforts see exponential effect, inventory levels are better controlled and profit increases for both the Group and our Exclusive Distributors. By 30 June 2017, the O2O model was rolled out to around 2,000 stores, achieving our goal of 2,000-3,000 stores six months earlier than expected.

XTEP Kids

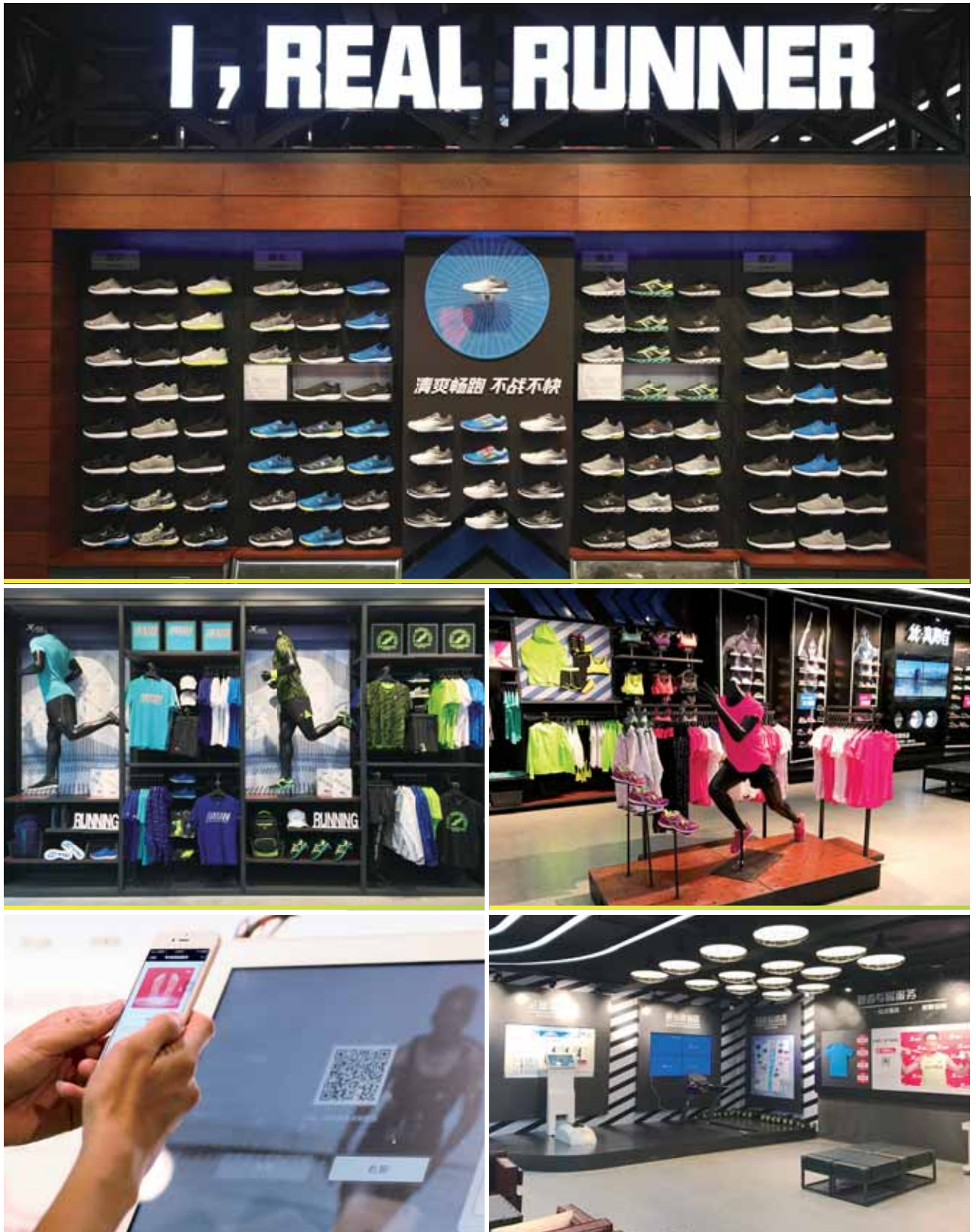
The XTEP Kids division underwent a major restructuring in 2016 to better position for higher efficiency in future profit generation. We have realigned resources between the XTEP Kids and the XTEP adult division, consolidated their operational management, branding, new product research and development, material sourcing and production, retail management systems, and retail networks. POS count remained at 250 as at 30 June 2017, and revenue contribution to the Group from the XTEP Kids division is minimal in the first six months of 2017, as we are still digesting some of the old products in order to pave way for newly designed products launching in the second half of 2017.

We see high potential profit generation capabilities in children’s sportswear business as China implements the new second child policy and parents are an increasing amount of resources to quality products for their children. Therefore, we believe that children’s sportswear from a reputable brand as XTEP will satisfy the quality and safety demands of parents and our new children’s sportswear products will see better future sales.

Overseas Market

As at 30 June 2017, the Group had XTEP POS exposure across the Middle East and Southeast Asia, operated by XTEP’s Exclusive Distributors and Authorized Retailers. At present the overseas business segment only accounts for minor revenue contribution to the Group, we believe that business in overseas markets can increase XTEP’s global exposure, enhance brand value, and broaden revenue streams.





321 GO!

2017 特步321跑步节
全民跑步盛典

Products⁺



Cai Zelin



CHEN DING



XIE ZHENYE



NICHOLAS TSE

3+ FUTURE

Sustainable Growth

Internet⁺ Sports⁺



Calvin Tu

JIRO WANG

ZHAO LIYING

FUTURE PROSPECTS

PRODUCTS+ Running products

Since we have changed the way we design our running products to best fit the needs of Chinese runners of different experience levels, we will also boost our R&D efforts in that direction. The Group's dedicated research lab and scientists will provide us with in-depth knowledge of Chinese runners, equipment in the labs analyzes movement of athletes as they play different popular sports, allowing us to test for injury prevention, and for comfort and performance. All of these aim to provide the best running products for the Chinese runner specifically, as this is our target market.

The Group will continue to expand the three core running footwear series, RUN FAST (競速快跑), RUN STRONG (動力暢跑) and RUN FIT (舒適易跑), to better serve marathon runners, routine runners and entry-level runners, respectively. Similarly in running apparel, we will continue to develop the six core technology platforms, which are XTEP-DRY (酷乾科技), XTEP – COOL (釋冰科技), XTEP-WARM (熱能科技), XTEP-SHIELD, XTEP-COMFORT and XTEP-STRONGER, to cater to different weather conditions runners encounter.

Launch New sports category products

XTEP product categories will expand beyond running to other sports in which we see high growth potential and are natural extensions of our core competency in running. Following the launch of football products in June 2016, smart running-shoes in the third quarter of 2016, and outdoor products in the winter of 2016, XTEP has launched female focused products such as yoga and fitness products, as well as products specifically for indoor training in 2017. A new professional skateboard series will be launched in the first quarter of 2018, echoing the inclusion of skateboarding for the first time in the 2020 Olympic Games. This series can be worn both in competition and for leisure, capturing the growing athleisure trend, and perfectly fitting with XTEP's image that combines sports performance and aesthetic appeal.

New celebrity and film product lines

In 2017, we cooperated with Transformers to launch a product line bearing images and inspirations from the popular comic/film. In the future, we plan to launch additional products with XTEP celebrity spokespersons as our footwear product cooperation with Zhao Liying has been very successful in the first half of 2017. We believe that this type of cooperation between celebrities and popular culture and XTEP strengthens our brand's recognition, broadens consumer base, and leads to additional revenue for the Group.



SPORTS+

The Group continues to work towards our vision of being a part of, and operating, a running ecosystem beyond products and sponsorships. What we envision is a comprehensive suite of running related services that starts with products, goes to events and activities, to the community, and even beyond the sports industry to applications in other industries. XTEP 321 Running Festival is the best embodiment of the Group's intent to create that ecosystem. In 2017's XTEP 321 Running Festival, we created a platform where runners not only can run omni-channel, but also shop omni-channel. In the future, we will continue to make this an even bigger event with increasing impact both in exposure and revenue.

Everyday, our Beijing Olympic Forest Park XTEP Running Track, XTEP flagship stores together with XTEP Run Club serve as symbolic gathering points for runners nation-wide, where they can receive professional advice on running wear and techniques, and learn about local running events and activities. We will continue to strengthen our mobile APP to foster a closer bond between the Group and runners providing tailor-made product, activity, training, health advice by analyzing their usage data. Also, it will link the runner to his/her own performance and friends, and locally sponsored running events ties the runner to the XTEP brand.

The Group will continue to sponsor major marathons and running events to further enhance XTEP's association with running in China.

INTERNET+

Internet+ signifies our commitment to two things, technology and connectivity. The Group will harness the power of the Internet, mobile Internet and other digital technologies for big data gathering, O2O community building, seamless multi-channel marketing and sales, to achieve omni-channel precise marketing. The Group will establish a "new-retail" operation team (新零售運營中心) to explore the new practices of user-centered retail marketing in different areas such as branding, e-commerce, omni-channel, community marketing, and runners' club and etc.

The Group plans to open a set of directly owned XTEP flagship stores in the coming years to showcase our new professional sports image and to connect directly with consumers. In these stores, the Group will continue to roll-out smart retail and e-payments, automatic traffic counter (客流計數器), foot scanner (足型掃描器) and other new technologies to offer consumers more customized service and to help us gain more insights into consumer behavior. Big data from various sources, including our DRP network, is expected to increase the Group's sales and profitability, customer stickiness, and better serve the running community.

In e-commerce, the Group will continue to roll out the O2O model. E-commerce service will improve with the help of big data analysis, Cloud and other advanced Internet technologies. We expect to use the nimbleness of e-commerce to increase sales of popular offline items through rapid replenishment and fast delivery.

CONCLUSION

While the Group continues to undergo our restructuring process in 2017, we believe that we are running in the right direction by repositioning XTEP as a professional sports brand with stylish and functional products. The restructuring has already led to higher sales efficiency per store and stronger inventory control throughout the entire retail network. When we complete the restructuring, we expect to see higher revenue and profit growth for the Group as XTEP becomes a stronger brand. We strive to generate long-term value for our Shareholders, and to be China's "runners' brand of choice".



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

| | 2017 Revenue | | 2016 Revenue | | change In revenue (%) |
|-------------|-----------------|----------------|-----------------|----------------|-----------------------------|
| | (RMB Million) | (% of Revenue) | (RMB Million) | (% of Revenue) | |
| Footwear | 1,534.8 | 66.4 | 1,738.3 | 68.6 | -11.7 |
| Apparel | 726.5 | 31.4 | 736.3 | 29.0 | -1.3 |
| Accessories | 49.5 | 2.2 | 60.0 | 2.4 | -17.5 |
| Total | 2,310.8 | 100.0 | 2,534.6 | 100.0 | -8.8 |

The Group's total revenue for the period ended 30 June 2017 amounted to approximately RMB2.31 billion (2016: RMB2.53 billion), representing a decrease of approximately 8.8% compared to last year. The decrease in revenue was mainly due to:

1. the restructuring of XTEP kids division; and
2. the decrease of revenue contribution of lower profit margin products and closing down retail stores, with low efficiency; but offset by
3. the increase of revenue contribution of XTEP products through e-commerce channels.

The Group continued to monitor closely the retail inventory level and maintained efficient retail sale-through through our comprehensive DRP system which covered approximately all retail stores. The Group's inventory was maintained at healthy level of RMB484.1 million (31 December 2016: RMB459.6 million), the increase was mainly due to increase of raw materials but offset by the decrease of the finished goods.

XTEP continued to focus on the mass market in the PRC providing value-for-money running-wear as well as other sportswear. XTEP brand's positioning in running and lifestyle sports products has strong traction with young consumers and hence improved our revenue contribution from e-commerce channels which accounted for around 20% (2016: mid-teens percentage) of revenue.

During the Period, the XTEP recorded steady demand for functional products mostly related to the running category. On the other hand, the Group adjusted the product mix structure to reduce the proportion of lifestyle sports product category. The Group also consistently applied a prudent approach when accepting product orders from distributors and authorised retailers in each quarter. Prompt responses were taken to adjust the delivery of products to the retail channels according to actual sell-through in retail stores, which were reflected from the DRP 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

| | 2017 | | 2016 | | Changes in gross profit margin (% point) |
|-------------|----------------------------|-------------------------|----------------------------|-------------------------|--|
| | Gross profit (RMB Million) | Gross profit margin (%) | Gross profit (RMB Million) | Gross profit margin (%) | |
| Footwear | 680.3 | 44.3 | 767.8 | 44.2 | +0.1 |
| Apparel | 315.9 | 43.5 | 307.4 | 41.7 | +1.8 |
| Accessories | 19.4 | 39.3 | 23.3 | 38.9 | +0.4 |
| Total | 1,015.6 | 43.9 | 1,098.5 | 43.3 | +0.6 |

The Group's overall gross profit margin increased by 0.6 percentage points to 43.9% (2016: 43.3%). The increase in the overall gross profit margin was mainly due to increases in the proportion of functional products contributing to sales in all three categories. Functional products have higher gross profit margin than lifestyle products.

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

OTHER INCOME AND GAINS

For the period ended 30 June 2017, other income and gains of the Group mainly represented the subsidized income from the PRC Government, which amounted to approximately RMB59.0 million (2016: RMB20.1 million); and the income derived from available-for-sale financial investments and structured deposits was approximately RMB29.7 million (2016: RMB21.9 million), which was mainly derived from the interest income from treasury deposit products.

SELLING AND DISTRIBUTION EXPENSES

For the period ended 30 June 2017, the Group's selling and distribution expenses amounted to approximately RMB385.3 million (2016: RMB320.4 million), representing approximately 16.7% (2016: 12.6%) 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 RMB282.0 million (2016: RMB234.6 million), represented approximately 12.2% (2016: 9.3%) of the Group's total revenue. The increase in advertising and promotional costs was mainly related to:

1. the normalization of advertising and promotional costs to approximately 11% – 13% of the Group's revenue;
2. the increase in professional sportsperson endorsements; and
3. the increase in running events promotion.

The Group's strategy is to continue to reposition XTEP brand as a professional sports brand; and therefore, certain reallocation of marketing and advertising resources to more sports specific related programs and events will be more beneficial to the Group.

GENERAL AND ADMINISTRATIVE EXPENSES

For the period ended 30 June 2017, the Group's general and administrative expenses amounted to approximately RMB246.9 million (2016: RMB242.5 million), which represented approximately 10.7% (2016: 9.6%) of the Group's total revenue. The R&D costs for the Period amounted to approximately RMB64.3 million (2016: RMB58.0 million), representing approximately 2.8% (2016: 2.3%) of the Group's total revenue. The increase in R&D costs was mainly related to:

1. the increase in hiring of international designers with extensive experience in professional sports products;
2. the setting up of the first dedicated running research laboratory in the PRC; and
3. the increase in research for performance products.

The Group will continue to increase R&D costs to improve the performance and quality of products.

Maintaining a prudent approach towards financial management, the Group made a net provision for doubtful debt for the long outstanding account receivables for the Period, which amounted to approximately RMB34.5 million (2016: RMB63.7 million).

NET FINANCE COSTS

The total finance cost of the Group for the Period amounted to approximately RMB12.1 million (2016: RMB6.8 million). The increase was mainly due to the decrease in interest income to RMB23.1 million (2016: RMB26.0 million) as a result of the decrease in time deposits while the bank charge on syndicated loans and the increase in interest expenses on bank loans and discounted bills receivables to RMB41.9 million (2016: 40.6 million) primarily caused by the increase in average balance of bank loans during the Period.

OPERATING PROFIT MARGIN

The operating profit margin for the Period decreased by 2.3 percentage points to 20.7% (2016: 23.0%). This was mainly due to the increase in advertising and promotional costs and R&D costs.

INCOME TAX EXPENSES

Income tax provision of the Group for the Period was approximately RMB131.3 million (2016: RMB172.7 million). The income tax provision included profit tax provision relating to operating companies amounted to approximately RMB123.3 million (2016: RMB151.6 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 RMB8.0 million (2016: RMB7.1 million). The Company holds certain PRC subsidiary companies which have retained profits that can be distributed to the Company in the future, however the accumulated provision for the withholding tax is sufficient for the Period. Therefore, the Company has not made a provision of withholding tax (2016: RMB14.0 million).

PROFIT ATTRIBUTABLE TO ORDINARY EQUITY SHAREHOLDERS AND NET PROFIT MARGIN

For the period ended 30 June 2017, the profit attributable to ordinary equity Shareholders was approximately RMB310.3 million (2016: RMB380.1 million), representing a decrease of approximately 18.4% over the same period last year. The decrease was mainly due to the decrease in revenue and the increase in advertising and promotional costs and R&D costs for the Period.

The Group's net profit margin decreased to 13.4% (2016: 15.0%).

DIVIDEND

The Group maintained a high level of cash and bank balances. The Board continued to improve Shareholders' dividend return and therefore recommended an interim dividend of HK8.5 cents (2016: HK10.5 cents) per Share. The interim dividend payout ratio for the Period amounted to 52.4% (2016: 52.4%).

WORKING CAPITAL CYCLE

For the period ended 30 June 2017, the Group's overall working capital turnover days amounted to 103 days (2016: 57 days).

For the period ended 30 June:

| WORKING CAPITAL TURNOVER DAYS | 2017 Days | 2016 Days | Changes Days |
|---------------------------------------|----------------------|--------------|-------------------------|
| Inventories | 67 | 55 | +12 |
| Trade receivables | 164 | 122 | +42 |
| Trade payables | 128 | 120 | +8 |
| Overall working capital turnover days | 103 | 57 | +46 |

Inventories

| INVENTORIES | 2017 RMB million | 2016 RMB million |
|--|-----------------------------|---------------------|
| Balance at 1 January | 459.6 | 398.4 |
| Balance at 30 June | 484.1 | 463.1 |
| Average balance (note 1) | 471.9 | 430.8 |
| Cost of sales for the period ended 30 June | 1,295.2 | 1,436.1 |
| Average turnover days (note 2) | 67 days | 55 days |

| INVENTORIES | 30 June 2016 RMB million | 31 December 2016 RMB million |
|--------------------|---|------------------------------------|
| Raw materials | 136.1 | 71.2 |
| Work in progress | 53.0 | 63.1 |
| Finished goods | 295.0 | 325.3 |
| Total | 484.1 | 459.6 |

As at 30 June 2017, the Group's balance of inventory was approximately RMB484.1 million (31 December 2016: RMB459.6 million). The increase was mainly due to the increase in raw materials for the preparation of new products. However, the finished goods as compared to 31 December 2016 decreased by approximately 9.3% as the Group maintained stringent stock control through prudent products ordering, flattened distribution channel and real-time retail inventory monitoring management.

Trade Receivables

| TRADE RECEIVABLES | 2017 RMB million | 2016 RMB million |
|--------------------------------------|----------------------------|---------------------|
| Balance at 1 January | 1,916.2 | 1,603.2 |
| Balance at 30 June | 2,224.4 | 1,773.5 |
| Average balance (note 1) | 2,070.3 | 1,688.4 |
| Revenue for the period ended 30 June | 2,310.8 | 2,534.6 |
| Average turnover days (note 2) | 164 days | 122 days |

As of 30 June 2017, the Group's net balance of trade receivables was approximately RMB2,224.4 million (31 December 2016: RMB1,916.2 million). The increase in trade receivables turnover days compared to last year was due to the Group providing temporary support to assist its distributors to open new flagship stores and increase the proportion of their directly owned retail stores. Flagship stores will improve the Group's brand image and the increase of distributor directly owned retail stores will flatten the retail distribution channel by reducing multi-layer distribution, which resulted in significant reduction of inventory level at the retail end.

Trade Payables

| TRADE PAYABLES | 2017 RMB million | 2016 RMB million |
|--|----------------------------|---------------------|
| Balance at 1 January | 896.0 | 895.8 |
| Balance at 30 June | 917.9 | 988.0 |
| Average balance (note 1) | 907.0 | 941.9 |
| Cost of sales for the period ended 30 June | 1,295.2 | 1,436.1 |
| Average turnover days (note 2) | 128 days | 120 days |

As at 30 June 2017, the Group's trade payables balance was approximately RMB917.9 million (31 December 2016: RMB896.0 million). The increase was due to the Group having utilized the credit period of suppliers and extended payment days in order to improve the working capital cycle of the Group. The average trade payable turnover days for the Period improved by 8 days to 128 days (2016: 120 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 utilising working capital facilities, the Group utilised the acceptance and usage of bills receivables. As of 30 June 2017, the bills receivables amounted to approximately RMB121.0 million (31 December 2016: RMB187.0 million) and the number of turnover days of bills receivables was 12 days (2016: 15 days).

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2017, the Group's cash and cash equivalents amounted to approximately RMB3,421.4 million (31 December 2016: RMB2,846.5 million), representing an increase of approximately RMB574.9 million. The net cash and cash equivalents (including fixed deposits held at banks with maturity dates of over three months, pledged deposits, available-for-sale investments and structured deposits, minus bank loans) was approximately RMB2,565.3 million as at 30 June 2017 (as at 31 December 2016: RMB2,743.7 million). This was mainly attributable to:

- (a) Net cash outflow from operating activities for the Period amounted to RMB83.6 million, which was mainly due to the payment of income and withholding tax amounting to RMB161.7 million. The cash generated from operating activities amounting to RMB92.4 million mainly due to the increase in inventory, trade receivables and offset by increase in trade payables;
- (b) Net cash inflow from investing activities amounted to RMB640.9 million, and was mainly due to the decrease in placement of fixed deposits at bank with maturity over three months amounting to RMB220.0 million, the decrease in pledged bank deposits amounting to RMB571.1 million and increase of structured deposits amounting to RMB150.0 million;
- (c) Net cash inflow from financing activities amounted to RMB17.7 million, mainly due to the payment of a final dividend in respect of the 2016 financial year amounting to RMB118.1 million and the net proceeds from bank borrowings amounting to RMB132.5 million.

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

| | Six months ended 30 June | |
|--|--------------------------|---------------------|
| | 2017 RMB million | 2016 RMB million |
| Cash generated from operating activities | 92.4 | 353.3 |
| Income and withholding tax paid | (161.7) | (108.8) |
| Others | (14.3) | (12.1) |
| Net cash flow generated from/(used in) operating activities | (83.6) | 232.4 |
| Decrease/(Increase) in placement of fixed deposits with maturity over three months | 220.0 | (300.0) |
| Decrease/(Increase) in pledged bank deposits | 571.1 | (0.8) |
| Decrease in available-for-sale investments | – | 100.0 |
| Increase in structured deposits | (150.0) | (650.0) |
| Dividends paid | (118.1) | (192.3) |
| Net proceeds from/(repayment of) bank loans | 132.5 | (102.5) |
| Others | 3.0 | – |
| Net increase/(decrease) in cash and cash equivalents | 574.9 | (913.2) |

As at 30 June 2017, the Group's gearing ratio was 19.1% (31 December 2016: 18.4%), which is defined as the total bank borrowings divided by the Group's total assets.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2017, the total assets of the Group amounted to RMB8,440.1 million (31 December 2016: RMB8,173.9 million), represented by non-current assets of RMB946.4 million (31 December 2016: RMB956.9 million) and current assets of RMB7,493.7 million (31 December 2016: RMB7,217.0 million). The total liabilities of the Group amounted to RMB3,156.6 million (31 December 2016: RMB3,151.1 million), represented by non-current liabilities of RMB889.2 million (31 December 2016: RMB121.7 million) and current liabilities of RMB2,267.4 million (31 December 2016: RMB3,029.4 million). The total non-controlling interests of the Group amounted to RMB94.7 million (31 December 2016: RMB69.3 million). Hence, the total net assets of the Group amounted to RMB5,283.5 million (31 December 2016: RMB5,022.8 million), representing an increase of 5.2%. Net assets per Share as at 30 June 2017 were approximately RMB2.38 (31 December 2016: RMB2.26), representing an increase of 5.3%.

INVENTORY PROVISION

For the Period, the Group did not have any inventory provisions.

IMPAIRMENT PROVISION FOR TRADE RECEIVABLES

For the Period, the Group recorded a net impairment provision for trade receivables amounting to approximately RMB34.5 million (2016: RMB63.7 million).

COMMITMENTS

Details of the Group's commitments are stated in note 26 of the financial statements.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any material contingent liabilities.

CHARGE OF ASSETS

Save as disclosed in notes 16 and 19 of the financial statements relating to certain amounts of bank deposits pledged to secure the banking facilities, none of the Group's assets were pledged as at 30 June 2017.

FOREIGN CURRENCY RISKS

The Group mainly operates in the PRC with most of its transactions settled in RMB. The Group's assets and liabilities, and transactions arising from operation are mainly denominated in RMB. Accordingly, it is believed that the Group does not have any material foreign currency risks that would affect 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

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

HUMAN RESOURCES

As at 30 June 2017, the Group had approximately 8,500 employees (31 December 2016: approximately 8,400 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 throughout the six months ended 30 June 2017, 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 four 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 confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions during the six months ended 30 June 2017.

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 six months ended 30 June 2017.

The external auditor has reviewed the interim financial information for the six months ended 30 June 2017 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 six months ended 30 June 2017.

DISCLOSURE OF INTERESTS**Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures**

As at 30 June 2017, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO). They have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Long Positions in the Company

| Name of Director | Nature of interest | Number of Shares interested | Approximate percentage of interest in the issued share capital of the Company⁽¹⁾ |
|-----------------------------|--|------------------------------------|--|
| Mr. Ding Shui Po | Beneficiary of a trust ⁽²⁾ / Beneficial interests ⁽³⁾ | 1,327,375,000 | 59.79% |
| Ms. Ding Mei Qing | Beneficiary of a trust ⁽²⁾ | 1,310,059,500 | 59.01% |
| Mr. Ding Ming Zhong | Beneficial of a trust ⁽²⁾ | 1,310,059,500 | 59.01% |
| Mr. Ho Yui Pok, Eleutherius | Beneficial interests | 2,900,000 ⁽⁴⁾ | 0.13% |
| Mr. Tan Wee Seng | Beneficial interests | 880,000 ⁽⁵⁾ | 0.04% |

Notes:

(1) It was based on 2,220,185,000 issued Shares of the Company as at 30 June 2017.

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

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

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

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

(5) 600,000 of these shares 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.

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

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

Note:

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

Save as disclosed above, as at 30 June 2017, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed above, at no time was the Company, its holding company, or any of its 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 2017, 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 | 59.01% |
| Wan Xing International Holdings Limited | Interests of controlled corporation ⁽²⁾ | 1,310,059,500 | 59.01% |
| Ding Wang Fortune Limited | Interests of controlled corporation ⁽³⁾ | 1,310,059,500 | 59.01% |
| Guan Hong Development Limited | Interests of controlled corporation ⁽³⁾ | 1,310,059,500 | 59.01% |
| Ming Zhong Family Limited | Interests of controlled corporation ⁽³⁾ | 1,310,059,500 | 59.01% |
| UBS Trustees (BVI) Limited | Trustee ⁽³⁾ | 1,310,059,500 | 59.01% |

Notes:

- (1) It was based on 2,220,185,000 issued Shares of the Company as at 30 June 2017.
- (2) Wan Xing International Holdings Limited is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing International Holdings Limited.
- (3) Each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong established a family trust (each, a "Family Trust" and collectively, the "Family Trusts") for the benefit of himself/herself and their respective family members. UBS Trustees (BVI) Limited is the trustee of the Family Trusts and, through its nominee UBS Nominees Limited, holds the entire issued share capital of each of Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited as the respective trust assets under the Family Trusts.
Each of Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing International Holdings Limited, which is in turn held as to 55%, 35% and 10% by Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited, respectively.

Save as disclosed above, as at 30 June 2017, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

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

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

Details of the share options granted under the Pre-IPO Share Option Scheme as at 30 June 2017 are as follows:

| | Outstanding as at 1 January 2017 | Exercised during the six months ended 30 June 2017 | Outstanding as at 30 June 2017 |
|------------------|-------------------------------------|---|-----------------------------------|
| Employees | | | |
| In aggregate | 11,475,000 | – | 11,475,000 |

The total number of shares available for issue under the Pre-IPO Share Option Scheme is 11,475,000, representing approximately 0.5% of the Company's issued share capital as at the date of this interim report.

Save as disclosed above, no options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the six months ended 30 June 2017.

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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Details of the share options granted under the Share Option Scheme as at 30 June 2017 are as follows:

| Name | Date of Grant | Exercise price per Share | Exercise Period ⁽¹⁾⁽²⁾⁽³⁾ | Outstanding as at 1 January 2017 | Granted during the six months ended 30 June 2017 | Cancelled during the six months ended 30 June 2017 | Exercised during the six months ended 30 June 2017 | Lapsed during the six months ended 30 June 2017 | Outstanding as at 30 June 2017 |
|-----------------------------|-----------------|--------------------------|--------------------------------------|----------------------------------|--|--|--|---|--------------------------------|
| Directors | | | | | | | | | |
| Mr. Ho Yui Pok, Eleutherius | 29 July 2009 | HK\$4.11 | 29 July 2010 – 28 July 2019 | 1,500,000 | – | – | – | – | 1,500,000 |
| Mr. Ho Yui Pok, Eleutherius | 28 May 2010 | HK\$6.00 | 28 May 2012 – 27 May 2020 | 1,000,000 | – | – | – | – | 1,000,000 |
| Mr. Tan Wee Seng | 30 March 2010 | HK\$6.13 | 30 March 2011 – 29 March 2020 | 600,000 | – | – | – | – | 600,000 |
| Mr. Tan Wee Seng | 7 December 2011 | HK\$2.35 | 14 January 2012 – 13 January 2021 | 600,000 | – | – | (600,000) | – | – |
| Employees | | | | | | | | | |
| In aggregate | 29 July 2009 | HK\$4.11 | 29 July 2010 – 28 July 2019 | 7,790,000 | – | – | – | – | 7,790,000 |
| In aggregate | 28 January 2010 | HK\$5.01 | 28 January 2011 – 27 January 2020 | 500,000 | – | – | – | – | 500,000 |
| In aggregate | 28 May 2010 | HK\$6.00 | 28 May 2012 – 27 May 2020 | 8,000,000 | – | – | – | – | 8,000,000 |
| In aggregate | 7 December 2011 | HK\$2.35 | 14 January 2012 – 13 January 2021 | 26,745,000 | – | – | (50,000) | – | 26,695,000 |
| Total | | | | 46,735,000 | – | – | (650,000) | – | 46,085,000 |

The total number of shares available for issue under the Share Option Scheme is 46,085,000, representing 2.1% of the Company's issued share capital as at the date of this interim report.

Save as disclosed above, during the six months ended 30 June 2017, 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\$3.1.

Further details of the Pre-IPO Share Option Scheme and 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 at the date of this report, no Share was held in trust under the Scheme.

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 9 January 2014, the Company as borrower entered into a facility agreement (the “**2014 Facility Agreement**”) with a consortium of 11 banks arranged by Hang Seng Bank Limited (“**HASE**”) as co-ordinator, a mandated lead arranger and facility agent, pursuant to which a 3-year dual currency term loan facility in the principal amount of US\$92,000,000 and HK\$452,400,000 (equivalent to approximately HK\$1,170,000,000 in aggregate) (the “**2014 Facility**”) was made available to the Company on the terms and conditions stated therein.

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

The Facilities are guaranteed by certain subsidiaries of the Company.

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

- (a) Mr. Ding Shui Po will remain as the chairman of the Board;
- (b) Mr. Ding Shui Po will maintain control over the management and business of the Group;
- (c) Mr. Ding Shui Po and Ms. Ding Mei Qing (the “**Majority Shareholders**”) collectively will continue to own, directly or indirectly, at least 40% of the beneficial shareholding, carrying at least 40% of the voting rights in the Company, free from any security; or
- (d) the Majority Shareholders collectively will remain to be the single largest shareholder of the Company.

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

As at 30 June 2017 and as at the date of this report, Mr. Ding Shui Po was an executive director, the chairman and a controlling shareholder of the Company. Ms. Ding Mei Qing was an executive director and a controlling shareholder of the Company. Mr. Ding Shui Po and Ms. Ding Mei Qing collectively held indirectly approximately 59.01% of the issued share capital of the Company. Mr. Ding Shui Po also had personal beneficial interests in approximately 0.78% of the issued share capital of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2017

| | Notes | Six months ended 30 June | |
|--|-------|--------------------------------|--------------------------------|
| | | 2017 RMB'000 (Unaudited) | 2016 RMB'000 (Unaudited) |
| REVENUE | 5 | 2,310,791 | 2,534,584 |
| Cost of sales | | (1,295,208) | (1,436,072) |
| Gross profit | | 1,015,583 | 1,098,512 |
| Other income and gains | 5 | 95,749 | 47,752 |
| Selling and distribution expenses | | (385,286) | (320,434) |
| General and administrative expenses | | (246,920) | (242,480) |
| Operating profit | 6 | 479,126 | 583,350 |
| Net finance costs | 7 | (12,149) | (6,843) |
| PROFIT BEFORE TAX | | 466,977 | 576,507 |
| Income tax expense | 8 | (131,266) | (172,653) |
| PROFIT FOR THE PERIOD | | 335,711 | 403,854 |
| Attributable to: | | | |
| Ordinary equity holders of the Company | | 310,308 | 380,066 |
| Non-controlling interests | | 25,403 | 23,788 |
| | | 335,711 | 403,854 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | 10 | | |
| Basic | | RMB13.98 cents | RMB17.25 cents |
| Diluted | | RMB13.94 cents | RMB17.12 cents |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2017

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2017 RMB'000 (Unaudited) | 2016 RMB'000 (Unaudited) |
| PROFIT FOR THE PERIOD | 335,711 | 403,854 |
| OTHER COMPREHENSIVE INCOME/(EXPENSE) | | |
| Other comprehensive income/(expense) may be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences on translation of financial statements of operations outside Mainland China | 26,785 | (22,602) |
| Other comprehensive income/(expense) for the period, net of tax | 26,785 | (22,602) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 362,496 | 381,252 |
| Attributable to: | | |
| Ordinary equity holders of the Company | 337,093 | 357,598 |
| Non-controlling interests | 25,403 | 23,654 |
| | 362,496 | 381,252 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017

| | Notes | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|--|-------|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 615,298 | 618,021 |
| Prepaid land lease payments | | 220,733 | 226,343 |
| Deposits for acquisition of land use rights | 13 | – | 10,467 |
| Intangible assets | | 6,495 | 5,133 |
| Available-for-sale investments | | 82,000 | 82,000 |
| Deposits | 14 | 21,924 | 14,915 |
| Total non-current assets | | 946,450 | 956,879 |
| CURRENT ASSETS | | | |
| Inventories | 11 | 484,088 | 459,575 |
| Trade receivables | 12 | 2,224,352 | 1,916,209 |
| Bills receivables | 12 | 121,000 | 186,950 |
| Prepayments, deposits and other receivables | 14 | 481,946 | 407,785 |
| Tax recoverable | | 3,185 | 1,240 |
| Structured deposits | 15 | 150,000 | – |
| Pledged bank deposits | 16 | 227,655 | 798,770 |
| Time deposits | 16 | 380,000 | 600,000 |
| Cash and cash equivalents | 16 | 3,421,440 | 2,846,532 |
| Total current assets | | 7,493,666 | 7,217,061 |
| CURRENT LIABILITIES | | | |
| Trade payables | 17 | 917,874 | 896,052 |
| Deposits received, other payables and accruals | 18 | 455,996 | 543,661 |
| Interest-bearing bank borrowings | 19 | 821,654 | 1,501,581 |
| Tax payable | | 71,851 | 88,187 |
| Total current liabilities | | 2,267,375 | 3,029,481 |
| NET CURRENT ASSETS | | 5,226,291 | 4,187,580 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 6,172,741 | 5,144,459 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | 19 | 792,099 | – |
| Deferred tax liabilities | 20 | 97,113 | 109,277 |
| Deferred subsidies | | – | 12,420 |
| Total non-current liabilities | | 889,212 | 121,697 |
| NET ASSETS | | 5,283,529 | 5,022,762 |
| EQUITY | | | |
| Equity attributable to ordinary equity holders of the Company | | | |
| Share capital | 21 | 19,578 | 19,572 |
| Reserves | 22 | 5,169,234 | 4,933,876 |
| Non-controlling interests | | 5,188,812 | 4,953,448 |
| Total equity | | 5,283,529 | 5,022,762 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2017

SIX MONTHS ENDED 30 JUNE 2017 (UNAUDITED)

| Attributable to ordinary equity holders of the Company | | | | | | | | | | | | |
|--|---------------|-----------------------|-----------------|------------------------|----------------|----------------------|------------------------------|------------------|----------------|-----------|---------------------------|--------------|
| Reserves | | | | | | | | | | | | |
| | Share capital | Share premium account | Capital reserve | Statutory surplus fund | Treasury share | Share option reserve | Exchange fluctuation reserve | Retained profits | Total reserves | Total | Non-controlling interests | Total equity |
| Notes | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2017 | 19,572 | 250,628 | 118,600 | 583,669 | (120,447) | 91,699 | (122,670) | 4,132,397 | 4,933,876 | 4,953,448 | 69,314 | 5,022,762 |
| Total comprehensive income for the period | - | - | - | - | - | - | 26,785 | 310,308 | 337,093 | 337,093 | 25,403 | 362,496 |
| Equity-settled share award arrangement | 24 | - | - | - | 15,030 | - | - | - | 15,030 | 15,030 | - | 15,030 |
| 2016 final and special dividends declared and paid | 9(b) | - | - | - | - | - | - | (118,094) | (118,094) | (118,094) | - | (118,094) |
| Exercise of share options | 23 | 6 | 1,701 | - | - | (372) | - | - | 1,329 | 1,335 | - | 1,335 |
| At 30 June 2017 | 19,578 | 252,329 | 118,600 | 583,669 | (105,417) | 91,327 | (95,885) | 4,324,611 | 5,169,234 | 5,188,812 | 94,717 | 5,283,529 |

SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

| Attributable to ordinary equity holders of the Company | | | | | | | | | | | | |
|--|---------------|-----------------------|-----------------|------------------------|----------------|----------------------|------------------------------|------------------|----------------|-----------|---------------------------|--------------|
| Reserves | | | | | | | | | | | | |
| | Share capital | Share premium account | Capital reserve | Statutory surplus fund | Treasury share | Share option reserve | Exchange fluctuation reserve | Retained profits | Total reserves | Total | Non-controlling interests | Total equity |
| Notes | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2016 | 19,354 | 177,107 | 118,600 | 520,915 | (120,447) | 104,654 | (27,609) | 4,059,368 | 4,832,588 | 4,851,942 | 19,771 | 4,871,713 |
| Total comprehensive income/(expense) for the period | - | - | - | - | - | - | (22,468) | 380,066 | 357,598 | 357,598 | 23,654 | 381,252 |
| 2015 final and special dividends declared and paid | 9(b) | - | - | - | - | - | - | (192,827) | (192,827) | (192,827) | - | (192,827) |
| Exercise of share options | 23 | 121 | 37,594 | - | - | (7,918) | - | - | 29,676 | 29,797 | - | 29,797 |
| Release of reserves upon lapse of share options | - | - | - | - | - | (1,606) | - | 1,606 | - | - | - | - |
| Capital contribution from a non-controlling interest | - | - | - | - | - | - | - | - | - | - | 4,900 | 4,900 |
| At 30 June 2016 | 19,475 | 214,701 | 118,600 | 520,915 | (120,447) | 95,130 | (50,077) | 4,248,213 | 5,027,035 | 5,046,510 | 48,325 | 5,094,835 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2017

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2017 RMB'000 (Unaudited) | 2016 RMB'000 (Unaudited) |
| Operating activities: | | |
| Cash from operations | 92,373 | 353,319 |
| Income tax paid | (161,711) | (108,766) |
| Others | (14,306) | (12,157) |
| NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES | (83,644) | 232,396 |
| NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES⁽ⁱ⁾ | 640,933 | (880,129) |
| NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES⁽ⁱⁱ⁾ | 17,684 | (265,497) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | 574,973 | (913,230) |
| Cash and cash equivalents at beginning of period | 2,846,532 | 3,607,000 |
| Effect of foreign exchange rate changes, net | (65) | 26,528 |
| Cash and cash equivalents at end of period | 3,421,440 | 2,720,298 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and cash equivalents as stated in the condensed consolidated statement of financial position | 3,421,440 | 2,720,298 |

The accompanying notes form part of these interim financial statements.

- (i) Net cash flows from/(used in) investing activities for the period include decrease in fixed deposits held at banks with maturity over three months of RMB220,000,000 (2016: increase of fixed deposit of RMB300,000,000), increase in structured deposits of RMB150,000,000 (2016: RMB650,000,000), dividend and net income derived from available-for-sale investments and structured deposits of RMB31,167,000 (2016: RMB21,945,000) and decrease in pledged deposits of RMB571,115,000 (2016: increase in pledged deposit of RMB762,000).
- (ii) Net cash flows from/(used in) financing activities for the period include the dividends paid to equity shareholders of the Company of RMB118,094,000 (2016: RMB192,827,000), net proceeds from bank borrowings of RMB132,540,000 (2016: net repayment of bank borrowings of RMB102,465,000), net proceeds from exercise of share options of RMB1,336,000 (2016: RMB29,797,000).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2017

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 Suite 2401-02, 24th floor, Shui On Centre, 6-8 Harbour Road, Wanchai, 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

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 2016.

The condensed consolidated interim financial statements have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. 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 2016 except as described below. In the current period, the Group has applied, for the first time, the following revised standards (“revised HKFRSs”) issued by the HKICPA which are effective for the Group’s financial year beginning on 1 January 2017.

Amendments to HKAS 7
Amendments to HKAS 12

Disclosure Initiative
Recognition of Deferred Tax Assets for Unrealised Losses

The adoption of the above revised HKFRSs has had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented.

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 2016.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2017

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

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

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

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2017 RMB'000 (Unaudited) | 2016 RMB'000 (Unaudited) |
| Revenue | | |
| Manufacture and sale of sportswear: | | |
| Footwear | 1,534,804 | 1,738,267 |
| Apparel | 726,483 | 736,353 |
| Accessories | 49,504 | 59,964 |
| | 2,310,791 | 2,534,584 |
| Other income and gains | | |
| Subsidy income from the PRC government* | 58,982 | 20,063 |
| Rental income | 1,831 | 1,875 |
| Net income derived from available-for-sale investments and structured deposits | 29,667 | 21,945 |
| Dividend income from an available-for-sale investment | 1,500 | – |
| Others | 3,769 | 3,869 |
| | 95,749 | 47,752 |
| | 2,406,540 | 2,582,336 |

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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6. OPERATING PROFIT

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

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2017 RMB'000 (Unaudited) | 2016 RMB'000 (Unaudited) |
| Advertising and promotional costs | 281,960 | 234,606 |
| Provision for impaired trade receivables, net | 34,521 | 63,680 |
| Research and development costs* | 64,269 | 57,981 |
| Staff costs | 243,975 | 238,248 |
| Depreciation | 26,252 | 25,759 |
| Amortisation of intangible assets | 496 | 347 |
| Amortisation of prepaid land lease payments | 2,669 | 2,627 |
| Share award scheme expense | 15,030 | – |
| Write-back of long-aged prior year accruals | – | (36,247) |

* The research and development costs for the six months ended 30 June 2017 include RMB39,021,000 (six months ended 30 June 2016: RMB36,749,000) relating to the depreciation of research and development centres and staff costs for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses.

7. NET FINANCE COSTS

An analysis of net finance costs is as follows:

| | Six months ended 30 June | |
|--|--------------------------------|--------------------------------|
| | 2017 RMB'000 (Unaudited) | 2016 RMB'000 (Unaudited) |
| Interest expense on bank loans | (16,076) | (12,738) |
| Interest expense on discounted bills receivables | (21,301) | (25,397) |
| Amortisation of bank charges on syndicated loans | (4,556) | (2,457) |
| Bank interest income | 23,071 | 25,978 |
| Unrealised gain on interest rate swaps* | 6,713 | 7,771 |
| | (12,149) | (6,843) |

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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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 2017 (six months ended 30 June 2016: 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 | |
|---------------------------------|--------------------------------|--------------------------------|
| | 2017 RMB'000 (Unaudited) | 2016 RMB'000 (Unaudited) |
| Current tax – Overseas | | |
| Charge for the period | 123,283 | 151,599 |
| Underprovision in prior periods | 7,983 | 7,054 |
| Deferred tax | 131,266 | 158,653 |
| | – | 14,000 |
| | 131,266 | 172,653 |

9. DIVIDENDS

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

| | Six months ended 30 June | |
|--|--------------------------------|--------------------------------|
| | 2017 RMB'000 (Unaudited) | 2016 RMB'000 (Unaudited) |
| Interim dividend – HK8.5 cents (six months ended 30 June 2016: HK10.5 cents) per ordinary share | 162,686 | 199,275 |

At the board meeting held on 23 August 2017, the board of directors declared and approved an interim dividend of HK8.5 cents (equivalent to approximately RMB7.3 cents) per ordinary share, totalling approximately HK\$188,716,000 (equivalent to approximately RMB162,686,000), for the six months ended 30 June 2017. This interim dividend has not been recognised as a liability in the condensed consolidated financial statements.

At the board meeting held on 22 August 2016, the board of directors declared and approved an interim dividend of HK10.5 cents (equivalent to approximately RMB9.0 cents) per ordinary share, totalling approximately HK\$232,526,000 (equivalent to approximately RMB199,275,000), for the six months ended 30 June 2016. This interim dividend has not been recognised as a liability in the condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2017

9. DIVIDENDS (continued)

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

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2017 RMB'000 (Unaudited) | 2016 RMB'000 (Unaudited) |
| Dividends paid during the period: | | |
| Final dividends in respect of the financial year ended: | | |
| 31 December 2016 – HK3.25 cents per ordinary share | 63,968 | – |
| 31 December 2015 – HK7.0 cents per ordinary share | – | 128,551 |
| Special dividends in respect of the financial year ended: | | |
| 31 December 2016 – HK2.75 cents per ordinary share | 54,126 | – |
| 31 December 2015 – HK3.5 cents per ordinary share | – | 64,276 |
| | 118,094 | 192,827 |

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

(a) Basic earnings per share

The calculation of the basic earnings per share amount for the six months ended 30 June 2017 was based on the profit for the period attributable to ordinary equity holders of the Company of RMB310,308,000 (six months ended 30 June 2016: RMB380,066,000) and the weighted average number of ordinary shares in issue during the six months ended 30 June 2017 of 2,219,783,000 (six months ended 30 June 2016: 2,203,288,000), as adjusted to exclude the shares held under the share award scheme of the Company (note 24).

(b) Diluted earnings per share

The calculation of the diluted earnings per share amount for the six months ended 30 June 2017 is based on the profit for the period attributable to ordinary equity holders of the Company of RMB310,308,000 (six months ended 30 June 2016: RMB380,066,000). The weighted average number of ordinary shares of 2,226,705,000 (six months ended 30 June 2016: 2,220,359,000) used in the calculation is the weighted average number of 2,219,783,000 (six months ended 30 June 2016: 2,203,288,000) ordinary shares in issue during that period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options into 6,922,000 (six months ended 30 June 2016: 17,071,000) ordinary shares during that period.

11. INVENTORIES

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|------------------|---|---|
| Raw materials | 136,143 | 71,191 |
| Work in progress | 53,005 | 63,073 |
| Finished goods | 294,940 | 325,311 |
| | 484,088 | 459,575 |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2017

12. TRADE AND BILLS RECEIVABLES

| | Notes | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|--|-------|---|---|
| Trade receivables | | 2,768,812 | 2,426,148 |
| Less: provision for impaired receivables | | (544,460) | (509,939) |
| | (a) | 2,224,352 | 1,916,209 |
| Bills receivables | (b) | 121,000 | 186,950 |

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three 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 aged analysis of the Group's trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|-----------------|---|---|
| Within 3 months | 1,170,287 | 1,381,366 |
| 4 to 6 months | 597,476 | 431,884 |
| Over 6 months | 456,589 | 102,959 |
| | 2,224,352 | 1,916,209 |

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

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|-------------------------------|---|---|
| Neither past due nor impaired | 971,675 | 1,201,571 |
| Less than 3 months past due | 466,999 | 341,677 |
| Past due over 3 months | 198,746 | 102,959 |
| | 1,637,420 | 1,646,207 |

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2017

12. TRADE AND BILLS RECEIVABLES (continued)

Notes: (continued)

(a) (continued)

Receivables that were past due but not impaired relate to a number of independent customers that have a good repayment record with the Group or relate to a portion of the receivables expected to be recovered from independent customers. Based on past experience, the directors of the Company are of the opinion that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

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

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|-----------------|---|---|
| Within 3 months | 10,000 | – |
| 4 to 6 months | 111,000 | 186,950 |
| | 121,000 | 186,950 |

None of the above bills receivables is either past due or impaired.

13. DEPOSITS FOR ACQUISITION OF LAND USE RIGHTS

Pursuant to an agreement entered into between the Group and local government authorities on 9 February 2014, the Group has paid RMB62,790,000 (the "Deposit"), in connection with the acquisition in progress with respect to a parcel of land in Fujian Province, the PRC (the "Fujian Land") in prior years.

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

During the six months ended 30 June 2017, the Group has entered into a sales and purchase agreement with the local government authority for acquiring the remaining portion of the Fujian Land at a cash consideration of RMB27,170,000, of which RMB6,718,000 was settled by utilising the Deposits and the remaining balance was settled by cash. The remaining deposits of RMB3,749,000 was utilised for the relevant construction work during the six months ended 30 June 2017.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2017

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|--|---|---|
| Prepayments | 266,971 | 206,493 |
| Deposits and advance payments to suppliers | 164,875 | 158,583 |
| Deposits for construction contracts | 2,590 | 3,296 |
| Other deposits | 8,392 | 9,077 |
| Value added tax ("VAT") recoverable | 33,739 | 24,333 |
| Other receivables | 27,303 | 20,918 |
| | 503,870 | 422,700 |
| Less: Non-current portion | (21,924) | (14,915) |
| | 481,946 | 407,785 |

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

15. STRUCTURED DEPOSITS

The structured deposits are time deposits with fixed maturity periods of six months and interest-bearing at floating rates based on the fluctuation in the London Interbank Offered Rate. The structured deposits are stated at amortised cost as at the end of the reporting period.

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

| | Notes | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|---|-------|---|---|
| Time deposits | | 642,244 | 1,243,152 |
| Cash and bank balances | | 3,386,851 | 3,002,150 |
| | | 4,029,095 | 4,245,302 |
| Less: Current portion of pledged deposits: | | | |
| for short term bank loans | 19 | (214,000) | (785,115) |
| for bank guarantees* | | (13,655) | (13,655) |
| | | (227,655) | (798,770) |
| Less: Time deposits with original maturity of more than three months when acquired | | (380,000) | (600,000) |
| Cash and cash equivalents | | 3,421,440 | 2,846,532 |

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2017

16. TIME DEPOSITS, CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS (continued)

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB3,014,896,000 (2016: RMB2,957,980,000) and RMB996,457,000 (2016: RMB1,243,152,000), respectively. RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day to two years (2016: one day to one year) depending on the immediate cash requirements of the Group, and earn interest at the respective deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

17. TRADE PAYABLES

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

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|-----------------|---|---|
| Within 3 months | 824,074 | 771,755 |
| 4 to 6 months | 23,053 | 68,129 |
| Over 6 months | 70,747 | 56,168 |
| Trade payables | 917,874 | 896,052 |

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

18. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|--------------------------------------|---|---|
| Deposits and advances from customers | 22,272 | 59,755 |
| Other payables | 42,042 | 140,178 |
| VAT payables | 26,141 | 21,214 |
| Derivative financial instruments | – | 6,737 |
| Accruals | 365,541 | 315,777 |
| | 455,996 | 543,661 |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2017

19. INTEREST-BEARING BANK BORROWINGS

| | Notes | 30 June 2017 | | | 31 December 2016 | | |
|-------------------------------------|-------|-------------------------------------|----------|-----------|-------------------------------------|----------|-----------|
| | | 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 +2.2% | 2017 | 148,036 |
| Other bank loans | (b) | HIBOR+1.0% to 1.5% | 2017 | 821,654 | HIBOR+1.0% to 1.5% | 2017 | 1,353,545 |
| | | | | 821,654 | | | 1,501,581 |
| Non-current | | | | | | | |
| Syndicated loans | (a) | HIBOR/LIBOR +1.65% | 2020 | 792,099 | | | – |
| | | | | 1,613,753 | | | 1,501,581 |

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|--|--|--|
| Analysed into: | | |
| Bank loans repayable: | | |
| Within one year and on demand | 821,654 | 1,501,581 |
| In the second year | 344,136 | – |
| In the third to fifth years, inclusive | 447,963 | – |
| | 1,613,753 | 1,501,581 |

Notes:

- (a) The bank loans are 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 RMB569,039,000) (2016: HK\$452,400,000 (equivalent to approximately RMB402,138,000)) and US\$116,000,000 (equivalent to approximately RMB790,075,000) (2016: US\$92,000,000 (equivalent to approximately RMB634,268,000)) as at the end of the reporting period.
- (b) The bank loans are supported by:
- the pledge of certain of the Group's time deposits amounting to RMB214,000,000 (31 December 2016: RMB785,115,000); and
 - corporate guarantees provided by wholly-owned subsidiaries of the Company to the extent of HK\$1,347,243,000 (equivalent to approximately RMB1,177,625,000) (31 December 2016: HK\$1,095,624,000 (equivalent to approximately RMB973,900,000)) as at the end of the reporting period.

As at 30 June 2017, except for the bank loan of RMB460,622,000 (31 December 2016: RMB90,596,000) which was denominated in the United States dollars ("US\$"), all bank borrowings are denominated in Hong Kong dollars.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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20. DEFERRED TAX LIABILITIES

Pursuant to the income tax law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings accrued after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate for the withholding tax is 5% or 10%. In estimating the withholding taxes on dividends expected to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008, the directors have made an assessment based on 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 2017, there were no significant unrecognised deferred tax liabilities (31 December 2016: 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 2017 and 31 December 2016 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 2017

| | 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: 2,220,185,000 ordinary shares of HK\$0.01 each | 22,202 | 19,578 |

At 31 December 2016

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

During the period, the subscription rights attaching to 650,000 (year ended 31 December 2016: 17,550,000) share options granted under the Share Option Scheme (as defined in note 23) were exercised at the subscription price of HK\$2.35 per share. During the year ended 31 December 2016, the subscription rights attaching to 17,550,000 share options granted under the Share Option Scheme and 1,990,000 share options granted under the Pre-IPO Scheme (as defined in note 23) were exercised at the subscription prices of HK\$2.35 and HK\$3.24 per share, respectively. The exercise of the Company's share options resulted in the issue of a total of 650,000 shares (31 December 2016: 19,540,000 shares) of HK\$0.01 (2016: HK\$0.01) each for a total cash consideration before expenses of approximately HK\$1,528,000 (equivalent to approximately RMB1,336,000) (31 December 2016: HK\$47,690,000 (equivalent to approximately RMB42,390,000)). Details of the Company's share option schemes are included in note 23 to the condensed interim financial statements.

30 June 2017

22. RESERVES

The amounts of the Group's reserves and movements therein for the six months ended 30 June 2017 are presented in the condensed consolidated statement of changes in equity.

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

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

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.

The share option reserve comprises fair value of share options granted which are yet to be exercised. The amount will either be transferred to the share premium account when related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

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

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 2016.

As at 30 June 2017, a total of 11,475,000 (31 December 2016: 11,475,000) share options (the "Pre-IPO Share Options") under the Pre-IPO Scheme remained outstanding. During the six months ended 30 June 2017, no share options granted under the Pre-IPO Scheme were exercised (six months ended 30 June 2016: 1,740,000).

At the date of approval of these interim financial statements, the Company had 11,475,000 Pre-IPO Share Options outstanding under the Pre-IPO Scheme, which represented approximately 0.5% of the issued share capital of the Company as at that date.

30 June 2017

23. SHARE OPTION SCHEMES (continued)**(b) Share option scheme**

The Company has also adopted a share option scheme (the “Share Option Scheme”) pursuant to the shareholders’ written resolution passed on 7 May 2008. Further details of the Share Option Scheme are disclosed in the Company’s annual report for the year ended 31 December 2016.

As at 30 June 2017, a total of 46,085,000 (31 December 2016: 46,735,000) share options (the “Share Options”) under the Share Option Scheme remained outstanding. During the six months ended 30 June 2017, the subscription rights attaching to 650,000 (six months ended 30 June 2016: 12,550,000) share options granted under the Share Option Scheme were exercised at the subscription price of HK\$2.35 per share, resulting in the issue of 650,000 additional ordinary shares (six months ended 30 June 2016: 12,550,000) of the Company and additional share capital of approximately HK\$7,000 (equivalent to approximately RMB6,000) (six months ended 30 June 2016: HK\$126,000 (equivalent to approximately RMB106,000)) and share premium account of approximately HK\$1,521,000 (equivalent to approximately RMB1,329,000) (six months ended 30 June 2016: HK\$29,367,000 (equivalent to approximately RMB24,909,000)), before related issuance expenses.

At the date of approval of these interim financial statements, the Company had 46,085,000 Share Options outstanding under the Share Option Scheme, which represented approximately 2.1% 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 means to recognise the contributions by the key management personnel and to give incentives in order to retain them for their continual operation and development and to attract suitable personnel for further development of the Group (the “Share Award Scheme”).

The Share Award Scheme is valid and effective for 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. They will be issued to the Trustee under general mandates granted by shareholders of the Company to the directors at general meetings of the Company from time to time, both of which will be out from cash contributed by the Group. The Trustee will hold the Awarded Shares in trust for the awardees until such shares are vested with the awardees in accordance with the provisions of the Share Award Scheme. The Trustee shall not exercise the voting rights in respect of any shares held under the trust.

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

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

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

From the adoption of the Share Award Scheme in 2014 to 31 December 2015, no Awarded Shares has been granted. In 2015, the Company repurchased 50,000,000 shares of HK\$0.01 at HK\$3.052 per share at an aggregate consideration of HK\$152,600,000 (equivalent to approximately RMB120,447,000) for the Share Award Scheme.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2017

24. SHARE AWARD SCHEME (continued)

During the six months ended 30 June 2017, the Board resolved to grant 50,000,000 Awarded Shares to certain selected participants, who are not a director, chief executive or substantial shareholder of the Company, nor an associate (as defined under the Listing Rules) of any of them at nil consideration, resulted in the recognition of share award scheme expense of RMB15,030,000 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 RMB |
|-----------------|----------------------------------|------------------------------------|------------------------------|
| 10 January 2017 | 5,000,000 | 10 January 2017 to 10 January 2018 | 3.21 |
| 10 January 2017 | 7,500,000 | 10 January 2017 to 10 January 2019 | 3.21 |
| 10 January 2017 | 10,000,000 | 10 January 2017 to 10 January 2020 | 3.21 |
| 10 January 2017 | 10,000,000 | 10 January 2017 to 10 January 2021 | 3.21 |
| 10 January 2017 | 17,500,000 | 10 January 2017 to 10 January 2022 | 3.21 |

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

25. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its production facilities, office premises and staff quarters under operating lease arrangements. Leases for these properties are negotiated for terms ranging from two to ten years (2016: two to ten years).

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

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|---|--|--|
| Within one year | 5,361 | 6,531 |
| In the second to fifth years, inclusive | 15,733 | 16,240 |
| After five years | 10,360 | 12,162 |
| | 31,454 | 34,933 |

30 June 2017

26. COMMITMENTS

In addition to the operating lease commitments detailed in note 25 above, the Group had the following commitments at the end of the reporting period:

| | 30 June 2017 RMB'000 (Unaudited) | 31 December 2016 RMB'000 (Audited) |
|--|---|---|
| Contracted for commitments in respect of: | | |
| – construction of new buildings | 49,908 | 51,841 |
| – construction of new manufacturing facilities | 16,635 | 15,901 |
| – advertising and promotional expenses | 245,049 | 227,665 |
| – software | 100 | 100 |
| – acquisition for land use rights | – | 20,452 |
| | 311,692 | 315,959 |

27. FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY

At 30 June 2017, the Group discounted certain commercial bills receivable with a carrying amount in aggregate of approximately RMB710,700,000 (31 December 2016: bank and commercial bills receivable of RMB1,167,900,000) to a bank (31 December 2016: three banks) in the PRC (the “Derecognised Bills”) for cash. The Derecognised Bills had a remaining maturity from approximately seventeen days to six months (2016: twenty-five days to six months) at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC bank and/or the issuers of bills receivable default (the “Continuing Involvement”). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair value of the Group’s Continuing Involvement in the Derecognised Bills is not significant.

During the six months ended 30 June 2017, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills (six months ended 30 June 2016: Nil). No gains or losses were recognised from the Continuing Involvement, both during the period or cumulatively. The discount of bills receivable of RMB710,700,000, RMB2,460,200,000 and RMB1,292,300,000 has been made near the period ended 30 June 2017, the year ended 31 December 2016 and the period ended 30 June 2016, respectively.

28. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

30 June 2017

28. 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 the non-current time deposits and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 30 June 2017 was assessed to be insignificant.

Fair value hierarchy

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

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

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

As at 30 June 2017 and 31 December 2016, the financial instruments measured at fair value held by the Group comprised derivative financial instruments and were classified as Level 2.

During the six months ended 30 June 2017, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (30 June 2016: Nil).

29. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 23 August 2017.

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 57 to 77 which comprise the condensed consolidated statement of financial position of Xtep International Holdings Limited and its subsidiaries as at 30 June 2017, 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 other 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

23 August 2017

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 |
| “ASP” | Average Selling Price |
| “Authorised retailers” | Authorised sellers of XTEP products, who purchase these products from the Group’s Exclusive Distributors |
| “B2C” | Business-to-Consumer |
| “Board” | The Board of Directors of the Company |
| “Business Day” | Any day on which the Hong Kong Stock Exchange is open for the business of dealing in securities |
| “CAGR” | Compound annual growth rate |
| “CCFL” | China College Futsal League |
| “Company” | Xtep International Holdings Limited |
| “Corporate Governance Code” | The Corporate Governance Code as set out in Appendix 14 of the Listing Rules |
| “CUFL” | China University Football League |
| “Director(s)” | The director(s) of the Company |
| “DRP System” | Distribution Resource Planning System |
| “Euromonitor” | Euromonitor International |
| “Exclusive Distributors” | Distributors which only sells XTEP products, and the Group sells products exclusively to them within their designated region |
| “GDP” | Gross domestic product |
| “Group” | The Company and its subsidiaries |
| “Group Success” | Group Success Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 23 February 2007, and is wholly owned by Wan Xing International Holdings Limited, which is in turn ultimately owned as to 55% by Mr. Ding Shui Po’s family trust, 35% by Ms. Ding Mei Qing’s family trust and 10% by Mr. Ding Ming Zhong’s family trust |
| “HK\$” and “HK cents” | Hong Kong dollars and cents respectively, the lawful currency of Hong Kong |
| “Hong Kong” | The Hong Kong Special Administrative Region of the PRC |
| “Hong Kong Stock Exchange”, “Stock Exchange” and “HKSE” | The Stock Exchange of Hong Kong Limited |

GLOSSARY

| | |
|--------------------------------------|--|
| “IAAF” | International Association of Athletics Federations |
| “IMF” | International Monetary Fund |
| “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 2017 |
| “POS” | Points of sale |
| “PRC” or “China” or “Mainland China” | The People’s Republic of China excluding, for the purpose of this report, Hong Kong, Macau and Taiwan |
| “Pre-IPO Share Option Scheme” | The share option scheme for employees of the Group approved and adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed “Pre-IPO Share Option Scheme” in Appendix VI to the prospectus of the Company dated 21 May 2008 |
| “R&D” | Research and development |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “SFO” | Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong |
| “Share(s)” | Ordinary share(s) of HK\$0.01 each in the share capital of the Company |
| “Share Option Scheme” | The share option scheme adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed “Share Option Scheme” in Appendix VI to the prospectus of the Company dated 21 May 2008 |
| “Shareholder(s)” | Shareholder(s) of the Company |
| “U.S.” | United States of America |
| “US\$” | U.S. dollars, the lawful currency of the U.S. |
| “XTEP” | Xtep brand |
| “XTEP Kids” | The children’s sportswear business of the Group |



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