



XTEP INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

SEHK stock code: 1368



Interim Report 2020





XTEP

A GLOBAL SPORTSWEAR COMPANY

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ABOUT THE GROUP

Xtep International Holdings Limited (SEHK stock code: 1368) is a leading multi-brand sportswear company listed on the Main Board of the Hong Kong Stock Exchange on 3 June 2008. The Group engages mainly in the design, development, manufacturing, sales, marketing and brand management of sports products, including footwear, apparel and accessories. Established since 2001, its own signature brand "Xtep" is a leading professional sports brand with an extensive distribution network of over 6,100 stores covering 31 provinces, autonomous regions and municipalities across the PRC and overseas. In 2019, the Group has further diversified its brand portfolio which now includes four internationally acclaimed brands, namely K-Swiss, Palladium, Saucony and Merrell.

INTERIM RESULTS AT A GLANCE

Financial and Operational Overview

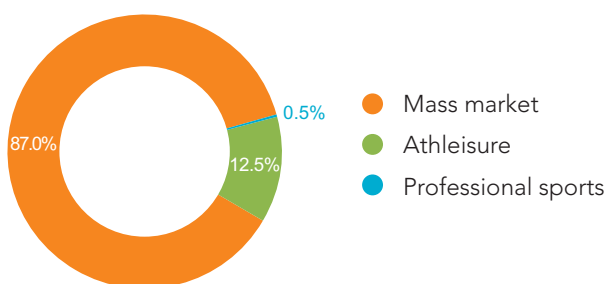
Revenue

RMB 3,679 m

^ 10%



Revenue by brand nature¹



Note 1: Signature brands under different brand nature are as follows:

Mass market – Xtep

Athleisure – K-Swiss, Palladium

Professional sports – Saucony, Merrell

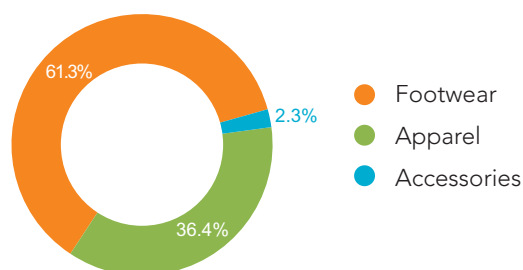
Operating profit

RMB 501 m

∨ 30%



Revenue by product category



Profit attributable to ordinary equity holders

RMB 248 m

∨ 47%



Interim dividend per Share

HK 6.5 cents

(Payout ratio: 60.0%)



Net cash and cash equivalents

RMB 2,163 m

(31 December 2019: RMB2,132 m)





Worldwide

retail and distribution network



FIVE-YEAR FINANCIAL SUMMARY

For the six months ended 30 June

	2020	2019	2018	2017	2016
Profitability data (RMB million)					
Revenue	3,679.1	3,356.9	2,729.0	2,310.8	2,534.6
Gross profit	1,489.1	1,497.3	1,193.1	1,015.6	1,098.5
Operating profit	500.7	717.3	592.0	479.1	583.4
Profit attributable to ordinary equity holders	247.9	463.0	375.2	310.3	380.1
Basic earnings per Share (RMB cents) (Note 1)	10.10	20.19	17.26	13.98	17.25
Profitability ratios (%)					
Gross profit margin	40.5	44.6	43.7	43.9	43.3
Operating profit margin	13.6	21.4	21.7	20.7	23.0
Net profit margin	6.7	13.8	13.7	13.4	15.0
Effective tax rate	39.6	32.0	31.8	28.1	29.9
Return on average total equity holders' equity (annualized) (Note 2)	7.1	15.2	14.1	12.2	15.3
Operating ratios (as a percentage of revenue) (%)					
Advertising and promotional costs	10.8	13.4	12.3	12.2	9.3
Staff costs	12.4	10.8	10.7	10.6	9.4
R&D costs	2.8	2.4	2.6	2.8	2.3

As at 30 June

	2020	2019	2018	2017	2016
Assets and liabilities data (RMB million)					
Non-current assets	3,628.2	1,438.6	1,117.7	946.4	1,090.6
Current assets	9,310.9	9,238.7	8,320.1	7,493.7	7,140.2
Current liabilities	3,810.9	3,458.3	3,091.9	2,267.4	2,979.5
Non-current liabilities	2,041.7	320.7	830.1	889.2	156.5
Non-controlling interests	88.1	64.5	108.3	94.7	48.3
Shareholders' equity	6,998.4	6,833.8	5,407.4	5,188.8	5,046.5
Asset and working capital data					
Current asset ratio	2.4	2.7	2.7	3.3	2.4
Gearing ratio (%) (Note 3)	18.1	16.7	21.0	19.1	18.9
Net asset value per Share (RMB) (Note 4)	2.81	2.76	2.46	2.38	2.31
Average inventory turnover days (days) (Note 5)	94	81	104	67	55
Average trade receivables turnover days (days) (Note 6)	137	107	113	164	122
Average trade payables turnover days (days) (Note 7)	142	90	134	128	120
Overall working capital days (days)	89	98	83	103	57

NOTES:

- The calculation of basic earnings per Share is based on the profit attributable to ordinary equity holders of the Company divided by the weighted average number of ordinary shares in issue during the relevant period.
- Return on average total equity holders' equity is equal to the profit attributable to ordinary equity holders of the Company for the period divided by the average of opening and closing total equity holders' equity.
- 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.
- The calculation of net asset value per Share is based on the total number of Shares in issue at the end of the period.
- Average inventory turnover days is equal to the average of opening and closing inventory divided by costs of sales and multiplied by 183 days.
- Average trade receivables turnover days is equal to the average of opening and closing trade receivables divided by revenue and multiplied by 183 days.
- Average trade payables turnover days is equal to the average of opening and closing trade payables divided by cost of sales and multiplied by 183 days.

CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Independent Non-executive Directors

Tan Wee Seng
Gao Xian Feng
Bao Ming Xiao

Board Committees

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Company Secretary

Yeung Lo Bun, FCPA

Authorized Representatives

Ding Shui Po
Yeung Lo Bun

Registered Office

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

Principal Place of Business in Hong Kong

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

Head Office in the PRC

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

Legal Adviser as to Hong Kong Laws

Loeb & Loeb LLP

Auditor

Ernst & Young

Cayman Islands Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Bankers

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

Company Website

www.xtep.com.hk

CHAIRMAN'S STATEMENT



Dear Shareholders,

Looking back at the first half of 2020, we faced unprecedented challenges created by the coronavirus pandemic. When the outbreak started to spread across Mainland China within January 2020, the Chinese government implemented containment measures to curb the pandemic. Retail stores were temporarily closed. Manufacturing operations and public transportation in Mainland China were also suspended to prevent the transmission of the virus. These precautionary efforts have proved effective, enabling our branded offline stores, in-house production facilities and offices to gradually resume operations starting from late February. In the aftermath of the coronavirus pandemic, Mainland China's total retail sales of consumer goods declined by 19.0% year on year in the first quarter in 2020¹. Yet, the sportswear sector and the core Xtep brand demonstrated resilience with noticeable signs of recovery manifested in the second quarter of 2020.

The sudden outbreak of the coronavirus also caused disruption in the rest of the world, especially in the Americas and Europe, forcing governments in those continents to implement lockdown measures that brought much of their economic activities to a halt. As a result, the overseas business operations of the newly-acquired brands were inevitably affected. Although numerous European countries and the US outlined plans for phased reopening of their economies, the global economic outlook amid the pandemic has remained uncertain as the number of confirmed coronavirus cases worldwide continued to reach new peaks in the first half of 2020.

PERFORMANCE REVIEW

The coronavirus pandemic had an adverse effect on the Group's financial performance in the first half of 2020. Revenue of the core Xtep brand decreased by 4.6% to RMB3,201.0 million (1H2019: RMB3,356.9 million). Incorporating the revenue contributions from the acquisition and joint venture during the first half of 2020, the Group's revenue reached RMB3,679.1 million. The gross profit margin of the core Xtep brand was 40.5% (1H2019: 44.6%). Operating profit of the Group declined by 30.2% to RMB500.7 million (1H2019: RMB717.3 million). Profit attributable to ordinary equity holders of the Company was recorded at RMB247.9 million (1H2019: RMB463.0 million). Basic earnings per Share amounted to RMB10.1 cents (1H2019: RMB20.2 cents). The Board has declared an interim dividend of HK6.5 cents (1H2019: HK12.5 cents) per Share, with an option to receive scrip shares in lieu of cash, which is equivalent to a payout ratio of 60.0% (1H2019: 59.3%).

¹ Source: National Bureau of Statistics of China

ALL HANDS ON DECK TO RIDE OUT THE HARDSHIP

In response to the pandemic, we proactively diverged our sales to our e-commerce platforms of our core Xtep brand and executed various cost control initiatives to alleviate its impact to our business. Since the early stage of the outbreak in Mainland China, we resorted to new cost-effective sales channels to counteract the reduction of foot traffic in the offline retail stores. Our distributors and Xtep's employees were encouraged to reach out to customers through private traffic such as mini programs, group chats and personal social media accounts, etc. Sales from private traffic contributed eminently to the retail sales of the core Xtep brand in the first quarter of 2020. Retail sales in the second quarter picked up at a faster pace than in the first quarter of 2020.

The pandemic also delayed our store opening plans for Saucony and Merrell. We were pleased to celebrate Saucony's grand opening in Shanghai on 6 June 2020. The new store has exhibited our efforts in areas including marketing, product innovation, product quality improvement and supply chain integration since the establishment of the joint venture in March 2019. The marketing campaign for the grand opening generated considerable attention in the market and successfully increased its brand awareness. More store openings for Saucony and Merrell are in the pipeline and we look forward to delivering more enjoyable customer experiences in the second half of 2020.

Moreover, the progress of the pragmatic five-year development plan for K-Swiss and Palladium was not hindered by the coronavirus pandemic. While the Group continues to conduct the rebranding process for K-Swiss in branding, product and marketing strategies in preparation for its new launch in Mainland China in the future, retail network optimization is currently underway. In July and August 2020, the Group opened two new K-Swiss stores in K11 Art Mall and tmtplaza in Hong Kong, respectively. As for Palladium, the Group is striving to kick off the self-operated store openings in Mainland China this year. In Hong Kong, favorable rental offers amidst the pandemic facilitate the brand to open its stores in prime shopping malls with higher customer traffic, such as Harbour City, which can drive better sales.

OUTLOOK

Looking ahead, the Group believes that the pandemic will further increase the health awareness among Chinese people, and thus we remain positive about our long-term business development and the prospects of the sportswear industry in Mainland China. Meanwhile, consolidation in the sportswear market in Mainland China has intensified in the aftermath of the pandemic. We are confident that we are well-placed to benefit from the market consolidation with our strong net cash position and solid business foundation. We anticipate that the Group's business should gradually improve in the second half of 2020 and 2021.

Along with uncertainties, the pandemic also presents opportunities. Not only has it allowed us to focus on outlining a detailed plan for the supply chain consolidation of the core Xtep brand and four new brands in aspects ranging from material sourcing and suppliers to manufacturing facilities and logistics; it has also presented us with the chance to better improve our product innovation and optimize our retail network during the hardship. We are committed to increasing our store productivity as well as uplifting our brand image with more innovative products and store openings in higher-tier cities and shopping malls.

I would like to take this opportunity to express my gratitude to every member of staff for their unity, perseverance and loyalty during this difficult time. Their contributions have laid a solid foundation for the Group to thrive following the pandemic. I would also like to thank our Board members, management team and business partners for their support and trust. Lastly, I would like to extend my deepest gratitude to our shareholders who have walked side by side with the Group for their recognition. We continue to remain fully committed to leading the Group to a more prosperous future and creating higher return for all shareholders.

Mr. Ding Shui Po
Chairman

Hong Kong, 28 August 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Number of marathons and related sports events in Mainland China in 2019²

1,828

^ 15.6%
YoY change

MARKET DEVELOPMENT

The unexpected coronavirus pandemic and rising tensions between Mainland China and the US have posed tough challenges to Mainland China and the global economy. The GDP of Mainland China dropped by 1.6% year on year in the first half of 2020³, primarily due to a temporary economic shutdown during the first quarter of 2020 in the aftermath of the coronavirus outbreak. However, given the Chinese government's determination to put the economy back on track and the fact that Mainland China was among the first countries to contain the virus spread, Mainland China appears well-positioned to have a faster recovery from the coronavirus pandemic than other countries.

The retail sector in Mainland China has already shown signs of recovery from the pandemic, as a result of pent-up demand, deepened retail discounts and several government policies which aimed at spurring consumption, such as the issuance of electronic consumption vouchers to consumers. The year-on-year decline of the total retail sales of consumer goods in Mainland China narrowed in the second quarter as compared with the first quarter of 2020.

As one of the most resilient sectors among the retail industry, the sportswear sector continues to benefit from the Chinese government's advocacy of public health. Through the Chinese government's initiative in building a complete sports industry chain, supporting the development, design and manufacturing of sports goods, as well as encouraging the organization of mass sports activities and sports games to stimulate consumption, the value of China's professional sports industry is expected to increase in the coming years. Although the long-term prospect of the sportswear industry is promising, it has been undergoing a consolidation in recent years. Adding the negative impact from the pandemic, smaller companies might be more vulnerable than the larger players in the industry.

² Source: The China Athletic Association

³ Source: National Bureau of Statistics of China

The pandemic has disrupted the retail sector and altered consumer behavior. Consumers shop less at physical stores and corporates swiftly adapted to the change by turning to non-store retail channels, such as e-commerce platforms, private traffic and live streaming. Corporates that invested in building out digital capabilities continued to generate sales and engage with customers at a time when commerce nearly ground to a halt. It is expected that non-store retailing will continue to play a significant role in the second half of 2020 and become the new normal in retail. Enterprises with technical know-how and innovative mindset would benefit from the trend.

BUSINESS REVIEW

Multi-Brand Business Model

Our multi-brand strategy is categorized into three market segments, including mass market that features the core Xtep brand, professional sports that features Saucony and Merrell, as well as athleisure that features K-Swiss and Palladium.

Mainland China has witnessed a running craze nationwide in recent years, largely contributed by the successful penetration of marathon boom into the lower-tier cities and the growing number of affluent upper-middle class athletes. Seeing the enticing prospect for the running market, the core Xtep brand will continue to provide runners in the mass market with affordable, stylish and functional products, while Saucony and Merrell will offer performance sportswear that improves athletes' performance, provides extra comfort and minimizes injuries.

On the other hand, as athleisure has become the new casual in Mainland China due to the widespread adoption of healthy living and fitness activities, K-Swiss and Palladium will be positioned as one of the top athleisure wear choices for the younger generation.



Mass Market



Our core Xtep brand has continued to lead the market as Chinese runners' favorite brand. Once again, we ranked first among the domestic brands and fourth among all global brands in international class marathon in Mainland China⁴. Adhering to the brand's mission to offer value-for-money professional sportswear products to all levels of athletes in the mass market, we continue to increase our effort in product innovation. As at 30 June 2020, there were 6,124 Xtep branded stores mainly operated by authorized distributors of the Group in Mainland China and overseas.

Product

Award-winning professional running shoes – RC160X

Our first carbon fiber professional running shoe, RC160X, has found wide appeal among the running community since its launched in December 2019. The model garnered the 2020 Editors' Choice Award and Best Buy Award in Mainland China from Runner's World, one of the most influential running magazines in the world.

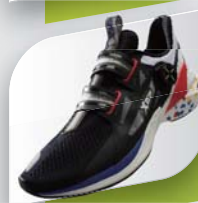


New signature running collection – Ultra Fast

In June 2020, we upgraded the RC160X model and released the Ultra Fast collection, which includes Ultra Fast160X, Ultra FastX, and Ultra Fast. The Ultra Fast collection combines top-notch technologies and functions to best fit runners of different levels and helps them make breakthroughs in their top speed. Ultra Fast160X is designed to provide energy storage for ultimate propulsion and rebound capability for professional runners, whereas Ultra FastX and Ultra Fast offer supreme cushioning and energy return to athletes during running and cross-training.



- Ultra Fast 160X**
- Full-length arc-shaped carbon fiber plate
 - Dynamic Foam PB midsole
 - Flyknit upper



- Ultra FastX**
- Full-length arc-shaped TPU plate
 - A double-layer midsole of X-Dynamic Foam and Dynamic Foam Lite



- Ultra Fast**
- Full-length TPU plate
 - Dynamic Foam Lite midsole

⁴ Source: Joyrun (January 2020) – footwear worn by participants who finished the 2020 Xiamen Marathon within five hours

Crossover collection with Shaolin Temple

We delightedly announced our collaboration with Shaolin Temple at Mount Song in June 2020. During the launch event, the Shaolin monks performed breathtaking martial arts and the models debuted the Xtep x Shaolin and Xtep Kids x Shaolin collection. As the first sportswear brand to cooperate with Shaolin Temple, we are on a mission to preserve and promote China's intangible cultural heritage. Through the integration of Chinese sports spirit with Shaolin Kung Fu culture, this collection perfectly displays beautiful elements from Chinese culture and fashion that appeals to the younger generation.



Sustainable collection

As a socially responsible company, we demonstrated our determination to implement environmental protection initiatives to the society. In June 2020, we introduced the "cultivated garment" concept with the launch of our biodegradable Xtep-eco windbreaker. The Xtep-eco windbreaker is made of biodegradable polylactic acid woven fabric extracted from corn and straw. The polylactic acid in the cloth is completely biodegradable when buried in soil within one year. We will strive to make additional breakthroughs in its usage and expand it into a full product line.

FOOTWEAR TECHNOLOGIES

RUN FAST

For Expert/ Advanced Runners

who participate competitively in marathons and seek high performance



Ultra Fast160X

An upgraded version of RC160X which adopts Dynamic Foam PB midsole to offer ultimate propulsion and excellent rebound capability. Its full-length carbon fiber plate features a Y-shaped 3D structure design to help runners make breakthroughs in their top speed.

Ultra FastX

Adopt a unique double-layer midsole design which combines the X-Dynamic Foam and Dynamic Foam LITE to offer supreme cushioning and energy return during running and cross-training. Its full-length arc-shaped TPU plate allows greater support and propulsion for every step.

Ultra Fast

A lightweight running shoe that combines a full-length TPU plate and Dynamic Foam Lite midsole to offer excellent rebound and energy consumption of forefoot propulsion.

RUN DYNAMIC

For Intermediate Runners

who seek a balance between performance and comfort



X-DYNAMIC FOAM

Use eco-friendly ETPU foaming technology that offers higher rebound and compression durability than traditional EVA foam.



Use a new composite high-resilience EVA foam formula to deliver a soft and gentle rebound experience during shock absorption.



Use Xtep's signature DNA hollow structural cushioning technology to provide an exceptional lightweight and responsive cushioning experience.



Apply uni-body three-dimensional double-layer weaving technique, with mesh arrangement based on foot form and pressure points to improve breathability and achieve a seamless fit.

RUN FIT

For Beginner Runners

who prioritize comfort in their exercise experience



Utilize an air-cushion system around part or the entire sole, resulting in soft yet supportive shock absorption.

















Use soft cube modules to cushion the core pressure points between the foot and the ground, leading to memory foam-like support and flexibility for increased comfort.

Softpad™

A key shoe insole technology the Group co-developed with the Dow Chemical Company. The insole provides memory foam-like comfort by fully conforming with the shape of the foot.

APPAREL TECHNOLOGIES

<p>XTEP – COOL</p>  <p>KEEP YOU COOL</p>	<p>Polar Ice Fiber Innovative silky material with rapid heat conducting and dissipation technologies to provide cool comfort</p>		<p>XTEP – SHIELD</p>  <p>KEEP YOU PROTECTED</p>	<p>Water-resistant Water-resistant to offer dryness and comfort to athletes in wet conditions</p>	
<p>XTEP – DRY</p>  <p>KEEP YOU DRY</p>	<p>Moisture Absorption and Quick Drying Sweat absorption and rapid drying technology to keep athletes dry and comfortable</p>		<p>XTEP – COMFORT</p>  <p>KEEP YOU COMFORTABLE</p>	<p>Distortion Resistance Unique spatial 3D structure to maintain the shape of clothes</p>	
<p>XTEP – WARM</p>  <p>KEEP YOU WARM</p>	<p>Far-infrared Heating Apply special material which can effectively absorb and reflect the far-infrared of the human body to provide warmth</p>		<p>X-SEAMLESS-TECH Soft lightweight clothes to perfectly match body shape</p>	<p>Smooth and skin-friendly fabric Smooth and delicate fiber to reduce skin friction</p>	
<p>Heat Reflection</p>	<p>Apply heat reflection technique to form heat currents and reflect body temperature to increase warmth</p>		<p>Sports Elasticity - Basic A special fiber and composition structure of weaving for natural comfort</p>	<p>Sports Elasticity - Intermediate A special material with enhanced woven elasticity to improve sports performance</p>	
<p>Warmth Retention</p>	<p>Retain air in the interlayers to provide warmth and shape-distortion resistance of clothes</p>		<p>Sports Elasticity - Advanced Utilize the principle of human mechanics to enhance the protection and sports performance in multi-dimensions</p>	<p>Sorona Unique plant fiber with good elasticity, natural moisture absorption and sweat-wicking</p>	
<p>LYCRA</p>	<p>Soft and smooth material with excellent elasticity and can be stretched repeatedly without deformation</p>		<p>LYCRA</p>	<p>Soft and smooth material with excellent elasticity and can be stretched repeatedly without deformation</p>	



Branding and marketing

We continued to adopt a two-pronged marketing strategy in the form of marathon and running event sponsorship as well as celebrity endorsement, combining sports and entertainment to uplift our brand image.

Marathon and running event sponsorship

Marathon events around the world faced severe disruption from the coronavirus pandemic. However, we came up with an alternative way to sponsor running events without bringing large numbers of people into proximity. Following the Xiamen Marathon that was held in January 2020, we sponsored five virtual races in Chongqing, Wuhan, Chengdu, Xiamen and Jiangsu province. Participants who signed up for virtual races online used various workout apps to track their performance both indoor or outdoor. Electronic certificates were given to runners as a recognition of their participation. The six events that we sponsored in the first half of 2020 attracted approximately 700,000 participants.



Electronic certificate of Jiangsu Virtual Cloud Run (June 2020)

LIST OF MARATHONS AND RUNNING EVENTS' SPONSORSHIPS



01
Xiamen Marathon
January 2020

02
Chongqing Virtual Marathon
March 2020

03
Wuhan Virtual Marathon
April 2020

04
Chengdu Virtual Marathon
June 2020

05
Xiamen Virtual Marathon
June 2020

06
Jiangsu Virtual Cloud Run
June 2020



Jeremy Lin

A famous Asian basketball player



Nicholas Tse

Our first celebrity spokesperson since 2001



Jing Tian

A popular Chinese actress



Jiro Wang

A well-known Taiwanese singer and actor

Celebrity spokespersons and KOL endorsement

In the first half of 2020, Xtep teamed up with Jeremy Lin, the brand's spokesperson and charity ambassador, to offer a series of online basketball training classes to all basketball lovers every Friday on our WeChat official account. These classes have effectively increased our brand awareness among younger consumers and

strengthened the linkage between Xtep and basketball. Building on the successful collaboration with Jeremy Lin, we will continue to develop professional and fashionable basketball products inspired by Jeremy Lin's character. New autographed basketball shoes will be released in the second half of 2020.



NEXT

The next superstar Chinese pop boy band (spokespersons contract expired in June 2020)



We solidify our leading position in running through engaging with influential KOLs and spokespersons, such as Dong Guojian, the fastest marathon runner in Mainland China and Xu Zhouzheng, a renowned Chinese sprinter.



Other entertainment marketing

We served as the official designated footwear and apparel sponsor of "Me to Us", a highly sought-after music reality show in Mainland China, to showcase our "Street" lifestyle series and integrate our brand into the

everyday lives of young consumers. Featuring Nicholas Tse, our first spokesperson, as a mentor in the program, the show was a perfect channel for us to attract audiences that have similar attributes with the brand.



E-commerce

Our e-commerce business, which accounted for over 20% of the Group’s revenue, has become an extremely important retail channel since lockdown restrictions were adopted in Mainland China in January 2020. Lockdown measures as a result of the pandemic have shifted consumer behavior, and the transition from offline to online sales was way ahead of expectations.

During the first half of 2020, we proactively diverged our sales to the e-commerce platforms and encouraged our distributors and employees to leverage private traffic such as WeChat Mini Programs and WeChat Moments to boost the sell-through rate. Nearly 200 live streams, of which over 50 times were sponsored live streams in collaboration with internet celebrities, were conducted on Tmall, Douyin, Kuaishou and other live platforms. Celebrity sales anchor Wei Ya, who has over 10 million Weibo followers, hosted a live stream with our spokespersons NEXT on 13 May 2020 and sold more than 50,000 items that was worth nearly RMB20 million. All these strategies have proven effective and drove encouraging results. For example, our Tmall flagship store retail sales recorded over 50% growth during the 618 festival.

Meanwhile, the restructuring plan for our e-commerce business to integrate its supply chain operations with that of our offline business has started to bear fruit. The design and quality of the online exclusive products are now improving to match that of the O2O products. In addition, we will continue to increase the proportion of our O2O products to fully unleash the O2O synergies. We are confident that the completion of the restructuring plan will contribute to the sustainable growth of our e-commerce business in the years ahead.



特步官方商城，会员福利日；
线上线下同款，一起放肆购！



Xtep Kids

There were approximately 800 POS for Xtep Kids (31 December 2019: 825 POS) as at 30 June 2020. In spite of the negative impacts of the coronavirus outbreak in Mainland China in the first half of 2020, Xtep Kids recorded better-than-expected retail sales performance, which was mainly attributable to the enhancement in brand awareness, product design and quality following the successful restructuring from 2015 to 2017. In light of the recurring coronavirus outbreaks and highly fragmented childrenswear market in Mainland China, we take a cautious approach towards the expansion of our kid's business for the rest of the year.



Professional Sports



Saucony has reached another major milestone in Mainland China since the establishment of a joint venture between Xtep and Wolverine Worldwide in March 2019. In June 2020, the century-old global leading running brand unveiled its grand opening in Shanghai at Super Brand Mall together with its new brand positioning “first-class cabin for runners”. During the grand opening, professional runners and sports enthusiasts gathered at the mall to experience the first-class comfort offered by Saucony’s running shoes and apparel.

We are actively mapping out Saucony’s retail network in Mainland China and plan to open more than 30 physical stores in 2020. As at 30 June 2020, there were 12 stores in the tier I and tier II cities in Mainland China.

Product innovation

Saucony segmented product lines by running shoes which comprises the Speed Training series, Outdoor Cross Country series and Retro series. In May 2020, it launched the newest model of professional running shoes, Endorphin Pro, in its Speed Training series. As Saucony’s fastest shoe, Endorphin Pro incorporates a carbon-fiber plate into the midsole to facilitate elite athletes to break personal bests.

To provide a broader range of products for our customers along with our new store opening plans in Mainland China, Saucony also launched several lines of new apparel products, including a professional sports line with comfortable, light, breathable and quick-drying sportswear for daily training and speed racing; a retro line that exhibits the centennial brand culture of Saucony and a city commuter line that is especially designed for upmarket consumers who commute to work daily.



Grand opening at Super Brand Mall, Shanghai



Endorphin Pro



MERRELL

Merrell, as a well-developed global brand, is believed to have more competitive advantages in the outdoor sports market in Mainland China. We have seen a gradual increase in the demand for performance outdoor products and number of outdoor sports enthusiasts in Mainland China in recent years, driven by the shift in the appeal of urban outdoor activities from hardcore urban outdoor activities in Mainland China. Consumers, especially those in the higher-tier cities, have a stronger preference for premium global outdoor brands specialized in high performing products with fashionable design.

Following the opening of the Tmall flagship store in Mainland China in March 2020, Merrell has provided Chinese consumers with products that over-deliver on performance, versatility, and durability. More product offerings were available to our customers along with the opening of our standalone stores in Beijing in April and July 2020. More store openings in cities with famous landscapes for outdoor sports and activities in Mainland China are expected in the second half of 2020.

Product innovation

As one of the leading outdoor brands in the world, Merrell aims to support and encourage everyone to engage in enjoyable outdoor adventures. The brand designs and creates products specialized for hiking, trail running and training to cater to consumers in Mainland China. Our signature hiking boot, MOAB, also known as “mother of all boots”, has an estimated cumulative global sales of 50 million pairs. MOAB was introduced to consumers in Mainland China through the Tmall flagship store in 2020, it soon gained traction and received positive feedback. During the 618 shopping festival, MOAB recorded a sell-through rate of 70%.



MOAB (“Mother of all boots”)



New Yansha Mall, Beijing



K11 Art Mall, Hong Kong



Boyz N the Hood collection

Crossover collection

As an American heritage footwear brand, K-Swiss collaborated closely with famous IPs originated in the U.S. to launch various crossover and limited edition footwear collections. During the Period, the brand released the K-Swiss x Breaking Bad collection and Boyz N the Hood collection with Sony Pictures to pay ultimate tribute to one of the most critically acclaimed television series and seminal films of all time.

Conscious collection – recycle, reuse, reissue

Seeing sustainability as the future of commercial production, K-Swiss offers iconic footwear made from recycled materials and adopts manufacturing processes that bring lighter impact on the environment. The reissues of the Surf 'N Turf and Classic 2000 in 2020 feature original designs in new, eco-friendly constructions, utilizing repurposed and recycled materials such as reground rubber insole, reground leather, recycled plastic bottles and recycled canvas.

Athleisure

The business operations of K-Swiss and Palladium were negatively affected by the suspension of most of their business operations in the Americas and Europe since mid-March due to the coronavirus pandemic. Despite the challenges, we strived to carry out strategic transformation for the two brands to achieve sustainable development during the first half of 2020.



Since the acquisition by Xtep in 2019, K-Swiss has entered new chapters and developed strategic plans to appeal to younger generations who desire premium athleisure products. Currently, K-Swiss is mainly engaged in the wholesale business in North America, Europe and Asia-Pacific, and we will shift its business focus to the Asia-Pacific region, including Mainland China, to capitalize on the athleisure trend. Upon completion of the rebranding process that aims at revamping the brand positioning, marketing, R&D and product innovation, K-Swiss will target to debut its brand new standalone store in tier I cities in Mainland China. As at 30 June 2020, there were 42 self-operated stores in Asia-Pacific.



K-Swiss x Breaking Bad



Surf 'N Turf



For over 70 years, Palladium has been at service to daring explorers by offering timeless and adaptable footwear. Combining premium materials and cutting-edge styling, our signature boots offer outstanding functionality, comfort and durability to young consumers to discover the world. Successfully tapping into the fast-growing athleisure trend in the Asia-Pacific region, majority of Palladium's business operations are in the aforementioned region. Palladium has an extensive distribution network covering Mainland China, Asia-Pacific, Europe, Middle East, Africa and North America. As at 30 June 2020, there were 31 and three self-operated stores in Asia-Pacific and Europe, respectively.

Crossover collection

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Palladium constantly collaborated with some of the world's most influential brands and leading creative minds from around the globe. In the Fall-Winter season 2020, we will collaborate with Michelin, a French multinational tyre manufacturer, for the new Pampa X Tech collection to launch iconic functional footwear that comes with high performance technical soles for greater grip and adaptability to all terrains.



Harbour City, Hong Kong



Pampa X Tech collection



Recycled collection

Earth collection

Palladium has been a leading and award-winning brand since the early 90's for driving the sustainable footwear movement. In 2020, Palladium launched the earth collection that features the recycled and organic collections with products containing organic cotton, recycled rubber outsole, biodegradable plastic laces and cork laminated footbed. As the foundation of our product development and creation, the earth collection uses the most innovative production and fabric sourcing to bring to life our most sustainable and eco-friendly product to our customers.

Operations Management

Supply chain

We implement an efficient supply chain management to ensure seamless business operations. Apart from in-house production, we strategically engaged outsourced suppliers around the world to collectively source materials and manufacture footwear and apparel products to optimize our operational efficiency. We select

suppliers whose practice aligns with the Group’s environmental, social and governance standards, all qualified suppliers are also required to comply with our Supplier Code of Conduct.

Product capacity allocation



Logistics park

We began the construction of a logistics park with a gross floor area of approximately 200,000 square meters in Jinjiang, Fujian Province in the second half of 2019 to support our business growth. Upon completion, the automated park which aims to streamline our supply

chain will ship products manufactured in our in-house factories directly to our branded retail stores from the five neighboring provinces of Fujian, greatly shortening the lead time and accelerating replenishment cycle process.

Human resources management

Xtep considers its employees as the most valuable asset. We strive to support the career and personal development of our staff through comprehensive human resources initiatives and trainings which empower them to achieve their personal goals. Our Xtep University, which was established in 2014, provides ongoing training and development programs regarding corporate culture, leadership, retail and manufacturing. For instance, retail staff can participate in various online and offline trainings offered by the Faculty of Retail, such as store manager workshops, product display instruction and store efficiency improvement skills, etc. Xtep University offered over 340,000 hours of online and offline training to employees as at 30 June 2020.



Prospect

We have seen a surge in the number of people running in Mainland China during the epidemic as more people have turned to running when social distancing guidelines took hold. We believe that Chinese people will increase exercise frequency and consumption of sportswear following the pandemic in the long run. The running market is expected to further expand in Mainland China if the epidemic persists into the second half of 2020 and beyond, creating advantageous opportunities for our mass market and professional sports segments. The core Xtep brand will continue to be a stable growth driver of the Group. We will increase our investment in R&D to develop sustainable and innovative products, uplift our store productivity and provide new customer experience on both online and offline platforms.

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On the other hand, the growing number of elite athletes and affluent upper-middle class consumers in Mainland China has presented an enticing prospect for professional and premium sportswear products. Following Saucony's store openings in Mainland China since May 2020, it has become a new growth driver of the Group. We will continue to increase the proportion of Saucony's apparel and localized products to offer comprehensive product lines to customers. More stores of Saucony and Merrell will be opened in the second half of 2020 to tap into the growing demand for functional sportswear.

The coronavirus pandemic and rising tensions between the U.S. and Mainland China have impeded the recovery of our athleisure market segment, but not the progress of our brand revamp for K-Swiss. While we expect that the recovery in the Americas and Europe will take time, we will focus on optimizing the business for Palladium and K-Swiss to capture the enormous athleisure market in Asia-Pacific, including Mainland China.

We remain cautiously optimistic that the recovery momentum of our operations in Mainland China will continue into the second half of 2020. However, we believe that the long-term development of the sportswear sector remains promising, supported by favorable government policies and increasing health awareness of Chinese people. We are optimistic about the sustainable growth of the five brands under our portfolio. Looking ahead, we will continue to enhance our core competencies and increase market share in the accelerating industry consolidation that is catalyzed by the pandemic.

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

	2020 Revenue		2019 Revenue		Change in revenue (%)
	(RMB Million)	(% of Revenue)	(RMB Million)	(% of Revenue)	
Footwear	2,253.8	61.3	1,911.9	57.0	17.9
Apparel	1,339.3	36.4	1,356.0	40.4	-1.2
Accessories	86.0	2.3	89.0	2.6	-3.4
Total	3,679.1	100.0	3,356.9	100.0	9.6

Group Revenue Breakdown by Brand Nature

The following table sets out the contributions to the Group's revenue by brand nature for the period:

For the period ended 30 June

	2020 Revenue		2019 Revenue		Change in revenue (%)
	(RMB Million)	(% of Revenue)	(RMB Million)	(% of Revenue)	
Mass market	3,201.0	87.0	3,356.9	100.0	-4.6
Athleisure	458.6	12.5	–	–	N/A
Professional sports	19.5	0.5	–	–	N/A
Total	3,679.1	100.0	3,356.9	100.0	9.6

The Group's total revenue can be analysed into mass market, athleisure and professional sports. The signature brands are:

Brand Nature	Signature Brands
Mass market	Xtep
Athleisure	K-Swiss, Palladium
Professional sports	Saucony, Merrell

The Group's total revenue for the period ended 30 June 2020 amounted to approximately RMB3.7 billion (2019: RMB3.4 billion), which was mainly driven by revenue contributions from athleisure's signature brands.

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

	2020		2019		Change in gross profit (%)	Change in gross profit margin (% point)
	Gross profit (RMB Million)	Gross profit margin (%)	Gross profit (RMB Million)	Gross profit margin (%)		
Footwear	901.4	40.0	857.2	44.8	5.2	-4.8
Apparel	558.5	41.7	606.4	44.7	-7.9	-3.0
Accessories	29.2	33.9	33.7	37.9	-13.5	-4.0
Total	1,489.1	40.5	1,497.3	44.6	-0.5	-4.1

The Group's overall gross profit margin decreased by 4.1 percentage point to 40.5% (2019: 44.6%). The decrease in the overall gross profit margin was mainly contributed by the change in product mix, margin contributions from new brands and e-commerce channel; and inventory buy-back of forth-quarter 2019 and first-quarter 2020 products which were subsequently donated or resold at a lower gross profit margin.

Gross Profit and Gross Profit Margin Breakdown by Brand Nature

The following table sets out the gross profit and gross profit margin by brand nature for the period:

For the period ended 30 June

	2020		2019		Change in gross profit (%)	Change in gross profit margin (% point)
	Gross profit (RMB Million)	Gross profit margin (%)	Gross profit (RMB Million)	Gross profit margin (%)		
Mass market	1,296.0	40.5	1,497.3	44.6	-13.4	-4.1
Athleisure	185.6	40.5	-	-	N/A	N/A
Professional sports	7.5	38.7	-	-	N/A	N/A
Total	1,489.1	40.5	1,497.3	44.6	-0.5	-4.1

Other Income and Gains

For the period ended 30 June 2020, other income and gains of the Group mainly represented the subsidized income from the PRC government, which amounted to approximately RMB139.2 million (2019: RMB88.4 million); the income derived from financial investments and structured bank deposits was approximately RMB48.2 million (2019: RMB39.6 million), which was the interest income derived from treasury deposit products. The increase in other income and gains was mainly due to the royalty income which amounted to approximately RMB12.0 million (2019: Nil) arising from athleisure brands and the increase in subsidized income from the PRC government.

Selling and Distribution Expenses

For the period ended 30 June 2020, the Group's selling and distribution expenses amounted to approximately RMB685.2 million (2019: RMB636.8 million), representing approximately 18.6% (2019: 19.0%) of the Group's total revenue. Excluding the impact arising from the new brands of approximately RMB164.6 million, there was a decrease in selling and distribution expenses of approximately RMB116.2 million, which was mainly due to the decrease in advertising and promotional costs. The advertising and promotional costs for the period amounted to approximately RMB396.2 million (2019: RMB449.3 million), representing approximately 10.8% (2019: 13.4%) of the Group's total revenue. The decrease in advertising and promotional costs was mainly due to the decrease in running events promotion.

General and Administrative Expenses

For the period ended 30 June 2020, the Group's general and administrative expenses amounted to approximately RMB512.9 million (2019: RMB281.0 million), which represented approximately 13.9% (2019: 8.4%) of the Group's total revenue. The increase in general and administrative expenses was mainly attributed to:

- 1) an increase of the expenses from the new brands of approximately RMB93.2 million;
- 2) an increase in R&D cost – the R&D cost for the period amounted to approximately RMB101.3 million (2019: RMB81.7 million), representing approximately 2.8% (2019: 2.4%) of the Group's total revenue. The R&D cost was mainly related to the salary costs of the research and design team, material costs for research and development of new products and equipment costs for new production technology; and
- 3) an impairment for trade receivables amounted to RMB43.9 million (2019: Write-back of impairment of trade receivables amounted to RMB60.9 million).

Net Finance Costs

The total net finance cost of the Group for the period ended 30 June 2020 amounted to approximately RMB77.4 million (2019: RMB35.3 million). The increase in net finance costs was mainly due to increase in fair value loss on interest rate swaps amounted to RMB15.1 million (2019: Nil) and the decrease in bank interest income (2020: RMB2.5 million; 2019: RMB27.0 million) which was resulted from the decrease in time deposits during the period.

Operating Profit and Operating Profit Margin Breakdown

The following table sets out the contributions to the operating profit and operating profit margin for the period:

For the period ended 30 June

	2020		2019		Change in operating profit/(loss) (%)	Change in operating profit/(loss) margin (% point)
	Operating profit/(loss) (RMB Million)	Operating profit/(loss) margin (%)	Operating profit/(loss) (RMB Million)	Operating profit margin (%)		
Mass market	584.7	18.3	761.0	22.7	-23.2	-4.4
Athleisure	(47.7)	(10.4)	-	-	N/A	N/A
Professional sports	(4.0)	(20.4)	-	-	N/A	N/A
	533.0	14.5	761.0	22.7	-30.0	-8.2
Corporate	(32.3)	N/A	(43.7)	N/A	-26.1	N/A
Total	500.7	13.6	717.3	21.4	-30.2	-7.8

The operating profit margin decreased by 7.8 percentage points due to the decrease in operating profit from mass market and the operating losses arising from the new brands during the period.

Income Tax Expenses

Income tax provision of the Group for the period ended 30 June 2020 was approximately RMB165.6 million (2019: RMB218.2 million). The income tax provision included profit tax provision relating to operating companies, which amounted to approximately RMB166.2 million (2019: RMB164.9 million). Also, there was an over-provision of income tax of approximately RMB4.7 million (2019: An under-provision of RMB5.2 million). The Company holds certain PRC subsidiary companies which have retained profits that can be distributed to the Company in the future. In this connection, the Company had provided a provision of withholding tax on undistributed profits amounted to RMB5.0 million (2019: RMB48.0 million) during the period.

Profit Attributable to Ordinary Equity Holders and Net Profit Margin

For the period ended 30 June 2020, the profit attributable to ordinary equity holders was approximately RMB247.9 million (2019: RMB463.0 million), representing a decrease of approximately 46.5% over the same period in last year. The decrease was mainly due to the increase in operating expenses during the period.

The Group's net profit margin amounted to 6.7% (2019: 13.8%).

Dividend

The Group maintained a high level of cash and bank balances. The Board continued to maintain high Shareholders' dividend return and therefore resolved to distribute an interim dividend of HK6.5 cents per Share (2019: An interim dividend of HK12.5 cents per Share). The proposed interim dividend will be offered with a scrip dividend option to the Shareholders, which will allow them to receive new shares of the Company in lieu of cash. Participation in the scrip dividend scheme will be optional. The scrip dividend scheme is subject to the Hong Kong Stock Exchange granting the listing of and permission to deal in the new Shares to be issued pursuant thereto. A circular containing details of this scrip dividend scheme and a form of election, together with this interim report, will be dispatched to the Shareholders.

Working Capital Cycle

For the period ended 30 June 2020, the Group's overall working capital turnover days was 89 days (2019: 98 days).

For the period ended 30 June

WORKING CAPITAL TURNOVER DAYS	2020 Days	2019 Days	Changes Days
Inventories	94	81	+13
Trade receivables	137	107	+30
Trade payables	142	90	+52
Overall working capital turnover days	89	98	-9

The turnover days for inventories, trade receivables and trade payables increased by 13 days, 30 days and 52 days respectively resulting in a decrease in overall working capital turnover days by 9 days.

Bills Receivables

In order to have more flexibilities in utilizing working capital facilities, the Group utilized the acceptance and usage of bills receivables. As of 30 June 2020, the bills receivables amounted to approximately RMB414.5 million (31 December 2019: RMB313.5 million). For the period ended 30 June 2020, the number of turnover days of bills receivables was 18 days (2019: 12 days).

Liquidity and Capital Resources

As of 30 June 2020, the Group's cash and cash equivalents amounted to approximately RMB3,051.3 million (31 December 2019: RMB2,969.5 million), representing an increase of approximately RMB81.8 million. The increase in the Group's cash and cash equivalents is summarised as follows:

	Six months ended 30 June	
	2020 RMB million	2019 RMB million
Cash generated from operating activities	505.8	618.4
Income and withholding tax paid	(172.5)	(168.4)
Net interest expenses paid	(59.8)	(28.5)
Net cash flow generated from operating activities	273.5	421.5
Deposit paid for acquisition of subsidiaries	–	(179.2)
Decrease/(increase) in pledged bank deposits	163.2	(168.2)
Decrease/(increase) in structured bank deposits	400.0	(80.0)
Increase in term deposits	(500.0)	–
Increase in equity investments	–	(35.0)
Dividends paid	(155.5)	(203.0)
Net repayment of bank borrowings	(63.7)	(139.2)
Net proceeds from issue of ordinary shares under share placing and subscription	–	1,160.2
Others	(35.7)	(16.0)
Net increase in cash and cash equivalents	81.8	761.1

The net cash and cash equivalents (including term deposits, structured bank deposits and pledged bank deposits minus bank borrowings) were approximately RMB2,162.7 million as at 30 June 2020 (31 December 2019: RMB2,131.6 million).

	30 June 2020 RMB million	31 December 2019 RMB million
Cash and cash equivalents	3,051.3	2,969.5
Bank deposits	1,453.9	1,517.0
Total bank deposits and bank balances	4,505.2	4,486.5
Less: Bank borrowings	(2,342.5)	(2,354.9)
Net cash and cash equivalents	2,162.7	2,131.6

As of 30 June 2020, the Group's gearing ratio was 18.1% (31 December 2019: 19.1%), which is defined as the total bank borrowings divided by the Group's total assets.

As of 30 June 2020, the total assets of the Group amounted to RMB12,939.1 million (31 December 2019: RMB12,322.6 million), represented by non-current assets of RMB3,628.2 million (31 December 2019: RMB3,056.7 million) and current assets of RMB9,310.9 million (31 December 2019: RMB9,265.9 million). The total liabilities of the Group amounted to RMB5,852.6 million (31 December 2019: RMB5,362.3 million), represented by non-current liabilities of RMB2,041.7 million (31 December 2019: RMB1,691.2 million) and current liabilities of RMB3,810.9 million (31 December 2019: RMB3,671.1 million). The total non-controlling interests of the Group amounted to RMB88.1 million (31 December 2019: RMB69.8 million). Hence, the total net assets of the Group amounted to RMB7,086.5 million (31 December 2019: RMB6,960.3 million), representing an increase of 1.8%. Net assets per Share as at 30 June 2020 were approximately RMB2.81 (31 December 2019: RMB2.77), representing an increase of 1.4%.

Impairment Provision for Inventories

During the period ended 30 June 2020, the Group recorded an impairment provision for inventories amounted to RMB14.5 million (2019: RMB2.8 million).

Impairment for Trade Receivables

During the period ended 30 June 2020, the Group recorded an impairment for trade receivables amounted to RMB43.9 million (2019: Write back of impairment amounted to RMB60.9 million).

Impairment for Right-of-use Assets

During the period ended 30 June 2020, the Group recorded an impairment for right-of-use assets amounted to RMB6.6 million (2019: Nil) mainly relating to the leases of certain retail stores in the athleisure segment.

Commitments

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

Contingent Liabilities

As of 30 June 2020, the Group did not have any material contingent liabilities.

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Charge of Assets

Save as disclosed in notes 16 and 19 of the interim financial information relating to certain amounts of bank deposits pledged to secure certain banking facilities, none of the Group's assets was pledged as at 30 June 2020.

Foreign Currency Risks

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

Interest Rate Risks

Interest on bank borrowings is mainly charged at floating rates. To mitigate the exposures to floating interest rate risk, the Group had entered into various interest rate swap contracts at an aggregate notional amount of RMB1,324.8 million (2019: Nil) with fixed swap rates ranging from 0.88% to 1.18% per annum during the period ended 30 June 2020.

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. 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 of 30 June 2020, the Group had approximately 8,800 employees (31 December 2019: 8,500 employees). The Group provides introductory orientation programs and continuous training to its employees. Topics covered included industry knowledge, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and standards of our staff. The Group will strive to strengthen human resources management to provide strong support for the development of its business through staff recruitment initiatives, optimization of the organizational structure and promotion of our corporate culture to ensure that it can maintain sustainable development in the future.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE CODE

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

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

MODEL CODE

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

REVIEW OF INTERIM FINANCIAL INFORMATION

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 interim financial information for the period.

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

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

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

DISCLOSURE OF INTERESTS

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

As at 30 June 2020, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO). They have notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Long Positions in the Company

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company ⁽¹⁾
Mr. Ding Shui Po	Founder and beneficiary of a discretionary trust ⁽²⁾ / Beneficial interests ⁽³⁾	1,370,734,500	54.41%
Ms. Ding Mei Qing	Founder and beneficiary of a discretionary trust ⁽²⁾	1,310,059,500	51.99%
Mr. Ding Ming Zhong	Founder and beneficiary of a discretionary trust ⁽²⁾	1,310,059,500	51.99%
Mr. Tan Wee Seng	Beneficial interests	280,000 ⁽⁴⁾	0.01%

Notes:

- (1) It was based on 2,519,440,501 issued Shares of the Company as at 30 June 2020.
- (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 60,675,000 Shares of the Company.
- (4) 100,000 of these Shares were issued to Mr. Tan Wee Seng upon the exercise of options granted on 7 December 2011 under the Share Option Scheme. The remaining 180,000 of these Shares were acquired by Mr. Tan Wee Seng on the Stock Exchange.

Saved as disclosed above, as at 30 June 2020, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

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

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

So far as is known to any Director or chief executive of the Company, as at 30 June 2020, 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	51.99%
Wan Xing International Holdings Limited	Interests of controlled corporation ⁽²⁾	1,310,059,500	51.99%
Ding Wang Fortune Limited	Interests of controlled corporation ⁽³⁾	1,310,059,500	51.99%
Guan Hong Development Limited	Interests of controlled corporation ⁽³⁾	1,310,059,500	51.99%
Ming Zhong Family Limited	Interests of controlled corporation ⁽³⁾	1,310,059,500	51.99%
UBS Trustees (BVI) Limited	Trustee ⁽³⁾	1,310,059,500	51.99%

Notes:

- (1) It was based on 2,519,440,501 issued Shares of the Company as at 30 June 2020.
- (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 67%, 21% and 12% by Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited, respectively.

Save as disclosed above, as at 30 June 2020, 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 SCHEME

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

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

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

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotations sheets on the offer date; and
- (c) the average closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the offer date.

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

Details of the share options granted under the Share Option Scheme as at 30 June 2020 are as follows:

Name	Date of Grant	Exercise price per Share	Exercise period ⁽¹⁾⁽²⁾⁽³⁾	Outstanding as at 1 January 2020	Granted during the period	Cancelled during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30 June 2020
Director									
Mr. Tan Wee Seng	30 March 2010	HK\$6.13	30 March 2011 – 29 March 2020	600,000	-	-	-	(600,000)	-
Former Director									
Mr. Ho Yui Pok, Eleutherius	28 May 2010	HK\$6.00	28 May 2012 – 27 May 2020	1,000,000	-	-	-	(1,000,000)	-
Employees									
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	12,955,000	-	-	-	-	12,955,000
Total				23,055,000	-	-	-	(10,100,000)	12,955,000

The total number of shares available for issue under the Share Option Scheme is 12,955,000, representing 0.5% of the Company's issued share capital as at the date of this interim report.

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

Notes:

- (1) Share options 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

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

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

SHARE AWARD SCHEME

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

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

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

As of 30 June 2020, there were a total of 24,950,000 outstanding awarded Shares granted to certain employees of the Group, details of which are as follows:

Name	Date of Grant	As at 1 January 2020	Granted during the period	Vested during the period	Forfeited during the period	As at 30 June 2020	Vesting period
Employees	10 January 2017	34,070,000	–	(9,120,000)	–	24,950,000	10 January 2018 to 10 January 2022

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

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

SPECIFIC PERFORMANCE OBLIGATIONS ON CERTAIN CONTROLLING SHAREHOLDERS

On 2 September 2019, the Company as borrower entered into a facility agreement (the "Facility Agreement") with a consortium of nine banks arranged by Hang Seng Bank Limited ("HASE"), The Hongkong and Shanghai Banking Corporation Limited, Bank of China (Hong Kong) Limited and CTBC Bank Co., Ltd. as mandated lead arrangers and bookrunners and HASE as the facility agent, pursuant to which a 4-year term loan facility in the principal amount of HK\$1,800,000,000 (the "Facility") was made available to the Company on the terms and conditions stated therein.

The Facility is guaranteed by certain subsidiaries of the Company.

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

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

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

As at 30 June 2020 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 51.99% of the issued share capital of the Company. Mr. Ding Shui Po also had personal beneficial interests in approximately 2.42% of the issued share capital of the Company.

INDEPENDENT REVIEW REPORT



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 information set out on pages 38 to 66, which comprise the condensed consolidated statement of financial position of Xtep International Holdings Limited and its subsidiaries as at 30 June 2020, 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-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information 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 HKICPA. 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 information is 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

28 August 2020

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
REVENUE	5	3,679,061	3,356,913
Cost of sales		(2,189,918)	(1,859,626)
Gross profit		1,489,143	1,497,287
Other income and gains	5	209,697	137,784
Selling and distribution expenses		(685,180)	(636,780)
General and administrative expenses		(512,911)	(281,035)
Operating profit	6	500,749	717,256
Net finance costs	7	(77,434)	(35,273)
Share of losses of associates		(5,342)	(1,043)
PROFIT BEFORE TAX		417,973	680,940
Income tax expense	8	(165,583)	(218,166)
PROFIT FOR THE PERIOD		252,390	462,774
Attributable to:			
Ordinary equity holders of the Company		247,921	463,012
Non-controlling interests		4,469	(238)
		252,390	462,774
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10		
Basic		RMB10.10 cents	RMB20.19 cents
Diluted		RMB10.01 cents	RMB19.80 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2020

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	252,390	462,774
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive income/(expense) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements of operations outside Mainland China	(4,615)	59,639
	(4,615)	59,639
Other comprehensive income/(expense) that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income	8,400	(5,000)
Income tax effect	(1,260)	750
	7,140	(4,250)
Other comprehensive income for the period, net of tax	2,525	55,389
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	254,915	518,163
Attributable to:		
Ordinary equity holders of the Company	250,446	518,401
Non-controlling interests	4,469	(238)
	254,915	518,163

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		724,091	661,732
Investment properties		32,577	33,985
Right-of-use assets		351,590	356,242
Deposits for acquisition of land use right		60,105	60,105
Goodwill		851,617	833,938
Intangible assets		821,631	809,892
Investments in associates		48,005	39,161
Term deposits	16	500,000	–
Equity investments designated at fair value through other comprehensive income	14	166,500	158,100
Deposits and other assets	13	72,080	103,557
Total non-current assets		3,628,196	3,056,712
CURRENT ASSETS			
Inventories	11	1,208,426	1,046,286
Trade receivables	12	2,903,222	2,596,449
Bills receivables	12	414,500	313,500
Prepayments, other receivables and other assets	13	774,036	817,739
Tax recoverable		5,613	5,359
Structured bank deposits	15	400,000	800,000
Pledged bank deposits	16	553,868	717,034
Cash and cash equivalents	16	3,051,312	2,969,504
Total current assets		9,310,977	9,265,871
CURRENT LIABILITIES			
Trade payables	17	1,974,069	1,419,700
Other payables and accruals	18	906,798	980,586
Interest-bearing bank borrowings	19	704,268	1,086,338
Lease liabilities		95,523	68,850
Deferred subsidies		577	577
Tax payable		129,698	115,093
Total current liabilities		3,810,933	3,671,144
NET CURRENT ASSETS		5,500,044	5,594,727
TOTAL ASSETS LESS CURRENT LIABILITIES		9,128,240	8,651,439

Interim Condensed Consolidated Statement of Financial Position
30 June 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	19	1,638,205	1,268,527
Derivative financial instruments	18	15,351	–
Lease liabilities		89,176	107,308
Deferred tax liabilities	20	264,094	280,393
Deferred subsidies		20,784	21,074
Other liabilities		14,129	13,899
Total non-current liabilities		2,041,739	1,691,201
NET ASSETS			
		7,086,501	6,960,238
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Share capital	21	22,157	22,093
Reserves	22	6,976,217	6,868,381
		6,998,374	6,890,474
Non-controlling interests		88,127	69,764
Total equity		7,086,501	6,960,238

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2020

Six months ended 30 June 2020 (Unaudited)

	Attributable to ordinary equity holders of the Company														
	Notes	Reserves											Non-controlling interests	Total equity	
		Share capital	Share premium account	Capital reserve	Statutory surplus fund	Treasury shares	Share award reserve	Share option reserve	Exchange fluctuation reserve	Fair value reserve	Retained profits	Total reserves			Total
		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 2020 (audited)		22,093	1,570,728	118,615	873,408	(118,860)	4,460	68,031	(81,843)	26,065	4,407,777	6,868,381	6,890,474	69,764	6,960,238
Profit for the period		-	-	-	-	-	-	-	-	-	247,921	247,921	247,921	4,469	252,390
Other comprehensive income/ (expense) for the period		-	-	-	-	-	-	-	(4,615)	7,140	-	2,525	2,525	-	2,525
Total comprehensive income/ (expense) for the period		-	-	-	-	-	-	-	(4,615)	7,140	247,921	250,446	250,446	4,469	254,915
2019 final dividend declared and paid	9(b)	-	-	-	-	-	-	-	-	-	(169,312)	(169,312)	(169,312)	-	(169,312)
Shares issued in lieu of cash dividend	21(a)	64	17,719	-	-	(4,006)	-	-	-	-	-	13,713	13,777	-	13,777
Lapse of share options	23	-	-	-	-	-	-	(60,233)	-	-	60,233	-	-	-	-
Repurchase of shares	22(g)	-	-	-	-	(5,985)	-	-	-	-	-	(5,985)	(5,985)	-	(5,985)
Capital contribution from a non-controlling interest		-	-	-	-	-	-	-	-	-	-	-	-	24,902	24,902
Deemed acquisition of a non-controlling interest		-	-	-	-	-	-	-	-	-	10,889	10,889	10,889	(10,889)	-
Equity-settled share award arrangement	24	-	-	-	-	8,085	-	-	-	-	-	8,085	8,085	-	8,085
Vesting of awarded shares	24	-	-	-	-	-	(1,325)	-	-	-	1,325	-	-	-	-
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	-	-	-	-	(119)	(119)
At 30 June 2020 (unaudited)		22,157	1,588,447	118,615	873,408	(120,766)	3,135	7,798	(86,458)	33,205	4,558,833	6,976,217	6,998,374	88,127	7,086,501

Six months ended 30 June 2019 (Unaudited)

	Attributable to ordinary equity holders of the Company														
	Notes	Reserves											Non-controlling interests	Total equity	
		Share capital	Share premium account	Capital reserve	Statutory surplus fund	Treasury shares	Share award reserve	Share option reserve	Exchange fluctuation reserve	Fair value reserve	Retained profits	Total reserves			Total
		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 2019 (audited)		19,782	326,547	118,615	833,357	(132,691)	5,479	76,054	(138,082)	18,500	4,196,466	5,304,245	5,324,027	4,687	5,328,714
Profit/(loss) for the period		-	-	-	-	-	-	-	-	-	463,012	463,012	463,012	(238)	462,774
Other comprehensive income/ (expense) for the period		-	-	-	-	-	-	-	59,639	(4,250)	-	55,389	55,389	-	55,389
Total comprehensive income/ (expense) for the period		-	-	-	-	-	-	-	59,639	(4,250)	463,012	518,401	518,401	(238)	518,163
2018 final dividend declared and paid	9(b)	-	-	-	-	-	-	-	-	-	(202,994)	(202,994)	(202,994)	-	(202,994)
Exercise of share options	23	70	31,828	-	-	-	-	(6,711)	-	-	-	25,117	25,187	-	25,187
Repurchase of shares	22(g)	-	-	-	-	(3,029)	-	-	-	-	(3,029)	(3,029)	(3,029)	-	(3,029)
Share placing		2,115	1,158,123	-	-	-	-	-	-	-	-	1,158,123	1,160,238	-	1,160,238
Formation of subsidiaries		-	-	-	-	-	-	-	-	-	-	-	-	58,800	58,800
Equity-settled share award arrangement	24	-	-	-	-	11,969	-	-	-	-	-	11,969	11,969	-	11,969
Vesting of awarded shares	24	-	-	-	-	-	(965)	-	-	-	965	-	-	-	-
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	-	-	-	-	1,277	1,277
At 30 June 2019 (unaudited)		21,967	1,516,498	118,615	833,357	(123,751)	4,514	69,343	(78,443)	14,250	4,457,449	6,811,832	6,833,799	64,526	6,898,325

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2020

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Operating activities:		
Cash from operations	505,801	618,361
Income tax paid	(172,472)	(168,401)
Net interest expenses paid	(59,803)	(28,459)
NET CASH FLOWS FROM OPERATING ACTIVITIES	273,526	421,501
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES ⁽ⁱ⁾	32,972	(488,405)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES ⁽ⁱⁱ⁾	(227,915)	836,028
NET INCREASE IN CASH AND CASH EQUIVALENTS	78,583	769,124
Cash and cash equivalents at beginning of period	2,969,504	3,195,809
Effect of foreign exchange rate changes, net	3,225	(8,009)
Cash and cash equivalents at end of period	3,051,312	3,956,924
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position	3,051,312	3,956,924

The accompanying notes form part of this interim financial information.

- (i) Net cash flows from/(used in) investing activities for the period included decrease in structured bank deposits of RMB400,000,000 (2019: increase in structured bank deposits of RMB80,000,000), investment income derived from financial assets at fair value through profit or loss and structured bank deposits of RMB48,152,000 (2019: RMB39,646,000), decrease in pledged bank deposits of RMB163,166,000 (2019: increase in pledged bank deposits of RMB168,199,000), increase in non-current term deposits of RMB500,000,000 (2019: Nil) and purchase of items of property, plant and equipment of RMB62,540,000 (2019: RMB22,741,000).
- (ii) Net cash flows from/(used in) financing activities for the period included the dividends paid to ordinary equity holders of the Company of RMB155,535,000 (2019: RMB202,994,000) apart from scrip shares in lieu of cash, net repayment of bank borrowings of RMB63,688,000 (2019: RMB139,207,000), capital contribution from non-controlling interests of RMB24,902,000 (2019: RMB58,800,000) and principal elements of lease payments of RMB33,460,000 (2019: RMB12,642,000).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2020

1. CORPORATE AND GROUP INFORMATION

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

During the period, the Company and its subsidiaries (collectively referred to as the "Group") were engaged in the design, development, manufacture and marketing of sportswear, including footwear, apparel and accessory products. 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 ("Wan Xing"), which is a limited liability company incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1 Basis of preparation

The interim condensed consolidated financial information has 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 interim condensed consolidated financial information does 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 2019.

The interim condensed consolidated financial information has been prepared under the historical cost convention, except for bills receivables, financial assets at fair value through profit or loss ("FVPL"), equity investments designated at fair value through other comprehensive income ("FVOCI"), structured bank deposits and derivative financial instruments which have been measured at fair value. The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019 except for the changes in accounting policies made after the adoption of the revised HKFRSs as further detailed in note 2.2 below.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**(Continued)****2.2 Changes in accounting policies and disclosures**

The Group has adopted the following revised Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

Other than as explained below regarding the impact of amendment to HKFRS 16, other revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the amendment to HKFRS 16 are described below:

- (a) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the period ended 30 June 2020, certain monthly lease payments for the leases of the Group's retail stores have been reduced or waived by the lessors as a result of the covid-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 January 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the covid-19 pandemic during the period ended 30 June 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of RMB1,590,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to interim condensed consolidated income statement for the period ended 30 June 2020.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the interim condensed consolidated financial information 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 interim condensed consolidated financial information, 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 2019.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of sportswear, including footwear, apparel and accessories. For management purposes, the Group is organised into business units based on market segmentation and has three reportable operating segments as follows:

- (a) mass market segment, including signature brand, Xtep;
- (b) athleisure segment, including signature brands, mainly K-Swiss and Palladium; and
- (c) professional sports segment, including signature brands, Saucony and Merrell.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that bank interest income, finance costs, share of losses of associates as well as corporate and other unallocated expenses are excluded from such measurement.

Segment assets exclude tax recoverable, investments in associates, pledged bank deposits and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, interest-bearing bank borrowings, tax payable, deferred tax liabilities and other unallocated corporate liabilities as these liabilities are managed on a group basis.

The operating segment information for the six months ended 30 June 2020 and 2019 are as follows:

Six months ended 30 June 2020	Mass market RMB'000 (Unaudited)	Athleisure RMB'000 (Unaudited)	Professional sports RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment revenue (note 5)				
Sales to external customers	3,201,040	458,552	19,469	3,679,061
Segment results	584,719	(47,701)	(3,962)	533,056
Bank interest income				2,540
Finance costs				(79,974)
Share of losses of associates				(5,342)
Corporate and other unallocated expenses				(32,307)
Profit before tax				417,973

4. OPERATING SEGMENT INFORMATION (Continued)

Six months ended 30 June 2019	Mass market RMB'000 (Unaudited)	Athleisure RMB'000 (Unaudited)	Professional sports RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment revenue (note 5)				
Sales to external customers	3,356,913	–	–	3,356,913
Segment results	761,026	–	–	761,026
Bank interest income				26,956
Finance costs				(62,229)
Share of losses of associates				(1,043)
Corporate and other unallocated expenses				(43,770)
Profit before tax				680,940

The following table presents the asset and liability information of the Group's operating segments as at 30 June 2020 and 31 December 2019, respectively.

	Mass market RMB'000 (Unaudited)	Athleisure RMB'000 (Unaudited)	Professional sports RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
30 June 2020				
Segment assets	9,616,252	2,407,123	190,329	12,213,704
Corporate and other unallocated assets				725,469
				12,939,173
Segment liabilities	2,663,868	339,089	25,032	3,027,989
Corporate and other unallocated liabilities				2,824,683
				5,852,672
31 December 2019				
Segment assets	8,964,943	2,355,396	131,384	11,451,723
Corporate and other unallocated assets				870,860
				12,322,583
Segment liabilities	2,190,562	342,145	10,930	2,543,637
Corporate and other unallocated liabilities				2,818,708
				5,362,345

5. REVENUE, OTHER INCOME AND GAINS

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

(i) Revenue

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Product categories		
Footwear	2,253,732	1,911,867
Apparel	1,339,301	1,356,032
Accessories	86,028	89,014
	3,679,061	3,356,913
(ii) Other income and gains		
Subsidy income from the PRC government *	139,182	88,401
Rental income	6,192	3,789
Royalty income	11,957	–
Income derived from financial assets at FVPL and structured bank deposits	48,152	39,646
Dividend income from an equity investment designated at FVOCI	–	3,600
Others	4,214	2,348
	209,697	137,784

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

6. OPERATING PROFIT

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Advertising and promotional costs	396,211	449,344
Impairment/(write-back of impairment) of trade receivables, net	43,923	(60,877)
Impairment of right-of-use assets [#]	6,583	–
Provision for inventories	14,536	2,839
Research and development costs [*]	101,320	81,744
Depreciation of property, plant and equipment	33,066	36,322
Depreciation of right-of-use assets	39,549	14,580
Amortisation of intangible assets	7,377	751
Staff costs	456,734	364,119
Equity-settled share award scheme expense	8,085	11,969

* The research and development costs for the six months ended 30 June 2020 included RMB56,401,000 (six months ended 30 June 2019: RMB48,414,000) relating to the depreciation of research and development centres and staff costs for research and development activities, which were also included in the total amounts disclosed above for each of these types of expenses.

[#] During the six months ended 30 June 2020, certain retail stores in athleisure segment were loss making. The Group assessed the recoverable amounts of the right-of-use assets of those retail stores and an impairment loss of RMB6,583,000 was recognised in selling and distribution expenses. The estimates of recoverable amount were based on value-in-use calculations using discounted cash flow projections covering the remaining tenure of the leases.

7. NET FINANCE COSTS

An analysis of net finance costs is as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expense on bank loans	34,948	30,235
Interest expense on discounted bills receivables	23,007	29,457
Interest expense on lease liabilities	4,387	1,857
Amortisation of bank charges on syndicated loans	2,551	680
Fair value loss, net:		
Derivative instruments – transactions not qualified as hedges (note 18(c))	15,081	–
Bank interest income	(2,540)	(26,956)
	77,434	35,273

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 2020 (six months ended 30 June 2019: 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	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax – Overseas		
Charge for the period	166,179	164,944
Under/(over)-provision in prior periods	(4,662)	5,222
	161,517	170,166
Deferred tax	4,066	48,000
	165,583	218,166

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9. DIVIDENDS

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interim dividend – HK6.5 cents (six months ended 30 June 2019: HK12.5 cents) per ordinary share	148,697	274,429

At the board meeting held on 28 August 2020, the board of directors declared and approved an interim dividend of HK6.5 cents (equivalent to approximately RMB5.9 cents) per ordinary share, totalling approximately HK\$163,764,000 (equivalent to approximately RMB148,697,000), for the six months ended 30 June 2020. The interim dividend will be payable in cash with a scrip dividend alternative. This interim dividend has not been recognised as a liability in the interim condensed consolidated financial information.

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

9. DIVIDENDS (Continued)

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends paid during the period:		
Final dividends in respect of the financial years ended:		
31 December 2019 – HK7.5 cents per ordinary share	169,312	–
31 December 2018 – HK9.5 cents per ordinary share	–	202,994
	169,312	202,994

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY**(a) Basic earnings per share**

The calculation of basic earnings per share for the six months ended 30 June 2020 is based on the profit for the period attributable to ordinary equity holders of the Company of RMB247,921,000 (six months ended 30 June 2019: RMB463,012,000) and the weighted average number of ordinary shares in issue during the period as adjusted to reflect the effects of share options exercised (note 23), the Awarded Shares vested (note 24), the share placing, the scrip dividend issued (note 21) and the repurchase of treasury shares (note 22(g)) as follows:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Issued ordinary shares at 1 January	2,512,444,722	2,243,380,000
Effect of share options exercised	–	2,183,287
Effect of Awarded Shares vested	18,244,725	9,958,950
Effect of share placing	–	111,935,890
Effect of scrip dividend issued	192,192	–
Less: Repurchase of treasury shares	(75,585,813)	(73,643,751)
Weighted average number of ordinary shares	2,455,295,826	2,293,814,376

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

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2020 is based on the profit for the period attributable to ordinary equity holders of the Company of RMB247,921,000 (six months ended 30 June 2019: RMB463,012,000) and the weighted average number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, as adjusted to reflect the dilution effect of Awarded Shares and share option as follows:

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Weighted average number of ordinary shares as used in the basic earnings per share calculation	2,455,295,826	2,293,814,376
Effect of dilution – weighted average number of ordinary shares:		
– Share award	18,472,842	35,841,050
– Share option	2,870,237	8,330,400
Weighted average number of ordinary shares	2,476,638,905	2,337,985,826

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11. INVENTORIES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
	Raw materials	133,528
Work in progress	83,915	104,532
Finished goods	1,063,549	859,650
Less: Provision for inventories	1,280,992 (72,566)	1,104,235 (57,949)
	1,208,426	1,046,286

12. TRADE AND BILLS RECEIVABLES

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables		3,354,833	3,004,086
Less: Impairment of trade receivables		(451,611)	(407,637)
	(a)	2,903,222	2,596,449
Bills receivables	(b)	414,500	313,500

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

Notes:

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 3 months	1,734,051	1,760,051
3 to 6 months	620,175	537,640
Over 6 months	548,996	298,758
	2,903,222	2,596,449

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 3 months	41,000	222,000
3 to 6 months	273,500	44,000
Over 6 months	100,000	47,500
	414,500	313,500

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

13. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Prepayments		64,592	71,244
Deposits and advance payments to suppliers		333,066	373,848
Deposits and advance payments to subcontractors		79,492	110,131
Right-of-return assets		7,170	10,159
Loan to a then investee company	(a)	60,000	60,000
Other Asset	(b)	65,010	65,010
Value added tax ("VAT") recoverable		172,507	143,033
Other receivables	(c)	48,020	44,848
Other deposits		16,259	43,023
		846,116	921,296
Less: Non-current portion		(72,080)	(103,557)
		774,036	817,739

Notes:

- (a) Balance represented a loan granted to a then investee company in prior years. The loan bore interest at 4.5675% per annum and was repayable in October 2018. The loan was secured by land and building of a related party of the then investee company located at Putian, Fujian Province, the PRC.

As at 31 December 2019 and 30 June 2020, the balance was overdue and the Group was in the progress of recovering the balance through the secured land and building. The fair value of the secured land and building as at 30 June 2020 was estimated by the directors with reference to the valuation report performed by an independent valuer of the secured land and building as at 31 December 2019, which the fair value is higher than the loan's carrying amount as at 30 June 2020 and no impairment in value was considered necessary accordingly.

- (b) On 6 June 2019, the Group entered into an agreement (the "Disposal Agreement") with an independent third party (the "Buyer") to dispose of its entire interests in a wholly-owned subsidiary, which mainly held a parcel of land in Fujian, the PRC. According to the Disposal Agreement, the total consideration would be settled by: (i) a cash consideration of RMB59,665,000, and (ii) certain areas of the building and car parks to be constructed on the land of this disposed subsidiary (the "New Properties"). To the best of the knowledge, information and belief of the Company's directors, having made all reasonable enquiry, the Group does not expect any obstacles to receive the New Properties from the Buyer upon the completion of the construction. The fair value of the New Properties on the disposal date was estimated by management at RMB65,010,000 and is recognised by the Group as the right to receive the New Properties ("Other Asset"). To the best estimation of the directors, the construction of the New Properties is expected to be completed in 2023.

- (c) Included in the other receivables are amounts due from the associates of RMB1,022,000 (31 December 2019: RMB869,000), which are repayable on demand.

Except for the loan to a then investee company mentioned in note (a) above, these financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts.

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

	Note	RMB'000
At 1 January 2020 (audited)		158,100
Changes in fair values	(a)	8,400
At 30 June 2020 (unaudited)		166,500

As at 30 June 2020, the Group held two unlisted investments with fair values of RMB140,500,000 (31 December 2019: RMB130,400,000) and RMB26,000,000 (31 December 2019: RMB27,700,000), representing 5% and 11% (31 December 2019: 5% and 11%) equity interests in two corporate entities, which were established in the PRC on 22 December 2014 and 22 October 2012 with paid-up capital of RMB1,900,000,000 and RMB300,000,000, respectively.

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

Note:

- (a) During the period, fair value gain of RMB8,400,000 (six months ended 30 June 2019: fair value losses of RMB5,000,000) in respect of the Group's equity investments designated at FVOCI were recognised in the interim condensed consolidated statement of comprehensive income.

15. STRUCTURED BANK DEPOSITS

The structured bank deposits are wealth management products issued by a bank in Mainland China with fixed maturity periods of eight to ten months (31 December 2019: six to ten months) and bear interest at floating rates based on the fluctuation in the London Interbank Offered Rate ("LIBOR"). They were classified as financial assets at fair value through profit or loss at the end of the reporting period as their contractual cash flows are not solely payments of principal and interest.

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

	Note	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Term deposits and time deposits		628,689	–
Cash and bank balances		3,476,491	3,686,538
		4,105,180	3,686,538
Less: Pledged bank deposits for:			
– short-term bank loans	19	(553,868)	(717,034)
Less: Non-current term deposits		(500,000)	–
Cash and cash equivalents		3,051,312	2,969,504

At the end of the reporting period, the cash and bank balances, time deposits and term deposits of the Group denominated in RMB amounted to RMB3,931,212,000 (2019: RMB3,525,650,000). 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. Except for the term deposits of RMB500,000,000 (2019: Nil) which are made for 1,080 days and earn interest at a rate of 3.84% per annum, the remaining time deposits are made for one day (2019: one day) depending on the immediate cash requirements of the Group, and earn interest at the respective deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

17. TRADE PAYABLES

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 3 months	1,809,607	1,308,799
3 to 6 months	96,319	45,634
Over 6 months	68,143	65,267
	1,974,069	1,419,700

Notes:

- The trade payables are non-interest-bearing and are normally settled within 60 to 120 days.
- Included in the trade payables are amounts due to associates of RMB16,695,000 (31 December 2019: Nil) which is repayable on demand.

18. OTHER PAYABLES AND ACCRUALS AND DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Contract liabilities	(a)	111,394	99,426
Refund liabilities		11,950	16,932
Other payables	(b)	226,249	257,741
VAT payables		5,507	5,942
Accruals		551,698	600,545
Other payables and accruals		906,798	980,586
Derivative financial instruments	(c)	15,351	–

Notes:

- (a) Contract liabilities represented short-term advances received before delivery of sportswear goods to customers. Revenue that was included in the contract liabilities at the beginning of the reporting period amounting to RMB99,426,000 was recognised during the period ended 30 June 2020.
- (b) As at 31 December 2019, included in the other payables were amounts due to associates of RMB6,565,000 which was repayable on demand.
- (c) During the period ended 30 June 2020, the Group entered into various interest rate swap ("IRS") contracts with a creditworthy financial institution with an aggregate notional amount of HK\$1,440,000,000 (equivalent to RMB1,324,800,000) for certain of its floating-interest rate loans denominated in Hong Kong dollars to manage its exposure to interest rate fluctuations for the period from 2020 to 2023.

The IRS contracts are not designated for hedging purposes and are measured at fair value through profit or loss. Changes in the fair value of the IRS contracts amounting to RMB15,081,000 (six months ended 30 June 2019: Nil) were debited to the interim condensed consolidated income statement during the period.

19. INTEREST-BEARING BANK BORROWINGS

	Notes	30 June 2020 (Unaudited)			31 December 2019 (Audited)		
		Effective interest rate per annum	Maturity	RMB'000	Effective interest rate per annum	Maturity	RMB'000
Current							
Revolving loans	(b)	HIBOR+1.10% to HIBOR+1.35%	2021	689,992	HIBOR+1.10% to HIBOR+1.35%	2020	1,081,072
Other bank loans	(b)	1.00% to 1.30%	2021	14,276	1.10% to 1.30%	2020	5,266
				704,268			1,086,338
Non-current							
Syndicated loans	(a)	HIBOR+1.52%	2023	1,636,780	HIBOR+1.52%	2023	1,266,924
Other bank loans	(b)	1.10% to 1.30%	2021 to 2023	1,425	1.10% to 1.30%	2021 to 2023	1,603
				1,638,205			1,268,527
				2,342,473			2,354,865

19. INTEREST-BEARING BANK BORROWINGS (Continued)

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Analysed into:		
Within one year and on demand	704,268	1,086,338
In the second year	445	546
In the third to fifth years, inclusive	1,637,760	1,267,981
	2,342,473	2,354,865

Notes:

- (a) The syndicated loans are supported by a corporate guarantee provided by certain of the Company's wholly-owned subsidiaries, to the extent of HK\$1,800,000,000 (equivalent to approximately RMB1,656,000,000) (31 December 2019: HK\$1,800,000,000 (equivalent to approximately RMB1,621,620,000) as at the end of the reporting period.
- (b) The revolving loans and other bank loans are supported by:
- (i) the pledge of certain of the Group's deposits amounting to RMB553,868,000 (31 December 2019: RMB717,034,000) in aggregate; and
 - (ii) corporate guarantees provided by wholly-owned subsidiaries of the Company to the extent of HK\$1,442,391,000 and Euro ("EUR") 450,000 (equivalent to approximately RMB1,327,000,000 and RMB3,569,000 respectively) (31 December 2019: HK\$1,444,350,000 and EUR450,000 (equivalent to approximately RMB1,301,215,000 and RMB3,498,000 respectively)) at the end of the reporting period.

As at 30 June 2020, except for the bank loans of RMB1,981,000 (31 December 2019: RMB6,869,000) and RMB13,721,000 (31 December 2019: Nil) which were denominated in EUR and United States dollars ("US\$"), all bank borrowings are denominated in HK\$.

20. DEFERRED TAX LIABILITIES

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

At 30 June 2020, there were no significant unrecognised deferred tax liabilities (31 December 2019: 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**At 30 June 2020**

	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: 2,519,440,501 ordinary shares of HK\$0.01 each	25,195	22,157

At 31 December 2019

	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: 2,512,444,722 ordinary shares of HK\$0.01 each	25,125	22,093

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

	Note	Number of shares of HK\$0.01 each	Share capital HK\$'000	Share capital RMB'000
At 1 January 2020		2,512,444,722	25,125	22,093
Shares issued in lieu of cash dividend	(a)	6,995,779	70	64
At 30 June 2020		2,519,440,501	25,195	22,157

Note:

- (a) On 8 May 2020, the shareholders of the Company had approved at the annual general meeting the payment of 2019 final dividend of HK7.5 cents (equivalent to approximately RMB6.4 cents) per ordinary share payable in cash with a scrip dividend alternative. During the six months ended 30 June 2020, 6,995,779 ordinary shares were issued and allotted by the Company at HK\$2.763 each to shareholders of the Company who had elected to receive scrip shares in lieu of cash. The total value of scrip dividend issued amounted to HK\$19,329,000 (equivalent to approximately RMB17,783,000), representing the addition of nominal value of ordinary shares of HK\$70,000 (equivalent to approximately RMB64,000) and share premium of HK\$19,259,000 (equivalent to approximately RMB17,719,000). During the six months ended 30 June 2020, 1,576,094 (six months ended 30 June 2019: Nil) treasury shares amounting to RMB4,006,000 (six months ended 30 June 2019: Nil) in form of scrip dividend were received by the Company.

22. RESERVES

The amounts of the Group's reserves and movements therein for the six months ended 30 June 2020 are presented in the interim condensed consolidated statement of changes in equity.

(a) Share premium

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

(b) Capital reserve

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

(c) Statutory surplus fund

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

(d) Share option reserve

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

(e) Exchange fluctuation reserve

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

(f) Fair value reserve

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

(g) Treasury shares

Treasury shares reacquired and held by the Company are recognised directly in equity at cost. During the six months ended 30 June 2020, 3,000,000 (six months ended 30 June 2019: 660,000) treasury shares were purchased at cash consideration of RMB5,985,000 (six months ended 30 June 2019: RMB3,029,000) and 1,576,094 (six months ended 30 June 2019: Nil) treasury shares amounting to RMB4,006,000 (six months ended 30 June 2019: Nil) in form of scrip dividend were received by the Company. In addition, 9,120,000 treasury shares were transferred to the awardees upon the respective Awarded Shares vested. As at 30 June 2020, the Group had treasury shares of 59,639,412 (31 December 2019: 64,183,318), out of which 24,950,000 were granted to certain participants of the Share Award Scheme (note 24) but remained unvested.

(h) Share award reserve

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

23. SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Share Option Scheme") pursuant to the shareholders' written resolution passed on 7 May 2008. Further details of the Share Option Scheme were disclosed in the Company's annual report for the year ended 31 December 2019.

As at 30 June 2020, a total of 12,955,000 (31 December 2019: 23,055,000) share options (the "Share Options") under the Share Option Scheme remained outstanding. During the six months ended 30 June 2020, there were 10,100,000 share options lapsed (six months ended 30 June 2019: Nil). During the six months ended 30 June 2019, the subscription rights attaching to 2,500,000 and 5,545,000 share options granted under the Share Option Scheme were exercised at the subscription prices of HK\$2.35 and HK\$4.11 per share, resulting in the issue of 8,045,000 additional ordinary shares of the Company and additional share capital of approximately HK\$80,000 (equivalent to approximately RMB70,000) and share premium account of approximately HK\$28,585,000 (equivalent to approximately RMB25,117,000), before related issuance expenses.

At the date of approval of this interim financial information, the Company had 12,955,000 Share Options outstanding under the Share Option Scheme, which represented approximately 0.5% of the issued share capital of the Company as at that date.

24. SHARE AWARD SCHEME

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

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

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.

24. SHARE AWARD SCHEME (Continued)

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

Prior to 10 January 2017, no Awarded Shares have been granted. On 10 January 2017, the Board resolved to grant 50,000,000 Awarded Shares to certain selected participants, who are not a director, chief executive or substantial shareholder of the Company, nor an associate (as defined under the Listing Rules) of any of them at nil consideration.

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

Grant date	Number of Awarded Shares to vest	Vesting period	Fair value at grant date HK\$ per share
10 January 2017	5,000,000	10 January 2017 to 10 January 2018	3.21
10 January 2017	7,500,000	10 January 2017 to 10 January 2019	3.21
10 January 2017	10,000,000	10 January 2017 to 10 January 2020	3.21
10 January 2017	10,000,000	10 January 2017 to 10 January 2021	3.21
10 January 2017	17,500,000	10 January 2017 to 10 January 2022	3.21

Fair values of the Awarded Shares at grant date were measured by the quoted market price of the shares at the grant date.

Movements in the number of Awarded Shares were as follows:

	Number of Awarded Shares
Outstanding as at 1 January 2019	41,210,000
Awarded Shares forfeited	(200,000)
Awarded Shares vested	(6,940,000)
Outstanding as at 31 December 2019 and 1 January 2020	34,070,000
Awarded Shares vested	(9,120,000)
Outstanding as at 30 June 2020	24,950,000

During the period, share award scheme expense of RMB8,085,000 (six months ended 30 June 2019: RMB11,969,000) was recognised in the interim condensed consolidated income statement.

During the period, an amount of RMB1,325,000 (six months ended 30 June 2019: RMB965,000) was transferred from share award reserve to retained profits in respect of vesting of 9,120,000 Awarded Shares (30 June 2019: 6,940,000). As at 30 June 2020, the cumulative Awarded Shares forfeited was 4,400,000 (31 December 2019: 4,400,000).

25. COMMITMENTS

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Contracted for commitments in respect of:		
– construction of new buildings	124,689	159,199
– construction of new manufacturing facilities	22,589	16,689
– advertising and promotional expenses	216,634	263,753
	363,912	439,641

26. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in this interim financial information, the Group had the following material transactions with related parties during the period:

- (i) The Group entered into several lease agreements for the period from 2021 to 2023 with Hu Du Century (Xiamen) Investment Management Co., Ltd., a company established in the PRC and a wholly-owned subsidiary of Wan Xing, the ultimate holding company of the Company. As at 30 June 2020, right-of-use assets of RMB18,974,000 (31 December 2019: RMB17,210,000) and lease liabilities of RMB20,276,000 (31 December 2019: RMB17,872,000) in respect of these leases were recognised in the interim condensed consolidated statement of financial position. During the period ended 30 June 2020, depreciation of right-of-use assets of RMB4,725,000 (six months ended 30 June 2019: RMB3,858,000) and interest expenses on lease liabilities of RMB473,000 (six months ended 30 June 2019: RMB493,000) were charged to the interim condensed consolidated income statement.

These transactions also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

- (ii) During the period ended 30 June 2020, purchases amounting to RMB18,786,000 (six months ended 30 June 2019: Nil) were made by the Group from associates of the Group.

These transactions were entered into by the Group and its related companies in accordance with the terms of the respective agreements.

- (b) Outstanding balances with related parties:

Details of the Group's other receivable and trade payable balances with the associates are disclosed in notes 13 and 17 to the interim condensed consolidated financial information, respectively.

27. FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY

At 30 June 2020, the Group discounted certain commercial bills receivable with a carrying amount in aggregate of approximately RMB1,140,500,000 (31 December 2019: RMB1,624,736,000) to a bank in the PRC (the "Derecognised Bills") for cash. The Derecognised Bills had a remaining maturity from approximately 59 days to 238 days (31 December 2019: 31 days to 294 days) at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC bank and/or the issuers of bills receivable default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair value of the Group's Continuing Involvement in the Derecognised Bills is not significant.

During the six months ended 30 June 2020, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills (six months ended 30 June 2019: Nil). No gains or losses were recognised from the Continuing Involvement, both during the period or cumulatively. The discount of bills receivables of RMB1,140,500,000, RMB2,873,036,000 and RMB1,282,300,000 has been made during the period ended 30 June 2020, the year ended 31 December 2019 and the period ended 30 June 2019, respectively.

28. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

The fair values of non-current term deposits and non-current portion of 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 changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 30 June 2020 were assessed to be insignificant. The fair values of non-current term deposits and non-current portion of interest-bearing bank borrowings approximate to their carrying amounts as at the end of the reporting period.

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

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

The fair values of bills receivables and structured bank deposits 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 key observable inputs in the valuation are time to expiration and risk free rate. The fair values of bills receivables and structured bank deposits approximate to their carrying amounts as at the end of the reporting period. In respect of the derivative financial instruments, the Group relies on bank valuations to determine the fair value of the instruments, these valuations maximise the use of observable market data. Key observable inputs in the valuations are floating rates, fixed rates, time to expiration and discount rate. The fair value of the unlisted equity investments designated at fair value through other comprehensive income have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry and geography, and calculate an appropriate price multiple, such as price to net book value ("P/B") multiple, for each comparable company identified. The multiple is calculated by dividing the net book value per share of the comparable company by the market price per share. The trading multiple is then discounted for considerations such as marketability between the comparable companies based on company-specific facts and circumstances.

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

28. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Below is a summary of significant unobservable inputs to the valuation of unlisted equity investments together with a quantitative sensitivity analysis as at 30 June 2020:

Description	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Unlisted equity investments	Market multiples	P/B multiple of peers	30 June 2020: 0.23x to 1.57x (31 December 2019: 0.17x to 8.28x)	5% (31 December 2019: 5%) increase/decrease in multiple would result in increase/decrease in fair value by RMB8.3 million (31 December 2019: RMB7.9 million)
		Discount for lack of marketability	30 June 2020: 20% (31 December 2019: 20%)	2.5% (31 December 2019: 2.5%) increase/decrease in multiple would result in decrease/increase in fair value by RMB5.2 million (31 December 2019: RMB4.9 million)

Fair value hierarchy

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

Assets measured at fair value:**As at 30 June 2020**

	Fair value measurement using			Total RMB'000 (Unaudited)
	Quoted prices in active markets (Level 1) RMB'000 (Unaudited)	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Significant unobservable inputs (Level 3) RMB'000 (Unaudited)	
Equity investments designated at fair value through other comprehensive income	–	–	166,500	166,500
Structured bank deposits	–	400,000	–	400,000
Bills receivables	–	414,500	–	414,500
	–	814,500	166,500	981,000

As at 31 December 2019

	Fair value measurement using			Total RMB'000 (Audited)
	Quoted prices in active markets (Level 1) RMB'000 (Audited)	Significant observable inputs (Level 2) RMB'000 (Audited)	Significant unobservable inputs (Level 3) RMB'000 (Audited)	
Equity investments designated at fair value through other comprehensive income	–	–	158,100	158,100
Structured bank deposits	–	800,000	–	800,000
Bills receivables	–	313,500	–	313,500
	–	1,113,500	158,100	1,271,600

28. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Assets measured at fair value: (Continued)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Equity investments designated at FVOCI:		
At 1 January	158,100	114,200
Fair value gains/(losses) recognised in other comprehensive income	8,400	(5,000)
Addition	–	35,000
At 30 June	166,500	144,200

Liabilities measured at fair value:

As at 30 June 2020

	Fair value measurement using			Total RMB'000 (Unaudited)
	Quoted prices in active markets (Level 1) RMB'000 (Unaudited)	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Significant unobservable inputs (Level 3) RMB'000 (Unaudited)	
Derivative financial instruments	–	15,351	–	15,351

The Group did not have any financial liabilities measured at fair value as at 31 December 2019.

During the period ended 30 June 2020, 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 (six months ended 30 June 2019: Nil).

29. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The interim condensed consolidated financial information was approved and authorised for issue by the board of directors on 28 August 2020.

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
"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
"Company"	Xtep International Holdings Limited
"Corporate Governance Code"	The Corporate Governance Code as set out in Appendix 14 of the Listing Rules
"Director(s)"	The director(s) of the Company
"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 67% by Mr. Ding Shui Po's family trust, 21% by Ms. Ding Mei Qing's family trust and 12% by Mr. Ding Ming Zhong's family trust
"HK\$" and "HK cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange" and "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Joyrun"	A leading Chinese App for runners
"Listing Date"	3 June 2008, on which dealing in the Shares first commenced on the Hong Kong Stock Exchange
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"O2O"	Online to Offline
"Period"	The six months ended 30 June 2020
"POS"	Points of sale

Glossary

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

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