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Xtep International Holdings Limited
特步國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1368)

2016 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the "**Board**") of Xtep International Holdings Limited (the "**Company**") is pleased to announce the audited results of the Company and its subsidiaries (together referred to as the "**Group**") for the year ended 31 December 2016. This announcement, containing the full text of the 2016 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of annual results. The printed version of the Company's 2016 Annual Report will be delivered to the shareholders of the Company and will be available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and of the Company at www.xtep.com.hk.

CONTENTS

ABOUT THE GROUP

The Group established its own sportswear brand XTEP in 2002 and XTEP is now a leading professional sports brand with stylish and functional products in the PRC. The Group manages an extensive distribution network with exclusive distributors that includes approximately 6,800 stores nationwide covering 31 provinces, autonomous regions and municipalities across the PRC. The Group has been principally engaged in the design, development, manufacturing, sales and marketing and brand management of sports footwear, apparel and accessories. The Company's Shares commenced trading on the Main Board of Hong Kong Stock Exchange on 3 June 2008.

6,800 STORES

COVERING 31 PROVINCES

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Tan Wee Seng (陳偉成)
Sin Ka Man (冼家敏)
Gao Xian Feng (高賢峰)
Bao Ming Xiao (鮑明曉)

BOARD COMMITTEES

Audit Committee

Sin Ka Man (冼家敏) (Chairman)
Tan Wee Seng (陳偉成)
Gao Xian Feng (高賢峰)

Remuneration Committee

Sin Ka Man (冼家敏) (Chairman)
Ding Mei Qing (丁美清)
Gao Xian Feng (高賢峰)

Nomination Committee

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

COMPANY SECRETARY

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

AUTHORIZED REPRESENTATIVES

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

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISER AS TO HONG KONG LAWS

Luk & Partners

AUDITOR

Ernst & Young

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

INVESTOR RELATIONS CONSULTANTS

Strategic Financial Relations Limited

COMPANY WEBSITE

www.xtep.com.hk

FINANCIAL HIGHLIGHTS FOR 2016

- Total revenue increased by 1.9% to RMB5,396.6 million (2015: RMB5,295.1 million)
- Overall gross profit margin rose 4 years in a row. 2016 gross profit margin increased by 1.0 percentage point to 43.2%, attributable to the shift of product mix towards higher margin professional sportswear products
- Apparel gross profit margin increased significantly by 2.0 percentage points to 41.7%, while footwear gross profit margin went up to 44.0%, and accessories gross profit margin expanded to 41.0% as well
- Operating profit before provisions increased by 19.6% to reach RMB1,139.2 million (2015: RMB952.8 million)
- Net profit for the year declined by 15.2% to RMB527.9 million (2015: RMB622.6 million) mainly due to the provisions of trade receivables of RMB222.2 million (2015: RMB31.7 million) which were mainly related to the restructure and realignment of XTEP Kids business
- Average inventory turnover days for the Year was 51 days, represented a continuing improvement for 4 years in a row (2015: 58 days; 2014: 71 days; 2013: 79 days)
- Strong cashflow, with total bank deposits and bank balances of RMB4,245.3 million and net cash inflow from operating activities of RMB345.8 million
- Proposed final dividend HK 3.25 cents and special dividend HK 2.75 cents per Share, together with interim dividend of HK 10.5 cents, annual payout ratio maintained at 60%

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

Dividend per Share

– Final **HK3.25** cents

– Special **HK2.75** cents

Total Payout Ratio

60%

Total Revenue

RMB **5,396.6** million

Gross Profit Margin

43.2%

Profit Attributable to Equity Shareholders

RMB **527.9** million

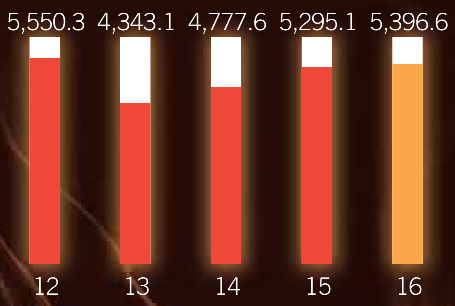
FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December

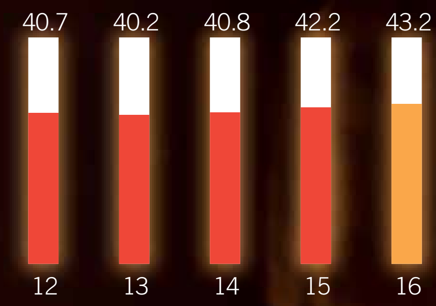
	2016	2015	2014	2013	2012
Profitability data (RMB million)					
Revenue	**5,396.6**	5,295.1	4,777.6	4,343.1	5,550.3
Gross profit	**2,331.3**	2,236.7	1,946.9	1,747.6	2,257.7
Operating profit	**917.0**	921.0	808.7	895.4	1,131.3
Profit attributable to equity Shareholders	**527.9**	622.6	478.0	606.0	810.0
Basic earnings per Share (RMB cents) (Note 1)	**23.89**	28.97	21.95	27.84	37.22
Profitability ratios (%)					
Gross profit margin	**43.2**	42.2	40.8	40.2	40.7
Operating profit margin	**17.0**	17.4	16.9	20.6	20.4
Net profit margin	**9.8**	11.8	10.0	14.0	14.6
Effective tax rate	**33.8**	28.7	36.9	30.1	27.0
Return on average total equity holders' equity (Note 2)	**10.8**	13.0	10.4	13.8	19.8
Operating ratios (as a percentage of revenue) (%)					
Advertising and promotional costs	**11.8**	14.7	13.1	11.2	11.4
Staff costs	**10.5**	9.0	9.4	9.3	7.1
Research and development costs	**2.6**	2.3	2.2	2.6	1.7
As of 31 December					
Assets and liabilities data (RMB million)					
Non-current assets	**956.9**	1,063.2	917.3	954.6	663.3
Current assets	**7,217.0**	7,050.8	6,947.1	6,352.2	5,836.2
Current liabilities	**3,029.4**	2,966.4	2,350.3	2,356.0	1,436.8
Non-current liabilities	**121.7**	275.9	803.8	443.2	782.9
Non-controlling interest	**69.3**	19.8	9.9	1.9	5.4
Shareholders' equity	**4,953.5**	4,851.9	4,700.4	4,505.7	4,274.4
Asset and Working Capital data					
Current asset ratios	**2.4**	2.4	3.0	2.7	4.1
Gearing ratios (%) (Note 3)	**18.4**	19.8	23.4	20.9	16.1
Net asset value per Share (RMB) (Note 4)	**2.26**	2.22	2.16	2.07	1.97
Average inventory turnover days (days) (Note 5)	**51**	58	71	79	70
Average trade receivables turnover days (days) (Note 6)	**119**	98	91	91	74
Average trade payables turnover days (days) (Note 7)	**107**	96	85	76	54
Overall working capital days (days)	**63**	60	77	94	90

FIVE-YEAR FINANCIAL SUMMARY

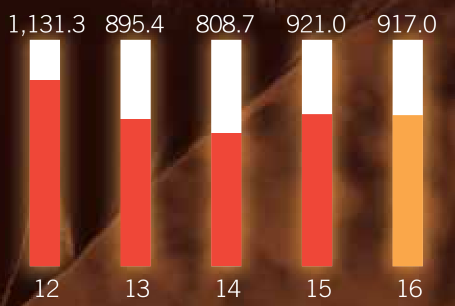
REVENUE (RMB MILLION)



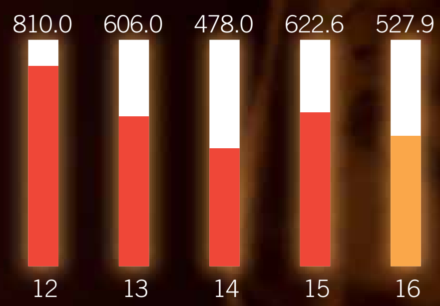
GROSS PROFIT MARGIN (%)



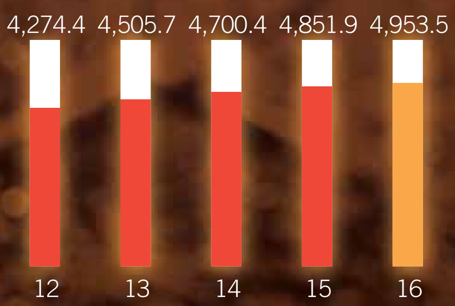
OPERATING PROFIT (RMB MILLION)



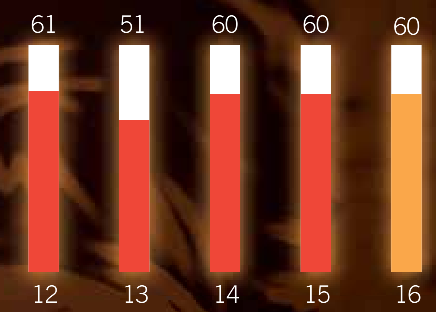
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS (RMB MILLION)



SHAREHOLDERS' EQUITY (RMB MILLION)



TOTAL DIVIDEND PAYOUT RATIO (%)



NOTES:

1) The calculation of basic earnings per Share is based on the profit attributable to equity Shareholders of the Company divided by the weighted average number of ordinary shares in issue during the relevant year.
2) Return on average total equity holders' equity is equal to the profit for the year divided by the average of opening and closing total equity holders' equity.
3) The calculation of gearing ratio is based on the total borrowings divided by the total assets of the Group at the end of the year.
4) The calculation of net asset value per Share is based on the total number of Shares in issue at the end of the year.
5) Average inventory turnover days is equal to the average of opening and closing inventory divided by costs of sales and multiplied by 365 days (or 366 days in 2012 and 2016).
6) Average trade receivables turnover days is equal to the average of opening and closing trade receivables divided by revenue and multiplied by 365 days (or 366 days in 2012 and 2016).
7) Average trade payables turnover days is equal to the average of opening and closing trade payables divided by cost of sales and multiplied by 365 days (or 366 days in 2012 and 2016).

2016 AWARDS AND ACCREDITATIONS

BRANDING

Top Ten Sports Brand of 2015
— 2015 China Footwear Industry Ceremony, Shoes.net.cn

SCI-Tech Demonstration Enterprise in China Leather and Footwear Industry
— National Leather and Footwear Industry Productivity Enhancement Center, National Engineering Research Center for Leather and Products

2016 Top 50 Chain-Brand Awards
— Chinese Chain-Brand Development Conference
- Top 50 Chain-Brand for Influence
- Top 50 Chain-Brand for Qualify

2016 E-Commerce Awards
— China Electronic Commerce Association
- Industry Chain Integration Innovation Award
- Top 20 Innovative Business Model

2016 Golden Wheat Awards
— Hangzhou municipal People's Government, Department of Commerce at Zhejiang Province, Zhejiang Daily Press Group
- Xtep 3.21 Running Festival won Silver Award in shoes and bags category
- "Fire-up Engines, Lead Double Eleven" (火力全開 領跑雙11) won Excellence Award in shoes and bags category

LEADERSHIP, EMPLOYEES AND HUMAN RESOURCES

Key Enterprise of 2016
— Communist Party of China Quanzhou Fengze District Committee, Quanzhou Fengze District People's Government

Jinjiang Top Ten Corporate Culture Pioneer
— Jinjiang Economy News

2016 Quanzhou Talent Highland
— Quanzhou City Commission

Chief Expert in Sporting Goods Industry for China Sports Economy Research Center of National Research Institute of Sport Science (Mr. Ding Shui Po)
— China Sports Economy Research Center

Committee Member of Marathon Committee of Chinese Athletic Association (Mr. Ding Shui Po)
— Chinese Athletic Association

National Outstanding Entrepreneur 2015–2016 (Mr. Ding Shui Po)
— China Entrepreneurs Confederation

Annual Leader 2015 (Mr. Ding Shui Po)
— China Footwear Industry Ceremony, Shoes.net.cn

Best Employer in China Award
— Economy Magazine, China Association for Professional Manager
- Professional Manager Friendly Enterprise

Enterprise Education Top 100 in China 2016
— Enterprise Education Top 100 in China
- Most Valuable Corporate University (Xtep University)
- Corporate Training Innovation Gold Award
- Top 10 Educational Entrepreneur (Mr. Ding Shui Po)

INVESTOR RELATIONS

2016 Asiamoney Corporate Governance Poll

— **Asiamoney**

- Best Companies in Asia for Corporate Governance
- Best Overall for Corporate Governance in Hong Kong
- Best for Disclosure and Transparency in Hong Kong
- Best for Investor Relations in Hong Kong
- Best for Corporate Social Responsibility in Hong Kong
- Best for Shareholders' Rights and Equitable Treatment in Hong Kong
- Best for Responsibilities of Management and the Board of Directors in Hong Kong

2016 Asiamoney Best Managed Companies Poll

— **Asiamoney**

- Asiamoney Best Managed Medium Cap Company in China

Hong Kong Corporate Governance Excellence Awards 2016

— **The Chamber of Hong Kong Listed Companies (CHKLC), The Centre for Corporate Governance and Financial Policy, Hong Kong Baptist University (CCGFP)**

- Main Board Companies – Hang Seng Composite Index Constituent Companies

HKIRA Investor Relations Awards

— **Hong Kong Investor Relation Association**

- Best IR Company – Small Cap
- Best IR By CFO (Mr. Ho Yui Pok) – Small Cap
- Best IR Presentation Collaterals – Small Cap

Institutional Investor 2016 All-Asia (ex-Japan) Executive Team

— **Institutional Investor**

- Best CFO (Overall in Consumer/Discretionary sector) – (Mr. Ho Yui Pok)
- Best CFO (Nominated by the Sell Side in Consumer/Discretionary sector) – (Mr. Ho Yui Pok)

The Quam Investor Relations Awards

— **QuamIR**

- 2015 Quam Investor Relations Awards (QIRA) – Main Board Category

Directors of The Year Awards 2016

— **The Hong Kong Institute of Directors**

- Directors of The Year – Listed Companies Executive Directors (Mr. Ho Yui Pok)

2015 LACP Vision Awards

— **League of American Communications Professionals**

- Platinum: Consumer Durables - Textile/ Apparel/ Luxury Industry
- Gold: Most Improved annual report worldwide
- Gold: Most Improved report in the Asia-Pacific region
- Silver: Retailing – Multi-line Retail Industry
- #18 of Top 100 Annual Reports Worldwide
- #5 of Top 80 Annual Reports in the Asia-Pacific Region
- Top 50 Chinese Annual Reports of 2015

2016 International ARC Awards

— **MERCOMM INC.**

- Gold Winner: Cover Photo/Design: Sports Equipment & Goods
- Silver Winner: Interior Design: Sports & Talent Management
- Silver Winner: Interior Design: Sports Equipment & Goods
- Bronze Winner: Cover Photo/Design: Sports& Talent Management
- Honors: Traditional Annual Report: Sports & Talent Management

Galaxy Awards 2016

— **MERCOMM INC.**

- Honors: Annual Reports – Print – Sporting Goods

CHAIRMAN'S STATEMENT

DING SHUI PO
Chairman

A YEAR OF CHANGE

Dear Shareholders,

On behalf of the Board, I am pleased to announce the annual results of the Group for the year ended 31 December 2016.

RESTRUCTURING TO ENSURE FUTURE SUSTAINABLE GROWTH

XTEP's restructuring towards being a professional sports brand with stylish and functional products deepened in 2016, with internal resource realignment. Running remained the core sports category focus for the Group, and XTEP's professional sports brand image was well accepted by our target customers. We consolidated our comprehensive management of products, branding and marketing, and retail management. The XTEP professional sports products and XTEP Kids products were distributed through our highly effective Exclusive Distributors and online e-commerce platform, all to benefit the overall long-term growth prospects of the Group.

Restructurings will often lead to temporary adjustments in growth rate. In 2016 the Group achieved growth of 1.9% in revenue to RMB5,396.6 million (2015: RMB5,295.1 million). The product mix shift towards higher margin professional sportswear products continued to drive increase in margins. Gross profit margin gained 1.0 percentage point in to 43.2% (2015: 42.2%), and operating profit before provision for impairment of trade receivables rosed by 19.6% to RMB1,139.2 million (2015: RMB952.8 million). Profit attributable to equity Shareholders declined by 15.2% to RMB527.9 million (2015: RMB622.6 million) mainly due to the provisions for impairment of trade receivables amounted to RMB222.2 million (2015: RMB31.7 million) which were related to the restructuring and realignment of XTEP Kids business. Basic earnings per Share amounted to RMB23.89 cents (2015: RMB28.97 cents). The Group maintained strong cashflow, with total bank deposits and bank balances of RMB4,245.3 million and cash from operating activities of RMB345.8 million. We continued to believe in giving a substantial portion of our profits back to Shareholders. To show our appreciation to Shareholders for their long-term support of the Group, the Board recommends and has resolved to declare a final dividend of HK3.25 cents (2015: HK7.0 cents) per Share and a special dividend of HK2.75 cents (2015: HK3.5 cents) per Share. Together with an interim dividend of HK10.5 cents (2015: HK10.0 cents) per Share, the annual payout ratio maintained at 60% (2015: 60%).

SPORTS MARKETING BOLSTERING PROFESSIONAL SPORTS BRAND IMAGE

Following the directional change of marketing emphasis to professional sports, we continued to be the sportswear sponsor of the most number of marathons in China in 2016, with 44 marathons and running events sponsored or organized by the Group. As XTEP's core product line remained to be running products, we feel that marathons are one of the best ways for us to directly reach our target consumers – Chinese runners, and sales of running products generally show positive momentum around the time a marathon is held locally. To boost the "Chinese Runner's Choice" image further, we have signed on additional sports spokespersons, such as Xie Zhenye, who represented China in the 2016 Olympics in the 4x100m relay and 100m dash.

In April 2016, we launched our comprehensive football strategy – "Blade Project", with the goal of serving 5 million Chinese football youths in the coming five years. The strategy included the continuation in sponsorship of XTEP China College Futsal League for the 5th consecutive year since 2011 and XTEP China University Football League for the 4th consecutive year, as well as adding the sponsorship of China High School Football League, serving over 17,000 participants each year in total. We have established official sportswear partnerships with many Chinese youth football education and training services providers, who will promote XTEP products through their events. Besides, we have signed Andriy Shevchenko, the former "European Footballer of the Year" and current head coach of the Ukraine National Football Team, to be the spokesman for our brand new football products launched in June 2016. Football will be an additional product series that complements running for our future growth.

The Group feels that branding not only entails advertisement and promotions efforts, but also, XTEP stores as a physical representation of our brand. Thus, we have continued our store upgrades from a fashion to a sports-oriented look to 7th generation designs, completely changing color-tones and display methods, giving customers enhanced experiences of the new XTEP sports image. We understand that the customers are looking more and more for a shopping experience, in addition to quality products.

INNOVATIVE FUNCTIONAL SPORTS PRODUCTS, ALWAYS VALUE FOR MONEY

The Group believes that innovation is absolutely necessary in defining the value of a brand, from staying ahead of competition to increasing consumer demand. We continued to hire international designers from leading global sportswear brands to help drive both technical and aesthetics upgrades, as well as partner with global giants in fiber material technology, such as Toray from Japan, and the Dow Chemical Company and 3M from the United States, to co-develop materials to which we hold exclusive usage rights.

We have changed the way we look at our footwear products, from focusing on single-technology series, to combining different technologies together to best fit the needs of the Chinese runner. We continued to use new generations of the core technologies of "Dynamic Foam", "Reactive Coil" and "Air Mega", each with unique attributes for support, shock absorption and rebound to enhance the runner's performance. Apparels follow footwear, we have employed new materials such as "Xtep Sports Elastic Technology (X-S.E.T.)", "XTEP-FROZEN", "XTEP-DRY" and "XTEP-WARM" for increased comfort in different sports performance needs, namely elasticity, coolness, ultra-quick dry, and warmth in the winter. As we have created products from the perspective of consumer demand, we believe these products will help XTEP become the runners' brand of choice.

Following the announcement of our overall football strategy in April 2016, the Group launched our new football product line in retail stores in June 2016. XTEP football products' aim at providing high quality value-for-money products to consumers is consistent with the Group's strategy. We recognized that football is still a small segment of the sportswear sector in China, we have stayed ahead of the competition by having our football products worn by over 70,000 Chinese football players in competition over the past five years with our sponsorship of various levels of school football leagues in China. They have provided us with valuable feedback to help improve the performance and comfort of our products. "Blade" series football cleats tailor European football shoe designs to Chinese football players' feet and Chinese football facilities which are dominated by artificial grass. We will continue to unveil new product series in football going forward.

CHANNEL REORGANIZATION DRIVES RETAIL RESULTS, E-COMMERCE BOOSTS FURTHER GROWTH

The Group continues to find effective retail channel management to be the key to success. Flattening of the distribution channel and detailed management down to the store level has contributed to significant improvements in overall operational efficiency and profitability. The Group has set detailed guidelines on controlling inventory, unifying store image, and product pricing based on real-time data gathered through the Group's DRP-system. The DRP-system now covers over 90% of XTEP retail stores and feeds into an APP which allows retail staff of all levels to monitor, analyze and quickly react to retail data in order to generate higher store sales efficiency. As a result of the past three years of channel flattening process to improve channel management, stores have become more standardized, retail stores and distributors have become quicker to react, and channel inventory levels have been controlled within our guideline levels. We strategically increased the proportion of retail stores directly-managed by Exclusive Distributors to reduce multi-layered sales, and will continue to do so for the next year.

XTEP e-commerce has generated stellar sales because of the Group's dedication to this retail channel. We view it as complementary to our offline retail growth, and the two retail channels cooperated closely. XTEP has captured top sales volume positions in the sports footwear product category on both Tmall.com and JD.com, and continues to generate high sales growth with our dedicated team of over 300 professionals. In 2016 we launched O2O, defined as inventory sharing with our distributors, where they can utilize the online platform as another retail channel for products they have ordered for offline sales. This increased the Group's overall sales, and created a win-win situation where both the Group and our distributors can enjoy higher profitability. E-commerce will remain a key part of our overall retail channel going forward, as we believe China online retail will remain robust in the near future.

RUNNERS' BRAND OF CHOICE, AN ECOSYSTEM

The Group will continue on the path of the "3+" strategy, which fuels our organic growth through "Products+," "Sports+" and "Internet+." Each of these will be a part of the long-term business strategy of the Group, creating a running ecosystem that differentiates us from our competitors. In "Products+", the Group will be shifting the way we look at products from focusing on technology categories to user behavior driven product segmentation. Footwear products will be separated into three levels based on runner usage frequency, namely RUN FAST (競速快跑), RUN STRONG (動力暢跑) and RUN FIT (舒適易跑) to better serve marathon runners, routine runners and entry-level runners respectively. We introduced six core technology platforms in apparel products: XTEP-DRY, XTEP-COOL, XTEP-WARM, XTEP-SHIELD, XTEP-COMFORT and XTEP-STRONGER, to match different weather conditions that runners encounter. Other sports categories products that started in the second half of 2016, such as indoor training, outdoor, and yoga will continue to grow, and XTEP will increase cooperation with celebrity spokespersons to increase our brand exposure.

"Sports+" exemplifies the Group's dedication to running that goes beyond products. We intend to continue XTEP 3.21 Running Festival as an annual celebration dedicated to runners that involves both offline and online channels to create a multifaceted impactful event to promote a healthy and sporty lifestyle. We will be sponsoring and organizing a greater variety of running events, such as evening marathons, women's marathons, retail store led local running events, and training camps and activities revolving around local communities.

In "Internet+", XTEP uses technology to create a seamless retail system that includes user experience and community building. We plan to continue to roll-out smart retail and payments in our offline stores and use big data to increase sales and profitability, customer stickiness, and better serve the running community. E-commerce will continue to maximize the O2O model to increase sales efficiency for those products available both offline and online, while benefiting from its fast retail characteristics to quickly react to new fashion trends and replenishment orders. XTEP official online store will not only be a POS, but also a channel for interaction with runners, providing access to running advice and events. Vice versa, the "Xtep Motion Tracker" running APP will give customized product suggestions and promotions based on a runner's data for ease of online purchase.

ACKNOWLEDGEMENTS

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

Ding Shui Po
Chairman
Hong Kong, 17 March 2017


XTEP SPOKESPERSON
XIE ZHENYE

XTEP MISSION

To be the Runners' Brand of Choice

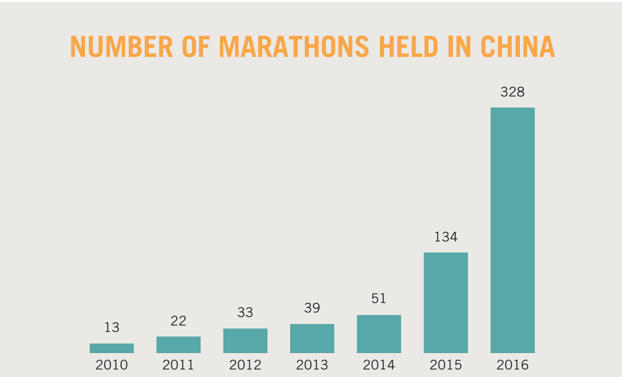
MANAGEMENT DISCUSSION AND ANALYSIS

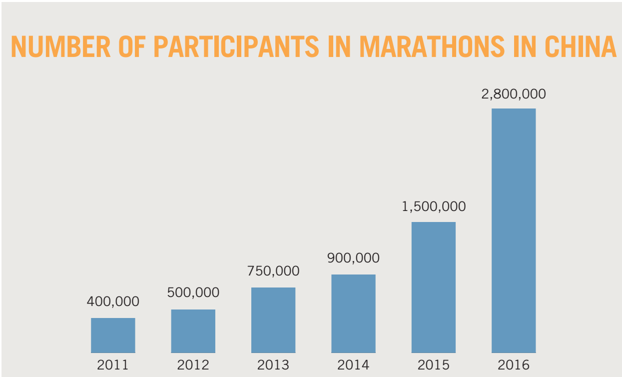
MARKET REVIEW

In 2016, the global economic growth was only 3.1% according to the IMF, affected by the Brexit incident and uncertainties surrounding the United States election. The outlook for advanced economies has improved as the IMF forecasts 3.4% for overall global economic growth and 4.5% growth for emerging markets in 2017[1]. China remains the bright spot, despite slight slowdown of GDP growth to 6.7% in 2016, this was better than IMF predictions of 6.3% and within the range of 6.5-7.0% target by the Chinese government. Retail sales grew by 10.4% in 2016[2], ahead of overall GDP growth. Signs of rebalancing towards consumption and services remain clear.

Euromonitor reports that the sales of sportswear in China increases by 12.0% to reach RMB186.6 billion in 2016, and predicts it to grow at CAGR of 8.0% at constant 2016 prices over the forecast period, reaching RMB269.6 billion in 2021, much faster than the 5.6% CAGR in the past five years[3]. Yet, spending was a mere USD18.04 per capita in 2016, in comparison to over USD100 in most developed countries, and USD57 in Taiwan[4], leaving plenty of room for growth. Functional footwear is expected to outpace overall sportswear growth at CAGR of 10.0% over the same period, whereas it grew by 12.0% in 2016, supported by the explosive increase in sports participation as both health consciousness increases and health becomes a symbol of wealth[3].

A total of 328 marathons have been registered through the Chinese Athletic Association in 2016, which was 2.5 times of that in 2015, and growing at CAGR of 59.5% since 2010. This number is expected to be as high as 500 in 2017. The total number of participants was around 2.8 million in 2016, almost doubled of that in 2015, and which was only around 400,000 in 2011. According to Toutiao (今日頭條)'s report, based on 600 million users and 15.3 billion times health data was read in 2016, running was the most read keyword with over 500 million reads[5]. Running as a starting sport for those interested in fitness is a trend that has been seen in developed markets historically, when running became popular in the 1980s in United States and Europe[4]. What is more important is that running retained its appeal until now, and Wang Dawei, Deputy Director of the Track and Field Sports Management Center of General Administration of Sport of China and Vice Chairman of Chinese Athletic Association, said during an interview that, "The development of marathon as a sport in China is still at a preliminary stage. It will maintain rapid growth in the coming future."[6]





E-commerce remains one of the fastest growing retail channels in China. In 2016, China e-commerce sales reached RMB4.7 trillion (vs. RMB3.8 trillion in 2015) with year-on-year growth of 23.7%. Online retail sales accounted for 14.2% of total retail sales of consumer goods, compared with 12.7% in 2015, but is still very low compared to developed markets. The overall internet user population amounted to around 731 million people in 2016 (2015: 688 million), growing by 6.3% year-on-year, but penetration rate is only 53.2% compared to 80-90% in most of the developed countries[7]. China e-commerce retail is expected to remain high growth in the near future.

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[1] Source: World Economic Outlook Update IMF, January 2017)

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

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

[4] Source: Sportswear: Policy and Consumption Habits drive Industry Growth, Domestic Brands will benefit soon (Everbright Securities, September 2016)

[5] Source: Toutiao.com (A search engine that provides personalized reading materials based on data mining technology)

[6] Source: China Athletic Association (中國田徑協會)

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

BUSINESS REVIEW

The Group carried-on the transformation of XTEP to a professional sports brand with stylish and functional products in 2016. We have observed greater consumer preference for functional products and higher brand loyalty to functional sportswear, this trend has been affirmed by Euromonitor as well. Contrary to popular belief that high-end sportswear outshines others, it is actually those brands that emphasize low price and high value for money that are selling best according to Euromonitor's research[8]. XTEP has always branded products in this category and we will continue to maintain this as our key targeted market segment.

Transformation has led to improvements in branding, product, and retail management in 2016. We have realigned the resources and the focuses of these business units to improve retail efficiency for the benefit of the Group, as well as increase profitability for our distributors. Product mix shift towards higher margin functional sportswear led to the expansion of our gross profit margin by 1.0 percentage point to 43.2%, optimizing branding and retail resources around the same campaigns helped increase our operating profit before provision for impairment of trade receivables by 19.6%, while we solidified our steps in running ahead of peers.

Running remains the core sports category focus for the Group, as market data have shown that the penetration of running in China is still low, and the potential for growth is high. Looking ahead, we believe running will have a long growth cycle in China as it is one of the easiest sports for mass participation with its relatively low requirement for equipment and space. Based on our observation, the participation rate in running remains especially low in lower-tier cities compared with first/second-tier cities. We expect this penetration rate to rise gradually, leading to our further market share gains since the Group focuses on providing professional running products for mass market consumers. We have already shown our lead as a preferred brand among runners, where Joyrun conducted field research on the brands of footwear worn by marathon finishers in Beijing, Shanghai, Guangzhou and Xiamen Marathons in 2016, and found that XTEP was the brand worn by the highest number of runners who finished the full marathon within three hours amongst our domestic peers.

Football as a rising sport category has received both the attention of the Chinese government and media. While mass participation is still fairly low, we believe that XTEP is positioned well ahead of peers to take advantage of this sport segment's growth in the future. We view the student population as the largest potential user base and have already started our promotions five years ago with sponsoring the XTEP CCFL since 2011 and XTEP CUFL since 2012, where all player adorn XTEP products during competition. The Group launched its comprehensive football strategy in April 2016 and completed the related new product launch in June 2016, and will continue to support this category's growth in China through sponsorships and new products.

E-commerce has become more important for our business growth as it is a fast growing sales channel. We have reorganized this business in 2016 to be more seamless with our offline distribution channels through our O2O model. E-commerce now contributes to high-teens percentage of our overall revenue, outpacing our domestic competitors. Our online flagship stores has maintained leading sales positions on prominent B2C ("Business-to-Consumer") platforms such as Tmall.com and JD.com. We have maintained our position as the top sports footwear products seller on Tmall.com and JD.com by volume, surpassing all other domestic and international brands in 2016. E-commerce will continue to be a key growth driver for the Group.

[8] Source: Sportswear in China (Euromonitor, March 2016)

XTEP BRAND

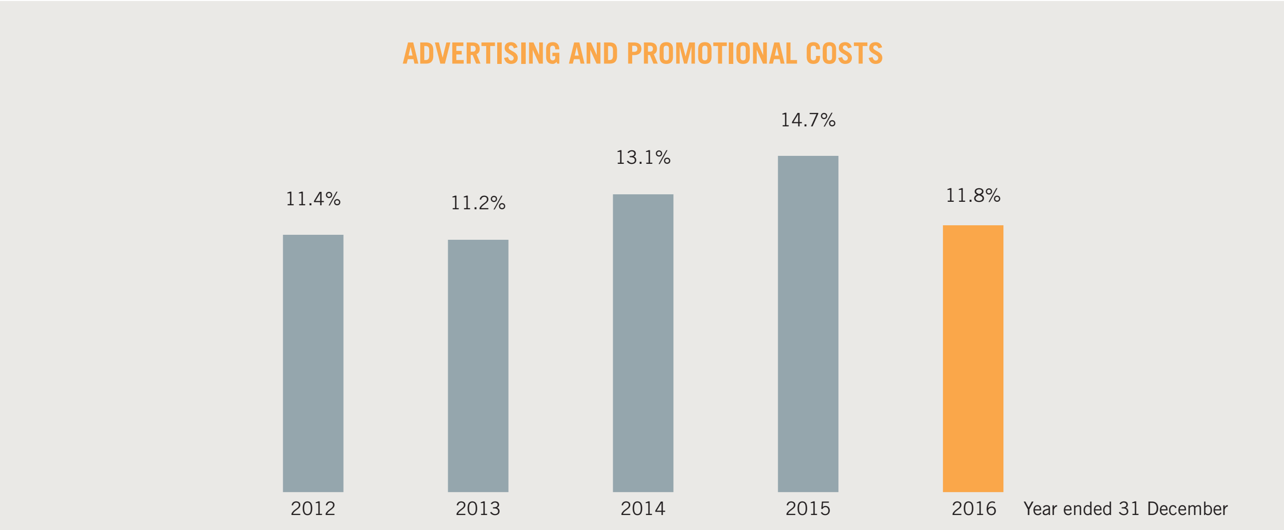
Professional Sports Brand with Stylish and Functional Products


XTEP SPOKESPERSON
NICHOLAS TSE

BRAND PROMOTION

In 2016, the Group continued to transform XTEP into a professional sports brand with stylish and functional products. We have re-oriented our branding resources to devote more focus to sports marketing and reduced some of the less effective general marketing programs. Our brand image remains young, creative and fashionable, while the shift to functional sports has broadened our consumer base both in age and in recognition of our technical capabilities as a professional sports brand.

In 2016, the Group's advertising and promotional costs amounted to approximately RMB637.2 million (2015: RMB780.5 million), and accounted for approximately 11.8% of the Group's revenue (2015: 14.7%). The Group spent extra advertising and promotional costs for the year ended 31 December 2014 and 2015, respectively, in order to transform XTEP into a more professional sports brand which led to the advertising and promotional costs being relatively higher for those two years. The following charts shows the summary of the Group's advertising and promotional costs in the past 5 years as a percentage of the Group's total revenue.



Sports Marketing

Running

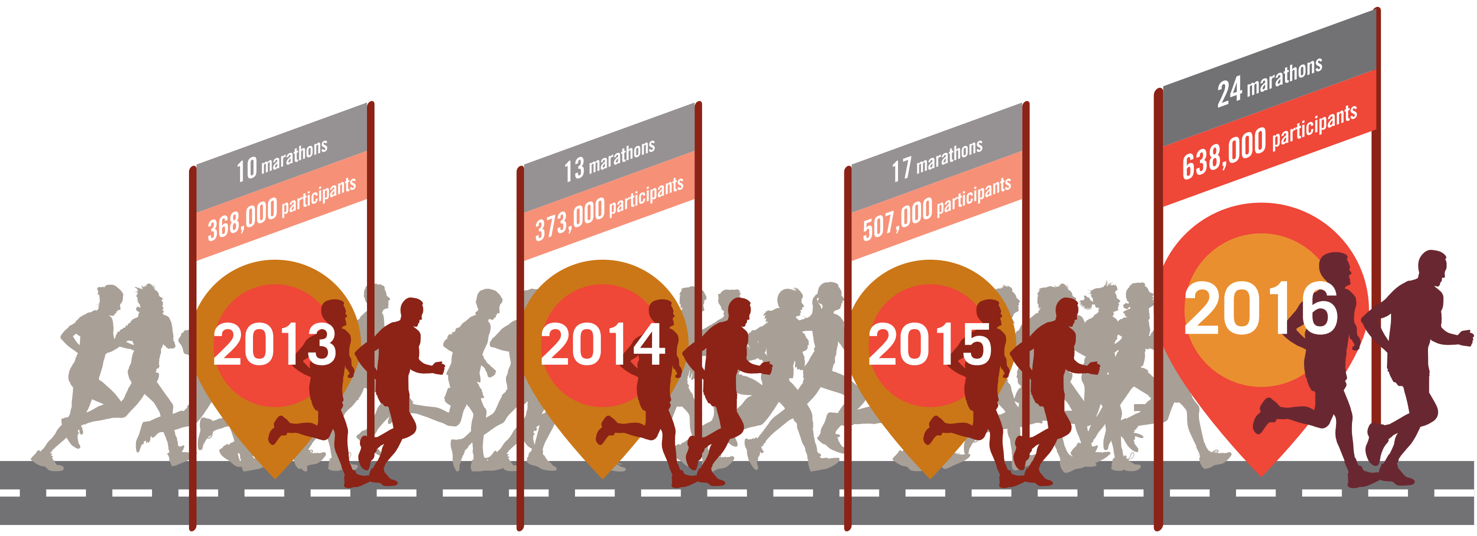
As running remained the core strategic focus sports category of XTEP, it is where the Group foremost allocated our marketing resources. In 2016, XTEP sponsored 44 major running events, became the official partner of China Marathon (中國馬拉松官方合作夥伴) recognized by China Athletic Association (中國田徑協會) in August, title sponsored the Beijing Olympic Forest Park XTEP Running Track (奧林匹克森林公園特步跑道), and organized the "3.21 Running Festival" as an annual celebration for runners in China.

XTEP continued to carry the title of the sportswear sponsor for the most number of marathons in China in 2016, where we were the sole sports brand sponsor for each event. This was one of the most effective tools to reach out to our target audience of Chinese runners, by including a large number of runners involved in each event and capturing high levels of media attention. In 2016 the Group sponsored 24 major marathons (2015: 17) in major cities such as Guangzhou, Hangzhou, Wuhan, Changsha, Xiamen, and other 20 additional running events which we either sponsored or organized. Total participants in 44 events exceeded 760,000. After nearly ten years of cultivation in running in China, XTEP was identified amongst our domestic peers as our footwear products were worn by the highest number of runners who finished a full marathon within three hours in four of the most prominent marathons in China: Beijing Marathon, Shanghai International Marathon, Guangzhou Marathon and Xiamen International Marathon, according to research by Joyrun.

2008-2016

XTEP sponsored 92 marathons

over 2,600,000 participants



Major marathons sponsored by the Group in 2016

- Xiamen International Marathon (廈門國際馬拉松賽)
- Standard Chartered Hong Kong Marathon (渣打香港國際馬拉松)
- Hainan International Marathon (海南國際馬拉松)
- Kunming Marathon (昆明馬拉松)
- Chongqing International Marathon (重慶國際馬拉松賽)
- China Zheng-kai International Marathon (中國鄭開國際馬拉松賽)
- Wuhan Marathon (武漢馬拉松)
- Kiss Run Nanjing International Women's Half Marathon (南京國際女子半程馬拉松)
- Beijing Half Marathon (北京半程馬拉松)
- Yangzhou Jianzhen International Half Marathon (揚州鑒真國際半程馬拉松賽)
- Cross-strait Ladies Half Marathon (海峽兩岸（廈門海滄）女子半程馬拉松賽)
- Tianjin Wuqing Development Area Cup International Marathon (天津武清開發區杯國際馬拉松賽)
- Kiss Run Chengdu Women's Half Marathon (成都女子半程馬拉松)
- Shenyang Marathon (瀋陽馬拉松)
- Taiyuan International Marathon (太原國際馬拉松賽)
- Nanjing Marathon (南京馬拉松)
- Changsha International Marathon (長沙國際馬拉松賽)
- Wuhan Houguanhu Half Marathon（武漢後官湖半程馬拉松)
- Hangzhou Marathon (杭州馬拉松)
- Hefei International Marathon (合肥國際馬拉松賽)
- Jinjiang International Half Marathon (晉江國際半程馬拉松賽)
- Xiamen (Haicang) International Half Marathon (廈門（海滄）國際半程馬拉松賽)
- Guangzhou Marathon (廣州馬拉松)
- Fuzhou International Marathon (福州國際馬拉松)

Our involvement in running events went beyond sponsoring marathons. In March of 2016, we organized the 3.21 Running Festival, a nationwide celebration for runners centering around XTEP, emphasizing the Group's focus on running through different channels both offline and online. Offline, we organized a ten-city run starting at the same time; in retail shops, the Group added advertisements and store displays with 3.21 Running Festival to translate the festival promotion into revenue. Online, the Group launched a 100-city "3.21 Real Runner" online marathon with Joyrun. Any runner who completed this marathon from 21 March 2016 to 6 April 2016 was awarded with various prizes, including marathon commemorative medals and RMB321 vouchers to use in XTEP online stores. Within Wechat Moments, many runners from XTEP Runner's Club (特跑族) shared messages on the event, triggering wide public attention. Retail stores from different regions continue to provide real-time updates in the interactive zone of the "Super Shopping Guide" retail management APP, boosting staff morale and sales. At the same time, the Group unveiled our title sponsored "Beijing Olympic Forest Park XTEP Running Track" with added ancillary facilities, such as XTEP runners' supply stations and a professional running store, to provide professional services beyond products. This sponsorship offered runners a constant running space related to the Group, leading to increased brand exposure among consumers and the media.

Besides organizing our own running events, the Group title sponsored China's first 10km-run championship circuit – Xtep Happy 10k, which has already held 10km runs in six cities in 2016. We also sponsored four "Finding Mr. Right Love Marathons" in association with the popular film "Finding Mr. Right 2: Book of Love", in order to introduce another social function of running where couples can increase their bond with each other, or where singles can meet "Ms./Mr. right". Continuing from 2015, the Group's ILLUMI RUN sponsorship increased to eight in 2016, as they match perfectly with XTEP's belief that running is fun and running can be for everyone. These 5km night-runs ended with a concert and each event drew thousands of young participants whether they are frequent runners or just looking for a fun gathering.

Major running events sponsored/organized by the Group in 2016

- 321 Running Festival (321 跑步節)
- Xtep Happy 10k – Shanghai (特步歡樂跑 — 中國 10 公里錦標賽 — 上海站)
- Xtep Happy 10k – Chongqing (特步歡樂跑 — 中國 10 公里錦標賽 — 重慶站)
- Xtep Happy 10k – Guangzhou (特步歡樂跑 — 中國 10 公里錦標賽 — 廣州站)
- Xtep Happy 10k – Changzhou (特步歡樂跑 — 中國 10 公里錦標賽 — 常州站)
- Xtep Happy 10k – Suzhou (特步歡樂跑 — 中國 10 公里錦標賽 — 蘇州站)
- Xtep Happy 10k – Beijing (特步歡樂跑 — 中國 10 公里錦標賽 — 北京站)
- Finding Mr. Right Love Marathons – Hangzhou (" 北西愛情馬拉松 " — 杭州站)
- Finding Mr. Right Love Marathons – Chengdu (" 北西愛情馬拉松 " — 成都站)
- Finding Mr. Right Love Marathons – Guangzhou (" 北西愛情馬拉松 " — 廣州站)
- Finding Mr. Right Love Marathons – Beijing (" 北西愛情馬拉松 "— 北京站)
- ILLUMI RUN – Guangzhou (炫彩夜跑 — 廣州站)
- ILLUMI RUN – Beijing (炫彩夜跑 — 北京站)
- ILLUMI RUN – Shenyang (炫彩夜跑 — 沈陽站)
- ILLUMI RUN – Wuhan (炫彩夜跑 — 武漢站)
- ILLUMI RUN – Nanjing (炫彩夜跑 — 南京站)
- ILLUMI RUN – Shenzhen (炫彩夜跑 — 深圳站)
- ILLUMI RUN – Chongqing (炫彩夜跑 — 重慶站)
- ILLUMI RUN – Xiamen (炫彩夜跑 — 廈門站)
- Beijing Olympic Forest Park Xtep Running Track Completion Ceremony Running Event (北京奧林匹克森林公園特步跑道竣工儀式跑步賽事)

XTEP Runner's club

XTEP Runner's Club is not only our loyal fan base that takes the XTEP brand and our products on marathons all over the world, but also, serves as the focal point of local running communities. The XTEP Runner's Club boasts of over 43,000 members across the country, all of them are frequent runners, and many participate in multiple full marathons each year. They led in organizing local running events, and publicized their success stories and product experiences to their own followers on Wechat and Weibo. They also helped test and provide feedback on our new products, ensuring the best user experience when those products launch in the market. We gathered these runners around unique services, such as entry quota to marathons we sponsor, training camps with professional coaches, and special social runs aimed at building a community through running. In 2016, more than 150 events were organized by or for XTEP Runner's Club members.


特步体育


特步（中国）有限公司
中国田径协会
特步（中国）有限公司
中国马拉松合作伙伴

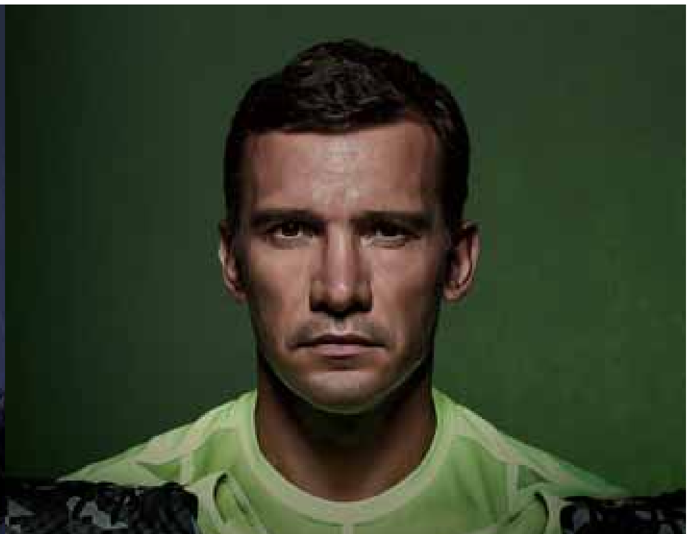

2016年"特步杯"晋江国际半程马拉松赛
2016 XTEP Jinjiang International Half Marathon
起点 / 终点
START / FINISH
0:00:02
特步体育


特步
X-RUN 特步10KM计时赛
00:00:00
X-RUN 特步10KM计时赛


爱情马拉松


特步
特步 321 跑步节

Xie Zhenye (謝震業):
Xie was part of China's 4x100m relay Olympic team in 2016 and competed in the 100m dash individually as well. He made history with his 4x100m run teammates on 8 August 2015 by finishing the race in 38.01 seconds, winning a silver medal at the Beijing IAAF World Championships in Beijing, and setting the best results ever achieved by an Asian team. In 2016, Xie and his teammates won the 4x100m run title at the IAAF Diamond League Shanghai on 14 May and he finished third in the Men's 100 meters at the 2016 IAAF World Challenge Beijing on 18 May. He recently finished second in the Men's 60 meters run at IAAF World Indoor Tour Boston on 28 January 2017.



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

SPORTS CELEBRITY SPOKESPERSONS

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

Chen Ding (陳定):
Competed in the 20km race walk in the Olympics summer 2016. The first-ever Chinese gold medal winner of the 20km race walk event at the 2012 Olympics. In 2014, Chen won the first runner-up of the National Race Walking Championships.

Zhao Qinggang (趙慶剛):
Asia record holder for the javelin event, set during the 2014 Incheon Asian Games. Winner of the 6th East Asian Games in javelin, and winner of the National Games of the People's Republic of China in the javelin in 2013.

Football

In addition to running, the Group also sponsored various national and international football leagues and football clubs to capture the high potential growth of football as a sports category in the future. Echoing the Chinese government's recent strong push for the sport's development; we have announced our comprehensive football strategy – "Blade Project" (鋒芒計劃) on 22 April 2016. The project focuses on developing wide exposure for XTEP in the football field. Our goal is to serve over 5 million of Chinese football youths in the coming five years.

Over our peers, XTEP had the unique advantage of brand recognition associated with football with our sponsorships since 2010 that served over 70,000 players from primary to university school leagues.

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

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

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

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

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

As a part of the Blade Project, we have established official sportswear partnerships with many Chinese youth football education and training services providers, who will promote XTEP products through their events. XTEP products have been tested by tens of thousands of professional and university football players over the past five years, assuring safety and the highest quality. The Group launched the first XTEP professional football shoe – "Blade I" (刀鋒1代) in stores in June 2016, coinciding with the start of the UEFA EURO 2016. Initial reception for XTEP football products has been positive from both technical and design perspectives.

In 2016, the Group signed former "European Footballer of The Year", current Ukraine National Football Team head coach – Andriy Shevchenko as Xtep football ambassador to promote both XTEP football products and the development of Chinese youth football segment. The Group also sponsored a number of domestic and foreign football clubs to expand XTEP's presence both nationally and internationally. All of these football club players wore XTEP professional football products during their matches and achieved stellar performances. These football matches were broadcasted on TV and through other media channels where world-wide audiences, including PRC fans, can watch.

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

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

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

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

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

La Liga, Villarreal C.F. (Spanish National League) (sponsorship since 2011, ended at 30 June 2016)

Entertainment Marketing

Entertainment promotion efforts included: title sponsorships of top-rated TV programs that emphasizes strong sports elements, having popular celebrities as XTEP's spokespersons, and placing advertisements through top media channels. All these strengthened the bond between XTEP and the sports lover, enhancing brand loyalty in an efficient and cost-effective manner.

TV Program Sponsorship

"Run For Time" (全員加速中) is a reality show broadcasted on Hunan Satellite TV and Mango TV online. It ranked number 1 among all programs broadcasted during the same time slot among 29 major provinces. As a high profile live-action game show, it involves "chase and escape" challenges incorporating sports and athleticism. XTEP is the show's official shoe and apparel sponsor, where the hosts and guest participants adorn XTEP outfits from head to toe. The Group's products that constantly received close-ups in the show coincided with the product sales cycle in retail stores, leading to increased revenue generation.

"321 Go" (321動起來) is a TV program with sports and fashion elements broadcasted on Hunan TV Entertainment Channel and Mango TV online. It invites celebrity coaches across China to share their training techniques with primarily female audiences who are interested in health and fitness. As the title sponsor of this program, our products were worn by all those on the program, and "XTEP" will constantly be seen on screen whether it is during the "XTEP warm-up time" or in the "XTEP equipment corner". We also cooperated with the program to organize daily night runs offline across the country, creating a linkage between sponsorship and real runners. The program has shown more than 300 episodes as at 31 December 2016 and has reached around 24.8 million viewers.

"Let's Go, Boys and Girls" (男生女生向前衝) is a popular fitness TV program shown on Anhui Satellite TV station. It was launched on 5 July 2010. Anhui satellite TV has broadcasted 8 seasons of it, and this is the second season that XTEP is sponsoring the show. The average rating of "Let's Go, Boys and Girls" has stayed No.1 among all programs broadcasted at the same timeslot.

"Amazing idol" (不一樣的偶像) is a large scale original online variety program broadcasted on Youku-Tudou, featuring internet celebrities in a live show format. The show has 10 episodes and has been viewed over 200 million times. XTEP was embedded in the show in a variety of ways, from advertisement before the show begins, to product placement to mentioning of brand name and slogan during each episode.

Nicholas Tse (謝霆鋒):
A widely-known artiste and young accomplished entrepreneur, he was XTEP's first celebrity spokesperson, and has maintained solid ties with the brand for over a decade. During his acting career, Tse has won the Hong Kong Film Award for Best New Performer in 1998 and Hong Kong Film Award for Best Actor in 2011, attributed to his professional acting performances in "Young and Dangerous: The Prequel" and "The Stool Pigeon". His ties with XTEP have continued to blossom, where he became a shareholder in July 2016 and will deepen our long-standing working relationship in the areas of product development and marketing and promotion.

Li Yifeng (李易峰):
One of the most popular young stars in PRC, he is an actor, singer and producer. Li has over 35 million followers on his official Weibo account, and over 75 million page views on his Baidu Baike page. He won Best Supporting Actor for his critically acclaimed performance in the blockbuster "Mr. Six" (老炮兒) at the 33rd Hundred Flowers Awards (百花獎), the film grossed more than RMB900 million, making it one of the top 10 grossing domestic films of 2015 in China. Li was named "Most Commercially Valuable Celebrity" by CBN Weekly (第一財經周刊) in 2015. In 2016, he starred in "Sparrow" (麻雀) which drew the highest television rating for a single episode on a single day in 2016.

Zhao Liying (趙麗穎):
Currently one of the most popular Chinese actress, she won national fame for her lead role in the TV series "The Journey of Flower" (花千骨). Zhao has the title of "100 billion queen"("千億女王") as a great accomplishment for her gaining 100 billion combined online views for all the TV series she appeared in. 2016 was a big year for her, she won the Audience's Choice for Actress (觀眾喜愛的女演員) at 28th China TV Golden Eagle Award (第28屆中國電視金鷹獎), and Artist of the Year (年度藝人) at 2017 iQiyi All-Star Carnival (2017愛奇藝尖叫之夜).

ENTERTAINMENT CELEBRITY SPOKESPERSONS

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

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

UNIQ:
A five member Chinese-South Korean boy group formed by Chinese company Yuehua Entertainment in 2014, UNIQ officially debuted on 20 October 2014 with their single "Falling In Love" in both China and South Korea. In 2015, they have won the Best New Artist in Mainland China at KU Music Asian Music Awards, and been nominated as the Best Artist in Mainland China & Hong Kong at MTV Europe Music Awards. In 2016, they demonstrated their strength in dancing by winning the Best Choreography for their song "EOEO" at the well-known International K-Music Awards.


XTEP SPOKESPERSON
JIRO WANG

XTEP PRODUCTS

Innovation

PRODUCT INNOVATION

Product is the most directly visible of our changes to a professional sports brand with stylish and functional products. XTEP products now focus on providing high functionality, especially in running wear, while maintaining our consistent fashionable design. Thanks to our management's foresight in building a team of designers led by international design talent with extensive working experience in top international sports brands, we are confident that our products are competitive to that of international brands. These designers not only brought their eye for trend, but also their years of know-how in creating sportswear for performance and comfort. The Group's R&D costs for the Year increased by 13.9% to approximately RMB138.2 million as compared to last year (2015: RMB121.3 million).

We also cooperated with leading international fiber material developers, such as the Dow Chemical Company, 3M and INVISTA in the United States, and Toray in Japan, to co-develop fiber technology for XTEP's exclusive use, in order to stay ahead of global trends. We have trademarked technologies such as "Softpad™", where material co-developed with the Dow Chemical Company is applied to XTEP's unique scientific designs. We have built China's first dedicated running research laboratory, led by international scientists and employing global leading research technologies. The team of over 20 researchers test and study the different types of feet and postures of Chinese runners, in order to develop the best running shoes for Chinese runners.

In June of 2016, XTEP launched its first line of football products in retail stores. In August, we launched our smart running shoe "XTEP Motion", and during the fourth quarter, we sold our first line of outdoor products. These mark the beginning of organic growth from multiple sports category's products under the XTEP brand umbrella. The new product lines have received warm welcomes by consumers, as they complement the existing running products, leading to higher revenue per customer. In 2017, we will launch more categories of high performance value-for money products under the XTEP brand.

Running Products

Footwear

In footwear products, the Group continued to strengthen our three core professional running technologies of "Dynamic Foam", "Reactive Coil" and "Air Mega". In addition to single technology series, we have combined two or more technologies to create products that takes the runner to a new heightened level of performance and comfort. For example, the "NITEOPTICS" series launched in third quarter combined Dynamic Foam and Air Mega technologies in the shoe sole for increased shock absorption and additional rebound, while using reflective material on the shoe surface to increase both safety and aesthetics. Furthermore, to cater to different weather conditions of consumers from different regions, we manufactured shoes with two different types of surfaces, mesh vs. synthetic leather, for southern and northern geographies respectively during winter months. This was a welcomed innovation by our distributors and consumers.

The three core running technologies:

- The "Dynamic Foam" (動力巢) series offers bounce and soft rebound in shock absorption with improved new soft and high resilience material. "PUE Foam" (特步雙向控震) provides maximal low temperature resistance, hydrolysis resistance, and super cushioning, to improve user's sports performance through quickly absorbing and transforming shock force into rebound motion

- The "Reactive Coil" (減震旋) series applies stabilization technology with XTEP's signature DNA hollow loop structure, supporting shape recovery from compression and impact

- The "Air Mega" (氣能環) series utilizes the multiple-segmented connected support structure around the entire sole, forming an air-cushion system, providing a flexible range of shock absorbing protection during foot impact

Other major technologies used in multiple sports and lifestyle product categories:

- "Softpad™" (柔軟墊) is a key new shoe insole technology the Group co-developed with the Dow Chemical Company. Softpad™ is world-leading, combining XTEP's design technology and the Dow Chemical Company's VORALAST™ polyurethane memory materials. The insole provides memory foam like comfort for the wearer and protects the foot from injuries. Both parties will strengthen the cooperation with an aim to launch more professional sports products, applying international state-of-the-art technologies in the future

- "Air Comfort" (透氣網) material uses a uni-body customized breathable mesh surface, relieving the feet from the sweat and stuffiness, providing a lightweight and comfortable experience during hot weather

- "COMFYCUBES" (柔立方) technology uses cube modules to support pressure from the foot and ground, while applying memory type material to bring increased softness and cushioning for footwear products

- "Dow" (仙護盾) is an chemical agent added to shoe insoles with intelligent silver ions which can effectively restrain odor and pathogenic microorganisms

- "Thinsulate™" material from the 3M Company was applied to winter footwear products, providing lightweight insulation, especially for northern regions

Running Products

Apparel

Apparel technologies similarly emphasized performance and comfort, with focus on the runner being able to achieve their best in any type of weather condition. These performance technologies continued to be highlighted by stylish designs, which XTEP is well known to be a leader of in the Chinese sportswear sector.

The key technologies are:

- "X-SEAMLESS-TECH" (無縫一體工藝) introduces seamless knitting technique in professional running apparel to reduce friction during sport
- "XTEP-WARM" series applies ceramic printing within apparel products, which can effectively absorb and reflect the far-infrared of human body heat to improve thermal insulation and provide increased warmth without extra weight
- "XTEP-FROZEN" (冰纖科技) technology applies cooling nano-powder in clothing fibers, which reflects sunlight and absorbs heat immediately when it comes into contact with the skin, thus providing users with a feeling of instant and lasting coolness
- "XTEP-DRY" (酷乾科技) transfers moisture on the skin quickly to the surface of the fabric through the special permutation and combination of yarn, which is then transferred to the air to achieve the effect of instant absorption and immediate dryness
- "Xtep Sports Elastic Technology" (X-S.E.T.特步運動彈性科技) is a more stretchable and more elastic material that allows athletes and sports participants to stretch freely during exercise
- "X-REFLECT" (反光科技) uses special reflective and light-emitting materials to enable better visibility in the dark, thus improving the safety of outdoor sport at night

In addition to the above, the sports apparel products of XTEP also included other features such as X-organic cotton and Dupont™ Sorona® material, which is lightweight and soft to skin comfort, waterproof, quick-dry, antibacterial and deodorization, and Thermolite® from INVISTA (part of KoSa) from the U.S. with hollow fiber technology that creates a layer of air protection blocking cold air from outside while allowing sweat to be released, keeping the wearer warm and dry.




Footwear Technologies

DYNAMIC FOAM 动力巢

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

REACTIVE COIL

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

气能环 AIR MEGA

utilizes the multiple-segmented connected support structure around the entire sole, forming an air-cushion system, providing a flexible range of shock absorbing protection during foot impact

Softpad

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

PUEI FOAM 特步双向控震

provides maximal low temperature resistance, hydrolysis resistance, and super cushioning, to improve user's sports performance through quickly absorbing and transforming shock force into rebound motion

NITEOPTICS 驭光科技

uses special reflective or light-emitting materials in professional design enabling better visibility in the dark, thus improving the safety of outdoor sport at night

Dow

an chemical agent added to shoe insoles with intelligent silver ions which can effectively restrain odor and pathogenic microorganisms

COMFYCUBES

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

AIR COMFORT

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

Apparel Technologies

酷干科技 XTEP-DRY

transfers moisture on the skin quickly to the surface of the fabric through the special permutation and combination of yarn, which is then transferred to the air to achieve the effect of instant absorption and immediate dryness

冰纤科技 XTEP-FROZEN

applies cooling nano-powder in clothing fibers, which reflects sunlight and absorbs heat immediately when it comes into contact with the skin, thus providing users with a feeling of instant and lasting coolness

X-S.E.T PROFESSIONAL

a more stretchable and more elastic material that allow athletes and sports participants to stretch freely during exercise

XTEP-WARM

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

ENVIRONMENTAL PROTECTION

X-ORGANIC COTTON 有机棉

Environmental-friendly organic cotton with good air permeability and is soft to the touch

OUTDOOR

X-WATERPROOF 防水科技

Waterproof materials help to keep the shoes dry and comfortable in wet conditions

X-REFLECT 反光科技

enhances visibility in dark environment and offers all-time protection

HYGIENE

X-ANTIBACTERIAL 抗菌科技

Restrains the reproduction and growth of bacteria on the fabric, cuts down on unpleasant odor and keeps the clothes fresh

X-DEODORIZATION 消臭科技

Keeps the clothes fresh and unaffected

TECHNOLOGY

X-SEAMLESS TECH 无缝一体

introduces seamless knitting technique in professional running apparel to reduce friction during sport

Football Products

The first XTEP professional football product series – "Blade I" was launched in stores in June 2016. Even though this was the first generation of products being sold in retail stores, our football product series have been worn on the competition field by over 70,000 Chinese football players over the past five years with our sponsorship of various levels of school football leagues in China. This allowed us to sample and collect feedback from Chinese players during high level of football competition. We believe both our football platform and football products are in a leading position amongst domestic peers.

More specifically, "Blade I" tailors European football shoe designs to Chinese football players' feet and Chinese football facilities, to help players improve their performance on the field. "Blade" series has a high-top uni-body design that fits snug to the feet, and thin TPU 3D surface contributing to precise ball control. We also tailored the shoe sole and modified the usual long cleats of professional European football shoes to mid-height wide cleats with increased surface area, for better traction on the predominantly artificial grass fields Chinese players compete on. XTEP football apparels carry forth our lightweight and quick-dry materials similar to running products, to provide comfort for the player during competition. This is another advantage for the Group where we can apply our expertise in running to other sports categories. Further technical modification to our football products will be unveiled in new product generations in 2017.

Sports Lifestyle Products

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

Supply Chain

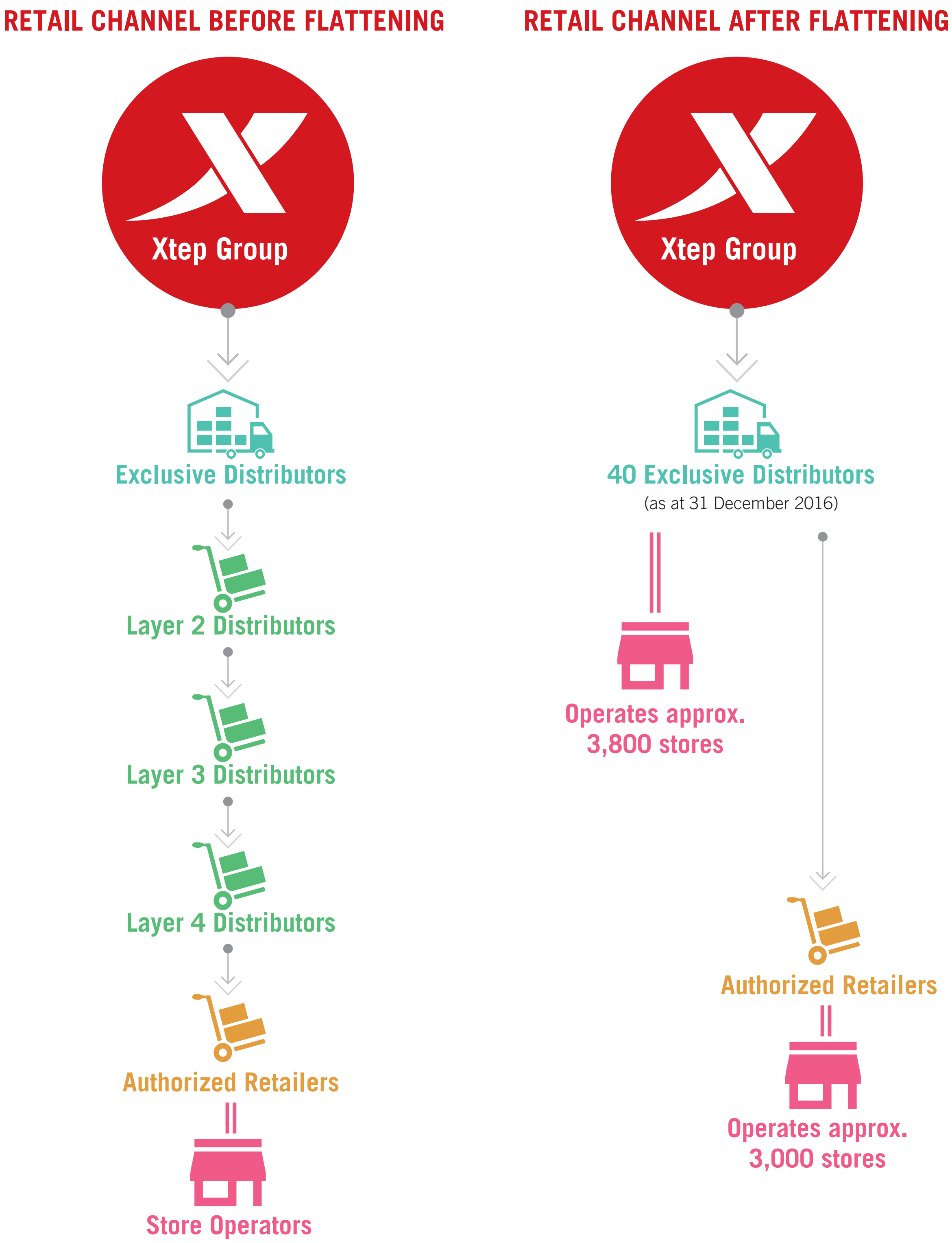
The Group is fully committed to operating a seamless and vertically-integrated business with the support of an efficiently managed supply chain. The in-house production mix for footwear and apparel products accounted for approximately 55% (2015: 57%) and 15% (2015: 14%) of the corresponding total sales volume for 2016, respectively. We also utilized out-sourced suppliers in the PRC to produce footwear and apparel products, but the Group controlled the sourcing of all materials. All of the out-sourced suppliers are constantly monitored by the Group's quality control team to uphold our top quality standards. The products were manufactured and inspected continuously by batch, and the same batch of products was delivered to stores across China according to the logistic delivery schedule.

XTEP RETAIL MANAGEMENT

Detail


RUNNING
WOMEN.
5
RUN

Retail channel comparison before and after flattening of distribution channels:



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

RETAIL MANAGEMENT

Domestic Market

The Group regarded profitability at the retail level as one of the most key ingredients to our success. We have grown from simply selling our products to wholesale distributors to monitoring and managing the XTEP brand at the store level. Over the past three years, the Group has implemented stringent retail channel management control to monitor the operational details of stores operated by XTEP's Exclusive Distributors and Authorized Retailers. The management process has helped us boost per store operational efficiency by increasing sales per customer, reducing human error, lowering staff cost, and streamlining discounting periods and scale. The Group saw more unified brand image and lower inventory. As such, the Group's inventory turnover days for 2016 continued to reduce to 51 days for 4 years in a row as compared to previous years (2015: 58 days; 2014: 71 days; 2013: 79 days). The amount of XTEP products in the retail channels was maintained at a healthy level.

The Group carried out detailed weekly monitoring on the operational efficiency of all XTEP retail stores. The Group discussed with the distributors on a regular basis on the decision to open stores in areas with higher market potential or close down those retail stores which under-performed. The total number of XTEP retail stores as at 31 December 2016 was approximately 6,800 (31 December 2015: 7,000) and the total number of XTEP Kids brand POS as at 31 December 2016 was approximately 250 (31 December 2015: 600). The number of XTEP Kids stores took a large dip because of our overall restructuring of the XTEP Kids business unit.

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

The XTEP store is not only a shop, but a part of our brand as a physical experience center for consumers on our change to a professional sportswear brand. The Group continued to execute the universal retail store image upgrade to the "7th generation", equipped with upgraded sportive store display, latest promotion campaign posters and experience materials, and emphasizing products which brought out XTEP's core focus on running. Consumers can experience different products under different weather and terrain condition demonstrations, in order to experience our technology upgrades personally.

Although new product ordering was conducted on a quarterly basis, the Group has systematically divided the quarterly new product collections into monthly new product cycles, with different products delivered on a monthly basis to all the retail stores at the same time. Product launches were scheduled to coincide with the Group's nationwide promotion campaign on new products of XTEP, attracting greater consumer interests.

XTEP store staff received universal training through a detailed in-store instruction menu and with videos available through our internal "Super Shopping Guide" retail management APP. We want to standardize XTEP's high-level customer service and make it replicable throughout our retail network. Understanding of the Group's requirements for retail staff is tested through quizzes on the APP, and our retail management team does surprise store visits to ensure thorough execution. Training videos and information on the APP are constantly updated for new sales campaigns and new product specifications. Store managers and staff have to pass the required trainings on the APP to collect their rewards, and the test results also act as support for upward employment promotion.

Real-time monitoring, rapid feedback loop, precise action

Real-time monitoring of the retail management system is done through the Group's centralized DRP system, which covered over 90% of XTEP retail stores as at 31 December 2016. The DRP system collects real-time data daily, which is monitored and analyzed by the retail management team. The information is then communicated between all parts of the retail distribution network, to both the Group's retail management team and the network distributor and store staffs, through "Super Shopping Guide" APP. This communications method feeds data quickly to where it is needed. The retail store staff can see their store sales data, compare their achievements against other stores, give feedback to distributors and the Group's retail management on first-hand observations on product and customer behavior, ask questions about new product campaigns, and learn how they can achieve higher sales for their personal benefit and increase sales efficiency for the Group overall. The distributors can give feedback to the Group on regional reactions to products and promotion campaigns, send encouragements and instructions to their network of stores, and send requests to the Group whether it is for product ordering, for store openings and closings, or for advice on increasing sales per store. The Group gained more insights into customer preferences in different geographical locations, quickly provided distributors with accurate product pricing and product mix strategies, sped up product movement to effectively control the retail inventory within a healthy level, and increased the translation of XTEP's branding efforts to sales by unifying promotion timing and strengthening staff education. This all round communications system allowed the Group to quickly act upon customer retail behavior anywhere and anytime. The APP has been rolled out to around 80% of stores, covering over 20,000 staffs as of 31 December 2016. We target to have 90% store inclusion by the end of 2017.

Universal pricing and discounting policy

On pricing strategy, the Group set a universal retail sales price for all XTEP products that applied to all retail stores no matter where the store was located, to ensure standardized pricing policies were adopted throughout the nation. In general, no discount is allowed when new products are first launched in the market. The timing and rate of retail discounts in each retail store must be authorized by the Group and each category of retail stores was only allowed a certain range of discount rates. Overall retail discount rate was maintained at a comfortable level during 2016 without major fluctuations from season to season.

E-Commerce

We have maintained our position as the top sports footwear products seller on Tmall.com and JD.com by volume, ahead of domestic and international brands in 2016. The success of the e-commerce business depended on our ability to quickly evolve with consumer trend and on our detailed direct management. E-commerce will continue to be a key growth driver for the Group.

Three phases of e-commerce development, from clearance to O2O

As one of the first brands to emphasize e-commerce in the Chinese sportswear sector, the Group's e-commerce business has gone through three phases of development since 2013, closely timed with sportswear industry trends. During 2013-14, our e-commerce platform was primarily used to clear inventory while we developed close working partnership with Tmall.com, JD.com, and other leading internet shopping platforms. In 2015, the Group's e-commerce business focused on providing online exclusive products that differentiated from those available in offline stores, in-order to coordinate interests between offline distributors and the Group to maximize sales. These products were often seasonal, more sports lifestyle oriented, or related to a marketing campaign or a sponsored celebrity. In 2016, XTEP was the first of the sportswear companies in China to start using O2O model with our Exclusive Distributors. By 31 December 2016, around half of the products on the e-commerce platform were part of the O2O system.

We define O2O as inventory sharing. The Group sets identical prices for the same products listed online and offline and with same promotion periods. With permission from the Group, e-commerce can also hold special promotions for those slower moving items from offline channels. Little inventory is kept by the e-commerce business, but rather, rely on those inventory from the offline retail channel. Products ordered by consumers are delivered from their nearby store, ensuring quick to doorstep customer service. In the reverse direction, customers can order a product from a physical store and we can deliver from the online platform or another Exclusive Distributors that has inventory. In effect, XTEP e-commerce functions as another retail channel for not only the Group, but also for our Exclusive Distributors. With our proven success in e-commerce, O2O is a win-win situation where XTEP products are aligned, branding and promotional efforts see exponential effect, inventory levels are better controlled and profit increases for both the Group and our Exclusive Distributors. Many of our popular offline shoe models were also top sellers online, for example the "Air Mega with NiteOptics" running shoe and the "XTEP Motion Tracker" smart shoe, saw the multiplier effect of simultaneous branding promotions in multiple channels. By 31 December 2016, the O2O model was rolled out to around 1,200 stores, faster than the target of around 1,000 set at the beginning of 2016. We plan to roll this out to around 2,000-3,000 stores by the end of 2017.

XTEP Kids

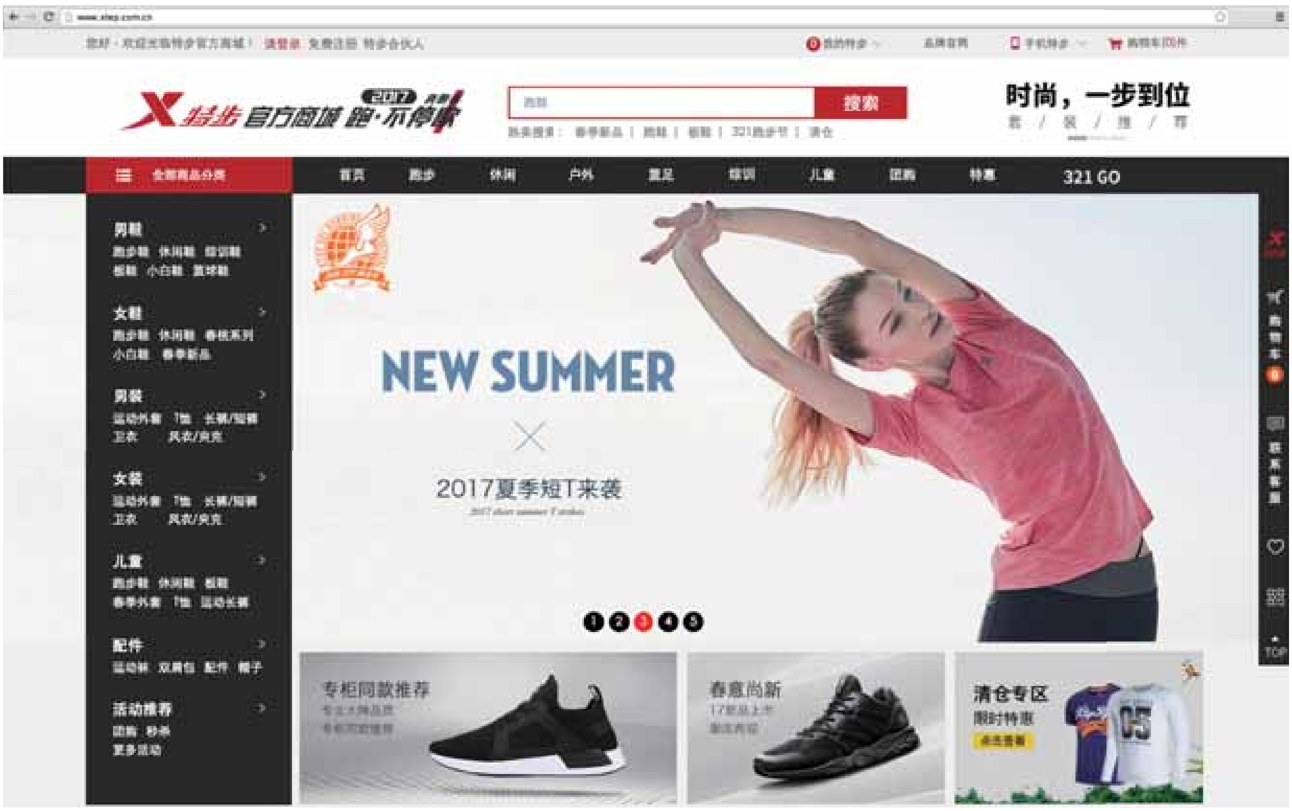
The XTEP Kids division has undergone a major restructuring in 2016 to better position for higher efficiency in generating profits in the future. We have realigned resources between the XTEP Kids and the XTEP adult divisions, by consolidating their operational management. This will allow us to optimize our advertising and promotion spending, new product research and development, retail management systems, and retail networks. The new XTEP Kids products will more closely resemble our XTEP sports lifestyle adult products, where we combine comfort and fashion with an active lifestyle. Matching parent-children sets will be available, increasing cross-selling in both categories. Material sourcing and production will be more streamlined with the adult business, cutting down cost and manufacturing time.

Restructuring brings some short-term downfalls in order to position for long-term gains. Revenue from XTEP Kids was reduced in 2016 due to the restructuring, and the Group has made the appropriate provision for certain long outstanding account receivables from distributors on prudence basis.

We see high potential profit generation capabilities of children's sportswear business as China implements the new second child policy and parents are devoting increase amounts of resources to quality products for their children. Therefore, we believe children's sportswear from a reputation brand as XTEP will meet the quality and safety demands of parents and will remain as an important business segment of the Group after restructuring.

Overseas Market

As at 31 December 2016, the Group had XTEP POS exposure across the Middle East, Southeast Asia, and Europe, operated by XTEP's Exclusive Distributors and Authorized Retailers. Although at present the overseas business segment only accounts for minor revenue contribution to the Group, we believe business expansion to overseas markets can increase XTEP's global exposure, enhance brand value, and broaden revenue streams.



Products+

Sports+

3+ FUTURE

Sustainable Growth

Internet+


XTEP SPOKESPERSON
ZHAO LIYING

FUTURE PROSPECTS

PRODUCT+

Running products

We have changed the way we look at our running products design, from focusing on single technology series to combining different technologies to best fit the needs of the Chinese runner of different experience levels. The Group will introduce three new series of running shoes, which are RUN FAST (競速快跑), RUN STRONG (動力暢跑) and RUN FIT (舒適易跑) in the second quarter of 2017, to better serve marathon runners, routine runners and entry-level runners, respectively. The new shoes employ silicon technology, new generation of our core Dynamic Foam, Reactive Coil, and Air Mega technologies, together with the Softpad™ materials to create a light-weight comfortable running experience for consumers. One of the highlights is the RC 160 (競速160) running shoes in the RUN FAST series, which is the lightest running shoe in China, weighing only 160 grams. It is designed for professional marathon runners with high permeability and strong shock absorbance. For example, during the Beijing Half Marathon, Sium Kiflom from Eritrea and Worku Neri Tigist from Ethiopia won the men and women's half marathon competition respectively wearing the RC 160 series. Following the official signing of the Group's cooperation with the Dow Chemical Company, the jointly developed Softpad™ shoe insoles have been applied to both functional and lifestyle XTEP footwear products. The Group has exclusive use of this patented trademark till 2019, and will continue to use this technology in future footwear products.

In running apparel, the Group consolidated our technologies into six core technology platforms, which are XTEP-DRY, XTEP-COOL, XTEP-WARM, XTEP-SHIELD, XTEP-COMFORT and XTEP-STRONGER, to match the different weather conditions runners encounter. The Group will introduce new XTEP-ENERGY (馭能科技) technology in the second quarter of 2017 within the XTEP-STRONGER technology platform. The materials with XTEP-ENERGY (馭能科技) could release negative ions to enhance runners' metabolism and alleviate sports fatigue.

New sports category product launches

XTEP product categories will expand beyond running to other sports in which we see high growth potential and is an extension of our expertise in running. Following the launch of football products in June 2016, smart running-shoes in the third quarter of 2016, and outdoor products in the winter of 2016, XTEP will launch more female focused products, such as yoga and fitness products, as well as products specifically for indoor training in 2017. We see the female sportswear category and fitness sportswear category as underpenetrated niche categories with high growth potential. XTEP image fits well with these sports categories that command both functionality and aesthetic appeal.

New celebrity and film product lines

The Group announced the cooperation with Nicholas Tse in July 2016 involving him in the design and promotion of his related product line. In winter 2016, we cooperated with Transformers to launch a product line bearing images and inspirations from the popular comic/film. We believe this type of cooperation between celebrities and popular culture and XTEP strengthens our brand recognition, broadens consumer base, and leads to additional revenue for the Group. We will continue to cooperate with our celebrity spokespersons to develop new product lines that enhance our brand exposure and increase our profitability.

SPORTS+

The Group continues our vision of being a part of, and operating, a running ecosystem beyond products and sponsorships. What we envision is a comprehensive suite of running related services that starts with products, goes to events and activities, to the community, and even beyond the sports industry to applications in other industries.

In 2017, the Group will continue to sponsor major marathons and running events to further enhance XTEP's association with running in China. We intend to continue the XTEP 3.21 Running Festival as an annual celebration dedicated to runners that involves both offline and online channels to create a multifaceted impactful event that promotes healthy and sportive lifestyle. We will be sponsoring and organizing more varieties of running events, such as evening marathons, women's marathons, retail store led local running events, and training camps and activities revolving around local communities. Our Beijing Olympic Forest Park XTEP Running Track and XTEP flagship stores serve as symbolic gathering points for runners nation-wide, where they can receive professional advice on running wear and techniques, and learn about local running events and activities. The Xtep Motion Tracker APP will foster a closer bond between the Group and runners, and we will be able to provide tailor-made product, activity, training, health advice, even ancillary products and services provided by third-party partner to individual users by analyzing their usage data.

The Xtep Runner's Club will continue to serve as the center of local running communities in organizing Xtep teams for marathons and local running events. In August 2016, the Group established the first Xtep Running Club (特步跑步俱樂部) at the Beijing Olympic Forest Park XTEP Running Track. It is a club house type facility that serves the needs of Runner's Club members, with facilities such as locker rooms with showers, t-shirt printing and medallion making, new product borrowing and testing, and etc. More of these club houses will be set up across the nation in 2017 to benefit loyal XTEP runners.

INTERNET+

Internet+ signifies our commitment to two things, technology and connectivity. The Group will harness the power of the Internet, mobile Internet and other digital technologies for big data gathering, O2O community building, seamless multi-channel marketing and sales to achieve omni-channel precise marketing. Technology will connect our offline customers to online shops and online customers to offline stores, as well as connect all of our XTEP Runner's Club members, XTEP Motion APP users, and participants in our sponsored marathons, to create a seamless retail system and runners' community.

In retail stores, the Group will continue to carry out smart retail in 2017, using automatic traffic counter (客流計數器), e-payment, foot scanner (足型掃描器) and other new technologies to provide consumers with more customized service and to help us gain more insights in consumer behavior. During sponsored marathons and running events, the Group will provide foot scan service to runners to let them know accurately their footwear requirements, as well as enable us to cumulate a larger runners' database, which will help us design the best fitting shoes for the Chinese runner and precisely target the promotion of our products.

In e-commerce, the Group will complete the O2O loop by linking our online channel with our factory outlet stores, thereby maintaining a minimum retail inventory level for our entire retail network. We expect to use the nimbleness of e-commerce to increase sales of popular offline items through rapid replenishment and fast delivery. E-commerce will also be a convenient channel for expanding XTEP footprint overseas, as a lower risk way to test new markets while raising XTEP's profile.

CONCLUSION

While the Group continues to undergo our restructuring process in 2016 and 2017, we believe we are running in the right direction by repositioning XTEP as a professional sports brand with stylish and functional products. The restructuring has already lead to higher sales efficiency per store and stronger inventory control throughout the entire retail network. When we complete the restructuring, we expect to see higher revenue and profit growth for the Group as a whole, while XTEP becomes a stronger brand. We strive to generate long-term value for our Shareholders, and to be China's "runners' brand of choice".

ADDITIONAL DISCLOSURES

Compliance with Laws and Regulations

The Group recognizes the importance of compliance with regulatory requirements and the risk of non-compliance with such requirements could lead to the termination of operating licenses and fines. The Group has instituted guidelines to staff on compliance with laws and regulations, and has maintained cordial working relationships with regulators through effective communications. During the Year under review, the Group has complied, to the best of our knowledge, with the relevant rules and regulations in China where we carry out our operations.

Key Financial Performance Analysis

Please refer to "Financial Review" section.

Environmental Policies and Performance

The most significant environmental impacts in footwear and apparel industry are air emission, waste disposal, and wastewater discharges in the process of production that are regarded as harmful to human health and environment. As a responsible sportswear producer, the Group strived to reduce our impacts through effective implementation of environmental management systems and strict compliance to laws and regulations. Since 2010, all of our production sites have adopted ISO14001 environmental management standards to ensure the production processes comply with national environmental laws and regulations. No violations and non-compliance incidents occur during the reporting Year.

Aligning with national climate change strategy and global trends on greenhouse gas reductions, energy saving and water management are also relevant environmental issues to the Group. Continuous efforts and relevant measures have been taken to reduce our environmental footprints. Also, the Group is dedicated to developing healthy and environmental friendly materials and products, integrating environmental protection with our innovation strategy.

For more details, please refer to our "2016 Environmental, Social and Governance Report" published separately.

Relationship with Key Stakeholders

Employees:

As a responsible employer, the Group fully complied with the relevant national laws and regulations on compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, wage and other employee benefits and welfare. The Group strictly complied with International Labor Standards and the PRC government's "Provision on the Prohibition of Using Child Labor". During the Year, we did not hire any employee under the age of 16. Above the requirements, the Group regarded our employees as the most valuable assets of the Group, and provided training and clear career advancement paths. With dedication to providing wages, welfares and working environments that are significantly better than our peers, the Group earned numerous recognitions from our employees and the government, making us a top choice employer.

In recognition for our high quality working environment, the Group was awarded "National Model Harmonious Labor Relations Enterprise" and "May 1st Labor Medal", and one of our factory worker in Anhui Province won "National Excellent Migrant Worker" award in 2015, a national award given to only 981 people that year. In 2016, the Group was awarded "Best Employer in China — Professional Manager Friendly Enterprise" (中國最佳僱主職業經理人宜居企業) by Economy Magazine and China Association for Professional Manager. For recognition of our efforts and achievements on employee training and development, the Group was awarded "China Corporate Training Innovation Golden Award" (中國企業培訓創新成果金獎) and the Group's internal training center XTEP UNIVERSITY was awarded "Most Valuable Corporate University in China" (中國最具價值企業大學) by Committee of Enterprises Education Top 100 in China for 2016.

Customers:

Customer satisfaction and relevant indicators have been regarded as one of the performance indicators of our entire retail network, to ensure our service meets customers' needs and expectations. The Group conducts "brand healthiness survey" annually to review our competitiveness against peers, identify key challenges and adjust our branding and product strategies accordingly. According to the latest survey conducted in 2016, customers have very strong cognition of our brand in the running sports category. XTEP was ranked 2nd among all domestic sports brands, affirming our achievements in branding and product development after changing to the new professional sports image.

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

To make sure our customers enjoy the same high-quality service in every retail store, the Group has established standardized training modules for retail stores. Each store is equipped with a service menu with step-by-step instructions to precisely demonstrate our high standard of customer service and to standardize service routines among all retail stores. The Group also provided regularly updated training on new product knowledge, product displays, brand campaign, retail sales strategies and inventory control through our internal "Super Shopping Guide"(超級導購)APP.

Suppliers:

Our main types of suppliers include outsourced production suppliers and material suppliers. The Group used outsourced suppliers in China to produce approximately 45% of our footwear products and 85% of our apparel products. All of the outsourced suppliers are constantly monitored by the Group's quality control team deployed in the suppliers' manufacturing sites to uphold our top quality standards.

The Group required all suppliers to comply with national and local laws and regulations regarding environmental protection, production safety, labor condition and human rights. Quarterly check is conducted by our Procurement, Laws and Compliance, as well as Human Resources departments to ensure no violations against relevant laws and regulations.

The Group actively encouraged suppliers to establish environmental friendly and energy-efficient production management systems. Relevant trainings were provided to encourage suppliers to adopt ISO14001 environmental management system and other environmental and labor friendly measures. In addition, the Group has also cooperated with government authorities and environmental monitoring institutions to conduct inspections and offered guidance to major suppliers on enhancing their production and working environment, as well as employing relevant environmental, health, and safety management procedures.

Principal Risks and Uncertainties

The Group's principal business activities comprise of consumer retail of sportswear products in PRC, which are exposure to a variety of macro risks including a significant slowdown in Chinese GDP and wage growth, significant downturn in the retail environment, disruptive change in the competitive environment for sportswear in China either in price or supply, abrupt and large fluctuation in global natural resource prices such as rubber and cotton. While these risks continue to exist, the Group closely monitors any signs of these occurring and will devise appropriate plans to minimize earnings risk for our Shareholders.

FINANCIAL REVIEW

Group Revenue Breakdown by Product Category

The following table sets out the contributions to the Group's revenue by product category for the Year:

For the year ended 31 December

	2016		2015		
	Revenue (RMB Million)	(% of Revenue)	Revenue (RMB Million)	(% of Revenue)	Changes In Revenue (%)
Footwear	3,525.4	65.3	3,258.1	61.5	+8.2
Apparel	1,764.8	32.7	1,926.6	36.4	-8.4
Accessories	106.4	2.0	110.4	2.1	-3.6
Total	5,396.6	100.0	5,295.1	100.0	+1.9

The Group's total revenue for the year ended 31 December 2016 amounted to approximately RMB5.4 billion (2015: RMB5.3 billion), representing an increase of approximately 1.9% compared to last year. This improvement in revenue was mainly due to:

1. increase in revenue of footwear products due to successful repositioning of XTEP as professional sports brand with stylish and functional products which focuses on running; but offset by

2. decrease in revenue of apparel products due to reduction of lower margin lifestyle products.

During the Year, the Group has consistently applied a prudent approach when accepting product orders from Exclusive Distributors and Authorized Retailers in each quarter and therefore the retail inventory has maintained at a healthy level.

We mainly used the Group's website and our XTEP e-commerce flagship stores on various internet platforms and the revenue through the e-commerce platform has recorded significant improvements and accounted for high-teens of the Group's revenue. On the other hand, as the business segment of XTEP Kids products was under restructuring and the revenue of XTEP Kids declined and only accounted for low-single-digit of the Group's revenue (2015: mid-single-digit).

Gross Profit and Gross Profit Margin Breakdown by Product Category

The following table sets out the gross profit and the gross profit margin by product category for the Year:

For the year ended 31 December

	2016		2015		
	Gross profit (RMB million)	Gross profit margin (%)	Gross profit (RMB million)	Gross profit margin (%)	Changes in gross profit margin (% point)
Footwear	1,550.9	44.0	1,428.5	43.8	+0.2
Apparel	736.8	41.7	764.4	39.7	+2.0
Accessories	43.6	41.0	43.8	39.7	+1.3
Total	2,331.3	43.2	2,236.7	42.2	+1.0

The Group's overall gross profit margin increased by 1.0 percentage point to 43.2% (2015: 42.2%). The increase in the overall gross profit margin was mainly due to the Group's products mix moving towards professional sports products which has higher gross profit margins.

Other Income and Gains

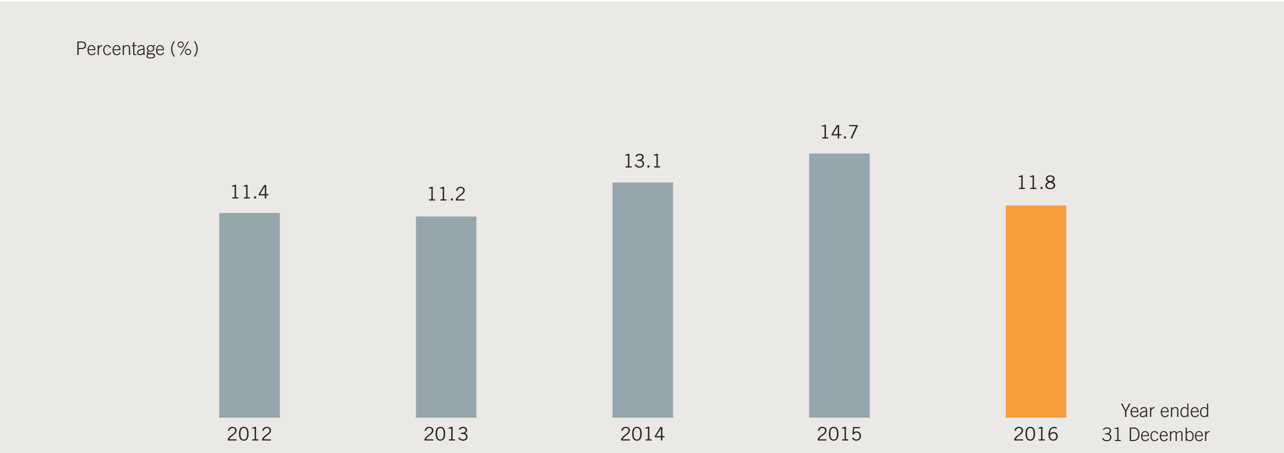
For the year ended 31 December 2016, other income and gains of the Group mainly represented the subsidized income from the PRC Government, which amounted to approximately RMB53.7 million (2015: RMB55.5 million); and the income derived from available-for-sale financial assets was approximately RMB41.9 million (2015: RMB86.3 million), which was mainly derived from available-for-sale investments and structured deposits.

Selling and Distribution Expenses

For the year ended 31 December 2016, the Group's selling and distribution expenses amounted to approximately RMB850.8 million (2015: RMB982.6 million), representing approximately 15.8% (2015: 18.6%) of the Group's total revenue. The decrease in selling and distribution expenses was mainly due to the decrease in advertising and promotional costs.

The advertising and promotional costs for the Year amounted to approximately RMB637.2 million (2015: RMB780.5 million), represented approximately 11.8% (2015: 14.7%) of the Group's total revenue.

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



The advertising and promotional costs was higher for the year ended 31 December 2014 and 2015, respectively, was mainly due to the Group's extra promotion to reposition as a professional sports brand. Before and after, these expenses were maintained at a normal range between 11% to 12% for the year ended 31 December 2012, 2013 and 2016, respectively.

General and Administrative Expenses

For the year ended 31 December 2016, the Group's general and administrative expenses amounted to approximately RMB662.1 million (2015: RMB478.1 million), which represented approximately 12.3% (2015: 9.0%) of the Group's total revenue. The R&D costs for the Year amounted to approximately RMB138.2 million (2015: RMB121.3 million), representing approximately 2.6% (2015: 2.3%) of the Group's total revenue. The R&D costs were 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.

Maintaining a prudent approach towards financial management, the Group made a net provision for doubtful debt for the long outstanding trade receivables for the Year, which amounted to approximately RMB222.2 million (2015: RMB31.7 million).

The provision for doubtful debt for the Year was mainly due to the restructuring of XTEP Kids business. The Group considered such provision was sufficient for the long outstanding trade receivables of XTEP Kids business for the Year.

Net Finance Costs

The total net finance cost of the Group for the year ended 31 December 2016 amounted to approximately RMB51.4 million (2015: RMB27.8 million). The increase was mainly due to the decrease in interest income to RMB51.0 million (2015: RMB56.2 million) as a result of decrease in cash balance while the interest expenses increased to approximately RMB104.3 million (2015: RMB75.8 million) primarily as a result of the increase in average balance of bank loans and discounted bills receivable during the Year.

Operating Profit Margin

The operating profit margin for the year ended 31 December 2016 decreased by 0.4 percentage point to 17.0% (2015: 17.4%). This was mainly due to the increase in gross profit margin by 1.0 percentage points but offset by increase in provision for doubtful debt. If considering the operating profit before the provision for doubtful debt, it amounted to approximately RMB1,139.2 million (2015: RMB952.8 million), representing an increase of 19.6%.

Income Tax Expenses

Income tax provision of the Group for the year ended 31 December 2016 was approximately RMB292.6 million (2015: RMB256.6 million). The income tax provision included profit tax provision relating to operating companies which amounted to approximately RMB269.9 million (2015: RMB248.0 million). The profit tax provision was recorded according to the profit derived from the underlying operating companies. However, certain provisions and interest expenses incurred by the Group were not subject to income tax deduction. Also, there was an under-provision of income tax of approximately RMB7.7 million (2015: RMB5.6 million). The Company holds certain PRC subsidiary companies which have retained profits that can be distributed to the Company in the future. Therefore, the Company has made a provision of withholding tax amounted to approximately RMB15.0 million (2015: RMB3.0 million).

Profit Attributable to Ordinary Equity Shareholders and Net Profit Margin

For the year ended 31 December 2016, the profit attributable to ordinary equity Shareholders was approximately RMB527.9 million (2015: RMB622.6 million), representing a decrease of approximately 15.2% over the same period last year. The decrease was mainly due to the increase in gross profit as both the Group's revenue and gross profit margin increased, but at the same time, it was offset by the increase of provision for doubtful debt for the Year.

The Group's net profit margin amounted to 9.8% (2015: 11.8%).

Dividend

The Group maintained a high level of cash and bank balances. The Board continued to maintain Shareholders' dividend return and therefore recommended a final dividend of HK3.25 cents (2015: HK7.0 cents) per Share and a special dividend of HK2.75 cents (2015: HK3.5 cents) per Share. Together with the interim dividend of HK10.5 cents (2015: HK10.0 cents) per Share, the annual payout ratio for the Year amounted to 60% (2015: 60%).

Working Capital Cycle

For the year ended 31 December 2016, the Group's overall working capital turnover days was 63 days (2015: 60 days).

For the year ended 31 December:

WORKING CAPITAL TURNOVER DAYS	2016 Days	2015 Days	Changes Days
Inventories	51	58	-7
Trade receivables	119	98	+21
Trade payables	107	96	+11
Overall working capital turnover days	63	60	+3

Inventories

INVENTORIES	2016 RMB million	2015 RMB million
Balance at 1 January	398.4	569.0
Balance at 31 December	459.6	398.4
Average balance (note 1)	429.0	483.7
Cost of sales for the year ended 31 December	3,065.3	3,058.4
Average turnover days (note 2)	51 days	58 days

As at 31 December 2016, the Group's balance of inventory was approximately RMB459.6 million (2015: RMB398.4 million). The turnover days of inventories for the year ended 31 December 2016 improved by 7 days to 51 days (2015: 58 days). The improvement was mainly due to stringent stock control through prudent products ordering, flattened distribution channel and real-time retail inventory monitoring management.

Trade Receivables

TRADE RECEIVABLES	2016 RMB million	2015 RMB million
Balance at 1 January	1,603.2	1,231.4
Balance at 31 December	1,916.2	1,603.2
Average balance (note 1)	1,759.7	1,417.3
Revenue for the year ended 31 December	5,396.6	5,295.1
Average turnover days (note 2)	119 days	98 days

As of 31 December 2016, the Group's net balance of trade receivables was approximately RMB1,916.2 million (2015: RMB1,603.2 million). The increase in trade receivables turnover days compared to last year was due to the Group provided temporary support to assist its distributors to increase their directly owned retail stores. This measure flattened and reduced the multi-layered structure in the distribution channel which resulted in significant reduction of inventory level at the retail-end. On the other hand, as compared to the trade receivables turnover of 122 days for the six months ended 30 June 2016, the trade receivable turnover days for the year ended 31 December 2016 was reduced by 3 days.

Trade Payables

TRADE PAYABLES	2016 RMB million	2015 RMB million
Balance at 1 January	895.8	719.1
Balance at 31 December	896.0	895.8
Average balance (note 1)	895.9	807.5
Cost of sales for the year ended 31 December	3,065.3	3,058.4
Average turnover days (note 2)	107 days	96 days

As at 31 December 2016, the Group's trade payables balance was approximately RMB896.0 million (2015: RMB895.8 million). The increase was due to the Group having utilized the credit period of suppliers and extending the payment days in order to improve the working capital cycle of the Group. The average trade payable turnover days for the Year was 107 days (2015: 96 days).

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

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

Bills Receivables

In order to have more flexibilities in utilising working capital facilities, the Group utilized the acceptance and usage of bills receivables and bills payables, respectively. As of 31 December 2016, the bills receivables amounted to approximately RMB187.0 million (31 December 2015: RMB288.6 million). For the year ended 31 December 2016, the number of turnover days of bills receivables was 16 days (2015: 19 days).

LIQUIDITY AND CAPITAL RESOURCES

As of 31 December 2016, the Group's cash and cash equivalents amounted to approximately RMB2,846.5 million (31 December 2015: RMB3,607.0 million), representing an decrease of approximately RMB760.5 million. This was mainly attributable to:

(a) Net cash inflow from operating activities that amounted to RMB345.8 million, which was due to the cash generated from operations of approximately RMB647.7 million but offset by the payment of income and withholding tax amounting to RMB248.6 million and the payment of net interest expenses of approximately RMB53.3 million;

(b) Net cash flows used in investing activities that amounted to RMB567.2 million, which was mainly due to the increase in time deposits with original maturity more than three months amounting to RMB536.0 million; and

(c) Net cash flows used in financing activities that amounted to RMB542.2 million, mainly due to the payment of dividends amounting to RMB393.7 million, repayment of bank borrowings amounting to RMB1,244.0 million, but offset by new loans amounted to RMB1,016.2 million.

The net cash and cash equivalents (including fixed deposits held at banks with maturity dates of over three months, pledged deposits and other current financial assets, minus bank loans) were approximately RMB2,743.7 million as of 31 December 2016 (as of 31 December 2015: RMB2,866.3 million).

	2016 RMB million	2015 RMB million
Cash and cash equivalents	2,846.5	3,607.0
Bank deposits	1,398.8	869.8
Total bank deposits and bank balances	4,245.3	4,476.8
Less: Bank borrowings	(1,501.6)	(1,610.5)
Net cash and cash equivalents	2,743.7	2,866.3

As of 31 December 2016, the Group's gearing ratio was 18.4% (31 December 2015: 19.8%), which is defined as the total bank borrowings divided by the Group's total assets.

As of 31 December 2016, the total assets of the Group amounted to RMB8,173.9 million (31 December 2015: RMB8,114.0 million), represented by non-current assets of RMB956.9 million (31 December 2015: RMB1,063.2 million) and current assets of RMB7,217.0 million (31 December 2015: RMB7,050.8 million). The total liabilities of the Group amounted to RMB3,151.1 million (31 December 2015: RMB3,242.3 million), represented by non-current liabilities of RMB121.7 million (31 December 2015: RMB275.9 million) and current liabilities of RMB3,029.4 million (31 December 2015: RMB2,966.4 million). The total non-controlling interests of the Group amounted to RMB69.3 million (31 December 2015: RMB19.8 million). Hence, the total net assets of the Group amounted to RMB5,022.8 million (31 December 2015: RMB4,871.7 million), representing an increase of 3.1%. Net assets per Share as at 31 December 2016 were approximately RMB2.26 (31 December 2015: RMB2.22), representing an increase of 1.8%.

INVENTORY PROVISION

For the year ended 31 December 2016, the Group did not have any inventory provisions.

IMPAIRMENT PROVISION FOR TRADE RECEIVABLES

For the year ended 31 December 2016, the Group recorded a net impairment provision for trade receivables amounting to approximately RMB222.2 million (2015: RMB31.7 million).

COMMITMENTS

Details of the Group's commitments are stated in note 34 of the financial statements.

CONTINGENT LIABILITIES

As of 31 December 2016, the Group did not have any material contingent liabilities.

CHARGE OF ASSETS

Save as disclosed in notes 21 and 24 of the financial statements relating to certain amounts of bank deposits pledged to secure the banking facilities. None of the Group's assets were pledged as at 31 December 2016.

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. The Group has not used any forward contracts or currency borrowings to hedge its foreign currency risks. However, the management team will continue to monitor foreign currency risks and adopt prudent measures as appropriate.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

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

HUMAN RESOURCES

As of 31 December 2016, the Group has approximately 8,400 employees (31 December 2015: 8,100 employees). The Group provides introductory orientation programs and continuous training to its employees. Topics covered include industry knowledge, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and standards of its staff. The Group will strive to strengthen human resources management to provide strong support for the development of its business through staff recruitment initiatives, optimization of the organizational structure and promotion of its corporate culture to ensure that it can maintain sustainable development in the future.

INVESTOR RELATIONS REPORT

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

INVESTOR INFORMATION

Investor Relations Contact

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Investor Relations Department
Suite 2401–2, 24/F,
Shui On Centre, 6–8 Harbour Road,
Wanchai, Hong Kong
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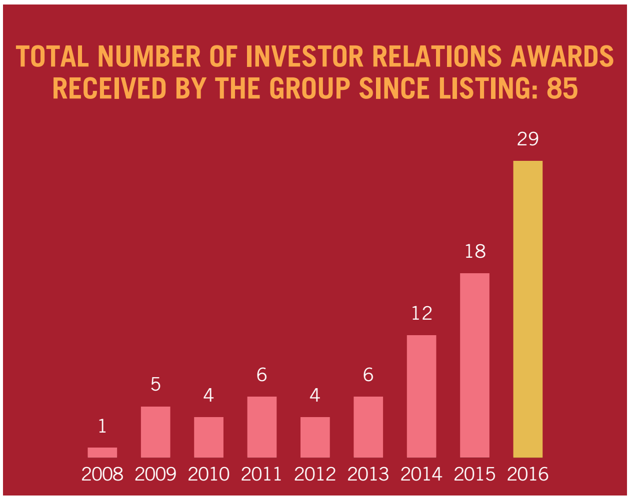
Fax: (852) 2153 0330
E-mail: ir@xtep.com.hk
Corporate website: www.xtep.com.hk

Share Information

Listing Date: 3 June 2008
Board lot: 500 Shares
Number of issued shares as at 31 December 2016: 2,219,535,000 Shares
Stock code: 1368.HK



INDEXES

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

MSCI Index

MSCI Indexes since November 2008

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

HANG SENG Index

Hang Seng Indexes since March 2010

Hang Seng Global Composite Index
Hang Seng Composite Index Series

Shenzhen-Hong Kong Stock Connect since November 2016

INVESTMENT BANK AND SECURITIES FIRM COVERAGE

As at 31 December 2016			
	Investment Bank	Rating	Target Price (HK$)
1	Oriental Patron Financial Group	Buy	5.85
2	RHB Securities	Buy	5.70
3	Essence Securities	Buy	5.55
4	Everbright Securities	Buy	5.35
5	Crosby Securities	Buy	5.30
6	Southwest Securities	Overweight	5.12
7	Cinda International	Buy	5.11
8	UOB Kay Hian	Buy	5.10
9	ICBC International	Buy	5.00
10	Daiwa Securities	Buy	4.90
11	Guotai Junan International	Buy	4.90
12	China Merchants Securities	Buy	4.88
13	Jefferies	Buy	4.80
14	HSBC Securities	Buy	4.70
15	Zhongtai International	Overweight	4.60
16	Sunwah Kingsway	Buy	4.51
17	CITIC Securities	Buy	4.20
18	First Shanghai Securities	Buy	4.07
19	Credit Suisse	Neutral	4.00
20	KGI Asia	Neutral	4.00
21	GF Securities	Hold	4.00
22	CICC	Hold	3.95
23	J.P. Morgan	Neutral	3.80

Average target price: 4.76
18 Buy/Overweight ratings

Source: Bloomberg, 31 December 2016

KEY INVESTOR RELATIONS EVENTS HELD IN 2016

KEY INVESTOR RELATIONS EVENTS HELD AS OF 31 DECEMBER 2016	
Type of Event	No. of Events Held in 2016
Results Presentations to Investors (2015 annual results and 2016 interim results)	2
Press Conferences for Results Announcement	2
Annual General Meeting	1 (Year 2015)
Regular Roadshows	13 (85 meetings in aggregate)
Countries/regions where Roadshows were held	Hong Kong, Shenzhen, Korea, Shanghai, Japan, Taiwan, London, New York, Kuala Lumpur, Singapore, Beijing, Paris
Investment Strategy Conferences Organized by Major Investment Banks	9 (54 meetings in aggregate)
Chief Agency Brokers of Investment Strategy Conferences	Morgan Stanley, Citibank, Daiwa, Essence, Deutsche Bank, Credit Suisse, Bank of America Merrill Lynch
One-on-one/Group Face-to-face Meetings or Telephone Conferences with Investors	88
Press Interviews	13
Press Releases	11
Meetings with Stock Commentators/Financial Media	5
Analyst Briefings	29
Number of Investor Exchange Sessions (approximately and including those attended repeatedly)	289

Organized 50 more investor meetings in 2016 than in 2015 (2015: 239)

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Ding Shui Po (丁水波), aged 46, is the founder, chairman and chief executive officer of the Group. He has over 28 years of experience in the sportswear industry and is primarily responsible for the overall corporate strategies, planning and business development of the Group. Mr. Ding founded the Group in 1999 and is currently also the chairman of the Board of Directors and president of various subsidiaries of the Group.

Mr. Ding personally obtained the following awards:

Year	*Award*
2002	Outstanding Young Entrepreneur in Quanzhou
2003	Top 100 Individuals in PRC's Economic Development
2004	Top 10 Most Influential Entrepreneurs in China
2005	Fujian Young Entrepreneurs Achievement Award
2007	Fujian Province May 4th Youth Medal
2008	CAPITAL Leaders of Excellence in China 2008
2008	Fujian Province May 4th Youth Medal
2008	Outstanding Young Entrepreneur in Fujian
2009	Ernst & Young Entrepreneur of the Year China 2009
2009	May 1st Labor Medal
2009	Top Ten Eminent Young Entrepreneurs of Fujian
2010	Chinese Brands Awards – People of the Year
2010	Chinese Textile and Apparel Industry – Top 10 People of the Year
2011	The "Seeding of Hope, Contribution to Brightness" medal, presented by All-China Federation of Returned Overseas Chinese
2011	Most Innovative Entrepreneur of Quanzhou City
2013	Quanzhou Top Talent
2013	Outstanding Contribution Award on Community Donation by a Businessman in the Private Sector in Fujian Province
2013	Outstanding Contribution Award on Western Taiwan Straits Economic Zone Construction
2013	Top Ten Outstanding Young Persons in Quanzhou
2015	2nd China Footwear Industry Ceremony – Annual Leading Figure of 2015
2016	Top Ten Teaching Entrepreneurs in China 2016 presented by Enterprise Education Top 100 in China Committee
2016	Outstanding Entrepreneur in China 2015–2016 presented by China Enterprise Confederation

Mr. Ding held the following public offices:

Year	*Public Office*
2003	Committee Member of the 9th Fujian Provincial Committee of the Political Consultative Conference
2006	Chairman of the 3rd Executive Committee Quanzhou Footwear Chamber
2008	Committee Member of the 10th Fujian Provincial Committee of the Political Consultative Conference
2009	Honorary Chairman of the Fujian Footwear Industry Association
2009	Honored Executive Director of Red Cross Society of China Fujian Branch
2010	Chairman of the 5th Board of China Young Entrepreneurs Association – Young Chamber of Commerce in Quanzhou
2010	Committee Member of the National Youth Committee
2011	Founding Chairman of the Hong Kong China Chamber of Commerce
2013	Committee Member of the 11th Fujian Provincial Committee of the Political Consultative Conference
2013	Executive Vice President of the 4th Congress of the China Federation of Overseas Chinese Entrepreneurs
2014	Chairman of the 2nd World Quanzhou Youth Friendship Association
2015	Committee Member of Marathon Committee of China Athletic Association
2016	Chief Expert in the Sportswear Industry, for the Sports Economy Research Center of the Research Institute of Sports Science of the General Administration of Sport of China

Mr. Ding participated in entrepreneurship programs offered by Peking University (北京大學) and Tsinghua University (清華大學) in 2004 and 2006, respectively, and studied in the China CEO/Finance CEO Program offered by Cheung Kong Graduate School of Business (長江商學院) in 2011. He also completed the CEO Program of the China Europe International Business School (中歐國際工商學院) and the EMBA program offered by Xiamen University (廈門大學) in 2014. He started attending China Europe International Business School's Sport and Leisure Management Program in 2015, and Shanghai Advanced Institute of Finance CEO Program in 2016. He is the father of Ms. Ding Lizhi (one of our controlling shareholders), a brother of Ms. Ding Mei Qing and Mr. Ding Ming Zhong and a brother-in-law of Mr. Lin Zhang Li.

Ms. Ding Mei Qing (丁美清), aged 44, is our executive Director and a vice president of the Company. Ms. Ding has over 18 years of experience in the sportswear industry and is primarily responsible for the management of the footwear operation of the Group. She is also responsible for the design and technology development of the Group and has led our design team in creating a number of special collections of footwear under our XTEP that successfully appeal to the trendy and youthful mass market segment. Ms. Ding joined the Group in 1999 and is currently also a deputy general manager, a director and a vice president of various subsidiaries of the Group. Ms. Ding participated in an entrepreneurship program offered by Tsinghua University (清華大學) in 2006. She is the daughter of Mr. Ding Jin Chao, the sister of Mr. Ding Shui Po and Mr. Ding Ming Zhong and the wife of Mr. Lin Zhang Li.

Mr. Lin Zhang Li (林章利), aged 45, is our executive Director and a vice president of the Company. Mr. Lin has over 18 years of experience in the sportswear industry and is primarily responsible for the management of the apparel business of the Group. Mr. Lin joined the Group in 1999 and is currently also a vice president of Xtep (China). He participated in an entrepreneurship program offered by Tsinghua University (清華大學) in 2006. He is the husband of Ms. Ding Mei Qing, the son-in-law of Mr. Ding Jin Chao, a brother-in-law of Mr. Ding Shui Po and Mr. Ding Ming Zhong.

Mr. Ding Ming Zhong (丁明忠), aged 40, is our executive Director and a vice president of the Company. He has over 18 years of experience in the sportswear industry and is primarily responsible for the management of the accessories business of the Group. Mr. Ding joined the Group in 1999 and is currently also a deputy general manager and a vice president of various subsidiaries of the Group. He participated in entrepreneurship programs offered by Peking University (北京大學) and Tsinghua University (清華大學) in 2004 and 2006, respectively. He is the son of Mr. Ding Jin Chao, a brother of Mr. Ding Shui Po and Ms. Ding Mei Qing and a brother-in-law of Mr. Lin Zhang Li.

Mr. Ho Yui Pok, Eleutherius (何睿博), aged 51, joined the Group in 2007 and was later appointed as an executive Director of the Company on 29 March 2010. Mr. Ho is also the chief financial officer, investor relations spokesperson and authorized representative of the Company. He is also the company secretary of the Company. He has over 27 years of experience in auditing, accounting and financial management and is primarily responsible for the Group's overall financial and accounting affairs and investor relations. Mr. Ho graduated from the University of Kent (肯特大學) at Canterbury, England with a bachelor's degree in accounting in 1987 and a master's degree in management science in 1989. Prior to joining the Group, he was a chief financial officer, company secretary and authorized representative of GST Holdings Limited from 2005 to 2007, and a financial controller of EC-Founder (Holdings) Co., Ltd. from 2000 to 2005, a company listed on the Main Board of the Hong Kong Stock Exchange. In addition, he worked for an international accounting firm as a manager from 1994 to 1996. He is a fellow member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Hong Kong Institute of Certified Public Accountants, and an associate member of the Hong Kong Institute of Directors.

In 2016, Mr. Ho received the Best CFO (Overall in Consumer Discretionary Sector) Award presented by Institutional Investor, Directors Of the Year Awards 2016 by The Hong Kong Institute of Directors; and Best IR by CFO Award presented by HKIRA.

Independent Non-Executive Directors

Mr. Tan Wee Seng (陳偉成), aged 61, was appointed as a non-executive Director of the Company on 29 March 2010. Mr. Tan is a professional in value and business management consultancy. He is an independent non-executive director and chairman of the audit committee of Sa Sa International Holdings Limited, an independent non-executive director and chairman of the remuneration committee of Biostime International Holdings Limited and an independent non-executive director and chairman of audit committee of Sinopharm Group Company Limited, and an independent non-executive director and chairman of the audit committee of CIFI Holdings (Group) Company Limited, all of these companies are listed on the Main Board of Hong Kong Stock Exchange. He is also an independent director and chairman of the audit committee of ReneSola Ltd. whose shares are listed on the NYSE, and a board member of Beijing City International School, an academic institution in Beijing. Mr. Tan has been an independent director and chairman of audit committee for 7 Days Group Holdings Limited listed in the NYSE from November 2009 to July 2013 on which it was privatized. Mr. Tan was also the chairman of special committee for privatization of the 7 Days Group Holdings Limited from October 2012 to July 2013.

Mr. Tan has over 37 years of experience in financial management, corporate finance, merger and acquisition, business management and strategy development. He has also held various management and senior management positions in a number of multi-national and Chinese corporations. From 2003 to 2008, he was an executive director, chief financial officer and company secretary of Li Ning Company Limited, the shares of which are listed on the Main Board of Hong Kong Stock Exchange. From 1999 to 2002, he was the senior vice president of Reuters for China, Mongolia and North Korea regions, and the chief representative of Reuters in China. Prior to that, he had served as the managing director of AFE Computer Services Limited, a Reuters subsidiary in Hong Kong mainly engaged in domestic equity and financial information services, and as the director of Infocast Pty Limited, a Reuters subsidiary in Australia and as the regional finance manager of Reuters East Asia. Mr. Tan is a professional accountant and a fellow member of both the Chartered Institute of Management Accountants in the United Kingdom and the Hong Kong Institute of Directors.

Mr. Sin Ka Man (冼家敏), aged 49, was appointed as our independent non-executive Director on 24 January 2008. Mr. Sin has over 24 years of professional experience in auditing, accounting and financial management for both private and listed corporations. He is an associate member of the HKICPA, a fellow member of the Association of Chartered Certified Accountants and a CPA of the CPA Australia. He is currently a vice president of the Huayu Expressway Group Limited, a company listed on the Main Board of Hong Kong Stock Exchange and mainly engaged in toll road business in the PRC, with responsibilities for the accounting and financial management of that company. He holds a bachelor's degree in Social Sciences from the University of Hong Kong, a master's degree in Finance from the University of Strathclyde, the United Kingdom and a master's degree in accounting from Curtin University of Technology, Australia.

Mr. Sin is currently an independent non-executive director of Infinity Financial Group (Holdings) Limited (formerly Fronton Group Limited), Easy One Financial Group Limited (formerly PNG Resources Holdings Limited), and Chinese People Holdings Company Limited (all of these companies are listed on the Main Board of Hong Kong Stock Exchange). Previously he was an independent non-executive director of Sino Haijing Holdings Limited, China Motion Telecom International Limited (companies listed on the Main Board of Hong Kong Stock Exchange) and he was an independent non-executive director of China Leason CBM & Shale Gas Group Company Limited (formerly Shine Software (Holdings) Limited), a company listed on the Growth Enterprise Market Board of the Hong Kong Stock Exchange.

Dr. Gao Xian Feng (高賢峰), aged 54, was appointed as our independent non-executive Director on 24 January 2008. Dr. Gao is currently the executive officer of the Human Resources Management Research Centre at Peking University (北京大學人本管理研究中心), and a guest professor of entrepreneurship programs at Peking University (北京大學), Tsinghua University (清華大學), Party School of the Central Committee of Communist Party of China (中央黨校) and Fudan University (復旦大學). Dr. Gao previously served as an associate professor at Shandong Economic University (山東經濟學院). He holds a bachelor's degree in enterprise management from Shandong Economic University (山東經濟學院) and a doctor of law degree from the Peking University (北京大學).

Dr. Bao Ming Xiao (鮑明曉), aged 54, was appointed as our independent non-executive Director on 21 December 2012. Dr. Bao has over 24 years of experience in physical education. Dr. Bao was a professor of physical education theory at the Capital Institute of Physical Education from 1998 to 2000. He has been a researcher and the chairman of the Research Center of Physical Education Sociology and Science at the Research Institute of Physical Education and Science (體育科學研究所體育社會科學研究中心) of the General Administration of Sport of China (國家體育總局) since 2001. In 2011, Dr. Bao was appointed as deputy chairman of the Second Sport Committee of China Sport Science Society (中國體育科學學會). Dr. Bao graduated from Anhui Normal University (安徽師範大學) with a bachelor's degree in physical education in 1983. Dr. Bao then obtained a master's degree in education and a doctorial degree in education from Shanghai University of Sport (上海體育學院) in 1988 and 2005, respectively. In 2016, Dr. Bao was appointed as director of the China Sports Economy Research Center.

SENIOR MANAGEMENT

The senior management of the Company is composed of all the executive Directors of the Company, namely, Mr. Ding Shui Po, Ms. Ding Mei Qing, Mr. Lin Zhang Li, Mr. Ding Ming Zhong and Mr. Ho Yui Pok, Eleutherius. Please refer to the above section headed "Executive Directors" for their biographical details.

COMPANY SECRETARY

Mr. Ho Yui Pok, Eleutherius (何睿博), aged 51, is the company secretary as well as the chief financial officer, investor relations spokesperson and authorized representative of the Company. His biographical details are set out above under the paragraph headed "Directors".

CORPORATE GOVERNANCE REPORT

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization that is open and accountable to the Shareholders. The Board strives to adhere to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor for creating more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board, in order to optimize the returns for Shareholders.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2016, the Company complied with all code provisions and, where appropriate, adopted the recommended best practices as set out in the Corporate Governance Code, with the exception of code provision A.2.1 (chairman and chief executive).

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

COMPLIANCE WITH MODEL CODE

The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding directors' securities transactions for the year ended 31 December 2016.

BOARD OF DIRECTORS

Board Composition

As at 31 December 2016 and the date of this annual report, the Board is comprised of five executive Directors and four independent non-executive Directors.

The followings are the members of the Board:

Executive Directors

Mr. Ding Shui Po *(Chairman and Chief Executive Officer)*
Ms. Ding Mei Qing
Mr. Lin Zhang Li
Mr. Ding Ming Zhong
Mr. Ho Yui Pok, Eleutherius

Independent Non-Executive Directors

Mr. Tan Wee Seng
Mr. Sin Ka Man
Dr. Gao Xian Feng
Dr. Bao Ming Xiao

Among members of the Board, Mr. Ding Shui Po is the elder brother of Ms. Ding Mei Qing and Mr. Ding Ming Zhong, and Mr. Lin Zhang Li is the husband of Ms. Ding Mei Qing. Save as disclosed herein, to the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director is suitably qualified for his/her position, and has sufficient experience to hold the position so as to carry out his/her duties effectively and efficiently. Biographical information of the Directors are set out in the section headed "Directors and Senior Management" of this annual report.

Meetings of the Board

Board meetings were held from time to time to discuss the business strategies of the Group, to monitor financial and operational performance, to approve the annual and interim results of the Group, and to discuss the corporate governance functions of the Board.

Directors may participate either in person or through electronic means of communications. The individual attendance record of each Director at the meetings of the Board and the general meetings during the year ended 31 December 2016 is set out below:

Name of Director	Attendance/Number of Board Meeting(s) held during a director's tenure	Attendance/Number of General Meeting held during a director's tenure
Executive Directors		
Mr. Ding Shui Po	4/4	1/1
Ms. Ding Mei Qing	4/4	1/1
Mr. Lin Zhang Li	4/4	1/1
Mr. Ding Ming Zhong	4/4	1/1
Mr. Ho Yui Pok, Eleutherius	4/4	1/1
Mr. Ye Qi (resigned on 31 March 2016)	1/1	0/0
Independent Non-Executive Directors		
Mr. Tan Wee Seng	4/4	1/1
Mr. Sin Ka Man	4/4	1/1
Dr. Gao Xian Feng	4/4	1/1
Dr. Bao Ming Xiao	4/4	1/1

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

Functions and Duties of the Board

The overall management of the Company's operation is vested in the Board. The Board carries out its functions according to the powers conferred upon it by the Memorandum and Articles of Association of the Company which is uploaded onto the websites of the Hong Kong Stock Exchange and the Company, and since the date of uploading, has no significant changes have been made.

The main functions and duties conferred on the Board include:

- management of the overall business and strategic development;
- deciding business plans and investment plans;
- convening general meetings and reporting to the Shareholders;
- exercising other powers, functions and duties conferred by Shareholders in general meetings; and
- performing corporate governance duties in compliance with the terms of reference set out in the code.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approvals must be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

The Directors may have access to the advice and services of the company secretary of the Company to ensure that the board procedures, and all applicable rules and regulations, are followed. In addition, the Directors may, upon reasonable request, seek independent professional advice under appropriate circumstance at the Company's expenses. The Board shall resolve to provide separate, appropriate, independent and professional advice to the Directors to assist the relevant Directors in discharging their duties.

Independent Non-Executive Directors

Independent non-executive Directors have played a significant role in the Board by bringing their independent judgment to the Board meeting and scrutinizing the Group's performance. Their views carry significant weight in the Board's decision; in particular, they bring an impartial view to issues relating to the Group's strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advice to the Board. The independent non-executive Directors provide independent advice on the Group's business strategy, results and management to ensure that all interests of Shareholders are taken into account, and the interests of the Company and its Shareholders are protected.

The Board has four independent non-executive Directors, in compliance with Rule 3.10(1) of the Listing Rules, which requires that every board of directors of a listed issuer must include at least three independent non-executive Directors. In addition, at least two independent non-executive Directors, namely, Mr. Tan Wee Seng and Mr. Sin Ka Man, possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 3.10(2) of the Listing Rules. The Company has appointed four independent non-executive Directors, representing more than one-third of the Board, in compliance with Rule 3.10A of the Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all the independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

Training and Support for Directors

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company.

The Directors have been informed of the requirement under code provision A.6.5 of the Corporate Governance Code regarding continuous professional development. According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Corporate Governance Code on continuous professional development during the year ended 31 December 2016:

	Corporate Governance/Updates on Laws, Rules and Regulations		Accounting/Financial/Management or Other Professional Skills	
Name of Director	Read materials	Attended Seminars/ Briefings	Read materials	Attended Seminars/ Briefings
Executive Directors				
Mr. Ding Shui Po	✓	✓	✓	✓
Ms. Ding Mei Qing	✓	✓	✓	✓
Mr. Lin Zhang Li	✓	✓	✓	✓
Mr. Ding Ming Zhong	✓	✓	✓	✓
Mr. Ho Yui Pok, Eleutherius	✓	✓	✓	✓
Mr. Ye Qi (resigned on 31 March 2016)	✓	✓	✓	✓
Independent Non-Executive Directors				
Mr. Tan Wee Seng	✓	✓	✓	✓
Mr. Sin Ka Man	✓	✓	✓	✓
Dr. Gao Xian Feng	✓	✓	✓	✓
Dr. Bao Ming Xiao	✓	✓	✓	✓

Directors' and Officers' Insurance

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

Appointments and Re-Election of Directors

Each of the executive Directors and independent non-executive Directors has entered into a service contract with the Company for a specific term, and is subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the articles of association of the Company.

The articles of association of the Company provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Board Diversity Policy

Pursuant to code provisions of the Corporate Governance Code, the Board approved a new board diversity policy (the "Board Diversity Policy") in August 2013. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

CHAIRMAN AND CHIEF EXECUTIVE

Mr. Ding Shui Po is the chairman and chief executive officer of the Group. He has extensive experience in the sportswear industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board believes that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the Board and the senior management, which is comprised of experienced and high caliber individuals. The Board currently consists of five executive Directors and four independent non-executive Directors and has a strong independence element in its composition.

TERM OF APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors, except Mr. Tan Wee Seng and Dr. Bao Ming Xiao, had entered into a service contract with the Company for an initial term of two years commencing on 3 June 2008. Mr. Tan Wee Seng had entered into a service contract with the Company for an initial term of three years commencing on 29 March 2010. Dr. Bao Ming Xiao had been appointed as a Director effective from 21 December 2012 and had entered into a service contract with the Company for an initial term of two years commencing on the same date.

All the service contracts of independent non-executive Directors are automatically renewed upon expiration and may be terminated by either party with a three-month's prior written notice.

BOARD COMMITTEES

The Board has established (i) Audit Committee, (ii) Remuneration Committee, and (iii) Nomination Committee with defined terms of reference. The terms of reference of the board committees, which explain their respective role and the authority delegated to them by the Board, are available on the websites of the Company and the Hong Kong Stock Exchange. The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance under appropriate circumstances, at the Company's expenses.

Audit Committee

The Audit Committee was established on 7 May 2008, in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the Corporate Governance Code. The Audit Committee consists of three members, namely, Mr. Sin Ka Man, Mr. Tan Wee Seng and Dr. Gao Xian Feng, all of whom are independent non-executive Directors. The chairman of the Audit Committee is Mr. Sin Ka Man, who has appropriate professional qualifications and experience in accounting matters. None of the members of the Audit Committee is a former partner of the existing external auditors of the Company, Ernst & Young.

The primary duties of the Audit Committee are to make recommendation to the Board on the appointment, re-appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the risk management and internal control procedures of the Company.

During the year ended 31 December 2016, the Audit Committee mainly performed the following duties:

– reviewed the Group's unaudited interim results for the six months ended 30 June 2016 and the audited annual results for the year ended 31 December 2016, met with the external auditors to discuss such interim results and annual results without the presence of the Company's management, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made;

– reviewed the accounting principles and practices adopted by the Group, and recommended the appointment of the external auditors; and

– assisted the Board in meeting its responsibilities for maintaining an effective system of internal control and risk management.

During the year ended 31 December 2016, three meetings were held by the Audit Committee. The attendance record of each member of the Audit Committee at the meetings of the Audit Committee is set out below:

Name of Director	Attendance/Number of Audit Committee Meeting(s)
Mr. Sin Ka Man	3/3
Mr. Tan Wee Seng	3/3
Dr. Gao Xian Feng	3/3

There had been no disagreement between the Board and the Audit Committee during the financial year ended 31 December 2016.

Remuneration Committee

The Remuneration Committee was established on 7 May 2008, with written terms of reference in compliance with the Corporate Governance Code. The Remuneration Committee consists of three members, namely Mr. Sin Ka Man, Ms. Ding Mei Qing and Dr. Gao Xian Feng, the majority of whom are independent non-executive Directors. Mr. Sin Ka Man is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board on the remuneration of non-executive Directors.

During the year ended 31 December 2016, the Remuneration Committee mainly performed the following duties:

– reviewed the Group's remuneration policy and reviewed the remuneration package of the executive Directors and senior management for the year of 2016.

During the year ended 31 December 2016, one meeting was held by the Remuneration Committee. The attendance record of each member of the Remuneration Committee at the meetings of the Remuneration Committee is set out below:

Name of Director	Attendance/Number of Remuneration Committee Meeting
Mr. Sin Ka Man	1/1
Ms. Ding Mei Qing	1/1
Dr. Gao Xian Feng	1/1

Nomination Committee

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

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

During the year ended 31 December 2016, the Nomination Committee mainly performed the following duties:

– reviewed the annual confirmation of independence submitted by the independent non-executive Directors and assessed their independence; and

– reviewed the structure, size and composition of the Board during the year of 2016.

The Nomination committee will also give consideration to the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy on a regular basis to ensure its effectiveness.

During the year ended 31 December 2016, one meeting was held by the Nomination Committee. The attendance record of each member of the Nomination Committee at the meetings of the Nomination Committee is set out below:

Name of Director	Attendance/Number of Nomination Committee Meeting
Mr. Ding Shui Po	1/1
Mr. Tan Wee Seng	1/1
Dr. Gao Xian Feng	1/1

AUDITORS' REMUNERATION

The Company has re-appointed Ernst & Young as its external auditors during the year ended 31 December 2016. The external auditors are refrained from engaging in non-audit services except for specific approved items, such as review of interim results of the Group. The Audit Committee reviews the external auditor's statutory audit scope and non-audit services and approves its fees. Details of the fees paid/payable to Ernst & Young during the year are as follows:

	HK$
Review of interim results	680,000
Audit services	4,180,000
Total	4,860,000

FINANCIAL REPORTING

The Board, supported by the chief financial officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flow of the Company and its subsidiaries for that period. The directors acknowledge their responsibilities for preparing the accounts of the Company. As at 31 December 2016, the Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The responsibilities of Ernst & Young, the Company's external auditors, the financial statements are set out in the section headed "Independent Auditor's Report" in this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board recognises its overall responsibility for the Group's risk management and internal control systems and reviewing their effectiveness on an ongoing basis.

The risk management and internal control systems of the Group are featured with a defined management structure with limits of authority and well-rounded policies and procedures, and are designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks, and to safeguard assets of the Group. The Group's risk management and internal control system are designed to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives. The senior management reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures taken to address such variances and identified risks. The Company has established policies and procedures applicable to all operating units to ensure the effectiveness of risk management and internal controls systems. The Company also has a process for identifying, evaluating, and managing the significant risks associate with the achievement of its operational objective. This process is subject to continuous improvement and was in place throughout 2016. The day-to-day operation is entrusted to the individual department, which is accountable for its own conduct and performance, and is required to strictly adhere to the policies set by the Board. The Company carries out reviews of the effectiveness of the risk management and internal control systems from time to time in order to ensure that they are able to meet and deal with the dynamic and ever changing business environment.

In addition, the procedures on disclosure of inside information were in place to ensure that all relevant facts and circumstances that may have material effect on the share price of the Company is promptly assessed and that any material information which comes to the knowledge of any one or more officers of the Group be promptly identified, assessed and, if appropriate, escalated for the attention of the Board to determine whether a disclosure is required.

During the Year under review, the Board and the Audit Committee have reviewed the effectiveness of the Group's risk management and internal control systems on all major operations of the Group, with assistance from the Group's risk management and internal audit department. The Group's internal audit department has reported major risk management and internal control review findings to the Board and Audit Committee. No major issues but areas for improvement have been identified. All of the recommendations from the Group's internal audit department will be properly followed up to ensure that they are implemented within a reasonable period of time. The Board and the Audit Committee considered that the key areas of the Group's risk management and internal control systems, including the adequacy of resources, qualifications and experience of our accounting, internal audit and financial reporting staff, and their training programs and budget, are reasonably implemented and the Group has fully complied with provisions of the Corporate Governance Code regarding risk management and internal control systems in general for the year ended 31 December 2016.

COMPANY SECRETARY

The secretary of the Company is Mr. Ho Yui Pok, Eleutherius, whose biography details are set out in the section headed "Directors and Senior Management" in this annual report.

Mr. Ho has been informed of the requirement of the Rule 3.29 of the Listing Rules, and he confirmed that he had attained no less than 15 hours of relevant professional training during the year ended 31 December 2016.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene an Extraordinary General Meeting and to Put Forward Proposals at Shareholders' Meeting

Pursuant to the Article 58 of the articles of association of the Company, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company by mail at Suite 2401–2, 24/F, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by Which Enquiries May Be Put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the secretary of the Company by mail at Suite 2401–2, 24/F, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the chief executive officer of the Company.

INVESTOR RELATIONS

Constitutional Documents

There has been no significant change in the Company's constitutional documents during the year ended 31 December 2016.

Communication With Shareholders

The Board recognizes the importance of maintaining clear, timely and effective communication with Shareholders of the Company and its investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the investors and the Shareholders receive accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, announcements and circular. The Company also publishes all corporate correspondence on the Company's website www.xtep.com.hk. The Board maintains regular dialogues with institutional investors and analysts to keep them informed of the Group's strategy, operations, management and plans. Members of the Board and of the various board committees will attend the annual general meeting of the Company and answer questions raised during the meeting. At the general meeting, separate resolutions are proposed to resolve each substantially separate issue.

The chairman of the general meetings of the Company would explain the procedures for conducting poll before putting a resolution to vote. The results of the voting by poll will be declared at the meeting and published on the websites of the Hong Kong Stock Exchange and the Company.

REPORT OF THE DIRECTORS

The Directors are pleased to present their report together with the audited financial statements for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

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

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2016 are set out in note 1 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2016 and the Group's financial position as at that date are set out in the financial statements on pages 94 to 146 of this annual report.

DIVIDENDS

An interim dividend of HK10.5 cents (equivalent to approximately RMB9.0 cents) per Share was paid to our Shareholders during the year. The Board recommended a final dividend of HK3.25 cents (equivalent to approximately RMB2.89 cents) per Share and a special dividend of HK2.75 cents (equivalent to approximately RMB2.44 cents) per Share for the year ended 31 December 2016, subject to approval by the Shareholders at the annual general meeting to be held on 8 May 2017. The total dividends for the year ended 31 December 2016, which include the interim dividend, final dividend and special dividend, amounted to a total dividend of HK16.50 cents (equivalent to approximately RMB14.33 cents) per Share, represented a payout ratio of approximately 60%. Details of the dividend for the year ended 31 December 2016 are set out in note 11 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB406.2 million (2015: RMB76.3 million). Details of the reserves of the Company as at 31 December 2016 are set out in note 40 to the financial statements.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2016 amounted to approximately RMB12.8 million.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2016 are set out in note 27 to the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2016 were:

Executive Directors

Ding Shui Po *(Chairman)*
Ding Mei Qing
Lin Zhang Li
Ding Ming Zhong
Ho Yui Pok, Eleutherius
Ye Qi (resigned on 31 March 2016)

Independent Non-Executive Directors

Tan Wee Seng
Sin Ka Man
Gao Xian Feng
Bao Ming Xiao

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

Each of the executive Directors on the Board, except Mr. Ho Yui Pok, Eleutherius, had entered into a service contract with the Company for an initial term of three years commencing on 3 June 2008. Mr. Ho Yui Pok, Eleutherius had entered into a service contract with the Company for an initial term of three years commencing on 29 March 2010.

Each of the independent non-executive Directors, except Mr. Tan Wee Seng and Dr. Bao Ming Xiao, had entered into a service contract with the Company for an initial term of two years commencing on 3 June 2008. Mr. Tan Wee Seng had entered into a service contract with the Company for an initial term of three years commencing on 29 March 2010. Dr. Bao Ming Xiao had been appointed as a Director effective from 21 December 2012 and had entered into a service contract with the Company for an initial term of two years commencing on the same date.

All the service contracts of Directors are automatically renewed upon expiration and may be terminated by either party with a three-month's prior written notice.

In accordance with article 87 of the Company's articles of association, Mr. Ding Shui Po, Mr. Lin Zhang Li and Mr. Sin Ka Man will retire from the Board by rotation at the forthcoming annual general meeting. Mr. Ding Shui Po is eligible and offers himself for re-election. Mr. Lin Zhang Li will not offer himself for re-election due to his other commitment and Mr. Sin Ka Man, after serving as an independent non-executive director of the Company for almost 9 years since the Company's listing on 3 June 2008, will not offer himself for re-election in line with code provision A.4.3 of Appendix 14 to the Listing Rules.

None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out on pages 60 to 63 of this annual report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed below, there was no transaction, arrangement or contract of significance to which the holding companies of the Company, and the Company's subsidiaries was a party, and in which a Director of the Company or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2016.

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

As at 31 December 2016, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Long Positions in the Company

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company[(1)]
Mr. Ding Shui Po	Beneficiary of a trust[(2)]/ Beneficial interests[(3)]	1,327,375,000	59.80%
Ms. Ding Mei Qing	Beneficiary of a trust[(2)]	1,310,059,500	59.02%
Mr. Lin Zhang Li	Interests of spouse[(4)]	1,310,059,500	59.02%
Mr. Ding Ming Zhong	Beneficiary of a trust[(2)]	1,310,059,500	59.02%
Mr. Ho Yui Pok, Eleutherius	Beneficial interests	2,900,000[(5)]	0.13%
Mr. Tan Wee Seng	Beneficial interests	1,380,000[(6)]	0.06%

Notes:

(1) It was based on 2,219,535,000 issued Shares of the Company as at 31 December 2016.

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

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

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

(4) Mr. Lin Zhang Li, the husband of Ms. Ding Mei Qing and an executive Director, is deemed to be interested in his wife's interests in the Company.

(5) 1,500,000 of these shares are subject to the exercise of options granted on 29 July 2009 under the Share Option Scheme. Another 1,000,000 of these shares are subject to the exercise of options granted on 28 May 2010 under the Share Option Scheme. The remaining 400,000 shares of these shares were acquired by Mr. Ho Yui Pok, Eleutherius on the Hong Kong Stock Exchange.

(6) 600,000 of these shares are subject to the exercise of options granted on 30 March 2010 under the Share Option Scheme. Another 600,000 of these shares are subject to the exercise of options granted on 7 December 2011 under the Share Option Scheme. The remaining 180,000 shares of these shares were acquired by Mr. Tan Wee Seng on the Hong Kong Stock Exchange.

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

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

Note:

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

Save as disclosed above, as at 31 December 2016, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

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

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

Details of the share options granted under the Pre-IPO Share Option Scheme as at 31 December 2016 are as follows:

Name	Outstanding as at 1 January 2016	Exercised during the year ended 31 December 2016[1]	Outstanding as at 31 December 2016
Director			
Mr. Ho Yui Pok, Eleutherius	1,000,000	(1,000,000)	–
Employees			
In aggregate	12,465,000	(990,000)	11,475,000
Total	13,465,000	(1,990,000)	11,475,000

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

Save as disclosed above, no options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2016.

Share Option Scheme

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

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

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

(a) the nominal value of a Share;

(b) the closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotations sheets on the offer date; and

(c) the average closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the offer date.

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

Details of the share options granted under the Share Option Scheme as at 31 December 2016 are as follows:

Name	Date of Grant	Exercise price per Share[1]	Exercise period[2][3][4]	Outstanding as at 1 January 2016	Granted during the year ended 31 December 2016	Cancelled during the year ended 31 December 2016	Exercised during the year ended 31 December 2016	Lapsed during the year ended 31 December 2016	Outstanding as at 31 December 2016
Directors									
Mr. Ho Yui Pok, Eleutherius	29 July 2009	HK$4.11	29 July 2010– 28 July 2019	1,500,000	–	–	–	–	1,500,000
Mr. Ho Yui Pok, Eleutherius	28 May 2010	HK$6.00	28 May 2012– 27 May 2020	1,000,000	–	–	–	–	1,000,000
Mr. Ho Yui Pok, Eleutherius	7 December 2011	HK$2.35	14 January 2012– 13 January 2021	4,500,000	–	–	(4,500,000)	–	–
Mr. Tan Wee Seng	30 March 2010	HK$6.13	30 March 2011– 29 March 2020	600,000	–	–	–	–	600,000
Mr. Tan Wee Seng	7 December 2011	HK$2.35	14 January 2012– 13 January 2021	600,000	–	–	–	–	600,000
Past Director									
Mr. Ye Qi	28 May 2010	HK$6.00	28 May 2012– 27 May 2020	1,000,000	–	–	–	(1,000,000)	–
Mr. Ye Qi	7 December 2011	HK$2.35	14 January 2012– 13 January 2021	1,500,000	–	–	(1,500,000)	–	–
Employees									
In aggregate	29 July 2009	HK$4.11	29 July 2010– 28 July 2019	7,790,000	–	–	–	–	7,790,000
In aggregate	28 January 2010	HK$5.01	28 January 2011– 27 January 2020	500,000	–	–	–	–	500,000
In aggregate	28 May 2010	HK$6.00	28 May 2012– 27 May 2020	8,000,000	–	–	–	–	8,000,000
In aggregate	7 December 2011	HK$2.35	14 January 2012– 13 January 2021	38,295,000	–	–	(11,550,000)	–	26,745,000
Total				65,285,000	–	–	(17,550,000)	(1,000,000)	46,735,000

The total number of shares available for issue under the Share Option Scheme is 46,735,000, representing 2.1% of the Company's issued share capital as at the date of this annual report.

Saved as disclosed above, no share options granted under the Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2016.

Notes:

(1) The closing prices per Share immediately before 28 January 2010, 30 March 2010, 28 May 2010 and 7 December 2011 (the dates on which the share options were granted) were HK$4.86, HK$5.95, HK$5.67 and HK$2.31 respectively.

(2) Share options granted under the Share Option Scheme on 29 July 2009, 28 January 2010 and 30 March 2010 shall vest in the grantees in accordance with the timetable below (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

Vesting Date	Percentage of Share Options to vest
First anniversary of the Date of Grant	30% of the total number of options granted
Second anniversary of the Date of Grant	30% of the total number of options granted
Third anniversary of the Date of Grant	40% of the total number of options granted

(3) Share options granted under the Share Option Scheme on 28 May 2010 shall vest in the grantee in accordance with the timetable below:

Vesting Date	Percentage of Share Options to vest
Second anniversary of the Date of Grant	30% of the total number of options granted
Third anniversary of the Date of Grant	70% of the total number of options granted

(4) Share options granted under the Share Option Scheme on 7 December 2011 shall vest in the grantees in accordance with the timetable below (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

Vesting Date	Percentage of Share Options to vest
14 January 2012	40% of the total number of options granted
14 January 2013	30% of the total number of options granted
14 January 2014	30% of the total number of options granted

(5) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$3.89.

Further details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 29 to the financial statements.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in "Share Option Schemes" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, or any of its holding companies and its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to any Director or chief executive of the Company, as at 31 December 2016, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Nature of Interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company[1]
Group Success	Beneficial interests	1,310,059,500	59.02%
Wan Xing International Holdings Limited	Interests of controlled corporation[2]	1,310,059,500	59.02%
Ding Wang Fortune Limited	Interests of controlled corporation[3]	1,310,059,500	59.02%
Guan Hong Development Limited	Interests of controlled corporation[3]	1,310,059,500	59.02%
Ming Zhong Family Limited	Interests of controlled corporation[3]	1,310,059,500	59.02%
UBS Trustees (BVI) Limited	Trustee[3]	1,310,059,500	59.02%

Notes:

(1) It was based on 2,219,535,000 issued Shares of the Company as at 31 December 2016.

(2) Wan Xing International Holdings Limited is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing International Holdings Limited.

(3) Each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong established a family trust (each, a "Family Trust" and collectively, the "Family Trusts") for the benefit of himself/herself and their respective family members. UBS Trustees (BVI) Limited is the trustee of the Family Trusts and, through its nominee UBS Nominees Limited, holds the entire issued share capital of each of Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited as the respective trust assets under the Family Trusts.

Each of Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing International Holdings Limited, which is in turn held as to 55%, 35% and 10% by Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited, respectively.

Save as disclosed above, as at 31 December 2016, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE AWARD SCHEME

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

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

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

As at the date of this report, no Share was held in trust under the Scheme.

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

Further details of the Scheme are set out in note 30 to the financial statements.

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

On 15 July 2016, the Company and Mr. Nicholas Tse (the "Subscriber") entered into a subscription agreement pursuant to which the Company has conditionally agreed to issue and allot, and the Subscriber has agreed to subscribe for, 5,000,000 Shares (the "Subscription Shares") at the subscription price (which is also the net price to the Company) of HK$4.50 per Share. The aggregate nominal value of 5,000,000 Subscription Shares is HK$50,000.

The Subscription Price of HK$4.50 per Subscription Share was agreed after arm's length negotiations between the Company and the Subscriber, with reference to, among other things, the recent trading prices of the Shares on the Stock Exchange.

The Subscription Price of HK$4.50 per Subscription Share represents:

(i) a premium of approximately 13.07% to the closing price of HK$3.98 per Share as quoted on the Stock Exchange on 15 July 2016, being the date of the Subscription Agreement; and

(ii) a premium of approximately 13.64% to the average closing price of approximately HK$3.96 per Share as quoted on the Stock Exchange for the last five trading days of the Shares immediately prior to and including the date of the Subscription Agreement.

The subscription was conditional upon the Stock Exchange granting or agreeing to grant the listing of and permission to deal in the Subscription Shares and was completed on 3 August 2016.

Pursuant to the terms of the subscription agreement, the Subscriber undertakes, inter alia, that he will not dispose of or encumber the Subscription Shares for a period of one year immediately after the completion of the said subscription (the "First Year Period"), and he will not dispose of or encumber any of the Subscription Shares to the extent that he will own less than 50% of the number of the Subscription Shares for another year immediately after the expiry of the First Year Period.

The subscription will offer an opportunity to broaden the Company's capital and shareholder base. It will also strengthen the Group's relationship with the Subscriber who has been the Group's XTEP brand spokesperson for more than a decade. The Group intends to further collaborate with the Subscriber in the design and marketing of a new Subscriber's series of sports products.

The gross and net proceeds from the subscription will be approximately HK$22.5 million and HK$22.5 million, respectively. It is intended that the net proceeds from the subscription will be used in the development of the Group's products.

For further details of the subscription, please refer to the Company's announcements dated 15 July 2016 and 3 August 2016.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2016.

SPECIFIC PERFORMANCE OBLIGATIONS ON CERTAIN CONTROLLING SHAREHOLDERS

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

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

The Facilities are guaranteed by certain subsidiaries of the Company.

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

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

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

(c) Mr. Ding Shui Po and Ms. Ding Mei Qing (the "Majority Shareholders") collectively will continue to own, directly or indirectly, at least 40% of the beneficial shareholding, carrying at least 40% of the voting rights in the Company, free from any security; or

(d) the Majority Shareholders collectively will remain to be the single largest shareholder of the Company.

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

As at 31 December 2016 and as at the date of this report, Mr. Ding Shui Po was an executive director, the chairman and a controlling shareholder of the Company. Ms. Ding Mei Qing was an executive director and a controlling shareholder of the Company. Mr. Ding Shui Po and Ms. Ding Mei Qing collectively held indirectly approximately 59.02% of the issued share capital of the Company. Mr. Ding Shui Po also had personal beneficial interests in approximately 0.78% of the issued share capital of the Company.

NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders has confirmed to the Company of his/her compliance with the non-compete undertakings provided to the Company under the Deed of Non-compete (as defined in the Prospectus). The independent non-executive Directors of the Company have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-compete have been complied with by the controlling shareholders of the Company.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors is or was interested in any business, apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2016 and up to and including the date of this annual report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands where the Company is incorporated applicable to the Company.

EMOLUMENT POLICY

The Group's emolument policies are based on the merit, qualifications and competence of individual employees and are reviewed by the remuneration committee periodically.

The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted two share option schemes to motivate and reward its Directors and eligible employees. Details of these schemes are set out in the paragraph headed "Share Option Schemes" above and note 29 to the financial statements.

The Company has adopted a share award scheme in which the Group's employees, executives, officers or directors will be entitled to participate. Details of this scheme are set out in this paragraph headed "Share Award Scheme" above and note 30 to the financial statements.

None of the directors waived any emoluments during the year.

PENSION SCHEME

The Group operates a defined contribution mandatory provident fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for eligible employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statements as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in China are required to participate in defined contribution central pension schemes operated by the local municipal government. The subsidiaries of the Group are required to contribute certain percentages of its payroll costs to the central pension schemes. The contributions are charged to the consolidated income statements as they become payable in accordance with the rules of the central pension scheme.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

BUSINESS REVIEW

A business review of the Group for the year ended 31 December 2016 is shown on pages 18 to 57.

PERMITTED INDEMNITY PROVISION

Article 167 of the Company's articles provides that every Director, secretary and other officers shall be indemnified out of the assets and profits of the Company against all actions, costs, losses and damages which he shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of his duty, or supposed duty, in his office, provided that the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to him.

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's largest and five largest customers were 4.8% (2015: 3.7%) and 15.4% (2015: 14.1%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 3.2% (2015: 3.7%) and 14.9% (2015: 15.7%) of the Group's total purchases respectively.

At no time during the year ended 31 December 2016, did a Director, his/her associate(s) or a Shareholder, which to the knowledge of the Director owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest customers and suppliers.

AUDITORS

Ernst & Young will retire and, being eligible, offer themselves for reappointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the year ended 31 December 2016.

BANK LOANS

Details of bank loans of the Company and the Group as at 31 December 2016 are set out in note 24 to the financial statements.

FIVE-YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 6 to 7 of this annual report.

On behalf of the Board
Ding Shui Po
Chairman

Hong Kong, 17 March 2017

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Xtep International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 94 to 146, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables As at 31 December 2016, the Group had gross trade receivables of RMB2,426 million, after netting off the impairment provision of RMB510 million, resulted in a net trade receivables of RMB1,916 million. Significant judgement and estimation by management are involved in the estimate of impairment of trade receivables, based on assessment of the ageing of trade receivable balances, the credit quality of each individual debtor, and the prevailing sportswear market conditions. Where the expectation is different from the original estimate, such difference will impact the carrying value of the trade receivables and the impairment allowance for trade receivables in the year in which such estimate has been changed. The significant judgement and estimates and disclosures for the recognition of impairment of trade receivables are included in notes 3 and 19 to the consolidated financial statements.	Our procedures included, among others, reviewing management's assessment on the recoverability of the trade receivable balances with reference to various factors such as historical settlement trend and settlement received from customers subsequent to the end of the reporting period. We checked the accuracy of the ageing classification of these balances. We also evaluated management's assessment of the credit quality of individual customers based on the historical sales trend and repayment patterns of customers, and also by benchmarking to the trade receivables turnover days of other sportswear companies in the market.
Provision for inventories As at 31 December 2016, the Group had inventories of RMB460 million. Because of the fast changing market conditions, significant judgement and estimation by management are involved in identifying inventories with net realisable values that are lower than their costs, and obsolescence, with reference to the selling prices and salability of inventories, and the prevailing sportswear sales trend in Mainland China. The related judgement and estimates are disclosed in note 3 to the consolidated financial statements.	Our procedures included, among others, selecting samples of inventories and reviewing their net realisable values with reference to their selling prices subsequent to the end of the reporting period and the Group's pricing strategy, including any management's plan for significant discounts to be offered which may affect the net realisable values of these inventory items. We evaluated management's assessment of obsolescence of inventories with reference to their ageing, the condition of inventories during our observation of physical inventory count, and the historical and prevailing sales trend of sportswear products. We also evaluated sales forecasts prepared by management through benchmarking to market data, historical sales trend and interviewing with customers of the Group.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

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

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

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

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

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

17 March 2017

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	**5,396,615**	5,295,117
Cost of sales		**(3,065,309)**	(3,058,434)
Gross profit		**2,331,306**	2,236,683
Other income and gains	5	**98,663**	144,987
Selling and distribution expenses		**(850,815)**	(982,584)
General and administrative expenses		**(662,130)**	(478,070)
Operating profit	6	**917,024**	921,016
Net finance costs	7	**(51,441)**	(27,838)
PROFIT BEFORE TAX		**865,583**	893,178
Income tax expense	10	**(292,608)**	(256,607)
PROFIT FOR THE YEAR		**572,975**	636,571
Attributable to:			
Ordinary equity holders of the Company		**527,850**	622,602
Non-controlling interests		**45,125**	13,969
		572,975	636,571
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
– Basic		**RMB23.89 cents**	RMB28.97 cents
– Diluted		**RMB23.73 cents**	RMB28.78 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
PROFIT FOR THE YEAR	**572,975**	636,571
OTHER COMPREHENSIVE EXPENSE		
Other comprehensive expense may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements of operations outside Mainland China	**(95,061)**	(68,768)
Other comprehensive expense for the year, net of tax	**(95,061)**	(68,768)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**477,914**	567,803
Attributable to:		
Ordinary equity holders of the Company	**432,789**	553,834
Non-controlling interests	**45,125**	13,969
	477,914	567,803

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**618,021**	591,483
Prepaid land lease payments	14	**226,343**	208,663
Deposits for acquisition of land use rights	15	**10,467**	62,790
Intangible assets	16	**5,133**	3,239
Available-for-sale investments	17	**82,000**	72,000
Deposits	20	**14,915**	25,064
Pledged bank deposits	21	**–**	100,000
Total non-current assets		**956,879**	1,063,239
CURRENT ASSETS			
Inventories	18	**459,575**	398,385
Trade receivables	19	**1,916,209**	1,603,226
Bills receivables	19	**186,950**	288,631
Prepayments, deposits and other receivables	20	**407,785**	381,351
Tax recoverable		**1,240**	2,395
Available-for-sale investments	17	**–**	100,000
Pledged bank deposits	21	**798,770**	605,825
Time deposits	21	**600,000**	64,000
Cash and cash equivalents	21	**2,846,532**	3,607,000
Total current assets		**7,217,061**	7,050,813
CURRENT LIABILITIES			
Trade payables	22	**896,052**	895,835
Deposits received, other payables and accruals	23	**543,661**	536,369
Interest-bearing bank borrowings	24	**1,501,581**	1,489,361
Tax payable		**88,187**	44,862
Total current liabilities		**3,029,481**	2,966,427
NET CURRENT ASSETS		**4,187,580**	4,084,386
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,144,459**	5,147,625
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	24	**–**	121,199
Other payables	23	**–**	1,693
Deferred tax liabilities	25	**109,277**	109,705
Deferred subsidies	26	**12,420**	43,315
Total non-current liabilities		**121,697**	275,912
NET ASSETS		**5,022,762**	4,871,713
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Share capital	27	**19,572**	19,354
Reserves	28	**4,933,876**	4,832,588
		4,953,448	4,851,942
Non-controlling interests		**69,314**	19,771
Total equity		**5,022,762**	4,871,713

Ding Shui Po
Director

Ding Mei Qing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

		Attributable to ordinary equity holders of the Company											
			Reserves										
	Notes	Share capital RMB'000 (note 27)	Share premium account RMB'000 (note 40)	Capital reserve RMB'000 (note 28(i))	Statutory surplus fund RMB'000 (note 28(ii))	Treasury shares RMB'000 (note 27)	Share option reserve RMB'000 (note 40)	Exchange fluctuation reserve RMB'000 (note 28(iii))	Retained profits RMB'000	Total reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015		19,214	132,300	118,600	481,322	–	113,888	41,159	3,793,972	4,681,241	4,700,455	9,893	4,710,348
Total comprehensive income/ (expense) for the year		–	–	–	–	–	–	(68,768)	622,602	553,834	553,834	13,969	567,803
2014 final dividend declared and paid	11	–	–	–	–	–	–	–	(86,015)	(86,015)	(86,015)	–	(86,015)
2014 special dividend declared and paid	11	–	–	–	–	–	–	–	(51,609)	(51,609)	(51,609)	–	(51,609)
2015 interim dividend declared and paid	11	–	–	–	–	–	–	–	(179,080)	(179,080)	(179,080)	–	(179,080)
Exercise of share options	27(i)	140	44,807	–	–	–	(9,234)	–	–	35,573	35,713	–	35,713
Transfer to statutory surplus fund		–	–	–	39,593	–	–	–	(39,593)	–	–	–	–
Acquisition of additional interest in a subsidiary	1(e)	–	–	–	–	–	–	–	(909)	(909)	(909)	(4,091)	(5,000)
Repurchase of shares	27	–	–	–	–	(120,447)	–	–	–	(120,447)	(120,447)	–	(120,447)
At 31 December 2015 and 1 January 2016		19,354	177,107	118,600	520,915	(120,447)	104,654	(27,609)	4,059,368	4,832,588	4,851,942	19,771	4,871,713
Total comprehensive income/ (expense) for the year		–	–	–	–	–	–	(95,061)	527,850	432,789	432,789	45,125	477,914
2015 final dividend declared and paid	11	–	–	–	–	–	–	–	(128,551)	(128,551)	(128,551)	–	(128,551)
2015 special dividend declared and paid	11	–	–	–	–	–	–	–	(64,276)	(64,276)	(64,276)	–	(64,276)
2016 interim dividend declared and paid	11	–	–	–	–	–	–	–	(200,846)	(200,846)	(200,846)	–	(200,846)
Exercise of share options	27(i)	174	53,565	–	–	–	(11,349)	–	–	42,216	42,390	–	42,390
Issue of shares	27(ii)	44	19,956	–	–	–	–	–	–	19,956	20,000	–	20,000
Transfer of share option reserve upon lapse of share options		–	–	–	–	–	(1,606)	–	1,606	–	–	–	–
Transfer to statutory surplus fund		–	–	–	62,754	–	–	–	(62,754)	–	–	–	–
Capital contribution from a non-controlling interest		–	–	–	–	–	–	–	–	–	–	4,900	4,900
Exchange differences related to foreign operations		–	–	–	–	–	–	–	–	–	–	(482)	(482)
At 31 December 2016		19,572	250,628	118,600	583,669	(120,447)	91,699	(122,670)	4,132,397	4,933,876	4,953,448	69,314	5,022,762

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		865,583	893,178
Adjustments for:			
Depreciation	13	53,008	51,610
Amortisation of prepaid land lease payments	14	5,583	5,182
Amortisation of intangible assets	16	707	485
Loss on write-off of items of property, plant and equipment	6	860	958
Interest income	7	(51,036)	(56,157)
Interest expense on bank loans	7	43,730	40,171
Interest expense on discounted bills receivables	7	60,586	35,595
Amortisation of bank charges on syndicated loans	7	3,900	10,089
Fair value gains, net:			
Derivative financial instruments – transactions not qualified as hedges	7	(5,739)	(2,682)
Provision for impaired trade receivables, net	6	222,150	31,742
Income derived from available-for-sale investments and structured deposits	5	(41,906)	(86,270)
		1,157,426	923,901
Decrease/(increase) in inventories		(61,190)	170,599
Increase in trade and bills receivables		(433,452)	(433,660)
Decrease/(increase) in prepayments, deposits and other receivables		(26,018)	42,262
Increase in trade payables		217	166,909
Increase in deposits received, other payables and accruals		10,670	217,285
Cash generated from operations		647,653	1,087,296
Interest received		51,036	56,157
Interest paid		(104,316)	(75,766)
Overseas taxes paid		(248,556)	(281,174)
Net cash flows from operating activities		345,817	786,513
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	(93,678)	(58,690)
Additions of intangible assets	16	(2,601)	(1,552)
Decrease/(increase) in deposits for purchase of items of property, plant and equipment		10,149	(14,858)
Increase in deposits for acquisition of land use right		–	(7,039)
Decrease/(increase) in pledged deposits		(92,945)	40,334
Decrease in available-for-sale investments		90,000	326,000
Decrease/(increase) in time deposits with original maturity more than three months when acquired		(536,000)	46,000
Income derived from available-for-sale investments and structured deposits	5	41,906	86,270
Addition of deferred subsidies	26	29,054	–
Addition of prepaid land lease payments	14, 31	(18,013)	(19,822)
Capital contribution from a non-controlling interest		4,900	–
Net cash flows from/(used in) investing activities		(567,228)	396,643

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans, net of bank charges on syndicated loans		1,016,180	288,576
Repayment of bank loans		(1,244,031)	(596,113)
Net proceeds from issue of ordinary shares	27	62,390	35,713
Dividends paid	11	(393,673)	(316,704)
Repurchase of shares	27	–	(120,447)
Exchange realignment		16,907	(10,738)
Net cash flows used in financing activities		(542,227)	(719,713)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(763,638)	463,443
Cash and cash equivalents at beginning of year		3,607,000	3,137,110
Effect of foreign exchange rate changes, net		3,170	6,447
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,846,532	3,607,000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		2,846,532	3,607,000

1. CORPORATE AND GROUP INFORMATION

Xtep International Holdings Limited is a limited liability company incorporated in the Cayman Islands. The Company's principal place of business in Hong Kong is located at Suite 2401-02, 24th floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were engaged in the design, development, manufacture and marketing of sportswear, including footwear, apparel and accessory products, sold mainly under the self-owned Xtep brand. There were no significant changes in the nature of the Group's principal activities during the year.

In the opinion of the directors, the ultimate holding company of the Company is Wan Xing International Holdings Limited, which is a limited liability company incorporated in the British Virgin Islands ("BVI").

Information about subsidiaries

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

Name	Place of incorporation or establishment/ business	Issued ordinary share/ registered and paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Xtep International Development Limited	BVI	US$10,000	100	–	Investment holding
Xtep International E-Commerce Investment Limited*	BVI	US$50,000	75	–	Investment holding
特步中國有限公司* ("Xtep China") (notes (a) and (c))	People's Republic of China ("PRC")/ Mainland China	HK$830 million	–	100	Manufacture and trading of sportswear
Koling (Fujian) Garment Co., Ltd. * (notes (a) and (c))	PRC/Mainland China	HK$158 million	–	100	Manufacture and trading of sportswear
Xtep Sports Goods Co., Ltd. Jinjiang* (notes (a) and (c))	PRC/Mainland China	US$6 million	–	100	Manufacture and trading of sportswear
Xiamen Xtep Investment Company Limited* (notes (a) and (c))	PRC/Mainland China	RMB50 million	–	100	Trading of sportswear
特步(安徽)有限公司* ("Xtep Anhui") (notes (b), (c) and (f))	PRC/Mainland China	RMB450 million	–	100	Manufacture and trading of sportswear

Name	Place of incorporation or establishment/ business	Issued ordinary share/ registered and paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
特步湖南體育用品有限公司* ("Xtep Hunan") (notes (b), (c) and (e))	PRC/Mainland China	RMB50 million	–	100	Manufacture of sportswear
晉江特步貿易有限公司* (notes (b) and (c))	PRC/Mainland China	RMB10 million	–	100	Trading of sportswear
廈門市特步兒童用品有限公司* (notes (a) and (c))	PRC/Mainland China	HK$30 million	–	82	Trading of sportswear
廈門特興貿易有限公司* (notes (b) and (c))	PRC/Mainland China	RMB30 million	–	100	Trading of sportswear
江西天鄰商貿有限公司 ("Jiangxi TL") (notes (a) and (d))	PRC/Mainland China	–	–	75	Trading of sportswear

Notes:

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

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

(c) The registered capital of these entities was fully paid up as at 31 December 2016.

(d) Jiangxi TL was established on 18 September 2014. Its registered capital of RMB5,000,000 was not yet paid up as at 31 December 2016.

(e) During the year ended 31 December 2015, the Group acquired an additional 10% equity interest in a subsidiary, Xtep Hunan, from the then non-controlling shareholder of Xtep Hunan at a consideration of approximately RMB5,000,000 and the Group's interest in Xtep Hunan increased from 90% to 100%. The difference of approximately RMB909,000 between the consideration and the non-controlling interest in Xtep Hunan was debited to the Group's retained profits during the year ended 31 December 2015.

(f) The registered capital of Xtep Auhui increased to RMB450,000,000 during the year ended 31 December 2014. As at 31 December 2015, its registered capital of RMB450,000,000 had been paid up.

* Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network had not been appointed as the statutory auditors of these entities.

There were no changes in the percentage of equity of the above subsidiaries attributable to the Company during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except where otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in income statement. The Group's share of components previously recognised in other comprehensive income is reclassified to income statement or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

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

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group is currently assessing the impact of the standard upon adoption and expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Other than the above, the Group is also in the process of making an assessment of the impact of the other new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditure incurred after the items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Buildings	Over the shorter of lease terms and 20 years
Leasehold improvements	Over the shorter of lease terms and 5 years
Moulds, plant and machinery	3 to 10 years
Motor vehicles	5 years
Furniture, fixtures and office equipment	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and trademarks

Patents and trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of five years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the product so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, pledged deposits, trade and bills receivables, available-for-sale financial investments and other receivables.

Subsequent measurement

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs. The Group's financial liabilities include trade payables, other payables, financial liabilities included in accruals, derivative financial instruments and interest-bearing bank borrowings.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective position of cash flow hedges, which is recognised in other comprehensive income and later reclassified to the income statement when the hedged item affects the income statement.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current and non-current portions only if a reliable allocation can be made.

Treasury shares

Own equity instruments which are reacquired and held by the Company (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow-moving items. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside income statement is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset;

(c) rental income, on a time proportion basis over the lease terms; and

(d) dividend income, when the shareholders' rights to receive payment has been established.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Share-based payments

The Company operates two share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal government. The subsidiaries are required to contribute certain percentages of their payroll costs to the central pension schemes. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension schemes.

Other benefits

The Group contributes on a monthly basis to defined contribution housing, medical and other benefit plans organised by the government of the PRC. The PRC government undertakes to assume the benefit obligations of all existing and retired employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for the benefits for their qualified employees under these plans.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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

Foreign currencies

These financial statements are presented in RMB, which is the Company's presentation currency. The functional currency of the Company is the Hong Kong dollars which is the currency of the primary environment in which the Company operates. Since the Company does not conduct any substantive operations of its own and conducts its primary business operations through its subsidiaries in the Mainland China, the Company adopts RMB as the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or income statement is also recognised in other comprehensive income or income statement, respectively).

The functional currencies of certain subsidiaries operating outside Mainland China are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at exchange rates prevailing at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of an operation outside Mainland China, the component of other comprehensive income relating to that particular operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and its subsidiaries operating outside Mainland China are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and its subsidiaries operating outside Mainland China which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has an effect on the amounts recognised in the financial statements.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of each reporting period. As at 31 December 2016, the Group had inventories of RMB459,575,000 (2015: RMB398,385,000).

Impairment provision for trade and other receivables

The Group estimates the impairment provision for trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the impairment provision at the end of each reporting period. The related disclosures are included in note 19 to these financial statements.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The related disclosures are included in note 10 to these financial statements.

Withholding taxes arising from the distributions of dividends

In estimating the withholding taxes on dividends expected to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008, the directors have made an assessment based on factors including future profitability, the dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future. The related disclosures are included in note 25 to these financial statements.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of sportswear, including footwear, apparel and accessories. All of the Group's products are of a similar nature and subject to similar risk and returns. Accordingly, the Group's operating activities are attributable to a single reportable segment.

In addition, the Group's revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, which is the PRC. Therefore, no analysis by geographical region is presented.

Information about major customers

For the years ended 31 December 2016 and 2015, no revenue derived from a single customer of the Group accounted for over 10% of the Group's total revenue.

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2016 RMB'000	2015 RMB'000
Revenue		
Manufacture and sale of sportswear:		
Footwear	**3,525,350**	3,258,137
Apparel	**1,764,810**	1,926,639
Accessories	**106,455**	110,341
	5,396,615	5,295,117
Other income and gains		
Subsidy income from the PRC government*	**53,651**	55,484
Rental income	**3,106**	3,233
Income derived from available-for-sale investments and structured deposits	**41,906**	86,270
	98,663	144,987
	5,495,278	5,440,104

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

6. OPERATING PROFIT

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

	Notes	2016 RMB'000	2015 RMB'000
Cost of inventories sold[1]		**3,065,309**	3,058,434
Depreciation	13	**53,008**	51,610
Amortisation of prepaid land lease payments	14	**5,583**	5,182
Amortisation of intangible assets[2]	16	**707**	485
Advertising and promotional costs		**637,161**	780,511
Employee benefit expenses (including directors' remuneration – note 8):			
Wages and salaries		**502,274**	418,222
Other allowances and benefits		**55,856**	44,157
Pension scheme contributions[3]		**17,927**	23,093
		576,057	485,472
Auditor's remuneration		**3,563**	3,144
Loss on write-off of items of property, plant and equipment		**860**	958
Minimum lease payments under operating leases of land and buildings		**13,063**	12,224
Provision for impaired trade receivables, net[2]	19	**222,150**	31,742
Research and development costs[4]		**138,168**	121,337
Foreign exchange differences, net[2]		**20,776**	41,509
Fair value gains, net:			
Derivative instruments – transactions not qualified as hedges	7	**(5,739)**	(2,682)
Write-back of long-aged prior year accruals[2]		**(36,247)**	–

1 The cost of inventories sold for the year includes RMB304,119,000 (2015: RMB261,442,000), relating to staff costs, depreciation of manufacturing facilities, and minimum lease payments for land and buildings, which are also included in the respective total amounts disclosed above for each of these types of expenses.

2 The amortisation of intangible assets, provision for impaired trade receivables, net, write-back of long-aged prior year accruals and foreign exchange differences, net for the year are included in "General and administrative expenses" in the consolidated income statement.

3 As at 31 December 2016, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2015: Nil).

4 The research and development costs for the year include RMB75,835,000 (2015: RMB72,727,000) relating to depreciation of research and development centres and staff costs for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses.

7. NET FINANCE COSTS

An analysis of net finance costs is as follows:

	Note	2016 RMB'000	2015 RMB'000
Interest expense on bank loans		**(43,730)**	(40,171)
Interest expense on discounted bills receivable		**(60,586)**	(35,595)
Amortisation of bank charges on syndicated loans		**(3,900)**	(10,089)
Bank interest income		**51,036**	56,157
Fair value gain on interest rate swaps*	23	**5,739**	2,682
Others		**–**	(822)
		(51,441)	(27,838)

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

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 RMB'000	2015 RMB'000
Fees:		
Executive directors	**–**	–
Non-executive director	**–**	220
Independent non-executive directors	**1,128**	935
	1,128	1,155
Other emoluments of executive directors:		
Salaries, other allowances and benefits in kind	**6,104**	6,818
Performance related bonuses*	**985**	924
Pension scheme contributions	**270**	218
	7,359	7,960
	8,487	9,115

* An executive director of the Company is entitled to bonus payments which are determined based on the Group's performance during the year.

Share options were granted to directors, in respect of their services to the Group, under the pre-initial public offering ("pre-IPO") share option and share option schemes of the Company, further details of which are set out in notes 29(a) and 29(b) to the financial statements, respectively.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

	Salaries, other allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2016					
a) *Executive directors*					
Ding Shui Po^	945	–	–	15	960
Ding Mei Qing	712	–	–	12	724
Lin Zhang Li	232	–	–	12	244
Ding Ming Zhong	712	–	–	12	724
Ye Qi*	127	–	–	1	128
Ho Yui Pok, Eleutherius	3,376	985	–	218	4,579
	6,104	985	–	270	7,359
b) *Independent non-executive directors*					
Tan Wee Seng**	563	–	–	–	563
Sin Ka Man	205	–	–	–	205
Gao Xian Feng	180	–	–	–	180
Bao Ming Xiao	180	–	–	–	180
	1,128	–	–	–	1,128
	7,232	985	–	270	8,487

	Salaries, other allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2015					
a) *Executive directors*					
Ding Shui Po^	916	–	–	17	933
Ding Mei Qing	458	–	–	14	472
Lin Zhang Li	458	–	–	14	472
Ding Ming Zhong	458	–	–	14	472
Ye Qi*	1,680	–	–	17	1,697
Ho Yui Pok, Eleutherius	2,848	924	–	142	3,914
	6,818	924	–	218	7,960
b) *Non-executive director*					
Tan Wee Seng**	220	–	–	–	220
c) *Independent non-executive directors*					
Tan Wee Seng**	308	–	–	–	308
Sin Ka Man	192	–	–	–	192
Xu Peng Xiang***	75	–	–	–	75
Gao Xian Feng	180	–	–	–	180
Bao Ming Xiao	180	–	–	–	180
	935	–	–	–	935
	7,973	924	–	218	9,115

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

* Mr. Ye Qi has resigned as an executive director with effect from 31 March 2016.

** Mr. Tan Wee Seng was re-designated from a non-executive director to an independent non-executive director with effect from 15 May 2015.

*** Mr. Xu Peng Xiang has retired as an independent non-executive director with effect from 15 May 2015.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2015: three) directors, details of whose remuneration are set out in note 8 above.

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2016	2015
HK$500,001 – HK$1,000,000	1	1
HK$1,000,001 – HK$1,500,000	–	1
HK$1,500,001 – HK$2,000,000	1	–
	2	2

Details of the remuneration for the year of the remaining two (2015: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, other allowances and benefits in kind	1,931	1,716
Performance-related bonuses	234	160
Pension scheme contributions	31	29
	2,196	1,905

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2015: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2016 RMB'000	2015 RMB'000
Current tax – Overseas		
Charge for the year	269,905	248,013
Underprovision in prior years	7,703	5,594
	277,608	253,607
Deferred (note 25)	15,000	3,000
	292,608	256,607

Xtep China, a wholly-owned subsidiary of the Company, was taxed at a preferential 15% tax rate for the years ended 31 December 2015 and 2016 as Xtep China was qualified as a High-New Technology Enterprise (the "HNTE") in the PRC and obtained the relevant HNTE certificates in 2013 and 2016.

A reconciliation of the tax expense applicable to profit before tax at the applicable statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries operate to the tax expense at the effective tax rates is as follows:

	2016 RMB'000	2015 RMB'000
Profit before tax	865,583	893,178
Tax at the applicable tax rates	227,839	223,889
Lower tax rates for specific provinces or tax holidays	(33,472)	(24,227)
Adjustments in respect of current tax of previous years	7,703	5,594
Income not subject to tax	(1,474)	(414)
Expenses not deductible for tax	81,325	50,940
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	15,000	3,000
Tax losses utilised from previous periods	(4,738)	(2,365)
Tax losses not recognised	425	190
Tax charge at the Group's effective rate	292,608	256,607

11. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Dividends paid during the year:		
Final – HK7.0 cents (2015: HK5.0 cents) per ordinary share	128,551 (ii)	86,015 (i)
Special – HK3.5 cents (2015: HK3.0 cents) per ordinary share	64,276 (ii)	51,609 (i)
Interim – HK10.5 cents (2015: HK10.0 cents) per ordinary share	200,846 (iii)	179,080 (ii)
	393,673	316,704
Proposed final dividend:		
HK3.25 cents (2015: HK7.0 cents) per ordinary share	64,120 (iii)	129,066 (ii)
Proposed special dividend:		
HK2.75 cents (2015: HK3.5 cents) per ordinary share	54,255 (iii)	64,533 (ii)
	118,375	193,599

(i) In respect of the financial year ended 31 December 2014
(ii) In respect of the financial year ended 31 December 2015
(iii) In respect of the financial year ended 31 December 2016

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect the final dividend payable.

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

(a) Basic earnings per share

The calculation of the basic earnings per share amount for the year was based on the profit for the year attributable to ordinary equity holders of the Company of RMB527,850,000 (2015: RMB622,602,000) and the weighted average number of ordinary shares in issue during the year of 2,209,735,000 (2015: 2,148,802,000), as adjusted to exclude shares held under the share award scheme of the Company (note 27).

(b) Diluted earnings per share

The calculation of the diluted earnings per share amount for the year ended 31 December 2016 is based on the profit for the year attributable to ordinary equity holders of the Company of RMB527,850,000 (2015: RMB622,602,000). The weighted average number of ordinary shares of 2,224,056,000 (2015: 2,163,535,000) used in the calculation is the weighted average number of 2,209,735,000 ordinary shares (2015: 2,148,802,000) in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options into 14,321,000 ordinary shares (2015: 14,733,000) during the year.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Moulds, plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016							
Cost:							
At beginning of year	351,082	32,202	121,087	68,617	122,478	164,404	859,870
Additions	151	1,150	6,793	134	19,369	66,081	93,678
Transfer	18,860	–	–	–	–	(18,860)	–
Release of deferred subsidies (note 26)	(13,292)	–	–	–	–	–	(13,292)
Write-off	(155)	(4,282)	(847)	(3)	(1,596)	–	(6,883)
Exchange realignment	–	38	–	35	100	–	173
At 31 December 2016	356,646	29,108	127,033	68,783	140,351	211,625	933,546
Accumulated depreciation:							
At beginning of year	71,529	28,023	63,276	33,047	72,512	–	268,387
Provided during the year	15,631	3,915	8,964	10,073	14,425	–	53,008
Write-off	–	(3,993)	(594)	(2)	(1,434)	–	(6,023)
Exchange realignment	–	38	–	20	95	–	153
At 31 December 2016	87,160	27,983	71,646	43,138	85,598	–	315,525
Net carrying amount:							
At 31 December 2016	269,486	1,125	55,387	25,645	54,753	211,625	618,021

	Buildings RMB'000	Leasehold improvements RMB'000	Moulds, plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2015							
Cost:							
At beginning of year	350,902	29,028	112,677	68,507	110,603	130,708	802,425
Additions	180	3,154	9,676	92	11,892	33,696	58,690
Write-off	–	–	(1,266)	–	(65)	–	(1,331)
Exchange realignment	–	20	–	18	48	–	86
At 31 December 2015	351,082	32,202	121,087	68,617	122,478	164,404	859,870
Accumulated depreciation:							
At beginning of year	54,996	27,357	55,337	22,231	57,154	–	217,075
Provided during the year	16,533	646	8,301	10,814	15,316	–	51,610
Write-off	–	–	(362)	–	(11)	–	(373)
Exchange realignment	–	20	–	2	53	–	75
At 31 December 2015	71,529	28,023	63,276	33,047	72,512	–	268,387
Net carrying amount:							
At 31 December 2015	279,553	4,179	57,811	35,570	49,966	164,404	591,483

Included in "Buildings" are certain self-used properties with a net carrying amount of approximately RMB54,845,000 at 31 December 2016 (2015: RMB57,883,000), for which the Group has not obtained the building ownership certificates. The Group was still in the process of applying for the building ownership certificates in respect of the aforementioned properties with a net carrying amount at 31 December 2016 of RMB53,089,000 out of the total of RMB54,845,000 (2015: RMB55,993,000 out of the total of RMB57,883,000).

14. PREPAID LAND LEASE PAYMENTS

	Note	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January		**213,479**	220,734
Additions during the year		**70,336**	19,822
Resumed during the year	26	**(46,657)**	(21,895)
Recognised during the year		**(5,583)**	(5,182)
Carrying amount at 31 December		**231,575**	213,479
Current portion included in prepayments, deposits and other receivables		**(5,232)**	(4,816)
Non-current portion		**226,343**	208,663

15. DEPOSITS FOR ACQUISITION OF LAND USE RIGHTS

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

During the year ended 31 December 2016, the Group has utilised the above deposits of RMB52,323,000 out of RMB62,790,000 for the acquisition of a certain portion of the Fujian Land.

In May 2016, the remaining portion of the Fujian Land was successfully bidded by the Group at a cash consideration of RMB27,170,000, of which the sales and purchase agreement has not yet been entered into between/among the Group and the local government authorities up to the date of approval of these financial statements. The remaining amount of the deposit of RMB10,467,000 as at 31 December 2016 would be utilised in future for the acquisition of the remaining portion of the Fujian Land and the relevant construction work.

16. INTANGIBLE ASSETS

Patents and trademarks

	2016 RMB'000	2015 RMB'000
Cost:		
At beginning of year	5,708	4,156
Additions	2,601	1,552
At 31 December	8,309	5,708
Accumulated amortisation:		
At beginning of year	2,469	1,984
Amortisation provided during the year	707	485
At 31 December	3,176	2,469
Net carrying amount:		
At 31 December	5,133	3,239

17. AVAILABLE-FOR-SALE INVESTMENTS

	Notes	2016 RMB'000	2015 RMB'000
Non-current:			
Unlisted equity investments, at cost	(a)	82,000	72,000
Current:			
Unlisted investment funds, at cost	(b)	–	100,000
		82,000	172,000

Notes:

(a) As at 31 December 2016, the unlisted equity investments with carrying values of RMB33,000,000 (2015: RMB33,000,000), RMB25,000,000 (2015: RMB15,000,000) and RMB24,000,000 (2015: RMB24,000,000) represented 11%, 5% and 3% equity interests in three (2015: three) corporate entities, which were established in the PRC on 22 October 2012, 22 December 2014 and 10 September 2010 with registered and fully paid-up capital of RMB300,000,000 (2015: RMB300,000,000), RMB500,000,000 (2015: RMB300,000,000) and RMB800,000,000 (2015: RMB800,000,000), respectively.

(b) The balance as at 31 December 2015 represented treasury products offered by a bank in the PRC which was fully redeemed in the year ended 31 December 2016.

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

18. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**71,191**	88,684
Work in progress	**63,073**	72,519
Finished goods	**325,311**	237,182
	459,575	398,385

19. TRADE AND BILLS RECEIVABLES

	Notes	2016 RMB'000	2015 RMB'000
Trade receivables		**2,426,148**	1,891,015
Less: provision for impaired receivables	(a)	**(509,939)**	(287,789)
	(b), (c)	**1,916,209**	1,603,226
Bills receivables	(d)	**186,950**	288,631

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

Notes:

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

	Note	2016 RMB'000	2015 RMB'000
At 1 January		**287,789**	256,047
Provision for impaired receivables, net	6	**222,150**	31,742
At 31 December		**509,939**	287,789

Included in the above provision for impairment of trade receivables is provisions for individually impaired trade receivables of RMB509,939,000 (2015: RMB287,789,000) with aggregate carrying amounts before provision of RMB779,941,000 (2015: RMB430,667,000). The individually impaired trade receivables relate to customers that were in default or delinquency in payments and only a portion of the receivables is expected to be recovered.

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

	2016 RMB'000	2015 RMB'000
Within 3 months	**1,381,366**	1,125,562
4 to 6 months	**431,884**	330,221
Over 6 months	**102,959**	147,443
At 31 December	**1,916,209**	1,603,226

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

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**1,201,571**	1,054,632
Less than 3 months past due	**341,677**	262,153
Past due over 3 months	**102,959**	143,563
	1,646,207	1,460,348

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

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

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

	2016 RMB'000	2015 RMB'000
Within 3 months	**–**	130,500
3 to 6 months	**186,950**	158,131
	186,950	288,631

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepayments	206,493	205,174
Deposits and advance payments to suppliers	158,583	159,535
Deposits for construction contracts	3,296	9,910
Other deposits	9,077	8,357
Value added tax ("VAT") recoverable	24,333	17,231
Other receivables	20,918	6,208
	422,700	406,415
Less: Non-current portion	(14,915)	(25,064)
	407,785	381,351

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

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

	Notes	2016 RMB'000	2015 RMB'000
Time deposits		1,243,152	1,260,417
Cash and bank balances*		3,002,150	3,116,408
		4,245,302	4,376,825
Less: Current portion of pledged deposits:			
for short term bank loans	24	(785,115)	(592,170)
for bank guarantees**		(13,655)	(13,655)
		(798,770)	(605,825)
Less: Non-current portion of pledged deposits for short term bank loans	24	–	(100,000)
Less: Time deposits with original maturity of more than three months when acquired*		(600,000)	(64,000)
Cash and cash equivalents		2,846,532	3,607,000

* As at 31 December 2015, the time deposits of RMB64,000,000 and bank balance of RMB169,924,000 were capital guaranteed funds undertaken by a wholly-owned subsidiary of the Company to maintain in PRC bank accounts pursuant to the terms of the Group's short term revolving banking facilities.

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

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB2,957,980,000 (2015: RMB2,912,755,000) and RMB1,243,152,000 (2015: RMB1,260,417,000), respectively. RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day to one year (2015: one day to two years) 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.

22. TRADE PAYABLES

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

	2016 RMB'000	2015 RMB'000
Within 3 months	**771,755**	779,356
3 to 6 months	**68,129**	62,865
Over 6 months	**56,168**	53,614
Trade payables	**896,052**	895,835

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

23. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Deposits and advances from customers	**59,755**	73,446
Other payables	**140,178**	119,634
VAT payables	**21,214**	25,103
Derivative financial instruments	**6,737**	11,808
Accruals	**315,777**	308,071
	543,661	538,062
Less: Non-current portion	**–**	(1,693)
	543,661	536,369

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

The Group has entered into interest rate swap contracts to manage its interest rate exposures which did not meet the criteria for hedge accounting. Changes in fair value of non-hedging interest derivative instruments amounting to RMB5,739,000 (2015: RMB2,682,000) (note 7) were credited to the income statement.

24. INTEREST-BEARING BANK BORROWINGS

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

		2015		
	Notes	Effective interest rate per annum (%)	Maturity	RMB'000
Current:				
Current portion of syndicated loans	(a)	HIBOR/LIBOR +2.2%	2016	562,180
Other bank loans	(b)	HIBOR+1.2% to 2.0%	2016	927,181
				1,489,361
Non-current:				
Syndicated loans	(a)	HIBOR/LIBOR +2.2%	2017	121,199
				1,610,560

	2016 RMB'000	2015 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year and on demand	1,501,581	1,489,361
In the second year	–	121,199
	1,501,581	1,610,560

Notes:

(a) The bank loans are supported by a corporate guarantee provided by certain of the Company's wholly-owned subsidiaries, to the extent of HK$452,400,000 (equivalent to approximately RMB402,138,000) (2015: HK$452,400,000 (equivalent to approximately RMB373,275,000)) and US$92,000,000 (equivalent to approximately RMB634,268,000) (2015: US$92,000,000 (equivalent to approximately RMB588,448,000)) as at the end of the reporting period.

(b) The bank loans are supported by:

(i) the pledge of certain of the Group's time deposits amounting to RMB785,115,000 (2015: RMB692,170,000) in aggregate; and

(ii) corporate guarantees provided by a wholly-owned subsidiary of the Company to the extent of HK$1,095,624,000 (equivalent to approximately RMB973,900,000) (2015: HK$1,103,018,000 (equivalent to approximately RMB910,100,000)) as at the end of the reporting period.

As at 31 December 2015, time deposits of RMB64,000,000 and bank balance of RMB169,924,000, which were capital guaranteed funds undertaken by a wholly-owned subsidiary of the Company to maintain in PRC bank accounts pursuant to the terms of the Group's short term revolving loan facilities.

As at 31 December 2016, except for the bank loan of RMB90,596,000 (2015: RMB418,330,000) which was denominated in United States dollars ("US$"), all bank borrowings are denominated in Hong Kong dollars.

25. DEFERRED TAX LIABILITIES

	Withholding taxes RMB'000
At 1 January 2015	121,248
Withholding tax paid on repatriation of earnings from PRC subsidiaries	(14,543)
Deferred tax charged to the income statement during the year (note 10)	3,000
At 31 December 2015 and 1 January 2016	109,705
Withholding tax paid on repatriation of earnings from PRC subsidiaries	(15,428)
Deferred tax charged to the income statement during the year (note 10)	15,000
At 31 December 2016	109,277

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

In the opinion of the directors, it is not probable that those subsidiaries will distribute all earnings after 31 December 2007 in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB97,806,000 as at 31 December 2016 (31 December 2015: RMB106,769,000).

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

26. DEFERRED SUBSIDIES

	Notes	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January		**43,315**	65,210
Received during the year		**29,054**	–
Release to prepaid land lease payments (note 14)	(a)	**(46,657)**	(21,895)
Release to property, plant and equipment (note 13)	(b)	**(13,292)**	–
Carrying amount at 31 December		**12,420**	43,315

Notes:

Subsidies were received in prior year and the current year by Xtep Anhui from the People's Government of Bengbu, Anhui Province, the PRC (the "Bengbu Government"), for the cost of infrastructure to be incurred by the Group on a parcel of land in Bengbu, Anhui Province, the PRC (the "Land") to facilitate the construction of manufacturing facilities on the Land.

(a) During the year ended 31 December 2015, a certain portion of the Land was resumed by the Bengbu Government upon its request.

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

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

(b) During the year ended 31 December 2016, a deferred subsidy of RMB13,292,000 (2015: Nil) was released to property, plant and equipment to offset the construction costs incurred by the Group upon the completion of certain production facilities and staff quarter in Anhui.

27. SHARE CAPITAL

At 31 December 2016

	HK$'000	RMB'000
Authorised: 100,000,000,000 ordinary shares of HK$0.01 each	**1,000,000**	**935,629**
Issued and fully paid: 2,219,535,000 ordinary shares of HK$0.01 each	**22,195**	**19,572**

At 31 December 2015

	HK$'000	RMB'000
Authorised: 100,000,000,000 ordinary shares of HK$0.01 each	1,000,000	935,629
Issued and fully paid: 2,194,995,000 ordinary shares of HK$0.01 each	21,950	19,354

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

	Note	Number of ordinary shares of HK$0.01 each	Share capital HK$'000	Share capital RMB'000
At 1 January 2015		2,178,085,000	21,781	19,214
Exercise of share options	(i)	16,910,000	169	140
At 31 December 2015 and 1 January 2016		2,194,995,000	21,950	19,354
Exercise of share options	(i)	19,540,000	195	174
Issue of shares	(ii)	5,000,000	50	44
At 31 December 2016		2,219,535,000	22,195	19,572

Notes:

(i) During the year ended 31 December 2016, the subscription rights attaching to 17,550,000 (2015: 13,260,000 and 350,000) share options granted under the Share Option Scheme (as defined in note 29) and 1,990,000 (2015: 3,300,000) share options granted under the Pre-IPO Scheme (as defined in note 29) were exercised at the subscription prices of HK$2.35 and HK$3.24 per share, respectively (2015: HK$2.35, HK$4.11 and HK$3.24 per share, respectively). The exercise of these share options resulted in the issue of a total of 19,540,000 shares (2015: 16,910,000 shares) of HK$0.01 (2015: HK$0.01) each for a total cash consideration before expenses of approximately HK$47,690,000 (equivalent to approximately RMB42,390,000) (2015: approximately HK$43,292,000 (equivalent to approximately RMB35,713,000)) representing the nominal value of ordinary shares of RMB174,000 (2015: RMB140,000) and share premium of RMB42,216,000 (2015: RMB35,573,000).

An amount of HK$12,768,000 (equivalent to approximately RMB11,349,000) (2015: HK$11,191,000 (equivalent to approximately RMB9,234,000)) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

(ii) During the year ended 31 December 2016, 5,000,000 shares of HK$0.01 each were issued for cash at a subscription price of HK$4.50 per share to a third party for a total cash consideration of HK$22,500,000 (equivalent to approximately RMB20,000,000), representing the nominal value of ordinary shares of HK$50,000 (equivalent to approximately RMB44,000) (2015: Nil) and share premium of HK$22,450,000 (equivalent to approximately RMB19,956,000) (2015: Nil).

During the year ended 31 December 2015, the Company had repurchased 50,000,000 shares of HK$0.01 at HK$3.052 per share at an aggregate consideration of HK$152,600,000 (equivalent to approximately RMB120,447,000) for the share award scheme in which the Group's employees, executives, officers or directors will be entitled to participate. Details of this scheme were set out in an announcement of the Company dated 15 May 2015. Up to the date of approval of the financial statements, 50,000,000 shares were granted under the scheme.

Share option schemes

Details of the Company's share option schemes and the share options issued under the schemes are included in note 29 to the financial statements.

28. RESERVES

The amounts of the Group's reserves and movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(i) Capital reserve

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

(ii) Statutory surplus fund

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

(iii) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC, which is dealt with in accordance with the accounting policy set out in note 2.4 to the financial statements.

29. SHARE OPTION SCHEMES

(a) Pre-IPO share option scheme

The Company has adopted a pre-IPO share option scheme on 7 May 2008 (the "Pre-IPO Scheme") for the purpose of giving the Group's employees an opportunity to have a personal stake in the Company and help motivate the Group's employees to optimise their performance and efficiency, and also to retain the Group's employees whose contributions are important to the long term growth and profitability of the Group.

The principal terms of the Pre-IPO Scheme, approved by written resolutions of the Company's shareholders and the Carlyle Investment Funds passed on 7 May 2008, are as follows:

(i) the subscription price per share under the Pre-IPO Scheme shall be at a 20% discount on the offer price of the Company's shares in the IPO;

(ii) the total number of shares which may be issued upon the exercise of all options granted under the Pre-IPO Scheme is 19,000,000;

(iii) all options granted under the Pre-IPO Scheme can only be exercised in the following manner:

Exercise period	Maximum percentage of options exercisable
Anytime after the first anniversary of 3 June 2008 ("the Listing Date")	30% of the total number of options granted
Anytime after the second anniversary of the Listing Date	30% of the total number of options granted
Anytime after the third anniversary of the Listing Date	40% of the total number of options granted

(iv) each option granted under the Pre-IPO Scheme has a 10-year exercise period; and

(v) share options issued under the Pre-IPO Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 7 May 2008, an aggregate of 19,000,000 share options (the "Pre-IPO Share Options") under the Pre-IPO Scheme were issued to directors of the Company and certain employees of the Group.

The following share options were outstanding under the Pre-IPO Scheme during the year:

	2016		2015	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	3.24	13,465	3.24	16,765
Exercised during the year	3.24	(1,990)	3.24	(3,300)
At 31 December	3.24	11,475	3.24	13,465

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.85 (2015: HK$4.49) per share.

The subscription rights attaching to 1,990,000 (2015: 3,300,000) share options granted under the Pre-IPO Scheme were exercised at the subscription price of HK$3.24 per share during the year, resulting in the issue of 1,990,000 shares (2015: 3,300,000).

The exercise prices and exercise periods of the Pre-IPO Share Options outstanding at 31 December 2016 and 2015 were as follows:

2016

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

2015

Number of options	Exercise price per share	Exercise period
3,180,000	HK$3.24*	3 June 2009 to 6 May 2018
4,005,000	HK$3.24*	3 June 2010 to 6 May 2018
6,280,000	HK$3.24*	3 June 2011 to 6 May 2018
13,465,000		

* The exercise price of the Pre-IPO Share Options equals to a 20% discount on the offer price of HK$4.05 per share of the Company's ordinary shares in the IPO.

The fair value of the Pre-IPO Share Options granted during the year ended 31 December 2008 was estimated at RMB10,815,000.

At the end of the reporting period and up to the date of approval of these financial statements, the Company had outstanding Pre-IPO Share Options for the subscription of 11,475,000 shares under the Pre-IPO Scheme, which represented approximately 0.5% of the issued share capital of the Company as at that date. The exercise in full of the outstanding Pre-IPO Share Options would, under the present capital structure of the Company, result in the issue of 11,475,000 additional ordinary shares of the Company and additional share capital of approximately HK$115,000 (equivalent to approximately RMB102,000) and share premium account of approximately HK$37,064,000 (equivalent to approximately RMB32,946,000), before related issuance expenses.

(b) Share option scheme

The Company has also adopted a share option scheme (the "Share Option Scheme") pursuant to the shareholders' written resolution passed on 7 May 2008. The purposes of the Share Option Scheme are to motivate the eligible persons to optimise their future contributions to the Group and/or to reward them for their past contributions; to attract and retain or otherwise maintain ongoing relationships with such eligible persons who are significant to the Group and/or whose contributions are or will be beneficial to the performance, growth or success of the Group; and to attract and retain individuals with experience and ability.

Eligible persons include the Group's directors, proposed directors, employees, direct or indirect shareholders, suppliers, customers, consultants, business or joint venture partners, franchisees, contractors, any person or entity that provides design, research, development or other supporting services to the Group; and any associate of the aforementioned eligible persons.

The maximum number of shares that may be granted under the Share Option Scheme and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. No option may be granted to any person such that the total number of shares of the Company issued and to be issued upon exercise of all options granted and to be granted to each participant in any 12-month period up to the date of the latest grant exceeds 1% of the number of shares of the Company in issue.

An option under the Share Option Scheme may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the board of directors of the Company, which must not be more than 10 years from the date of the grant.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors or up to the expiry date of the Share Option Scheme, if earlier.

The exercise price of the share options is determinable by the directors in their absolute discretion, but in any event shall not be less than the highest of (1) the nominal value of an ordinary share of the Company; (2) the closing price of the Company's shares as stated in the Stock Exchange daily quotation sheet issued on the date of grant of the share options; and (3) the average of the closing prices of the Company's shares stated in the Stock Exchange daily quotation sheets for the five business days immediately preceding the date of grant of share options.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Share Option Scheme during the year:

	2016		2015	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**3.22**	**65,285**	3.07	78,895
Exercised during the year	**2.35**	**(17,550)**	2.40	(13,610)
Lapsed during the year	**2.35**	**(1,000)**	–	–
At 31 December	**3.48**	**46,735**	3.22	65,285

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.89 (2015: HK$4.26) per share.

The subscription rights attaching to 17,550,000 (2015: 13,260,000) and Nil (2015: 350,000) share options granted under the Share Option Scheme were exercised at the subscription price of HK$2.35 and HK$4.11 per share, respectively, during the year, resulting in the issue of 17,550,000 shares (2015: 13,610,000 shares).

The exercise prices and exercise periods of the share options outstanding at 31 December 2016 and 2015 were as follows:

2016

Number of options	Exercise price per share	Exercise period
2,535,000	HK$4.11	29 July 2010 to 28 July 2019
2,895,000	HK$4.11	29 July 2011 to 28 July 2019
3,860,000	HK$4.11	29 July 2012 to 28 July 2019
150,000	HK$5.01	28 January 2011 to 27 January 2020
150,000	HK$5.01	28 January 2012 to 27 January 2020
200,000	HK$5.01	28 January 2013 to 27 January 2020
180,000	HK$6.13	30 March 2011 to 29 March 2020
180,000	HK$6.13	30 March 2012 to 29 March 2020
240,000	HK$6.13	30 March 2013 to 29 March 2020
2,700,000	HK$6.00	28 May 2012 to 27 May 2020
6,300,000	HK$6.00	28 May 2013 to 27 May 2020
9,831,000	HK$2.35	14 January 2012 to 13 January 2021
8,757,000	HK$2.35	14 January 2013 to 13 January 2021
8,757,000	HK$2.35	14 January 2014 to 13 January 2021
46,735,000		

2015

Number of options	Exercise price per share	Exercise period
2,535,000	HK$4.11	29 July 2010 to 28 July 2019
2,895,000	HK$4.11	29 July 2011 to 28 July 2019
3,860,000	HK$4.11	29 July 2012 to 28 July 2019
150,000	HK$5.01	28 January 2011 to 27 January 2020
150,000	HK$5.01	28 January 2012 to 27 January 2020
200,000	HK$5.01	28 January 2013 to 27 January 2020
180,000	HK$6.13	30 March 2011 to 29 March 2020
180,000	HK$6.13	30 March 2012 to 29 March 2020
240,000	HK$6.13	30 March 2013 to 29 March 2020
3,000,000	HK$6.00	28 May 2012 to 27 May 2020
7,000,000	HK$6.00	28 May 2013 to 27 May 2020
16,851,000	HK$2.35	14 January 2012 to 13 January 2021
14,022,000	HK$2.35	14 January 2013 to 13 January 2021
14,022,000	HK$2.35	14 January 2014 to 13 January 2021
65,285,000		

At the end of the reporting period, the Company had total outstanding share options for the subscription of 46,735,000 shares under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 46,735,000 additional ordinary shares of the Company and additional share capital of approximately HK$467,000 (equivalent to approximately RMB415,000) and share premium of approximately HK$162,158,000 (equivalent to approximately RMB144,142,000), before related issuance expenses.

At the date of approval of these financial statements, the Company had outstanding share options for the subscription of 46,735,000 shares under the Share Option Scheme, which represented approximately 2.1% of the issued share capital of the Company as at that date.

30. SHARE AWARD SCHEME

The Group adopted a share award scheme in August 2014. During the year and up to the end of the reporting period, no share awards were granted under the share award scheme, except those disclosed in note 27 to the financial statements. Details of the Group's share award scheme were set out in the Company's announcement dated 1 August 2014.

Subsequent to the end of the reporting period, on 10 January 2017, 50,000,000 awarded shares were resolved to be granted to employees of the Group under the share award scheme at nil consideration (note 41(b)).

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions:

(a) During the year ended 31 December 2016, deferred subsidies of RMB13,292,000 (2015: Nil) (note 26) were released to reduce the carrying amount of the items of property, plant and equipment.

(b) During the year ended 31 December 2016, deposits for acquisition of land use rights of RMB52,323,000 (2015: Nil) were utilised for the settlement of partial consideration for the acquisition of a certain portion of the Fujian Land (note 15).

32. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities (2015: Nil).

33. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its production facilities, office premises and staff quarters under operating lease arrangements. Leases for these properties are negotiated for terms ranging from two to ten years (2015: two to ten years).

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

	2016 RMB'000	2015 RMB'000
Within one year	6,531	9,246
In the second to fifth years, inclusive	16,240	19,047
After five years	12,162	19,369
	34,933	47,662

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following commitments at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Contracted for commitments in respect of:		
– construction of new buildings	51,841	85,752
– construction of new manufacturing facilities	15,901	28,741
– acquisition of land use rights	20,452	–
– advertising and promotional expenses	227,665	380,310
– software	100	100
	315,959	494,903

35. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties:

Compensation of key management personnel of the Group, including directors' remuneration as detailed in note 8 to the financial statements, is as follows:

	2016 RMB'000	2015 RMB'000
Short term employee benefits	7,089	7,742
Post-employment benefits	270	218
Total compensation paid to key management personnel	7,359	7,960

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	2016 RMB'000	2015 RMB'000
Available-for-sale investments	82,000	172,000
Loans and receivables:		
Trade receivables	1,916,209	1,603,226
Bills receivables	186,950	288,631
Other receivables	20,918	6,208
Pledged bank deposits	798,770	705,825
Time deposits	600,000	64,000
Cash and cash equivalents	2,846,532	3,607,000
	6,369,379	6,274,890
Total	6,451,379	6,446,890

Financial liabilities

	2016		
	Financial liabilities at fair value through profit or loss – held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	896,052	896,052
Financial liabilities included in deposits received, other payables and accruals	6,737	223,297	230,034
Interest-bearing bank borrowings	–	1,501,581	1,501,581
	6,737	2,620,930	2,627,667

	2015		
	Financial liabilities at fair value through profit or loss – held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	895,835	895,835
Financial liabilities included in deposits received, other payables and accruals	11,808	186,112	197,920
Interest-bearing bank borrowings	–	1,610,560	1,610,560
	11,808	2,692,507	2,704,315

37. FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY

At 31 December 2016, the Group discounted certain bank and commercial bills receivable with a carrying amount in aggregate of approximately RMB1,167,900,000 (2015: bank and commercial bills receivable of RMB1,208,400,000) to three (2015: two) banks in the PRC (the "Derecognised Bills") for cash. The Derecognised Bills had a remaining maturity from twenty-five days to six months (2015: twenty-four days to six months) at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC bank and/or the issuers of bills receivable default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair value of the Group's Continuing Involvement in the Derecognised Bills is not significant.

During the year ended 31 December 2016, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills (2015: Nil). No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The amounts of discount of bills receivable of RMB1,292,300,000 (30 June 2015: RMB754,100,000) and RMB2,460,200,000 (31 December 2015: RMB1,962,500,000) have been made near the period ended 30 June 2016 and the year ended 31 December 2016, respectively.

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

The fair values of the non-current time deposits and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2016 was assessed to be insignificant.

Fair value hierarchy

As at 31 December 2016 and 2015, the financial instruments measured at fair value held by the Group comprised derivative financial instruments and were classified as Level 2.

During the year ended 31 December 2016, 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 (2015: Nil).

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise available-for-sale investments, interest-bearing bank borrowings and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as trade and bills receivables, other receivables, trade payables and financial liabilities included in other payables and accruals, which arise directly from its operations. The Group also enters into interest rate swap transactions. The purpose is to manage the interest rate risk arising from the Group's operation and its sources of financing.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, interest rate risk, liquidity risk and commodity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

Foreign currency risk

The Group mainly operates in Mainland China with most of the transactions settled in RMB. Most of the Group's financial instruments such as trade and bills receivables and cash and bank balances are denominated in the same currency or a currency that is pegged to the functional currency of the operations to which the transactions relate. The Group has not used any forward contract or currency borrowing to hedge its exposure as foreign currency risk is considered minimal.

Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and at the end of each reporting period, the Group reviews the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short term debt obligations with floating interest rates.

The Group enters into interest rate swap contracts for its floating-interest loans to reduce its exposure to interest rate fluctuation.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates excluding the effect from interest rate swaps, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2016		
Hong Kong dollar and US$	**100**	**(23,900)**
Hong Kong dollar and US$	**(100)**	**23,900**
2015		
Hong Kong dollar and US$	100	(13,764)
Hong Kong dollar and US$	(100)	13,764

Liquidity risk

The Group monitors its risk to a shortage of funds by considering the maturity of both its financial assets and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through use of bank borrowings and other borrowings to meet its working capital requirements.

The tables below summarise the maturity profile of the financial liabilities of the Group as at the end of the reporting period, based on the contractual undiscounted payments:

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

	2015		
	On demand and within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade payables	895,835	–	895,835
Financial liabilities included in deposits received, other payables and accruals	197,920	–	197,920
Interest-bearing bank borrowings	1,486,829	137,473	1,624,302
	2,580,584	137,473	2,718,057

Commodity price risk

The major raw materials used in the production of the Group's products include cotton, rubber and plastics. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratio in order to support its business and maximise shareholders' value. The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 31 December 2015.

The Group monitors capital on the basis of the net cash-to-capital ratio, which is calculated as the net cash divided by total equity. The net cash-to-capital ratio as at the end of the reporting period was as follows:

	2016 RMB'000	2015 RMB'000
Cash and cash equivalents	2,846,532	3,607,000
Less: Interest-bearing bank borrowings	1,501,581	1,610,560
Net cash	1,344,951	1,996,440
Total equity	5,022,762	4,871,713
Net cash-to-capital ratio	0.268	0.410

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSET		
Investments in subsidiaries	1,127,096	1,128,009
CURRENT ASSETS		
Due from a subsidiary	773,463	413,326
Prepayments	24,157	6,464
Cash and cash equivalents	40,810	198,085
Total current assets	838,430	617,875
CURRENT LIABILITIES		
Due to subsidiaries	3,899	3,619
Other payables and accruals	34,320	34,310
Interest-bearing bank borrowings	1,501,581	1,489,361
Total current liabilities	1,539,800	1,527,290
NET CURRENT LIABILITIES	(701,370)	(909,415)
TOTAL ASSETS LESS CURRENT LIABILITIES	425,726	218,594
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	–	121,199
Other payables	–	1,693
Total non-current liabilities	–	122,892
NET ASSETS	425,726	95,702
EQUITY		
Share capital	19,572	19,354
Reserves (note)	406,154	76,348
Total equity	425,726	95,702

Note:

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

	Share premium account RMB'000	Treasury shares RMB'00	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2015	132,300	–	113,888	(114,223)	167,961	299,926
Profit for the year	–	–	–	–	171,335*	171,335
Other comprehensive income:						
Exchange realignment	–	–	–	6,665	–	6,665
Total comprehensive income for the year	–	–	–	6,665	171,335	178,000
2014 final dividend declared and paid	–	–	–	–	(86,015)	(86,015)
2014 special dividend declared and paid	–	–	–	–	(51,609)	(51,609)
2015 interim dividend declared and paid	–	–	–	–	(179,080)	(179,080)
Exercise of share options	44,807	–	(9,234)	–	–	35,573
Repurchase of shares	–	(120,447)	–	–	–	(120,447)
At 31 December 2015 and 1 January 2016	177,107	(120,447)	104,654	(107,558)	22,592	76,348
Profit for the year	–	–	–	–	645,446*	645,446
Other comprehensive income:						
Exchange realignment	–	–	–	15,863	–	15,863
Total comprehensive income for the year	–	–	–	15,863	645,446	661,309
2015 final dividend declared and paid	–	–	–	–	(128,551)	(128,551)
2015 special dividend declared and paid	–	–	–	–	(64,276)	(64,276)
2016 interim dividend declared and paid	–	–	–	–	(200,848)	(200,848)
Exercise of share options	53,565	–	(11,349)	–	–	42,216
Issue of shares	19,956	–	–	–	–	19,956
Transfer of share option reserve upon lapse of share options	–	–	(1,606)	–	1,606	–
At 31 December 2016	250,628	(120,447)	91,699	(91,695)	275,969	406,154

* The balance included a dividend from a subsidiary of RMB726,551,000 (2015: RMB285,463,000).

Any excess of the appropriation over the retained profits of the Company will be replenished by dividends declared by its subsidiaries to the Company when they are approved subsequent to the end of the reporting period. The directors of the Company anticipate that the approval of such dividends from subsidiaries will be obtained in the near future.

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

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

41. EVENTS AFTER THE REPORTING PERIOD

(a) On 3 January 2017, the Company entered into a facility agreement (the "Facility Agreement") with a consortium of banks for a 3.5-year dual currency term loan facility in the principal amounts of US$116,000,000 and HK$651,000,000 (equivalent to approximately RMB1,378,000,000 in aggregate). Details of the Facility Agreement were set out in the announcement of the Company dated 3 January 2017.

(b) On 10 January 2017, 50,000,000 awarded shares were resolved to be granted to employees of the Group under the share award scheme at nil consideration. The 50,000,000 awarded shares granted represented approximately 2.25% of the issued share capital of the Company as at the date of approval of these financial statements. Details of the grant of the awarded shares were set out in the announcement of the Company dated 10 January 2017.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 March 2017.

GLOSSARY

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

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

"IAAF"	International Association of Athletics Federations
"IMF"	International Monetary Fund
"Joyrun"	A leading Chinese APP for runners
"Listing Date"	3 June 2008, on which dealing in the Shares first commenced on the Hong Kong Stock Exchange
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"O2O"	Online to Offline
"POS"	Points of sale
"PRC" or "China" or "Mainland China"	The People's Republic of China excluding, for the purpose of this report, Hong Kong, Macau and Taiwan
"Pre-IPO Share Option Scheme"	The share option scheme for employees of the Group approved and adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed "Pre-IPO Share Option Scheme" in Appendix VI to the prospectus of the Company dated 21 May 2008
"R&D"	Research and development
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	Ordinary share(s) of HK$0.01 each in the share capital of the Company
"Share Option Scheme"	The share option scheme adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed "Share Option Scheme" in Appendix VI to the prospectus of the Company dated 21 May 2008
"Shareholder(s)"	Shareholder(s) of the Company
"U.S."	United States of America
"US$"	U.S. dollars, the lawful currency of the U.S.
"XTEP"	Xtep brand
"XTEP Kids"	The children's sportswear business of the Group
"Year"	For the year ended 31 December 2016

REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the consolidated financial statements for the year ended 31 December 2016.

DIVIDENDS

An interim dividend of HK10.5 cents (equivalent to RMB9.0 cents) per Share was paid to our Shareholders during the year. The Board recommended a final dividend of HK3.25 cents (equivalent to RMB2.89 cents) per Share and a special dividend of HK2.75 cents (equivalent to RMB2.44 cents) per Share for the year ended 31 December 2016, subject to approval by the Shareholders at the annual general meeting ("**AGM**") to be held on 8 May 2017. The total dividends for the year ended 31 December 2016, which include the interim, final and special dividends, amounted to a total of HK16.50 cents (equivalent to RMB14.33 cents) per Share, and represented a total payout ratio of 60%.

BOOK CLOSURE

In order to determine the entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Friday, 28 April 2017 to Monday, 8 May 2017, both days inclusive, during which period no transfer of Shares in the Company will be effected. The record date for entitlement to attend and vote at the AGM is Thursday, 27 April 2017. In order to be eligible to attend and vote at the forthcoming AGM of the Company to be held on Monday, 8 May 2017, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 27 April 2017.

The proposed final dividend and special dividend are subject to the passing of ordinary resolutions by the shareholders at the AGM. In order to determine the entitlement to the proposed final dividend and special dividend, the transfer books and register of members of the Company will be closed from Monday, 15 May 2017 to Wednesday, 17 May 2017, both days inclusive, during which period no transfer of Shares in the Company will be effected. The record date for entitlement to the proposed final dividend and special dividend is Friday, 12 May 2017. In order to be eligible to receive the proposed final dividend and special dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 12 May 2017. The payment date of the proposed final dividend and special dividend is expected to be Friday, 26 May 2017.

AGM

The AGM of the Company will be held in Hong Kong on Monday, 8 May 2017. Notice of the annual general meeting will be issued and disseminated to Shareholders in due course.

PUBLICATION OF RESULTS ANNOUNCEMENT

This annual results announcement is available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company's website at www.xtep.com.hk.

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

Hong Kong, 17 March 2017

As at the date of this announcement, the executive Directors of the Company are Mr. Ding Shui Po, Ms. Ding Mei Qing, Mr. Lin Zhang Li, Mr. Ding Ming Zhong and Mr. Ho Yui Pok, Eleutherius; and the independent non-executive Directors are Mr. Sin Ka Man, Mr. Tan Wee Seng, Dr. Gao Xian Feng and Dr. Bao Ming Xiao.