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)

2018 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the "**Board**") of Xtep International Holdings Limited (the "**Company**") is pleased to announce the interim results of the Company and its subsidiaries (together referred to as the "**Group**") for the six months ended 30 June 2018. This announcement, containing the full text of the 2018 Interim Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") in relation to information to accompany preliminary announcements of interim results.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ding Shui Po (丁水波) (Chairman)
Ding Mei Qing (丁美清)
Ding Ming Zhong (丁明忠)

Non-executive Director

Ho Yui Pok, Eleutherius (何睿博)

Independent Non-executive Directors

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

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

COMPANY SECRETARY

Yeung Lo Bun (楊鷺彬), FCPA

AUTHORIZED REPRESENTATIVES

Ding Shui Po (丁水波)
Yeung Lo Bun (楊鷺彬)

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Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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HEAD OFFICE IN THE PRC

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LEGAL ADVISER AS TO HONG KONG LAWS

Loeb & Loeb LLP

AUDITOR

Ernst & Young

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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17/F, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

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

PUBLIC RELATIONS CONSULTANT

Strategic Financial Relations Limited

COMPANY WEBSITE

www.xtep.com.hk

ABOUT THE GROUP

The Group established its own sportswear brand Xtep in 2002. Xtep is now a leading professional sports brand with stylish and functional sportswear products. The Group manages an extensive distribution network with exclusive distributors that operate 6,035 stores nationwide covering 31 provinces, autonomous regions and municipalities across the PRC, as well as some POS overseas. The Group has principally engaged in design, development, manufacturing, sales and marketing and brand management of sports footwear, apparel and accessories. The Company's Shares commenced trading on the Main Board of Hong Kong Stock Exchange on 3 June 2008.

18% Total Revenue
RMB**2,729.0**million

Gross Profit Margin
43.7%

24% Operating Profit
RMB**592.0**million

21% Profit Attributable to Ordinary Equity Holders
RMB**375.2**million

24% Interim Dividend per Share
HK10.5cents

Dividend Payout Ratio
54.5%

2018 INTERIM REPORT HIGHLIGHTS

- The Group has entered into a new era of growth after having completed its three-year strategic transformation. We believe the next three years, including second half of 2018, will be seeing accelerated growth.
- Retail sales showed positive performance, with same-store sales growth at low-teens for the first quarter of 2018 and mid-teens for the second quarter of 2018, reaching double digit growth for the first time since the Group began reporting same-store sales growth in the first quarter of 2013.
- The Group's revenue increased by 18.1% to RMB2,729.0 million (2017: RMB2,310.8 million), with a stronger brand, international quality products and more efficient centralized retail network.
- Hit shoe model sold more than 1 million pairs since its launch in March 2018.
- Operating profit margin increased by 1 percentage point to 21.7% (2017: 20.7%), and operating profit increased by 23.6% to RMB592.0 million (2017: RMB479.1 million)
- Profit attributable to ordinary equity holders increased by 20.9% to RMB375.2 million (2017: RMB310.3 million).
- Average trade receivables turnover days reduced to 113 days from 130 days as at 31 December 2017 and 164 days at as 30 June 2017. Trade receivables amount reduced to RMB1,650.3 million from RMB1,719.0 million as at 31 December 2017. This is because we took away the voluntary support to exclusive distributors as their profitability improved.
- RMB22.8 million was written-back from trade receivable provisions made previously.
- Strong net cash position, with RMB2,864.6 million of net cash and cash equivalents, which is equivalent to 51.9% of net assets.
- Proposed interim dividend HK10.5 cents, payout ratio increased to 54.5% (2017: 52.4%).

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

FIVE-YEAR FINANCIAL SUMMARY

For the six months ended 30 June

	2018	2017	2016	2015	2014
Profitability data (RMB million)					
Revenue	**2,729.0**	2,310.8	2,534.6	2,390.6	2,135.0
Gross profit	**1,193.1**	1,015.6	1,098.5	999.4	862.1
Operating profit	**592.0**	479.1	583.4	500.6	425.8
Profit attributable to ordinary equity holders	**375.2**	310.3	380.1	343.5	284.2
Basic earnings per Share (RMB cents) (Note 1)	**17.26**	13.98	17.25	15.86	13.05
Profitability ratios (%)					
Gross profit margin	**43.7**	43.9	43.3	41.8	40.4
Operating profit margin	**21.7**	20.7	23.0	20.9	19.9
Net profit margin	**13.7**	13.4	15.0	14.4	13.3
Effective tax rate	**31.8**	28.1	29.9	29.6	31.1
Return on average total equity holders' equity (annualized) (Note 2)	**14.1**	12.2	15.3	14.4	12.3
Operating ratios (as a percentage of revenue) (%)					
Advertising and promotional costs	**12.3**	12.2	9.3	13.4	12.5
Staff costs	**10.7**	10.6	9.4	8.7	9.8
R&D costs	**2.6**	2.8	2.3	2.0	2.4

As of 30 June

	2018	2017	2016	2015	2014
Assets and liabilities data (RMB million)					
Non-current assets	**1,117.7**	946.4	1,090.6	941.9	1,039.8
Current assets	**8,320.1**	7,493.7	7,140.2	7,253.8	6,729.4
Current liabilities	**3,091.9**	2,267.4	2,979.5	2,854.0	2,140.2
Non-current liabilities	**830.1**	889.2	156.5	548.4	999.4
Non-controlling interests	**108.3**	94.7	48.3	6.8	2.3
Shareholders' equity	**5,407.4**	5,188.8	5,046.5	4,786.5	4,627.3
Asset and working capital data					
Current asset ratio	**2.7**	3.3	2.4	2.5	3.1
Gearing ratio (%) (Note 3)	**21.0**	19.1	18.9	26.2	22.4
Net asset value per Share (RMB) (Note 4)	**2.46**	2.38	2.31	2.20	2.13
Average inventory turnover days (days) (Note 5)	**104**	67	55	72	94
Average trade receivables turnover days (days) (Note 6)	**113**	164	122	104	96
Average trade payables turnover days (days) (Note 7)	**134**	128	120	91	101
Overall working capital days (days)	**83**	103	57	85	89

NOTES:

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

Ding Shui Po
Chairman

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am pleased to announce the unaudited interim results of the Group for the six months ended 30 June 2018.

A NEW ERA FOR XTEP

2018 is the beginning of a new era for Xtep. After a successful three-year strategic transformation, we have begun to run full speed ahead. The Group's revenue for the first half of 2018 increased by 18.1% to RMB2,729.0 million (2017: RMB2,310.8 million), gross profit margin remained stable at 43.7% (2017: 43.9%). Profit attributable to ordinary equity holders of the Company increased by 20.9% to RMB375.2 million (2017: RMB310.3 million). Basic earnings per Share amounted to RMB17.26 cents (2017: RMB13.98 cents). The Group continues to believe in sharing our growth with our Shareholders and therefore the Board recommends and has resolved to declare an interim dividend of HK10.5 cents (2017: HK8.5 cents) per Share, which is equivalent to a payout ratio of 54.5% (2017: 52.4%).

Xtep today is very different from the Xtep before 2015. We have grown from a fashion sportswear company to now the Chinese runners' favorite local brand, as indicated by our strong market share lead amongst runners in marathons according to research data by Joyrun[1]. We have won the hearts and mindshare of runners in China, not with one product, but a whole range of international standard running products, catering to runners of different experience levels, from professional/competitive runners to those just beginning to engage in physical exercise. Because of our clear brand identification with running, we focus our research and development efforts almost solely in this area as well. As a result, we have developed one of the most popular running shoes in China this year, which sold more than 1 million pairs since its launch in March 2018.

Strong sales is not only linked to increased brand awareness by consumers and improved product technologies and design, but also by our hands-on approach in managing the entire Xtep retail network. We take an approach similar to the franchise model, where the Group guides many of the operational decisions, such as store openings, store locations, stores design and display, product ordering, and retail staff training. Our exclusive distributors make capital investments in the stores, products, and store staff, and enjoy the benefits of improved operational efficiency. In the first two quarters of 2018, same-store sales growth for Xtep retail network grew by low-teens and mid-teens in the first quarter and the second quarter respectively, showing strong growth in store efficiency.

THE NEXT THREE YEARS AND BEYOND

We believe the next three years will be a period of fast organic growth for the Group. As one of the top three Chinese sportswear brands and one of top five sportswear brands overall by market share in China, and with retail sales of over RMB 6 billion in the first half of 2018, we have become a leader among sportswear brands. Both our running and fashion products are expected to see accelerating growth over the next three years, benefiting from a refreshed brand, redesigned products, and effective omni-channel retail channel. Sales from e-commerce continued to grow strongly at a pace even faster than offline. The Group operates a truly omni-channel retail platform, where online and offline channels share inventory and the Group views every channel as a part of a whole, not as separate businesses. Shopping malls are also rapidly growing as a retail channel for the future. In the long-run, we would like to see our retail channels in three approximately equal parts by revenue: online, shopping mall, and traditional street-side stores.

In addition to fast organic growth, we will be planning ahead for 2020 and beyond. Xtep has transformed from a product company to a brand company. In the next phase of our development, we will expand Xtep from a single brand company to a multi-brand portfolio group. We seek to partner with other brands complementary to our core Xtep brand, expanding both the range of our consumer bases and the selection of our products. Initially, the Group targets to work with international sportswear brands to grow their presence in Greater China. We believe the Greater China region remains one of the fastest growing markets globally, with relatively low current sportswear spending per capita and therefore wide opportunities for market penetration. Xtep Group will leverage off of our over 20 years of experience in the Chinese sportswear market to take our entire portfolio of brands to the next phase of growth beyond 2020. As the market consolidates, we believe we will strengthen our leadership position amongst Chinese sportswear groups.

ACKNOWLEDGEMENT

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 to the Group. I would also like to express my deepest appreciation to our Board members, management team, and all employees for their dedication and contributions. 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

1 Source: Joyrun. Xtep held top market share among all domestic peers in brand of footwear worn by participants who finished the full marathon within three hours. Xtep ranked 4th among all sports brand in Chongqing Marathon in 2018, and Beijing Marathon and Guangzhou Marathon in 2017, with market shares 15.1%, 10.5% and 9.1% respectively.

XTEP MISSION

To be the Chinese Runners' Favorite Brand

MARKET REVIEW

China's GDP grew by 6.8% in the first half of 2018, while retail sales grew by 9.4%, well ahead of overall GDP growth[2]. China Consumer Confidence Index reached a 10 year high of 115 in the first quarter of 2018, and willingness to spend as a component of consumer confidence index maintained steady growth, rose by 1 point as compared to the fourth quarter of 2017[3]. Spending power is trending younger, with 44% of both post-1980s and post-1990s generations seeing household expenditure increase, while only 37% and 32% of post-1970s and post-1960s respectively[4].

China is seeing a wave of consumption upgrade, which we believe is an increase in consumer sophistication, alongside of increased purchasing power. Contrary to popular belief that consumption upgrade is equivalent to willingness to consume high priced items, we see more evidence in the increase in demand for quality and quantity of goods. Domestic brands with high quality products have gained market share in this environment in the general consumer goods sector, seen for example in the mobile phone, home appliance, and automobile industries, because of the value proposition they offer. We believe this trend will spread to other consumer segments as well, including sportswear, as quality of products have dramatically improved over the past 2-3 years to match international levels. Based on Tencent research[5], millennials no longer think of international brands to be a "big deal", they place higher value on personal and peer experience.

The size of the sports industry in China is to reach RMB5 trillion by 2025, tripled as compared to 2015[6]. 1,100 marathons and other running events (with over 800 participants) were held in 2017, 256 of which were recognized by the Chinese Athletic Association, and total participants in 1,100 events reached around 5 million[7]. According to Mr. Yu Hongchen, the vice president and secretary general of Chinese Athletic Association, the "goal is that by 2020, the total number of marathons and running events will reach over 1,900, competitions recognized by Chinese Athletic Association to reach 350, the total number of participants to reach over 10 million, and market size of marathon industry to reach RMB120 billion. Running has overtaken basketball as the most popular sports for post-1995 generation[8]. Xtep focuses on running, and we believe the potential for growth will continue as participation grows.

Euromonitor reported that the sales of sportswear in China increased by 12.0% again in 2017 (same as in 2016), reaching RMB212 billion, showing no signs of slow-down. It predicts the industry to grow at a CAGR of 8.0% at constant prices over the forecast period, reaching RMB318 billion in 2022, much faster than the 5.6% CAGR from 2010 to 2015[9]. More consumers are tending to purchase specialized and exercise-specific sports apparel and footwear, for better protection and more effective training, as purchasing power and consciousness of well-being increases. Thus, performance footwear saw the highest growth among all categories at 18%[9]. Slightly more serious runners are willing to spend more on sportswear. According to iRanShao research, runners who are able to run over 10km and have a steady habit of running spend on average RMB4,135 in 2017 on sportswear (shoes+apparel)[10], which is much higher than the per capita spending of RMB153 for general sportswear in China[9]. The reduction in overall consumption age and higher spending by frequent runners well matches the Xtep brand positioning.

2 Source: National Bureau of Statistics of the People's Republic of China
3 Source: China Consumer Confidence Index Reaches A 10 Year High Of 115 In Q1 (Nelson, May 2018)
4 Source: China Consumer Confidence Survey (Nielsen, November 2017)
5 Source: Tencent Post-00s Generation Research Report (Tencent, May 2018)
6 Source: General Administration of Sport of China
7 Source: Chinese Athletic Association
8 Source: Deciphering Generation of Future Consumers (Nielsen, November 2017)
9 Source: Sportswear in China (Euromonitor, February 2018)
10 Source: 2017 Chinese Runner Survey (iRanShao, January 2018)


華語說唱教父・熱狗 MC Hotdog

XTEP BRAND

The new Xtep brand is built around being the "Chinese runners' favorite brand". We also continue to carry the heritage of being one of the most fashionable sports brands, and continue to stay at the fashion edge. We believe the best way to associate our name with running is through marathon sponsorships. Therefore, we continued to be the sportswear sponsor of the most number of marathons in China for the fourth consecutive year with 14 running events in the first half of 2018, and continue to be officially affiliated with Run China (中國馬拉松), the Chinese Athletic Association's division in charge of marathons in China. Fashion is worn by those who represent fashion. Therefore, we publicize Xtep's lifestyle sports products through popular young celebrities and hit internet TV shows. In 2018, we have added a new boy-band NEX7 (樂華七子) who were part of the Idol Producer (偶像練習生) Internet TV show to represent Xtep brand, as well as became the officially designated sports brand (官方指定運動品牌) of the second season of the hit internet TV show The Rap of China (中國新説唱[11]). The Group's advertising and promotional costs for the six months ended 30 June 2018 was approximately 12.3% of the Group's revenue (2017: 12.2%) at approximately RMB336.0 million (2017: RMB282.0 million). Advertising and promotional expenses will be skewed towards the second half of the year as there are more marathon events and higher online marketing expenses in relations to double-eleven day. Full year advertising and promotional expense budget remains to be 11–13% of Group's revenue.

SPORTS MARKETING

Running

Running is a participatory sport. Therefore, we believe through sponsoring marathons with a large number of participants, runners will know and have first-hand experience of Xtep products and services first-hand and gain an immediate understanding and affinity towards the new Xtep brand. The Group sponsored 8 major marathons in major cities such as Beijing, Chongqing, Wuhan, Xiamen and other 6 additional running events for the six months ended 30 June 2018, including 4 Xtep Penguin Runs in cooperation with Tencent, and the Xtep 321 Running Festival. Total participants in these 14 running events exceeded 280,000.

Running events sponsored by the Group for the six months ended 30 June 2018 are as follows:

Xtep 321 Running Festival

Kiss Run Nanjing Women's Half Marathon (南京女子半程馬拉松)

Beijing Half Marathon (北京半程馬拉松)

Xtep Penguin Run (Guangzhou, Wuhan, Xi'an, Changsha) 特步企鵝跑 (廣州、武漢、西安、長沙)

Standard Chartered Shanghai 10km Run (渣打上海10公里跑)

11 中國新説唱 is the second season of 中國有嘻哈, the program(me) changed its name in the second season

Xtep Run Club

The Group has setup 5 Xtep Run Clubs (特步跑步俱樂部) around the country, adding one in Xiamen in the first half of 2018 (the other four are in Beijing, Changsha, Hefei and Nanjing). These are club houses aimed to provide various professional running related products and services to all runners who join the Xtep Runners' Club (free membership). The goal is to create an ecosystem around Xtep brand for runners, with products, training, services, and social interactions catered to specific needs of runners. Products are professional running gear selections that can be chosen with expert guidance, services include marathon registration, training classes, foot scanning, lockers, shower, tailor-made medal lettering, etc.

The club house also serves as a gathering place for runners to meet, socialize, and run together. We also invite KOLs to participate in Xtep Run Club's events as special guests, where they share their experiences with other runners at training sessions held inside the Xtep Run Club. They also promote our professional performance products to other runners, which is a direct and effective way to increase sales to our target consumers. We will continue to setup more of these club houses to make running with Xtep a premium experience.

The Xtep Runners' Club is the largest and most active brand affiliated running club in China. They are not only our loyal fan base that takes the Xtep brand and our products to marathons all over the world, but also, serves as a focal point of local running communities. The Xtep Runners' Club boasts of over 56,000 members across the country as at 30 June 2018, all of them are frequent runners, and many of them participate in multiple full marathons each year.

They led and organized local running events, and publicized their success stories and product experiences on Wechat and Weibo. They also helped testing and providing feedback on our new products in development to ensure the best user experience when those products were launched in the market. The Group continues to grow the size of Xtep Runners' Club with unique services offered, such as entry quota to marathons we sponsored, training camps with professional coaches, and special local social runs that aimed at building a community through running.

We are recognized by the official Chinese Athletic Association (中國田徑協會) for being the official partner of Run China (中國馬拉松官方合作夥伴). We have won numerous awards for our contribution to running in China, such as winning the Contribution Award for Development of Marathon in China (2017年中國馬拉松發展貢獻獎) at Marathon Gala-China 2017 held in January 2018. Xtep's running shoes have also garnered prestigious awards such as the Top Ten Domestic Running Shoes in 2017 (2017年度十佳民族跑鞋) at the second China Marathon Expo (第二屆中國馬拉松博覽會) in January 2018. Most importantly, Xtep footwear have been embraced by Chinese runners as shown through our market share data in marathons in China. Xtep held top market share among all domestic peers in footwear brand worn by participants who finished the full marathon within three hours. Xtep ranked 4th among all sports brand in Chongqing Marathon in 2018, and Beijing Marathon and Guangzhou Marathon in 2017, with market shares 15.1%, 10.5% and 9.1% respectively[12]. During the Chongqing Marathon in March 2018, He Yinli, won third place among all runners and number 1 among domestic runners in women's full marathon competition wore Xtep footwear and apparel. She and other "KOL"s participate in major marathons wearing Xtep products, using their influence as leading expert runners to guide other runners to our brand.

Xtep 321 Running Festival is a unique IP event created by Xtep as an annual national celebration for Chinese runners. In March 2018, we organized the third Xtep 321 Running Festival, with marketing, events, and sales both online and offline. Offline, we hosted three half marathons in Beijing, Wuhan and Hefei, two music runs in Fuzhou and Xiamen, and one 10 km Run in Xiamen, together with a large gala in the evening to promote this one and only running festival for Chinese runners. The gala was broadcasted live on Southeast Television (東南衛視) and through major online live-steaming platforms such as iQIYI and Tencent Video, as well as publicized by popular Internet celebrities live broadcast (網紅直播) to connect with nationwide audiences in real-time. The gala was a show with Xtep spokespersons and other celebrities attending, capturing wide media and consumer attention. New products launched and other products worn during the show were immediately made available on our e-commerce platform.

In the first half of 2018, the Group continued to title sponsor Xtep Penguin Run (特步企鵝跑), which is backed by Tencent Sports. More than 90 million runners were extended an invitation to the event by Tencent to participate in online running activities, while 100,000 lucky runners will join the offline running carnivals in ten major cities. Cooperation with partners like Tencent enabled Xtep brand to reach a broader consumer base quickly and effectively, and fun running events appeal to our target consumers that are young, fashionable, and active.

Sports Spokespersons

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

Kazakhstan National Track and Field Team: Xtep sponsored competition sportswear for Kazakhstan's National Track and Field Team, where the whole team wore Xtep clothes during all world competitions, notably in 2017 was the IAAF World Championships in Athletics. Olga Rypakova is one of the world's leading triple jump athletes, she won bronze at the 2016 Olympics.

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

Football

In addition to running, the Group viewed football as a supplementary part of our branding strategy to raise more consumer conviction for Xtep brand's professional sports image. The Group focuses on Chinese youth football, echoing the goal of our comprehensive football strategy "Blade Project" (鋒芒計劃) to serve over 5 million Chinese football youths by 2021. President Xi Jinping and the Chinese government have also emphasized the development of football particularly in the youth population, with the goal of having over 20,000 football schools and over 30 million youth football participants by 2020.

The Group also continued to sponsor celebrity football clubs to increase Xtep's media exposure. All of the celebrities on the teams wore Xtep professional football products during their matches as well as in media interviews relating to the matches, raising Xtep's brand profile and brand image to worldwide audiences. During the World Cup this summer, Hong Kong celebrities on the All Star team wore our products together when they were in Russia to watch the matches.

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)

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

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

International Sporting Event

Xtep was the official apparel sponsor for Chinese delegation team to the 17th Gymnasiade, a global multi-sport competition for primary and secondary school students, held in Morocco from 2–9 May, 2018. The athletes wore different outfits designed by Xtep for opening, closing, award ceremonies, and public occasions such as interviews and press conference. The Group will continue to be the official apparel sponsor for Chinese delegation team for the 18th Gymnasiade in 2020, which will be held in Jinjiang, China. Xtep believes in supporting sports activities for the youth of China, and cultivating our brand's exposure among this population. They are the future of Chinese sports industry, and our future consumers.

ENTERTAINMENT MARKETING

Xtep brand's lifestyle sports products closely identifies with fashionable street-wear. Our products have been seen on many celebrities in magazines and online via fashion bloggers.

Kan Qingzi (闞清子)

Angela Chang (張韶涵)

Jawn Ha (何展成)

YOUNG-G

In summer of 2018, the Group made its debut as the officially designated sports brand of The Rap of China (中國新說唱), the second season of an enormously successful online Chinese rap competition show produced by online entertainment service giant iQiyi. The street culture represented by the show strongly echoes Xtep lifestyle product's image. The first episode of the show broadcasted at 8 p.m. on 14 July 2018 reached 100 million views within 4 hours only[13]. During the season, celebrity judge MC Hotdog, a well-known Taiwanese Rap Artist, and numerous contestant wore Xtep products, and Xtep was promoted as a sponsor in every episode. We believe sponsoring shows like these raises our brand's fashion perception among consumers under 40, and increases our brand exposure to a wider audience, supporting the sales of our lifestyle sports products.

Chen Yao (陳瑤)

Bea Hayden (郭碧婷)

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

NEX7 (樂華七子):

A new seven member boy group formed by music giant Yuehua Entertainment. They became popular to post-90s and millennial generation audiences since popular reality show Idol Producer made and exclusively broadcasted by iQiyi. Each episode of the show had over 200 million views. NEX7 as well as each individual member has a huge and highly commercially valuable fan-base, each of them with millions of followers on Weibo. Their debut album, The First, was published on 21 June 2018, and they are expected to be the next superstar Chinese pop boy band.

Lin Gengxin (林更新):

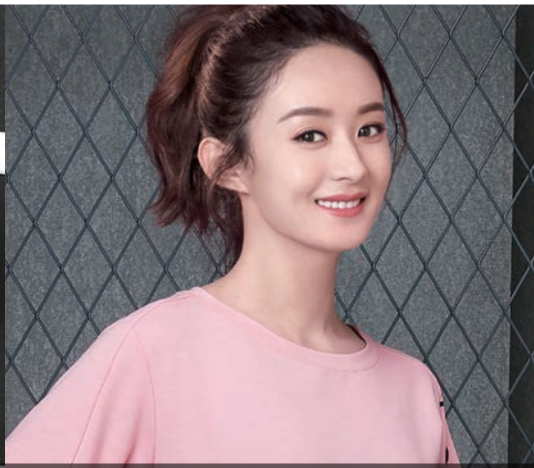
One of the most popular young actors in China, he impressed audiences with his TV Series debut in "Each Step Escape" (步步驚心), which was awarded the Most Popular Foreign Drama of the Year at the Seoul International Drama Awards 2012 (2012年首爾國際電視節). In 2017, he gained enormous popularity by playing the male lead in "Princess Agents" (楚喬傳), opposite of another Xtep spokesperson Zhao Liying. This was the first ever Chinese drama to break 42.9 billion views online. He was awarded as the Most Popular TV Series Actor of the Year at 2017 Tencent Video Star Awards (2017年騰訊視頻星光大賞).

Entertainment Celebrity Spokespersons

As the first sports brand to employ entertainment celebrities to represent the brand in China, the Group continues to regard this as an important channel to expose Xtep to those who are seeking more fashion-oriented sportswear or those who are only beginning to participate in sports activities. In the first half of 2018, we added the group NEX7 (樂華七子) as new celebrity spokespersons. They are highly ranked in their ability to generate media and social media hot topics, leading to increased brand exposure and product sales.

Jiro Wang (汪東城):

A Taiwanese singer and actor, he gained popularity as a member of the former Taiwanese boy-band Fahrenheit and has over 17 million page views on his Baidu Baike page and over 16 million followers on his official Weibo account. He has been based in Mainland China in recent years and has been in a variety of reality TV shows, TV series and movies. He won the Best Actor of the Year at Migu G-Ker Awards & Gala (咪咕 • G客網絡視頻年度盛典) for his performance in Youku-Tudou original movie "Rakshasa Street" (鎮魂街) in 2017. Several TV series he starred in will be aired in 2018.



Zhao Liying (趙麗穎):

One of the most popular Chinese actresses, Zhao won national fame for her lead role in the TV series "The Journey of Flower" (花千骨). Zhao gained the title of "100 billion queen" ("千億女王") in 2016 for her gaining 100 billion combined online views for all the TV series she appeared in. In 2016, she won the Audience's Choice for Actress at 28th China TV Golden Eagle Award (第28屆中國電視金鷹獎), the most highly regarded TV award in China. In 2017, she won the Most Valuable Actress (年度最具價值女明星獎) in the 2017 Film Star Value Report by CCSmart (新傳智庫發佈的2017中國影視明星價值報告). She also won the TV Series Actress of the Year (年度電視劇女演員獎) at 2017 Tencent Video Star Awards (2017年騰訊視頻星光大賞).

Nicholas Tse (謝霆鋒):

A widely-known artist and young successful entrepreneur, Tse was Xtep's first celebrity spokesperson, and has remained our spokesperson for over a decade. As an actor, Tse has won the Hong Kong Film Award for Best New Performer in 1998 and Hong Kong Film Award for Best Actor in 2011. He has renewed his popularity in PRC as a celebrity judge in the hot singing competition show "Sing! China" this year. 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.

XTEP PRODUCTS

Innovation

Zhao Liying
Xtep Spokesperson

PRODUCT INNOVATION

PRODUCT POSITIONING

Xtep brand products follow two distinctive directions in accordance with our brand: running and fashion. Our performance sports products revolve around running, and have become increasingly technical in functionality. Our fashion products coincide with the current athleisure trend, changing fashion from formal to comfort. Xtep brand has always been one of the most fashionable sports brands, we have carried that heritage forward and maintain a product mix of approximately half performance sports and half lifestyle sports, which distinguishes us from most of our peers, who have a much higher proportion of functional sports products.

Innovation is key in advancing technologies in performance sports products. The Group has built China's first and only dedicated running research laboratory, led by international scientists and engineers, applying international standard research approaches. The team comprises of over 40 researchers with many years of experience in different expertise such as sports science, design, pattern engineering, structural engineering, chemical engineering, performance engineering, fabrics/material and footwear development. They use world leading scientific research equipment for product testing and studying different types of runner's feet, body figure and running styles, in order to develop and optimize the functions, technologies and products to best fit runners of different levels. We benchmark our product technology against international running specialty brands, with the idea of offering similar or surpassed quality product at a fraction of the price to mass market consumers. We have designed and produced first-place winning marathon shoes based on research results from our laboratory for runners during multiple international level marathons in China, such as Xiamen Marathon, Beijing Half Marathon and Chongqing Marathon.

Xtep brand fashion sports products have been retailored to international athleisure style. In the first half of 2018, the Group changed the way we categorize our lifestyle sports products, shifting from age based product lines to three distinct series based on style: Urban, Street, and Active. Each of these series targets the different style demands of a wider group of consumers, as Chinese consumers become more individualized on their sense of style. Offering affordable products to a wider range of consumers also allows the Group to take advantage of the rising consumption power of lower-tier cities by meeting their needs for upgrades in fashion style. Sports lifestyle footwear mostly fell under the Xtep trademarked "π Series", which bears a more subtle "π" logo instead of the traditional "X" logo of Xtep. We have and will increase cooperation with celebrities and third-party IPs under this trademark.

PERFORMANCE SPORTS TECHNOLOGIES

Xtep brand products are made to be on par with international brands in quality and design. We have built a new team of designers in the past three years led by international design talents with extensive work experience in top international sports brands. Not only did they bring their keen vision for fashion trends, but also applied their years of know-how in creating sportswear for performance and comfort. We continued to cooperate with leading international fiber material developers, such as the Dow Chemical Company, 3M and INVISTA from the United States, and Toray from Japan, to co-develop new materials. We have registered trademarks with respects to certain technologies such as "Softpad™", where material co-developed with the Dow Chemical Company is exclusively applied to Xtep products. We will continue to work with international material suppliers and will launch new proprietary technologies in the second half of 2018.

FOOTWEAR TECHNOLOGIES

RUN FAST

FOR EXPERT/ADVANCED RUNNERS

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

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

RC 300 Shoes
Uses two types of materials in the shoe sole, with gel cushioning in the front and heel of the shoe to provide strong shock absorption, and TPU in the center for more structural foot support from rolling

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

NITEOPTICS 驭光科技
Uses reflective and light-emitting material to enable better visibility in the dark, improving safety of outdoor sports at night

RUN DYNAMIC

FOR INTERMEDIATE RUNNERS

Who look for both performance and comfort

DYNAMIC FOAM 动力巢®
Offers bounce and soft rebound in shock absorption with improved 4.0 generation soft and high resilience material

AIR 透气网 COMFORT
Applies uni-body three-dimensional double-layer weaving technique, with mesh arrangement according to stress points to improve breathability and seamless fit to foot, providing light and comfortable running experience

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

气能环® AIR MEGA 特步气能环科技
Utilizes an air-cushion system around the entire sole, providing all-around shock absorption

RUN FIT

FOR BEGINNER RUNNERS

Who prioritize comfort in their exercise experience

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

Softpad™
A key shoe insole technology the Group co-developed with the Dow Chemical Company. The insole provides memory foam-like comfort to fully enclose the foot

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

APPAREL TECHNOLOGIES

XTEP-DRY

酷干科技

KEEP YOU DRY
助力運動暢快乾爽

XTEP-DRY 2.0

Absorbs and transfers moisture on the skin quickly to fabric surface through special yarn and weaving arrangement, which then evaporates in air for instant absorption and immediate dryness

XTEP-COOL

释冰科技

KEEP YOU COOL
助力運動冰感酷爽

Polar Ice Fiber

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

Cooling Fibers

Cooling Xylitol is weaved into special clothing fibers, which increases the fiber's rate of heat dispersion, leading to long-lasting coolness during exercise

XTEP-WARM

热能科技

KEEP YOU WARM
助力運動持續保暖

Far-infrared Warm

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

Heat Retain

Newly developed uni-body heat containment structure using seamless down filling technique that prevents heat loss from pin-hole, achieving high heat retention

Thermolite®

Material from INVISTA (part of KoSa) from the U.S. with fine hollow fiber technology that creates a layer of air protection blocking cold air from outside, keeping the wearer warm and dry

XTEP-COMFORT

KEEP YOU COMFORTABLE
提升舒適性

Dupont™ Sorona® materia

Lightweight, soft, elastic material that easily recovers shape

Xtep Sports Elastic Technology

Uses highly elastic fiber that allows athletes to stretch freely during exercise, this is applied specifically to indoor training series

X-SEAMLESS-TECH

Uses seamless knitting technique in professional sports apparel to reduce friction during sport

XTEP-SHIELD

KEEP YOU PROTECTED
全方位防護

Anti-UV

Protects the wearer from harmful ultraviolet radiation during outdoor sports through protective chemicals weaved into fabric

Waterproof & Raised Permeation

Protection from water and quick evaporation of moisture on the body surface through special coating on fabric, keeping body dry and comfortable

XTEP-STRONGER

MAKE YOU STRONGER
提供運動持久動能

XTEP-ENERGY technology

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

COOPERATION WITH THIRD PARTY IP

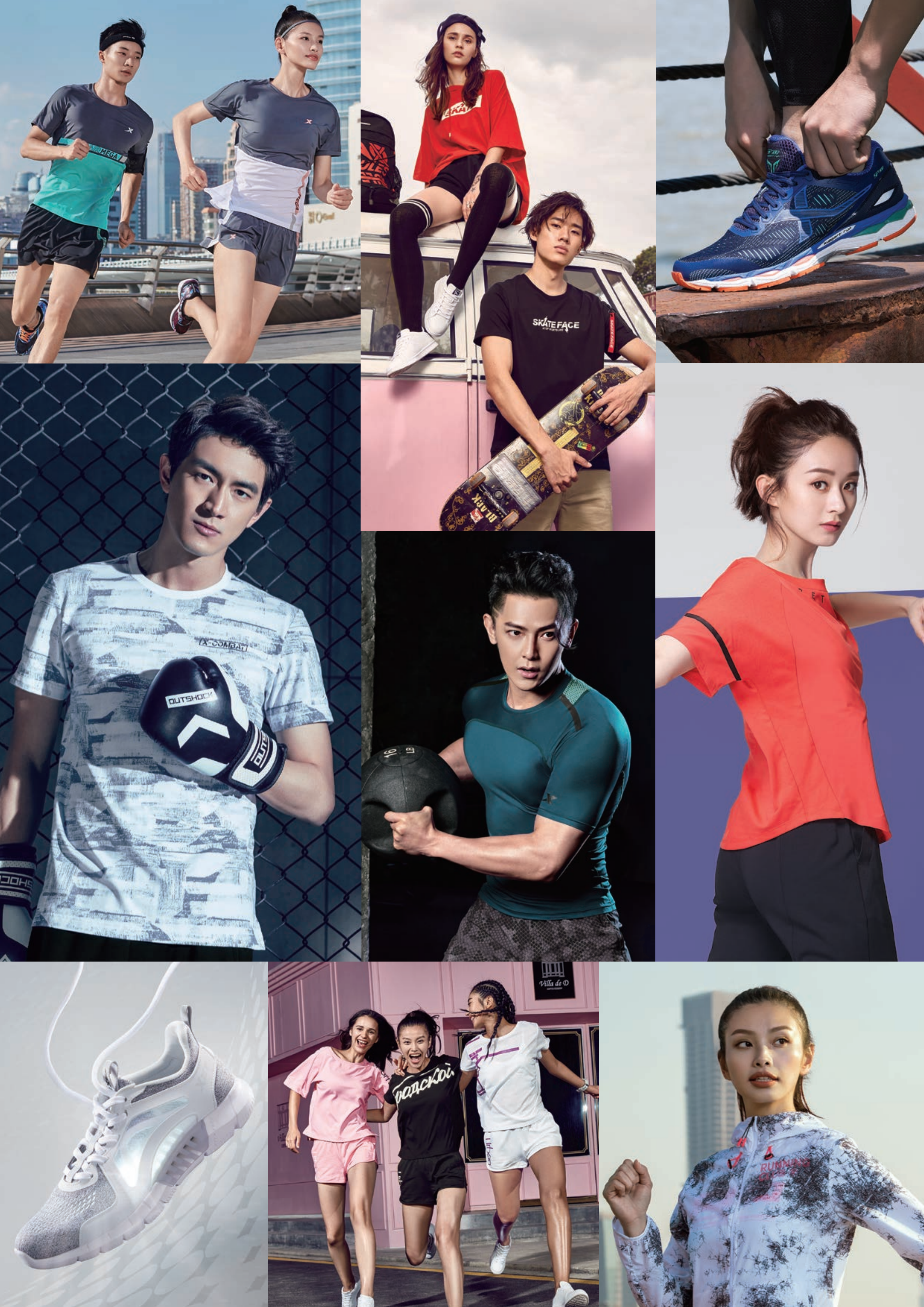
The Rap of China (中國新說唱)

The Group cooperated with iQIYI, an innovative leading Chinese online entertainment platform, and became the officially designated sports brand of The Rap of China, a Chinese rap competition show produced by and shown exclusively on the iQIYI platform. As the first and only rap competition show in China, during the first season of the show in 2017, it achieved 2.95 billion views in total and ranked third as the most popular online variety shows in terms of views in 2017[14]. The Group will launch a namesake series of products in the third and fourth quarters of 2018, coinciding with the broadcast of The Rap of China Season 2. The image of this show matches well with Xtep "street" lifestyle series, and having products worn by judges and competitors in the show in our stores both enhances Xtep brand's "coolness" and will attract more young and fashionable consumers.

SUPPLY CHAIN

New product ordering is conducted by the Group's exclusive distributors on a quarterly basis. We now have more flexibility in our production and delivery cycle, where products delivered within a quarter is split into three batches, each having a portion of consistent product for the quarter and new product for the month. The products being delivered in the last batch of the quarter is produced and delivered flexibly based somewhat on retail sales result of the first batch. This ensures higher sales efficiency and lower channel inventory level. 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 for footwear and apparel products accounted for approximately 52% (2017: 51%) and 11% (2017: 11%) of the corresponding total sales volume for the first half of 2018 respectively. We also utilized outsourced suppliers in the PRC to produce footwear and apparel products, but sourced the materials for production collectively. All of the outsourced suppliers were constantly monitored by the Group's quality control team to uphold our top quality standards.

14 Source: White Paper on the Development of Online Variety Shows Industry 2017 (2017年網路綜藝產業發展研究白皮書) (Guduo Media, April 2018)


MEGA
SKATE FACE
X-COMBAT
OUTSHOCK

XTEP RETAIL MANAGEMENT

Omni - Channel

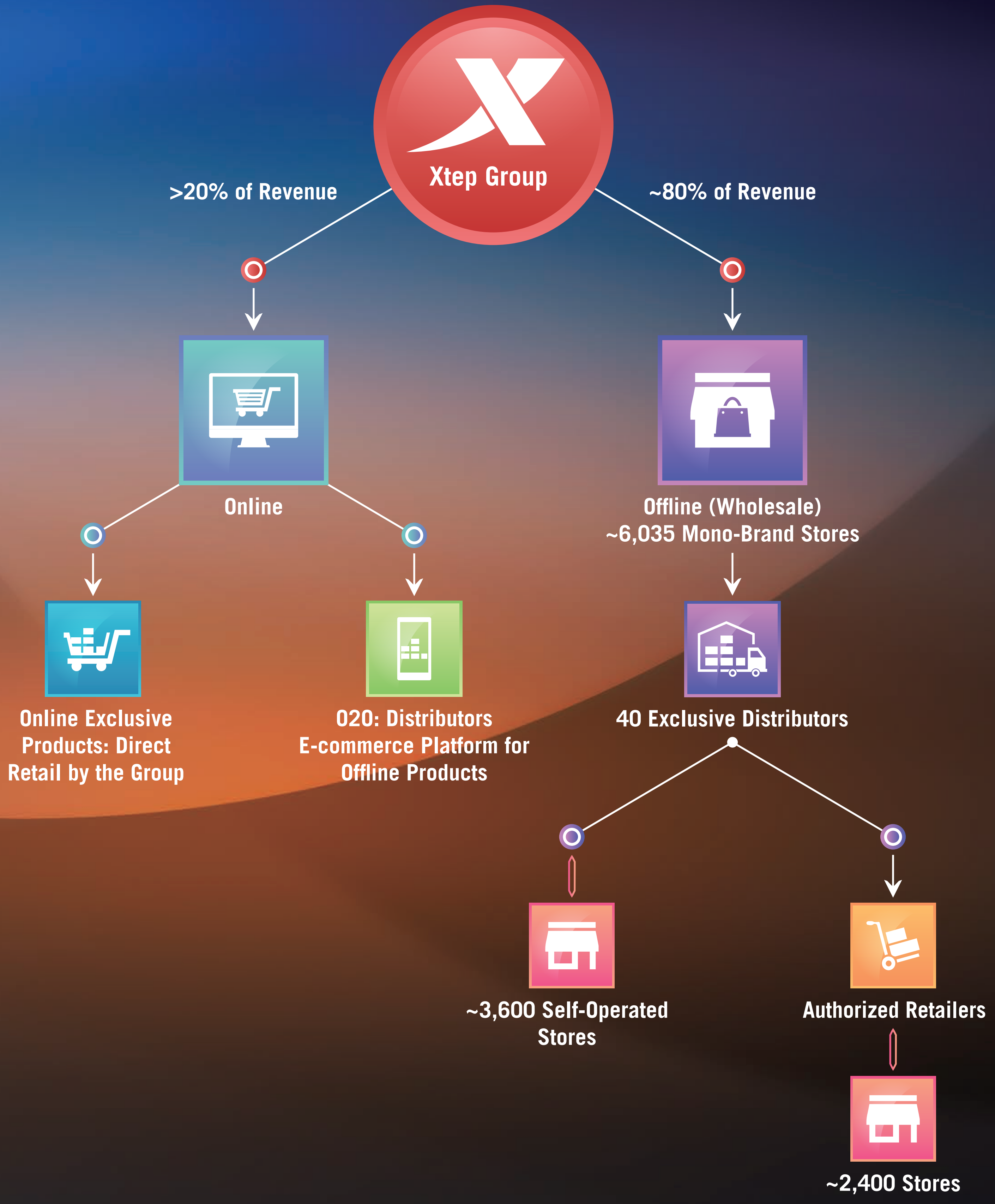
RETAIL MANAGEMENT

OFFLINE RETAIL CHANNEL

After completing the drastic changes the Group made to the Xtep brand retail platform in 2017, we have seen the positive results we had expected to see. Same-store sales growth reported for the first and second quarters of 2018 were low-teens and mid-teens respectively, reaching double digit growth for the first time since we started to disclose this number in the first quarter of 2013; sales efficiency per square meter in revamped stores increase by more than 10%; items sold per transaction increased with improved product design and customer service; and for the first time since our first generation "fire-shoe" (烽火鞋) in 2002, we have a hit shoe model that has sold more than one million pairs.

In 2018, the approximately 6,035 Xtep stores are being revamped, newly renovated stores accounted for approximately 65% of the total number of stores. The net number of stores to be opened this year will be a small number. As the new stores are larger in area, the overall retail area is expanding at a faster rate as compared with the number of stores. At the same time, the retailers are still in the process of upgrading the existing stores. Exclusive distributor directly operated stores remained steady at around 60% of the total store count, we view this as the optimal percentage of exclusive distributor directly operated stores for now. We have approximately 40 exclusive distributors who operate Xtep brand stores exclusively and to whom we sell exclusively within the region they operate. These exclusive distributors have long and healthy partnerships with the Group, and as their profitability have improved because of our restructuring, the Group withdrew voluntary support to them, leading to declining trade receivables turnover days, which dropped from 164 as at 30 June 2017, to 130 as at 31 December 2017, to 113 days as at 30 June 2018.

Retail Channel Structure:



Centralized Retail Network

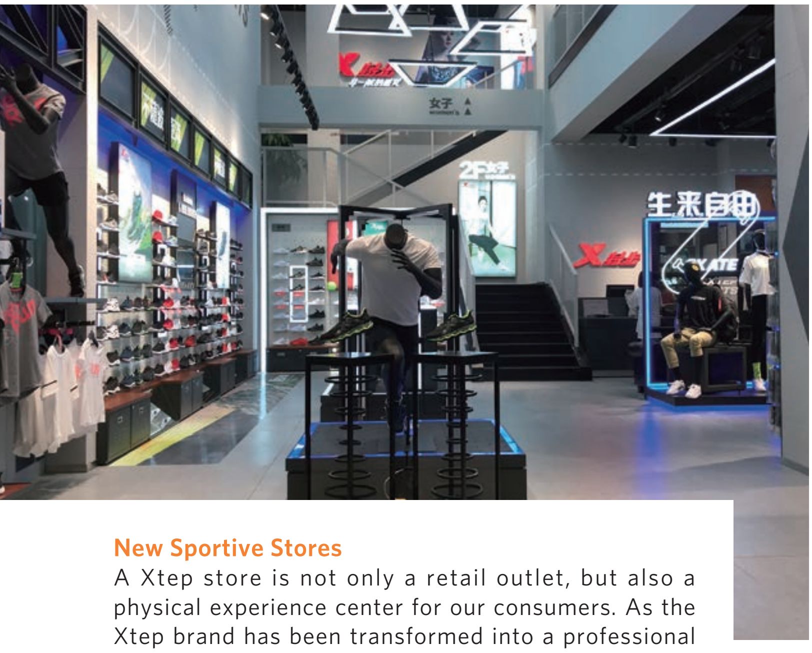
Currently, we implement a system similar to a franchise model, whereby the Group provides guidance to the exclusive distributors on determining the store location and layout, setting uniform tag price, and we set strict guidelines on product ordering procedures, discount ranges based on store tier, and provides training for all retail store staff. While we still sell our products wholesale to exclusive distributors at 62% discount to retail price, we are more effectively guiding decisions in the retail network, while the exclusive distributors make most of the decision such as renovation costs, rents, store inventories and staff costs on those stores they directly operate.

The distributors welcomed the professional input from our team of over 1,000 experienced retail management staff, as they were making the change from being a wholesaler to a partial retailer. The Group anticipates accelerating revenue growth from future orders as the exclusive distributors achieve higher profitability and healthier cashflow.

Big Data Monitoring and Analysis

The Group has full ERP-system coverage over the Xtep store network. We have built a professional team of big data experts who not only monitor the activities of each store, but also analyze the data gathered to help formulate product ordering instructions, store layouts, and future product directions. From the monitoring perspective, the Group is able to see real-time retail sales progress of each store, as well as its inventory level, discount level, and sales efficiency.

The amount of Xtep products in the offline retail channels was at a low level of close to 4 months as at 30 June 2018, in comparison to the industry average of 4-6 months. Proactively, the analyzed big data helps the Group set precise discount ranges for each store, guide the store staff on changing product displays in store, offer insights on how to improve customer service quality, formulate accurate product ordering instructions for exclusive distributors per store, and pinpoint consumer behaviors that lead to more popular future product development directions.



New Sportive Stores

A Xtep store is not only a retail outlet, but also a physical experience center for our consumers. As the Xtep brand has been transformed into a professional sports brand, our store image has also been upgraded to international-style sports store design, emphasizing the running focus of Xtep's products. As consumers are increasingly looking for a shopping experience when they visit physical stores in addition to quality products, the Group intends to open no more than 10 directly operated "flagship experience stores" in 2018.

These stores will be larger advanced format stores where consumers can test products under different weather and terrain condition simulations, find exclusive launches of our highest technology products, experience foot scanners, and shop in real omni-channel retail that smartly links e-commerce and physical stores. For the Group, these flagship experience stores will show consumers that Xtep is a brand with international standards in technology, design, and shopping experience. The Group views these stores as a part of our marketing initiatives, and believe such initiatives will enable us to solidify our retail sales growth, and extend the momentum of our same-store sales growth in the future.

Universal Retail Staff Training

Retail store staff is the face-to-face direct representative of Xtep brand to consumers. We believe it is important to ensure they have a uniform and full understanding of the latest initiatives and requirements of the Group, as well as stay motivated and passionate towards Xtep brand. The Group now provides universal training for store staff through the "Xtep Retail Learning Center" (特步零售學院) in person, detailed in-store instruction menus, and our internal "Super Shopping Guide" (超級導購) retail management APP with videos and articles. The APP has been rolled out to over 85% of stores, covering over 22,000 staff as at 30 June 2018.

We aim to standardize Xtep's high-level customer service and make them replicable throughout our retail network. Training videos and information on the APP are constantly updated to complement new sales campaigns and new product specifications. Retail staff's understanding of the Group's requirements is tested through quizzes on the APP, and the test results serve as support for upward employment promotion. Our retail management team does surprise store visits to ensure thorough execution, as well as reward those stores and staffs who have exceeded our expectations. Giving consumers the best experience in stores leads to increased consumers' confidence and trust in the Xtep brand, capturing increased retail sales both offline and online.

TRUE OMNI-CHANNEL RETAIL: INTEGRATING E-COMMERCE

Xtep brand once again was the top sales by volume in running footwear products on Tmall in the first half of 2018 and continues to generate high sales growth. The success of our self-operated e-commerce platform was driven by our ability to quickly evolve with consumer trend and our detailed direct management with a dedicated team of over 400 professionals. The Group operates a truly omni-channel retail platform, as we are one of the first and one of the few sportswear companies to operate a truly integrated O2O platform in China. Further, the online platform also acts as an additional channel for brand marketing. With rising sales contribution from O2O, our online products is increasingly closer to matching our offline products. For the Period ended 30 June 2018, e-commerce contributed more than 20% of the Group's revenue.

O2O: Mutual Benefit

Similar to most consumer brands in China, the Group's e-commerce business started with offering consumers online exclusive products that differentiated from those available in offline stores, in order to coordinate interests between offline distributors and the Group, and to maximize sales. Differing from our competitors, the Group was one of the first sports brands in China to aggressively push O2O with our exclusive distributors starting in late-2016. In the first half of 2018, popular offline items were increasingly made available online, and saw high sales volume online as well.

Online exclusive items have the advantage of quick production, quick supply-chain, and quick turnover. Some immensely popular online exclusive items were later made available for sale in offline stores, such as the shoes we co-designed with our celebrity spokespersons Zhao Liying and Lin Gengxin. We define O2O as inventory sharing, where products are made available online and offline at the same time, with identical prices, and have the same promotion periods. Very few inventory is kept by the e-commerce business for O2O products. Instead, we rely on inventory from the offline retail channel. Products ordered by consumers are delivered from their nearby distributor, ensuring quick to doorstep customer service. With permission from the Group, e-commerce platform can also hold special promotions for those slower moving items from offline channels. In effect, Xtep e-commerce platform functions as another retail channel for not only the Group, but also 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. In the first half of 2018, the O2O system was rolled out to over 60% of our retail network.

XTEP KIDS

The Xtep Kids division underwent major changes in 2016 and 2017 to better position for higher efficiency in future profit generation. We have realigned resources between the Xtep Kids and the Xtep adult divisions, consolidated their operational management, branding, new product research and development, material sourcing and production, retail management systems, and retail networks. POS count was approximately 300 as at 30 June 2018, and revenue contribution to the Group from Xtep Kids was minimal in the first half of 2018. Most of these POS are store-in-stores within the larger Xtep stores. We will be cautiously expanding the Kids division throughout 2018, as the market is highly fragmented in China.

OVERSEAS MARKET

As at 30 June 2018, the Group had Xtep POS exposure across the Middle East, Southeast Asia, Central Asia and South Asia operated by Xtep's exclusive distributors and authorized retailers. At present, the overseas business segment only accounts for minor revenue contribution to the Group. We believe that business in overseas markets can increase Xtep's global exposure, enhance brand value, and broaden revenue streams. Given the market size and growth potential of the domestic Chinese market, where we have built strong brand equity and a nationwide presence, our focus remains in our home market.

FINANCIAL REVIEW

GROUP REVENUE BREAKDOWN BY PRODUCT CATEGORY

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

For the period ended 30 June

	2018 Revenue		2017 Revenue		**Change in revenue**
	(RMB Million)	**(% of Revenue)**	(RMB Million)	(% of Revenue)	**(%)**
Footwear	**1,769.2**	**64.9**	1,534.8	66.4	+15.3
Apparel	**901.7**	**33.0**	726.5	31.4	+24.1
Accessories	**58.1**	**2.1**	49.5	2.2	+17.4
Total	**2,729.0**	**100.0**	2,310.8	100.0	+18.1

The Group's total revenue for the Period amounted to approximately RMB2.73 billion (2017: RMB2.31 billion).

Benefiting from the completion of the three-year strategic transformation, revenue had regained growth momentum in 2018 and increased by approximately 18.1% compared to the same period last year. It was mainly due to:

- the well-received product launches during the Period;
- the help of a cold winter in late 2017 and early 2018 which stimulated revenue contribution from apparel products; and
- the increase of revenue contribution of Xtep products through e-commerce channels.

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

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

GROSS PROFIT AND GROSS PROFIT MARGIN BREAKDOWN BY PRODUCT CATEGORY

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

For the period ended 30 June

	2018		2017		
	Gross profit (RMB Million)	Gross profit margin (%)	Gross profit (RMB Million)	Gross profit margin (%)	Change in gross profit margin (% point)
Footwear	792.7	44.8	680.3	44.3	+0.5
Apparel	378.9	42.0	315.9	43.5	-1.5
Accessories	21.5	37.0	19.4	39.3	-2.3
Total	1,193.1	43.7	1,015.6	43.9	-0.2

With the help of cold winter in late 2017 and early 2018, the replenishment orders increased more than original plan and therefore had slight negative impact on the gross profit margin of apparel products which was partly offset by the increase in gross profit margin of footwear products due to the well-received of functional footwear products by the consumers. As a result, the overall gross profit margin remained steady at 43%–44% level.

With Xtep repositioned as a professional sports brand, the average selling price of the products among all three categories have increased because of the higher average selling price of functional products. The increase in manufacturing costs were offset by the increase in average selling prices of products in general. The Group maintained effective cost control throughout the supply chain by utilizing both in-house and outsourced production, such that the increase in material costs and manufacturing costs are fully absorbed by the increase in average selling price.

OTHER INCOME AND GAINS

Other income and gains of the Group mainly represented the subsidy income from the PRC government, which amounted to approximately RMB77.6 million (2017: RMB59.0 million); and the investment income derived from financial investments and structured bank deposits amounted to approximately RMB48.6 million (2017: RMB29.7 million), which was mainly derived from the interest income from treasury deposit products.

SELLING AND DISTRIBUTION EXPENSES

For the Period, the Group's selling and distribution expenses amounted to approximately RMB480.2 million (2017: RMB385.3 million), representing approximately 17.6% (2017: 16.7%) of the Group's total revenue. The increase in selling and distribution expenses was mainly due to the increase in advertising and promotional costs.

The advertising and promotional costs for the Period amounted to approximately RMB336.0 million (2017: RMB282.0 million), represented approximately 12.3% (2017: 12.2%) of the Group's total revenue. The increase in advertising and promotional costs was mainly related to increase in entertainment celebrity spokespersons endorsements, running events promotion and the expenses related to Xtep Run Club.

GENERAL AND ADMINISTRATIVE EXPENSES

For the Period, the Group's general and administrative expenses amounted to approximately RMB263.7 million (2017: RMB246.9 million), which represented approximately 9.7% (2017: 10.7%) of the Group's total revenue. The increase in general and administrative expenses were mainly attributable to:

1) an impairment provision for inventories amounted to RMB26.1 million (2017: Nil);

2) an increase in staff costs amounted to RMB21.1 million during the Period; and

3) an increase in R&D cost – the R&D costs for the Period amounted to approximately RMB70.2 million (2017: RMB64.3 million), representing approximately 2.6% (2017: 2.8%) of the Group's total revenue. The R&D cost was mainly related to salary costs of the research and design team, material costs for research and development of new products and equipment costs for new production technology;

which were offset by:

1) the Group maintains a prudent approach towards financial management. After considering the recoverability of the outstanding debtors as of 30 June 2018, a write-back of impairment provision for trade receivables amounted to RMB22.8 million was made during the period (2017: Impairment provision amounted to RMB34.5 million).

NET FINANCE COSTS

The net finance costs of the Group for the Period amounted to approximately RMB41.4 million (2017: RMB12.1 million). The increase was mainly due to the increase in interest expenses and amortization of bank charges of bank borrowings and interest expense on discounted bills receivables to RMB68.6 million (2017: 41.9 million) primarily caused by the increase in interest rate and average balance of bank borrowings during the Period.

OPERATING PROFIT MARGIN

The operating profit margin for the Period increased by 1.0% to 21.7% (2017: 20.7%). This was mainly due to the increase in other income and gains, decrease in general and administrative expenses ratios to 9.7% (2017: 10.7%), but partly offset by the increase in selling and distribution expenses ratio to 17.6% (2017: 16.7%).

INCOME TAX EXPENSES

Income tax provision of the Group for the Period was approximately RMB175.0 million (2017: RMB131.3 million). The income tax provision included profit tax provision relating to operating companies amounted to approximately RMB147.7 million (2017: RMB123.3 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 RMB7.3 million (2017: RMB8.0 million). The Company holds certain PRC subsidiary companies which have retained profits that can be distributed to the Company in the future. In this connection, the Company had provided a provision of withholding tax amounted to RMB20.0 million during the Period (2017: Nil).

PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS AND NET PROFIT MARGIN

For the Period, the profit attributable to ordinary equity holders was approximately RMB375.2 million (2017: RMB310.3 million), representing an increase of approximately 20.9% over the same period last year. The increase was mainly due to the improvement in operating profit, which was partially offset by the increase in net finance costs and income tax expenses during the period.

The Group's net profit margin increased to 13.7% for the Period (2017: 13.4%).

DIVIDEND

The Group maintained a high level of cash and bank balances. The Board continued to improve Shareholders' dividend return and therefore recommended an interim dividend of HK10.5 cents (2017: HK8.5 cents) per Share. The interim dividend payout ratio for the period is equivalent to 54.5% (2017: 52.4%).

WORKING CAPITAL CYCLE

For the Period, the Group's overall working capital turnover days amounted to 83 days (2017: 103 days).

For the period ended 30 June:

WORKING CAPITAL TURNOVER DAYS	2018 Days	2017 Days	Changes Days
Inventories	104	67	+37
Trade receivables	113	164	-51
Trade payables	134	128	+6
Overall working capital turnover days	83	103	-20

INVENTORIES

INVENTORIES	2018 RMB million	2017 RMB million
Balance at 1 January	717.9	459.6
Balance at 30 June	1,028.6	484.1
Average balance (note 1)	873.3	471.9
Cost of sales for the period ended 30 June	1,535.8	1,295.2
Average turnover days (note 2)	104 days	67 days

As at 30 June 2018, the Group's net balance of inventory was approximately RMB1,028.6 million (31 December 2017: RMB717.9 million). The increase was mainly due to the increase in inventories for upcoming seasons. Retail channels have responded positively to the Group's products, and therefore, have increased replenishment orders close to the period end of 30 June 2018.

Trade Receivables

TRADE RECEIVABLES	2018 RMB million	2017 RMB million
Balance at 1 January	1,719.0	1,916.2
Balance at 30 June	1,650.3	2,224.4
Average balance (note 1)	1,684.7	2,070.3
Revenue for the period ended 30 June	2,729.0	2,310.8
Average turnover days (note 2)	113 days	164 days

As of 30 June 2018, the Group's net balance of trade receivables was approximately RMB1,650.3 million (31 December 2017: RMB1,719.0 million). The decrease in trade receivables turnover days compared to same period last year was due to the gradual rescission of temporary support to its distributors since the second half of 2017.

Trade Payables

TRADE PAYABLES	2018 RMB million	2017 RMB million
Balance at 1 January	1,027.7	896.0
Balance at 30 June	1,216.3	917.9
Average balance (note 1)	1,122.0	907.0
Cost of sales for the period ended 30 June	1,535.8	1,295.2
Average turnover days (note 2)	134 days	128 days

As at 30 June 2018, the Group's trade payables balance was approximately RMB1,216.3 million (31 December 2017: RMB1,027.7 million). The Group has been utilizing the credit periods provided by suppliers and the average turnover days as at 30 June 2018 and 2017 were largely consistent with such.

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

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

Bills Receivables

In order to have more flexibility in utilizing working capital facilities, the Group utilized the acceptance and usage of bills receivables. As of 30 June 2018, the bills receivables amounted to approximately RMB56.3 million (31 December 2017: RMB87.5 million) and the number of turnover days of bills receivables was 5 days (2017: 12 days).

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2018, the Group's cash and cash equivalents amounted to approximately RMB3,626.5 million (31 December 2017: RMB3,832.3 million), representing a decrease of approximately RMB205.8 million. This was mainly attributable to:

(a) Net cash inflow from operating activities amounted to RMB224.9 million. The cash generated from operating activities amounted to RMB433.8 million, which was partially offset by the income taxes and net interest expenses paid amounted to RMB208.9 million during the Period;

(b) Net cash outflow from investing activities amounted to RMB339.5 million, and was mainly due to the increase in placement of fixed deposits at banks with maturity over three months, pledged bank deposits and derivative instruments and equity instrument amounted to RMB400.0 million, RMB89.7 million and RMB77.5 million respectively, which was partially offset by the decrease in structured bank deposits amounted to RMB225.0 million; and

(c) Net cash outflow from financing activities amounted to RMB87.8 million, mainly due to dividends paid in respect of the 2017 financial year amounted to RMB258.1 million, which was partially offset by the net proceeds from bank borrowings amounted to RMB178.8 million.

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

	Six months ended 30 June	
	2018 **RMB million**	2017 RMB million
Cash generated from operating activities	**433.8**	92.4
Income and withholding tax paid	**(176.3)**	(161.7)
Others	**(32.6)**	(14.3)
Net cash flow generated from/(used in) operating activities	**224.9**	(83.6)
Decrease/(Increase) in placement of fixed deposits with maturity over three months	**(400.0)**	220.0
Decrease/(Increase) in pledged bank deposits	**(89.7)**	571.1
Increase in derivative instruments and equity instrument	**(77.5)**	–
Decrease/(Increase) in structured bank deposits	**225.0**	(150.0)
Dividends paid	**(258.1)**	(118.1)
Net proceeds from bank borrowings	**178.8**	132.5
Others	**(9.2)**	3.0
Net increase/(decrease) in cash and cash equivalents	**(205.8)**	574.9

As at 30 June 2018, the Group's gearing ratio was 21.0% (31 December 2017: 20.7%), which is defined as the total bank borrowings divided by the Group's total assets.

As at 30 June 2018, the total assets of the Group amounted to RMB9,437.8 million (31 December 2017: RMB8,933.7 million), represented by non-current assets of RMB1,117.7 million (31 December 2017: RMB1,051.9 million) and current assets of RMB8,320.1 million (31 December 2017: RMB7,881.8 million). The total liabilities of the Group amounted to RMB3,922.0 million (31 December 2017: RMB3,605.1 million), represented by non-current liabilities of RMB830.1 million (31 December 2017: RMB1,116.3 million) and current liabilities of RMB3,091.9 million (31 December 2017: RMB2,488.8 million). The total non-controlling interests of the Group amounted to RMB108.3 million (31 December 2017: RMB107.7 million). Hence, the total net assets of the Group amounted to RMB5,515.8 million (31 December 2017: RMB5,328.6 million), representing an increase of 3.5%. Net assets per Share as at 30 June 2018 were approximately RMB2.46 (31 December 2017: RMB2.40), representing an increase of 2.5%.

IMPAIRMENT PROVISION FOR INVENTORIES

During the Period, the Group recorded an impairment provision for inventories amounting to approximately RMB26.1 million (2017: Nil).

WRITE-BACK OF IMPAIRMENT PROVISION FOR TRADE RECEIVABLES

During the Period, the Group recorded a net write-back of impairment provision for trade receivables amounting to approximately RMB22.8 million (2017: Impairment provision amounted to RMB34.5 million).

COMMITMENTS

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

CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any material contingent liabilities.

CHARGE OF ASSETS

Save as disclosed in notes 16 and 19 of the interim financial statements relating to certain amounts of bank deposits pledged to secure the banking facilities, none of the Group's assets were pledged as at 30 June 2018.

FOREIGN CURRENCY RISKS

The Group mainly operates in the PRC with most of its transactions settled in RMB. Except for the bank borrowings which were denominated in Hong Kong Dollar and United States Dollar, the Group's assets and liabilities, and transactions arising from operation are mainly denominated in RMB. Accordingly, it is believed that the Group does not have any material foreign currency risks that would affect the Group's operation. The Group has not used any forward contracts to hedge its foreign currency risks. However, the management will continue to monitor foreign currency risks and adopt prudent measures as appropriate.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

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

HUMAN RESOURCES

As at 30 June 2018, the Group had approximately 8,600 employees (31 December 2017: approximately 8,500 employees). The Group provided introductory orientation programs and continuous training to its employees. Topics covered include industry knowledge, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and standards of its staff. The Group will strive to strengthen human resources management to provide strong support for the development of the Group's business through staff recruitment initiatives, optimization of the organizational structure and promulgation of its corporate culture to ensure that the Group will be able to maintain sustainable development in the future.

FUTURE PROSPECTS

2018 is the beginning of the new era for Xtep. Our new brand image is running + fashion, our new products are international level both technically and in style, and our new retail format is efficiently streamlined and centrally organized. The first half of 2018 saw strong growth both at the retail level and for the Group. We are optimistic for growth to accelerate in second half of the year and beyond, as Xtep has become a stronger brand.

As our own brand has strengthened and is on the steady path for growth over the coming years, the Group is looking to build a multi-brand portfolio that complements our core Xtep brand using our deep knowledge of the Chinese sportswear market. We take a cautious approach in making any investments or acquisitions in the best interests of Shareholders. We intend to utilize our current abundant cash balance to fund this brand portfolio building, as the Group currently have RMB 2.86 billion of net cash on the condensed consolidated statement of financial position.

The Group greatly appreciates the continued support given to us by our Shareholders. We will continue to put our Shareholders' interests at the forefront, while strictly upholding the highest corporate governance standards, to generate strong and responsible results for the future.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE CODE

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

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

MODEL CODE

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

REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules. The audit committee of the Company has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of the interim results and the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2018.

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

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

During the Period, the Company repurchased a total of 1,800,000 Shares on the Hong Kong Stock Exchange for an aggregate amount (excluding expenses) of HK$6,278,610. Such repurchased Shares were subsequently cancelled. Particulars of the Shares repurchased on the Hong Kong Stock Exchange are as follows:

Month of repurchase	Total number of shares repurchased	Highest price paid per share (HK$)	Lowest price paid per share (HK$)	Aggregate amount paid (excluding expenses) (HK$)
February 2018	1,800,000	3.65	3.37	6,278,610

The Directors believe that the above repurchases were in the best interests of the Company and its Shareholders as a whole because:

(1) the Shares have been trading at a level which significantly undervalues the Company's performance and underlying value. The Board is committed to actively manage the Company's capital and the Board believes that the above share repurchases would create benefits to the Shareholders;

(2) as the Group's three-year transformation as described in the Company's announcement dated 8 December 2017 is near the end, the Board expects the Group's financial performance to turnaround in 2018, and cashflow to be stronger as compared to the past three years; and

(3) the Group's financial position is stable with net cash of RMB1.16 (approximately HK$1.37) per Share, accounting for approximately 48.6% of the Group's net asset, as of 30 June 2017.

The current healthy financial position and cashflow of the Group enables the Company to conduct the share repurchases while maintaining sufficient financial resources for continued growth of the Group's operations.

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 Period.

DISCLOSURE OF INTERESTS

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

As at 30 June 2018, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO). They have notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Long Positions in the Company

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company[(1)]
Mr. Ding Shui Po	Founder and beneficiary of a discretionary trust[(2)]/ Beneficial interests[(3)]	1,344,974,500	59.98%
Ms. Ding Mei Qing	Founder and beneficiary of a discretionary trust[(2)]	1,310,059,500	58.43%
Mr. Ding Ming Zhong	Founder and beneficiary of a discretionary trust[(2)]	1,310,059,500	58.43%
Mr. Ho Yui Pok, Eleutherius	Beneficial interests	2,900,000[(4)]	0.13%
Mr. Tan Wee Seng	Beneficial interests	880,000[(5)]	0.04%

Notes:

(1) It was based on 2,242,280,000 issued Shares of the Company as at 30 June 2018.

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

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

(3) Mr. Ding Shui Po is also beneficially interested in 34,915,000 Shares of the Company.

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

(5) 600,000 of these shares are subject to the exercise of options granted on 30 March 2010 under the Share Option Scheme. Another 100,000 of these shares were issued to Mr. Tan Wee Seng upon the exercise of options granted on 7 December 2011 under the Share Option Scheme. The remaining 180,000 of these shares were acquired by Mr. Tan Wee Seng on the Stock Exchange.

Saved as disclosed above, as at 30 June 2018, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

So far as is known to any Director or chief executive of the Company, as at 30 June 2018, the persons or corporations (other than the Directors or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Nature of Interest	Number of Shares interested	Approximate percentage of interest in issued share capital of the Company[(1)]
Group Success	Beneficial interests	1,310,059,500	58.43%
Wan Xing International Holdings Limited	Interests of controlled corporation[(2)]	1,310,059,500	58.43%
Ding Wang Fortune Limited	Interests of controlled corporation[(3)]	1,310,059,500	58.43%
Guan Hong Development Limited	Interests of controlled corporation[(3)]	1,310,059,500	58.43%
Ming Zhong Family Limited	Interests of controlled corporation[(3)]	1,310,059,500	58.43%
UBS Trustees (BVI) Limited	Trustee[(3)]	1,310,059,500	58.43%

Notes:

(1) It was based on 2,242,280,000 issued Shares of the Company as at 30 June 2018.

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

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

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

Save as disclosed above, as at 30 June 2018, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

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

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

Details of the share options granted under the Pre-IPO Share Option Scheme as at 30 June 2018 are as follows:

	Outstanding as at 1 January 2018	Exercised during the Period	Outstanding as at 30 June 2018
Employees			
In aggregate	11,475,000	11,475,000	–

Save as disclosed above, no options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the Period.

Share Option Scheme

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

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

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

(a) the nominal value of a Share;

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

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

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

Details of the share options granted under the Share Option Scheme as at 30 June 2018 are as follows:

Name	Date of Grant	Exercise price per Share	Exercise period[(1)(2)(3)]	Outstanding as at 1 January 2018	Granted during the Period	Cancelled during the Period	Exercised during the Period	Lapsed during the Period	Outstanding as at 30 June 2018
Directors									
Mr. Ho Yui Pok, Eleutherius	29 July 2009	HK$4.11	29 July 2010 - 28 July 2019	1,500,000	-	-	-	-	1,500,000
Mr. Ho Yui Pok, Eleutherius	28 May 2010	HK$6.00	28 May 2012 - 27 May 2020	1,000,000	-	-	-	-	1,000,000
Mr. Tan Wee Seng	30 March 2010	HK$6.13	30 March 2011 - 29 March 2020	600,000	-	-	-	-	600,000
Employees									
In aggregate	29 July 2009	HK$4.11	29 July 2010 - 28 July 2019	7,790,000	-	-	(2,280,000)	-	5,510,000
In aggregate	28 January 2010	HK$5.01	28 January 2011 - 27 January 2020	500,000	-	-	-	-	500,000
In aggregate	28 May 2010	HK$6.00	28 May 2012 - 27 May 2020	8,000,000	-	-	-	-	8,000,000
In aggregate	7 December 2011	HK$2.35	14 January 2012 - 13 January 2021	23,695,000	-	-	(7,140,000)	-	16,555,000
Total				**43,085,000**	**-**	**-**	**(9,420,000)**	**-**	**33,665,000**

The total number of shares available for issue under the Share Option Scheme is 33,665,000, representing 1.5% of the Company's issued share capital as at the date of this interim report.

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

Notes:

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

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

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

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

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

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

(4) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$4.68.

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

SHARE AWARD SCHEME

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

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

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

As of 30 June 2018, there were a total of 41,510,000 outstanding awarded Shares granted to certain employees of the Group, details of which are as follows:

		Number of Awarded Shares					
Name	Date of Grant	As at 1 January 2018	Granted during the Period	Vested during the Period	Forfeited during the Period	As at 30 June 2018	Vesting period
Employees	10 January 2017	46,100,000	–	(4,590,000)	–	41,510,000	10 January 2018 to 10 January 2022

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

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

SPECIFIC PERFORMANCE OBLIGATIONS ON CERTAIN CONTROLLING SHAREHOLDERS

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

The Facility is guaranteed by certain subsidiaries of the Company.

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

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

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

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

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

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

As at 30 June 2018 and as at the date of this report, Mr. Ding Shui Po was an executive Director, the chairman and a controlling Shareholder of the Company. Ms. Ding Mei Qing was an executive Director and a controlling Shareholder of the Company. Mr. Ding Shui Po and Ms. Ding Mei Qing collectively held indirectly approximately 58.43% of the issued share capital of the Company. Mr. Ding Shui Po also had personal beneficial interests in approximately 1.55% of the issued share capital of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
REVENUE	5	**2,728,952**	2,310,791
Cost of sales		**(1,535,825)**	(1,295,208)
Gross profit		**1,193,127**	1,015,583
Other income and gains	5	**142,810**	95,749
Selling and distribution expenses		**(480,164)**	(385,286)
General and administrative expenses		**(263,730)**	(246,920)
Operating profit	6	**592,043**	479,126
Net finance costs	7	**(41,443)**	(12,149)
PROFIT BEFORE TAX		**550,600**	466,977
Income tax expense	8	**(174,956)**	(131,266)
PROFIT FOR THE PERIOD		**375,644**	335,711
Attributable to:			
Ordinary equity holders of the Company		**375,164**	310,308
Non-controlling interests		**480**	25,403
		375,644	335,711
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10		
Basic		**RMB17.26 cents**	RMB13.98 cents
Diluted		**RMB16.75 cents**	RMB13.94 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**375,644**	335,711
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements of operations outside Mainland China	**62,850**	26,785
	62,850	26,785
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Fair value changes of equity instruments at fair value through other comprehensive income	**6,300**	–
	6,300	–
Other comprehensive income for the period, net of tax	**69,150**	26,785
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**444,794**	362,496
Attributable to:		
Ordinary equity holders of the Company	**444,314**	337,093
Non-controlling interests	**480**	25,403
	444,794	362,496

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2018

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**659,199**	645,928
Investment properties		**38,207**	39,615
Prepaid land lease payments		**237,664**	240,630
Deposits for acquisition of land use right		**59,905**	-
Intangible assets		**7,115**	7,521
Equity instruments at fair value through other comprehensive income	14	**102,500**	-
Available-for-sale investments	14	**-**	92,000
Deposits and other receivables	13	**13,130**	26,208
Total non-current assets		**1,117,720**	1,051,902
CURRENT ASSETS			
Inventories	11	**1,028,613**	717,851
Trade receivables	12	**1,650,343**	1,719,007
Bills receivables	12	**56,300**	87,500
Prepayments, deposits and other receivables	13	**686,297**	572,280
Tax recoverable		**3,260**	1,370
Derivative instruments at fair value through profit or loss		**52,510**	-
Structured bank deposits	15	**490,000**	715,000
Pledged bank deposits	16	**146,200**	56,526
Time deposits	16	**580,000**	180,000
Cash and cash equivalents	16	**3,626,545**	3,832,272
Total current assets		**8,320,068**	7,881,806
CURRENT LIABILITIES			
Trade payables	17	**1,216,294**	1,027,714
Deposits received, other payables and accruals	18	**541,574**	564,617
Interest-bearing bank borrowings	19	**1,270,827**	830,865
Deferred subsidy		**585**	-
Tax payable		**62,651**	65,632
Total current liabilities		**3,091,931**	2,488,828
NET CURRENT ASSETS		**5,228,137**	5,392,978
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,345,857**	6,444,880
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	19	**707,271**	1,019,159
Deferred tax liabilities	20	**100,595**	97,113
Deferred subsidy		**22,220**	-
Total non-current liabilities		**830,086**	1,116,272
NET ASSETS		**5,515,771**	5,328,608
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Share capital	21	**19,759**	19,603
Reserves	22	**5,387,686**	5,201,266
		5,407,445	5,220,869
Non-controlling interests		**108,326**	107,739
Total equity		**5,515,771**	5,328,608

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2018

SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

		Attributable to ordinary equity holders of the Company													
			Reserves												
	Notes	Share capital RMB'000	Share premium account RMB'000	Capital reserve RMB'000	Statutory surplus fund RMB'000	Treasury shares RMB'000	Share award reserve RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Fair value reserve RMB'000	Retained profits RMB'000	Total reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018:															
As originally stated		19,603	259,874	118,600	663,109	(81,189)	6,163	89,679	(45,226)	-	4,190,256	5,201,266	5,220,869	107,739	5,328,608
Impact of adopting Hong Kong Financial Reporting Standard ("HKFRS") 9	2	-	-	-	-	-	-	-	-	3,200	-	3,200	3,200	-	3,200
As restated		19,603	259,874	118,600	663,109	(81,189)	6,163	89,679	(45,226)	3,200	4,190,256	5,204,466	5,224,069	107,739	5,331,808
Profit for the period		-	-	-	-	-	-	-	-	-	375,164	375,164	375,164	480	375,644
Other comprehensive income		-	-	-	-	-	-	-	62,850	6,300	-	69,150	69,150	-	69,150
Total comprehensive income for the period		-	-	-	-	-	-	-	62,850	6,300	375,164	444,314	444,314	480	444,794
2017 final and special dividends declared and paid	9(b)	-	-	-	-	-	-	-	-	-	(258,081)	(258,081)	(258,081)	-	(258,081)
Cancellation of repurchased shares	21	(15)	(5,115)	15	-	-	-	-	-	-	(15)	(5,115)	(5,130)	-	(5,130)
Exercise of share options	23	171	63,457	-	-	-	-	(11,888)	-	-	-	51,569	51,740	-	51,740
Repurchase of shares	24	-	-	-	-	(65,363)	-	-	-	-	-	(65,363)	(65,363)	-	(65,363)
Equity-settled share award arrangement	24	-	-	-	-	15,896	-	-	-	-	-	15,896	15,896	-	15,896
Vesting of awarded shares	24	-	-	-	-	-	(593)	-	-	-	593	-	-	-	-
Exchange differences related to foreign operations		-	-	-	-	-	-	-	-	-	-	-	-	107	107
At 30 June 2018		19,759	318,216	118,615	663,109	(130,656)	5,570	77,791	17,624	9,500	4,307,917	5,387,686	5,407,445	108,326	5,515,771

SIX MONTHS ENDED 30 JUNE 2017 (UNAUDITED)

		Attributable to ordinary equity holders of the Company													
			Reserves												
	Notes	Share capital RMB'000	Share premium account RMB'000	Capital reserve RMB'000	Statutory surplus fund RMB'000	Treasury shares RMB'000	Share award reserve RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Fair value reserve RMB'000	Retained profits RMB'000	Total reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017		19,572	250,628	118,600	583,669	(120,447)	-	91,699	(122,670)	-	4,132,397	4,933,876	4,953,448	69,314	5,022,762
Profit for the period		-	-	-	-	-	-	-	-	-	310,308	310,308	310,308	25,403	335,711
Other comprehensive income		-	-	-	-	-	-	-	26,785	-	-	26,785	26,785	-	26,785
Total comprehensive income for the period		-	-	-	-	-	-	-	26,785	-	310,308	337,093	337,093	25,403	362,496
Equity-settled share award arrangement	24	-	-	-	-	15,030	-	-	-	-	-	15,030	15,030	-	15,030
2016 final and special dividends declared and paid	9(b)	-	-	-	-	-	-	-	-	-	(118,094)	(118,094)	(118,094)	-	(118,094)
Exercise of share options	23	6	1,701	-	-	-	-	(372)	-	-	-	1,329	1,335	-	1,335
At 30 June 2017		19,578	252,329	118,600	583,669	(105,417)	-	91,327	(95,885)	-	4,324,611	5,169,234	5,188,812	94,717	5,283,529

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2018

	Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Operating activities:		
Cash from operations	**433,840**	92,373
Income tax paid	**(176,345)**	(161,711)
Others	**(32,601)**	(14,306)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	**224,894**	(83,644)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES(i)	**(339,467)**	640,933
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES(ii)	**(87,785)**	17,684
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(202,358)**	574,973
Cash and cash equivalents at beginning of period	**3,832,272**	2,846,532
Effect of foreign exchange rate changes, net	**(3,369)**	(65)
Cash and cash equivalents at end of period	**3,626,545**	3,421,440
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	**3,626,545**	3,421,440

The accompanying notes form part of these interim financial statements.

(i) Net cash flows from/(used in) investing activities for the period included increase in fixed deposits held at banks with maturity over three months of RMB400,000,000 (2017: decrease in fixed deposits of RMB220,000,000), decrease in structured bank deposits of RMB225,000,000 (2017: increase in structured bank deposits of RMB150,000,000), investment income derived from derivative instruments at fair value through profit or loss ("FVPL") and structured bank deposits of RMB48,599,000 (2017: dividend and investment income derived from available-for-sales investments and structured bank deposits of RMB31,167,000); increase in pledged bank deposits of RMB89,674,000 (2017: decrease in pledged bank deposits of RMB571,115,000); increase in derivative instruments at fair value through profit or loss of RMB52,510,000 (2017: Nil); proceed from a disposal of an equity instrument at fair value through other comprehensive income ("FVOCI") of RMB24,000,000 (2017: Nil); increase in an equity instrument at FVOCI of RMB25,000,000 (2017: Nil) and increase in deposits for acquisition of land use right of RMB59,905,000 (2017: Nil).

(ii) Net cash flows from/(used in) financing activities for the period included the dividends paid to ordinary equity holders of the Company of RMB258,081,000 (2017: RMB118,094,000), net proceeds from bank borrowings of RMB178,772,000 (2017: RMB132,540,000), net proceeds from exercise of share options of RMB51,740,000 (2017: RMB1,336,000) and payment for repurchase of shares for the share award scheme of RMB65,363,000 (2017: Nil).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2018

1. CORPORATE AND GROUP INFORMATION

Xtep International Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. Pursuant to an announcement of the Company dated 21 February 2018, the Company's principal place of business in Hong Kong has been changed from Suite 2401–02, 24/F, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong to Unit A, 27/F, Tower A, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong with effect from 1 March 2018.

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

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

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

2.1. Basis of preparation

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

The condensed consolidated interim financial statements do not include all the information and disclosures required in the financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2017.

The condensed consolidated interim financial statements have been prepared under the historical cost convention, except for derivative instruments at FVPL and equity instruments at FVOCI. The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017 except for the changes in accounting policies made after the adoption of the revised HKFRSs as further detailed in note 2.2 below.

2.2. Changes in accounting policies

In the current period, the Group has applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2018:

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

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

2.2. Changes in accounting policies (continued)

Saved as further explained below, the adoption of other new and revised HKFRSs has had no significant financial effect on the condensed consolidated interim financial statements of the Group. The principal effects of adopting HKFRS 9 and HKFRS 15 are as follows:

HKFRS 9 Financial Instruments

HKFRS 9 brings together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9 for annual periods on or after 1 January 2018. The Group has not restated comparative information for 2017 for financial instruments in the scope of HKFRS 9. Therefore, the comparative information for 2017 is reported under HKAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of HKFRS 9 have been recognised directly in fair value reserve and other relevant statement of financial position items as of 1 January 2018.

(a) Classification and measurement

The new classification and measurement of the Group's financial assets are as follows:

(i) Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion"). This category includes the Group's derivative financial instrument held for trading, trade receivables, bills receivables, other receivables, loan to a then investee company, structured bank deposits, pledged bank deposits and time deposits.

(ii) Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. The Group classified its equity instruments as equity instruments at FVOCI. Equity instruments at FVOCI are not subject to an impairment assessment under HKFRS 9. Under HKAS 39, the Group's equity instruments were classified as available-for-sale financial assets.

(iii) Financial assets at FVPL comprise derivative instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. The Group classified its derivative instruments as derivative instruments at FVPL.

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

2.2. Changes in accounting policies (continued)

HKFRS 9 Financial Instruments (continued)

(a) Classification and measurement (continued)

A reconciliation between the carrying amounts under HKAS 39 to the balances under HKFRS 9 which require reclassification and remeasurement as of 1 January 2018 is as follows:

	HKAS 39 Measurement RMB'000	Reclassification RMB'000	Remeasurement RMB'000	HKFRS 9 Measurement RMB'000
Financial assets				
Available-for-sale investments	92,000	(92,000)	–	–
Equity instruments at FVOCI	–	92,000	3,200	95,200
	92,000	–	3,200	95,200

(b) Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The adoption of the ECL requirements of HKFRS 9 does not have a significant financial effect on the condensed consolidated interim financial statements.

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

2.2. Changes in accounting policies (continued)

HKFRS 9 Financial Instruments (continued)

The impact of transition to HKFRS 9 on fair value reserve under equity is as follows:

	RMB'000
Fair value reserve:	
Closing balance under HKAS 39 (31 December 2017)	–
Reclassification of investments from available-for-sale investments to equity instruments at FVOCI	3,200
Opening balance under HKFRS 9 (1 January 2018)	3,200

HKFRS 15 *Revenue from contracts with customers*

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The adoption of this standard do not have a significant financial effect on the condensed consolidated interim financial statements of the Group.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the condensed consolidated interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

In preparing the condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those used by management in the preparation of the Group's annual financial statements for the year ended 31 December 2017, except for the fair values of derivative instruments at FVPL and equity instruments at FVOCI.

4. OPERATING SEGMENT INFORMATION

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

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue		
Manufacture and sale of sportswear:		
Footwear	1,769,219	1,534,804
Apparel	901,667	726,483
Accessories	58,066	49,504
	2,728,952	2,310,791
Other income and gains		
Subsidy income from the PRC government*	77,562	58,982
Rental income	2,257	1,831
Investment income derived from derivative instruments at FVPL and structured bank deposits	48,599	–
Investment income derived from available-for-sale investments and structured bank deposits	–	29,667
Dividend income from an available-for-sale investment	–	1,500
Scrap sales income	6,284	–
Others	8,108	3,769
	142,810	95,749
	2,871,762	2,406,540

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

6. OPERATING PROFIT

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

	Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Advertising and promotional costs	335,959	281,960
Provision/(write-back of provision) for impaired trade receivables, net	(22,757)	34,521
Provision for inventories	26,058	–
Research and development costs*	70,246	64,269
Depreciation	32,091	26,252
Amortisation of intangible assets	843	496
Amortisation of prepaid land lease payments	2,966	2,669
Staff costs	293,317	243,975
Equity-settled share award scheme expense	15,896	15,030

* The research and development costs for the six months ended 30 June 2018 included RMB42,542,000 (six months ended 30 June 2017: RMB39,021,000) relating to the depreciation of research and development centres and staff costs for research and development activities, which were also included in the total amounts disclosed above for each of these types of expenses.

7. NET FINANCE COSTS

An analysis of net finance costs is as follows:

	Note	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Interest expense on bank loans		25,356	16,076
Interest expense on discounted bills receivables		35,050	21,301
Amortisation of bank charges on syndicated loans		8,230	4,556
Bank interest income		(27,246)	(23,071)
Interest income on a currency swap		(559)	–
Fair value loss/(gains), net: derivative instruments – transactions not qualified as hedges*	13	612	(6,713)
		41,443	12,149

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

8. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Current tax – Overseas		
Charge for the period	147,674	123,283
Underprovision in prior periods	7,282	7,983
	154,956	131,266
Deferred tax	20,000	–
	174,956	131,266

9. DIVIDENDS

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

	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Interim dividend – HK10.5 cents (six months ended 30 June 2017: HK8.5 cents) per ordinary share	204,374	162,686

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

9. DIVIDENDS (CONTINUED)

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

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

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

	Six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Dividends paid during the period:		
Final dividends in respect of the financial year ended:		
31 December 2017 – HK4.5 cents per ordinary share	**80,094**	–
31 December 2016 – HK3.25 cents per ordinary share	**–**	63,968
Special dividends in respect of the financial year ended:		
31 December 2017 – HK10.0 cents per ordinary share	**177,987**	–
31 December 2016 – HK2.75 cents per ordinary share	**–**	54,126
	258,081	118,094

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

(a) Basic earnings per share

The calculation of the basic earnings per share amount for the six months ended 30 June 2018 was based on the profit for the period attributable to ordinary equity holders of the Company of RMB375,164,000 (six months ended 30 June 2017: RMB310,308,000) and the weighted average number of ordinary shares in issue during the six months ended 30 June 2018 of 2,173,935,000 (six months ended 30 June 2017: 2,219,783,000), as adjusted to exclude the shares held under the share award scheme of the Company (note 24).

(b) Diluted earnings per share

The calculation of the diluted earnings per share amount for the six months ended 30 June 2018 is based on the profit for the period attributable to ordinary equity holders of the Company of RMB375,164,000 (six months ended 30 June 2017: RMB310,308,000). The weighted average number of ordinary shares of 2,239,660,000 (six months ended 30 June 2017: 2,226,705,000) used in the calculation is the weighted average number of 2,173,935,000 (six months ended 30 June 2017: 2,219,783,000) ordinary shares in issue during that period, as used in the basic earnings per share calculation, the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options into 9,865,000 (six months ended 30 June 2017: 6,922,000) ordinary shares during that period, 50,000,000 (six months ended 30 June 2017: Nil) awarded shares held under the share award scheme of the Company adjusted by 4,362,000 (six months ended 30 June 2017: Nil) awarded shares vested and 10,222,000 shares repurchased (30 June 2017: Nil) during the six months ended 30 June 2018.

11. INVENTORIES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Raw materials	**179,341**	140,558
Work in progress	**81,012**	73,473
Finished goods	**768,260**	503,820
	1,028,613	717,851

During the six months ended 30 June 2018, provision for inventories amounting to RMB26,058,000 (six months ended 30 June 2017: Nil) was charged to the condensed consolidated income statement.

12. TRADE AND BILLS RECEIVABLES

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Trade receivables		2,204,287	2,295,708
Less: Provision for impaired receivables		(553,944)	(576,701)
	(a)	1,650,343	1,719,007
Bills receivables	(b)	56,300	87,500

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

Notes:

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within 3 months	1,027,919	1,232,647
4 to 6 months	464,547	267,327
Over 6 months	157,877	219,033
	1,650,343	1,719,007

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Neither past due nor impaired	859,880	976,357
Less than 3 months past due	278,366	148,298
Past due over 3 months	24,329	126,003
	1,162,575	1,250,658

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.

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within 3 months	30,000	63,000
4 to 6 months	26,300	24,500
	56,300	87,500

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

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Prepayments		100,177	79,870
Deposits and advance payments to suppliers		252,136	213,395
Deposits and advance payments to subcontractors		97,267	125,237
Loan to a then investee company	(a)	60,000	60,000
Other deposits		16,809	13,815
Value added tax ("VAT") recoverable		134,379	85,270
Other receivables		38,659	20,264
Derivative financial instrument	(b)	–	637
		699,427	598,488
Less: Non-current portion		(13,130)	(26,208)
		686,297	572,280

Notes:

(a) The loan granted to a then investee company bears interest at 4.5675% per annum and is repayable in twelve months. The loan is secured by the guarantor's land and building located at Putian, Fujian Province, the PRC.

(b) The Group has entered into a currency swap contract to manage its exchange rate exposures which the documentation did not meet the criteria for hedge accounting. Loss in fair value of non-hedging currency derivative instrument for the period amounting to RMB612,000 (six months ended 30 June 2017: Gains of RMB6,713,000) (note 7) was debited to the condensed consolidated income statement.

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

14. AVAILABLE-FOR-SALE INVESTMENTS AND EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Notes	Equity instruments at fair value through other comprehensive income RMB'000	Available-for-sale investments RMB'000
At 31 December 2017	(a)	–	92,000
Reclassification by adoption of HKFRS 9 (note 2)		92,000	(92,000)
Remeasurement by adoption of HKFRS 9 (note 2)		3,200	–
At 1 January 2018		95,200	–
Addition	(b)	25,000	–
Disposal	(c)	(24,000)	–
Change in fair values	(d)	6,300	–
At 30 June 2018		102,500	–

Notes:

(a) As at 31 December 2017, the Group held investments with carrying values of RMB35,000,000, RMB33,000,000 and RMB24,000,000, representing 5%, 11% and 3% equity interests in three corporate entities, which were established in the PRC on 22 December 2014, 22 October 2012, and 10 September 2010 with paid-up capital of RMB700,000,000, RMB300,000,000 and RMB800,000,000, respectively. The above investments were stated at cost less impairment as at 31 December 2017.

(b) During the period, the Group paid a further RMB25,000,000 as capital into an investment. As at 30 June 2018, the Group had 5% equity interest (31 December 2017: 5%) in the investee company with an enlarged paid-up capital of RMB1,200,000,000.

14. AVAILABLE-FOR-SALE INVESTMENTS AND EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

Notes: (Continued)

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

(d) During the period, the fair value gains of RMB6,300,000 (six months ended 30 June 2017: Nil) in respect of the Group's equity instruments at FVOCI were recognised in the condensed consolidated statement of comprehensive income.

15. STRUCTURED BANK DEPOSITS

The structured bank deposits are time deposits with fixed maturity periods of nine to twelve months (31 December 2017: five to twelve months) and interest-bearing at floating rates based on the fluctuation in the London Interbank Offered Rate ("LIBOR"). The structured bank deposits are stated at amortised cost at the end of the reporting period.

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

	Note	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Time deposits		985,464	503,151
Cash and bank balances		3,367,281	3,565,647
		4,352,745	4,068,798
Less: Pledged bank deposits for:			
– short term bank loans	19	(146,200)	(44,526)
– bank guarantees*		–	(12,000)
		(146,200)	(56,526)
Less: Time deposits with original maturity of more than three months when acquired		(580,000)	(180,000)
Cash and cash equivalents		3,626,545	3,832,272

* 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 RMB3,202,196,000 (2017: RMB3,467,535,000) and RMB985,464,000 (2017: RMB503,151,000), respectively. RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and six months (2017: between one day and six months) depending on the immediate cash requirements of the Group, and earn interest at the respective deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

17. TRADE PAYABLES

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within 3 months	1,106,374	918,923
3 to 6 months	25,479	38,159
Over 6 months	84,441	70,632
Trade payables	1,216,294	1,027,714

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

18. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Deposits and advances from customers	65,458	65,396
Other payables	181,201	163,645
VAT payables	789	8,205
Accruals	294,126	327,371
	541,574	564,617

19. INTEREST-BEARING BANK BORROWINGS

		30 June 2018 (Unaudited)			31 December 2017 (Audited)		
	Notes	Effective interest rate per annum %	Maturity	RMB'000	Effective interest rate per annum %	Maturity	RMB'000
Current							
Current portion of syndicated loans	(a)	HIBOR/LIBOR +1.65%	2019	563,534	HIBOR/LIBOR +1.65%	2018	284,586
Other bank loans	(b)	HIBOR+1.1% to 1.35%	2019	707,293	HIBOR+1.1% to 1.35%	2018	546,279
				1,270,827			830,865
Non-current							
Syndicated loans	(a)	HIBOR/LIBOR +1.65%	2019-2020	707,271	HIBOR/LIBOR +1.65%	2019-2020	1,019,159
				1,978,098			1,850,024

19. INTEREST-BEARING BANK BORROWINGS (CONTINUED)

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Analysed into:		
Bank loans repayable:		
Within one year and on demand	1,270,827	830,865
In the second year	565,548	580,882
In the third to fifth years, inclusive	141,723	438,277
	1,978,098	1,850,024

Notes:

(a) The bank loans were supported by a corporate guarantee provided by certain wholly-owned subsidiaries of the Company, to the extent of HK$651,000,000 (equivalent to approximately RMB531,867,000) (2017: HK$651,000,000 (equivalent to approximately RMB550,746,000)) and US$116,000,000 (equivalent to approximately RMB743,676,000) (2017: US$116,000,000 (equivalent to approximately RMB766,442,000)) at the end of the reporting period.

(b) The bank loans were supported by:

(i) the pledge of certain of the Group's time deposits amounting to RMB146,200,000 (31 December 2017: RMB44,526,000); and

(ii) corporate guarantees provided by wholly-owned subsidiaries of the Company to the extent of HK$1,354,039,000 (equivalent to approximately RMB1,106,250,000) (31 December 2017: HK$1,350,473,000 (equivalent to approximately RMB1,142,500,000)) at the end of the reporting period.

As at 30 June 2018, except for the bank loan of RMB740,081,000 (31 December 2017: RMB758,384,000) which was denominated in the US$, all bank borrowings were denominated in Hong Kong dollars.

20. DEFERRED TAX LIABILITIES

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

At 30 June 2018, there were no significant unrecognised deferred tax liabilities (31 December 2017: Nil) for withholding taxes that would be payable on the unremitted earnings of the Company's subsidiaries expected to be distributed, after considering the abovementioned factors, in the foreseeable future.

21. SHARE CAPITAL

The share capital as at 30 June 2018 and 31 December 2017 represented the issued capital of the Company and a summary of the authorised and issued share capital of the Company is as follows:

At 30 June 2018

	HK'000 (Unaudited)	RMB'000 (Unaudited)
Authorised: 100,000,000,000 ordinary shares of HK$0.01 each	**1,000,000**	**935,629**
Issued and fully paid: 2,242,280,000 ordinary shares of HK$0.01 each	**22,423**	**19,759**

At 31 December 2017

	HK'000 (Audited)	RMB'000 (Audited)
Authorised: 100,000,000,000 ordinary shares of HK$0.01 each	1,000,000	935,629
Issued and fully paid: 2,223,185,000 ordinary shares of HK$0.01 each	22,232	19,603

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

	Notes	Number of shares of HK$0.01 each	Share capital HK$'000	Share capital RMB'000
At 31 December 2017 and 1 January 2018		2,223,185,000	22,232	19,603
Cancellation of repurchased shares	(i)	(1,800,000)	(18)	(15)
Exercise of share options	(ii)	20,895,000	209	171
At 30 June 2018		2,242,280,000	22,423	19,759

Notes:

(i) During the six months ended 30 June 2018, the Company repurchased its 1,800,000 (six months ended 30 June 2017: Nil) ordinary shares at prices ranging from HK$3.37 to HK$3.65 per share at a total consideration of approximately HK$6,279,000 (equivalent to RMB5,130,000) (six months ended 30 June 2017: Nil). All these repurchased ordinary shares were cancelled during the period. The premium of approximately HK$6,261,000 (equivalent to approximately RMB5,115,000) (six months ended 30 June 2017: Nil) paid for the repurchase of these shares was debited to the share premium account and an amount of HK$18,000 (equivalent to approximately RMB15,000) (six months ended 30 June 2017: Nil) was transferred from retained profits to the capital reserve of the Company.

(ii) During the six months ended 30 June 2018, the subscription rights attaching to 11,475,000 (six months ended 30 June 2017: Nil) share options granted under the Pre-IPO Share Option Scheme (as defined in note 23) and 7,140,000 (six months ended 30 June 2017: 650,000) and 2,280,000 (six months ended 30 June 2017: Nil) share options under the Share Option Scheme (as defined in note 23) were exercised at the subscription prices of HK3.24, HK$2.35 and HK$4.11 per share, respectively. During the six months ended 30 June 2017, the subscription rights attaching to 650,000 share options granted under the Share Option Scheme were exercised at the subscription price of HK$2.35. The exercise of the Company's share options resulted in the issue of a total of 20,895,000 shares (six months ended 30 June 2017: 650,000 shares) of HK$0.01 (six months ended 30 June 2017: HK$0.01) each for a total cash consideration before expenses of approximately HK$63,329,000 (equivalent to approximately RMB51,740,000) (six months ended 30 June 2017: HK$1,528,000 (equivalent to approximately RMB1,335,000)) representing the nominal value of ordinary shares of HK$209,000 (equivalent to approximately RMB 171,000) (six months ended 30 June 2017: HK$7,000 (equivalent to approximately RMB6,000)) and share premium of HK$63,120,000 (equivalent to RMB51,569,000) (six months ended 30 June 2017: HK$1,521,000 (equivalent to approximately RMB1,329,000)).

An amount of HK$14,551,000 (equivalent to approximately RMB11,888,000) (six months ended 30 June 2017: HK$425,000 (equivalent to approximately RMB372,000)) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

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

22. RESERVES

The amounts of the Group's reserves and movements therein for the six months ended 30 June 2018 are presented in the condensed consolidated statement of changes in equity.

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

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

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

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

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

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

23. SHARE OPTION SCHEMES

(a) Pre-IPO share option scheme

The Company has adopted a pre-IPO share option scheme on 7 May 2008 (the "Pre-IPO Scheme"). Further details of the Pre-IPO Scheme were disclosed in the Company's annual report for the year ended 31 December 2017.

As at 30 June 2018, no share options (the "Pre-IPO Share Options") under the Pre-IPO Scheme remained outstanding (31 December 2017: 11,475,000). During the six months ended 30 June 2018, 11,475,000 (six months ended 30 June 2017: Nil) share options granted under the Pre-IPO Scheme were exercised at the subscription price of HK$3.24 per share, resulting in the issue of 11,475,000 additional ordinary shares (six months ended 30 June 2017: Nil) of the Company and additional share capital of approximately HK$114,750 (equivalent to approximately RMB94,000) (six months ended 30 June 2017: Nil) and share premium account of approximately HK$37,064,000 (equivalent to approximately RMB30,281,000) (six months ended 30 June 2017: Nil), before related issuance expenses.

23. SHARE OPTION SCHEMES (CONTINUED)

(b) Share option scheme

The Company has also adopted a share option scheme (the "Share Option Scheme") pursuant to the shareholders' written resolution passed on 7 May 2008. Further details of the Share Option Scheme were disclosed in the Company's annual report for the year ended 31 December 2017.

As at 30 June 2018, a total of 33,665,000 (31 December 2017: 43,085,000) share options (the "Share Options") under the Share Option Scheme remained outstanding. During the six months ended 30 June 2018, the subscription rights attaching to 7,140,000 (six months ended 30 June 2017: 650,000) and 2,280,000 (six months ended 30 June 2017: Nil) share options granted under the Share Option Scheme were exercised at the subscription prices of HK$2.35 and HK$4.11 per share, resulting in the issue of 9,420,000 additional ordinary shares (six months ended 30 June 2017: 650,000) of the Company and additional share capital of approximately HK$94,000 (equivalent to approximately RMB77,000) (six months ended 30 June 2017: HK$7,000 (equivalent to approximately RMB6,000)) and share premium account of approximately HK$26,056,000 (equivalent to approximately RMB21,288,000) (six months ended 30 June 2017: HK$1,521,000 (equivalent to approximately RMB1,329,000)), before related issuance expenses.

At the date of approval of these interim financial statements, the Company had 33,665,000 Share Options outstanding under the Share Option Scheme, which represented approximately 1.5% of the issued share capital of the Company as at that date.

24. SHARE AWARD SCHEME

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

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

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

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

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

24. SHARE AWARD SCHEME (CONTINUED)

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

Prior to 10 January 2017, no Awarded Shares has been granted. On 10 January 2017, the Board resolved to grant 50,000,000 Awarded Shares to certain selected participants, who are not a director, chief executive or substantial shareholder of the Company, nor an associate (as defined under the Listing Rules) of any of them at nil consideration, resulting in the recognition of share award scheme expense of RMB15,896,000 (six months ended 30 June 2017: RMB15,030,000) in the condensed consolidated income statement in the current period.

During the six months ended 30 June 2018, the Company repurchased 18,662,500 ordinary shares of the Company at prices ranging from HK$3.212 to HK$5.511 per share at an aggregate consideration of HK$79,415,000 (equivalent to approximately RMB65,363,000) through the Trustee for the Share Award Scheme. No Awarded Shares has been granted out of those 18,662,500 ordinary shares repurchased.

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

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

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

Movement in the number of Awarded Shares were as follows:

	Number of Awarded Shares
Outstanding at 1 January 2017	–
Awarded Shares granted	50,000,000
Awarded Shares forfeited	(3,900,000)
Outstanding at 31 December 2017 and 1 January 2018	46,100,000
Awarded Shares vested	(4,590,000)
Outstanding as at 30 June 2018	41,510,000

During the period, an amount of RMB593,000 was credited to retained profits in respect of vesting of 4,590,000 Awarded Shares (30 June 2017: Nil).

25. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms of three years (2017: three years). The terms of the leases also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within one year	6,029	5,936
In the second to fifth years, inclusive	4,660	7,720
	10,689	13,656

(b) As lessee

The Group leases certain of its production facilities, office premises and staff quarters under operating lease arrangements. Leases for these properties are negotiated for terms ranging from two to ten years (2017: two to ten years).

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within one year	7,069	5,216
In the second to fifth years, inclusive	16,717	15,213
After five years	6,757	8,559
	30,543	28,988

26. COMMITMENTS

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Contracted for commitments in respect of:		
– construction of new buildings	17,129	43,876
– construction of new manufacturing facilities	16,689	17,989
– advertising and promotional expenses	167,072	216,628
– software	100	100
– investment in an available-for-sale investment	–	25,000
	200,990	303,593

27. FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY

At 30 June 2018, the Group discounted certain commercial bills receivable with a carrying amount in aggregate of approximately RMB1,059,000,000 (31 December 2017: RMB1,267,500,000) to a bank (31 December 2017: one bank) in the PRC (the "Derecognised Bills") for cash. The Derecognised Bills had a remaining maturity from approximately 30 days to 294 days (31 December 2017: 27 days to 326 days) at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC bank and/or the issuers of bills receivable default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair value of the Group's Continuing Involvement in the Derecognised Bills is not significant.

During the six months ended 30 June 2018, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills (six months ended 30 June 2017: Nil). No gains or losses were recognised from the Continuing Involvement, both during the period or cumulatively. The discount of bills receivables of RMB1,059,000,000, RMB1,978,200,000 and RMB710,700,000 has been made near the period ended 30 June 2018, the year ended 31 December 2017 and the period ended 30 June 2017, respectively.

28. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

- The fair values of the time deposits and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 30 June 2018 was assessed to be insignificant;

- Fair value of equity instruments at FVOCI is derived by market approach and adjusted by discounting for lack of marketability; and

- Fair value of derivative instruments at FVPL is referenced to the performance of underlying time deposits, foreign currencies, commercial bills, etc. in the market. However, as these contracts are not collateralised, the Group may adjust the fair value for the credit valuation adjustment, by assessing for the maximum credit exposure and probabilities of default.

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

Fair value hierarchy

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

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

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

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

As at 30 June 2018, the financial instruments measured at fair value held by the Group comprised derivative instruments at FVPL and equity instruments at FVOCI and were classified as Level 3 (31 December 2017: Derivative financial instrument at Level 2).

During the six months ended 30 June 2018, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2017: Nil).

29. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 22 August 2018.

REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

EY 安永

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

INTRODUCTION

We have reviewed the interim financial statements set out on pages 46 to 69 which comprise the condensed consolidated statement of financial position of Xtep International Holdings Limited and its subsidiaries as at 30 June 2018, and the related condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young
Certified Public Accountants

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

22 August 2018

GLOSSARY

In this interim report, unless the context otherwise requires, the following terms shall have the following meanings:

"APP"	A software program for download onto mobile devices
"ASP"	Average Selling Price
"Authorized retailers"	Authorized sellers of Xtep products, who purchase these products from the Group's exclusive distributors
"Board"	The Board of Directors of the Company
"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
"ERP System"	Enterprise Resource Planning System
"Euromonitor"	Euromonitor International Limited
"Exclusive distributors"	Distributors which only sells Xtep products, and the Group sells products exclusively to them within their designated region
"GDP"	Gross domestic product
"Group"	The Company and its subsidiaries
"Group Success"	Group Success Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 23 February 2007, and is wholly owned by Wan Xing International Holdings Limited, which is in turn ultimately owned as to 55% by Mr. Ding Shui Po's family trust, 35% by Ms. Ding Mei Qing's family trust and 10% by Mr. Ding Ming Zhong's family trust
"HK$" and "HK cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange", "Stock Exchange" and "HKSE"	The Stock Exchange of Hong Kong Limited
"IAAF"	International Association of Athletics Federations
"IMF"	International Monetary Fund
"IP"	Intellectual Property
"Joyrun"	A leading Chinese APP for runners

"KOL"	Key Opinion Leader
"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
"Offline"	Not e-commerce based
"Omni-channel"	Multi-channel sales approach that provides customer with a seamless experience online, offline, or mobile
"O2O"	Online to Offline
"Period"	For the six months ended 30 June 2018
"POS"	Point 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 Kids"	The children's sportswear business of the Group

REVIEW OF INTERIM RESULTS

The audit committee and the independent auditors of the Company have reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the interim results and the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2018.

BOOK CLOSURE

The transfer books and register of members of the Company will be closed from Thursday, 6 September 2018 to Monday, 10 September 2018, both days inclusive, for the purpose of determining shareholders' entitlements to the proposed interim dividend. The record date for entitlement to the proposed interim dividend is on Monday, 10 September 2018. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 5 September 2018. The payment date of the interim dividend is expected to be on Wednesday, 31 October 2018.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is available for viewing on the websites of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the Company at http://www.xtep.com.hk. The 2018 Interim Report for the six months ended 30 June 2018 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the shareholders of the Company and available on the same websites in due course.

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

Hong Kong, 22 August 2018

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