



2016

INTERIM REPORT

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

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

COMPANY SECRETARY

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

AUTHORIZED REPRESENTATIVES

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

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISER AS TO HONG KONG LAWS

Orrick, Herrington & Sutcliffe

AUDITOR

Ernst & Young

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

INVESTOR RELATIONS CONSULTANTS

Strategic Financial Relations Limited

COMPANY WEBSITE

www.xtep.com.hk

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6,800 stores

ABOUT THE GROUP

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

covering **31** provinces

X 特步
不一样的感觉

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2016



TOTAL REVENUE

RMB2,534.6 million 
+6.0%

GROSS PROFIT MARGIN

43.3% 
1.5ppt

PROFIT ATTRIBUTABLE
TO ORDINARY
EQUITY SHAREHOLDERS

RMB380.1 million
10.6%

INTERIM DIVIDEND PER SHARE

HK10.5 cents
+5.0%

DIVIDEND PAYOUT RATIO

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

FIVE-YEAR FINANCIAL SUMMARY

For the six months ended 30 June

	2016	2015	2014	2013	2012
Profitability data (RMB million)					
Revenue	2,534.6	2,390.6	2,135.0	2,098.0	2,607.3
Gross profit	1,098.5	999.4	862.1	843.1	1,067.6
Operating profit	583.4	500.6	425.8	475.5	593.8
Profit attributable to ordinary equity Shareholders	380.1	343.5	284.2	340.9	467.8
Basic earnings per Share (RMB cents) (Note 1)	17.25	15.86	13.05	15.66	21.50
Profitability ratios (%)					
Gross profit margin	43.3	41.8	40.4	40.2	40.9
Operating profit margin	23.0	20.9	19.9	22.7	22.8
Net profit margin	15.0	14.4	13.3	16.2	17.9
Effective tax rate	29.9	29.6	31.1	28.6	22.7
Return on average total equity holders' equity (annualized) (Note 2)	15.3	14.4	12.3	15.6	23.2
Operating ratios (as a percentage of revenue) (%)					
Advertising and promotional costs	9.3	13.4	12.5	9.0	11.4
Staff costs	9.4	8.7	9.8	8.5	6.7
R&D costs	2.3	2.0	2.4	2.3	1.6

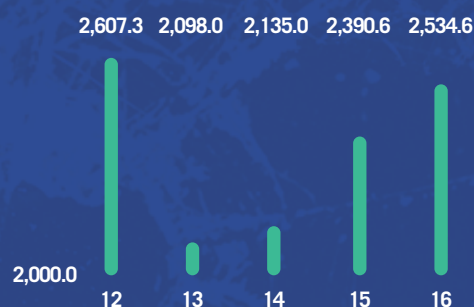
As of 30 June

	2016	2015	2014	2013	2012
Assets and liabilities data (RMB million)					
Non-current assets	1,090.6	941.9	1,039.8	813.5	549.9
Current assets	7,140.2	7,253.8	6,729.4	6,137.6	5,382.9
Current liabilities	2,979.5	2,854.0	2,140.2	1,941.1	1,298.1
Non-current liabilities	156.5	548.4	999.4	611.2	496.4
Non-controlling interests	48.3	6.8	2.3	4.9	8.0
Shareholders' equity	5,046.5	4,786.5	4,627.3	4,393.9	4,130.3
Asset and working capital data					
Overall working capital turnover days	57	85	89	98	96
Current asset ratios	2.4	2.5	3.1	3.2	4.1
Gearing ratio (%) (Note 3)	18.9	26.2	22.4	19.0	13.0
Net asset value per Share (RMB) (Note 4)	2.31	2.20	2.13	2.02	1.90

FIVE-YEAR FINANCIAL SUMMARY

REVENUE

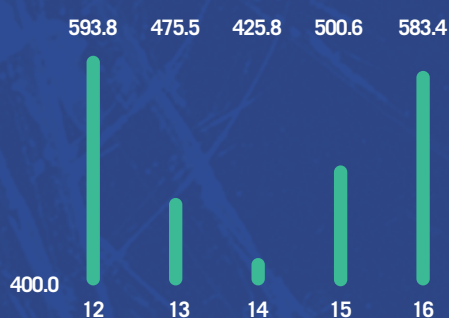
(RMB million) (For the six months ended 30 June)

2,534.6**GROSS PROFIT MARGIN**

(% (For the six months ended 30 June)

43.3**OPERATING PROFIT**

(RMB million) (For the six months ended 30 June)

583.4**PROFIT ATTRIBUTABLE TO ORDINARY EQUITY SHAREHOLDERS**

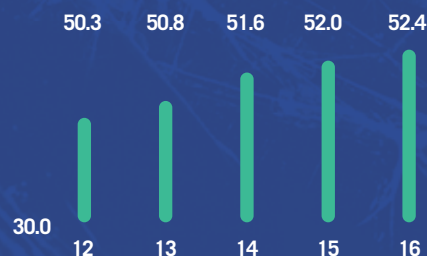
(RMB million) (For the six months ended 30 June)

380.1**SHAREHOLDERS' EQUITY**

(RMB million) (As at 30 June)

5,046.5**INTERIM DIVIDEND PAYOUT RATIO**

(% (For the six months ended 30 June)

52.4**Notes:**

- 1) The calculation of basic earnings per Share is based on the profit attributable to ordinary equity Shareholders divided by the weighted average number of ordinary shares in issue during the relevant period.
- 2) Return on average total equity holders' equity is equal to the profit for the period divided by the average of opening and closing total equity holders' equity.
- 3) The calculation of gearing ratio is based on the total borrowings divided by the total assets of the Group at the end of the period.
- 4) The calculation of net asset value per Share is based on the total number of Shares in issue at the end of the period.

CHAIRMAN'S STATEMENT



DING SHUI PO
Chairman

透气
减震旋

弹性纤维
回弹快

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 2016.

CONSOLIDATION SOLIDIFYING FUTURE SUSTAINABLE GROWTH

While 2015 was the year of change for XTEP, 2016 will be the year of consolidating our internal resources towards the post-change direction of a professional sports brand with stylish and functional products. Running remains the core sports category focus for the Group, which has been implemented across all aspects of the Group's operations, from product design, to branding and marketing, to retail management. While football has become the second focal point, as government policy is driving future growth in schools and student populations.

The consolidation made in the first half of 2016 has helped the Group achieve growth of 6.0% in revenue to RMB2,534.6 million (2015: RMB2,390.6 million). Demand increased for XTEP's higher margin professional sportswear, which led to increase of 1.5 percentage points in gross profit margin to 43.3% (2015: 41.8%). Profit attributable to equity shareholders rose by 10.6% to RMB380.1 million (2015: RMB343.5 million), with basic earnings per share amounting to RMB17.25 cents (2015: RMB15.86 cents). To show our appreciation to Shareholders for their long term support of the Group and to provide consistent returns, the Board recommended and has resolved to declare an interim dividend of HK10.5 cents (2015: HK10.0 cents) per Share, which is equivalent to a payout ratio of 52.4% (2015: 52.0%).

SPORTS MARKETING BOOSTING PROFESSIONAL SPORTS BRAND IMAGE

With the transformation of XTEP in 2015 to a professional sports brand with stylish and functional products, the Group has reoriented our marketing efforts to focus more on sports marketing, while reducing some of the less effective general marketing programs. We have increased the number of major marathon sponsorships from 5 in the first six months of 2015 to 12 in the first half of 2016 and estimate the number of marathon and other running event sponsorships to increase to well over 40 this year. We have also signed on additional sports spokesmen, such as Xie Zhenye, who represented China in the 2016 Olympics in the 4x100m relay and 100m dash.

We have also launched our comprehensive football strategy – “Blade Project”, with the goal to serve 5 million Chinese youth football population in five years. The strategy included the continuation in sponsorship of XTEP China College Futsal League for the 5th consecutive year since 2011 and XTEP China University Football League for the 4th consecutive year, as well as adding the sponsorship of China High School Football League, serving over 20,000 participants each year. We have established official sportswear partnerships with many Chinese youth football education and training services providers, who will promote XTEP products through their events. Finally, we have signed Andriy Shevchenko, former European Footballer of the Year and current head coach of the Ukraine National Football Team, to be the spokesman for our brand new football products launched in June 2016.

CHAIRMAN'S STATEMENT

INNOVATIVE FUNCTIONAL SPORTS PRODUCTS, GOOD VALUE FOR MONEY

The Group believes that innovation is absolutely necessary in staying ahead of competition and in driving consumer demand. We continue to hire international designers from leading global sportswear brands to help drive the upgrade in technology and design, as well as form partnerships with global giants in fiber material technology, such as Toray from Japan and the Dow Chemical Company from the United States, to co-develop materials to which we hold exclusive use rights. For footwear products, we continue to update our three core value-for-money running product series: “Dynamic Foam,” “Reactive Coil” and “Air Mega”, each with unique attributes for support, shock absorption and rebound to improve the runners’ performance. We have also incorporated the new “Softpad™” technology co-developed with the Dow Chemical Company into both running and lifestyle footwear products to increase comfort for the consumer and add a unique attribute to XTEP products. In apparel products, we continue to increase the technical specifications of new materials such as “Xtep Sports Elastic Technology (X-S.E.T.)”, “XTEP-FROZEN” and “XTEP-DRY” for increased comfort in different sports performance needs namely elasticity, coolness, and ultra-quick dry. Combined with our consistently stylish designs, we believe these products will help XTEP become the runners’ brand of choice.

In June 2016, the Group launched our new football product line and provided high quality products to the consumers. Our football products have been worn in competition by over 3,000 Chinese collegiate football players over the past five years and they have provided us with feedback to help improve performance, putting us ahead of the competition. “Blade I” football cleats tailors European football shoe designs to Chinese football players’ feet and Chinese football facilities which are dominated by artificial grass. We will continue to unveil new product series in football going forward.

DETAILS DRIVE RETAIL RESULTS, E-COMMERCE COMPLEMENTS STELLAR GROWTH

Effective distribution channel management has contributed to significant improvements in overall operational efficiency and profitability. Detailed retail channel management helped us to control inventory, store image, and product pricing based on real-time data gathered through the Group’s real-time DRP-system. The DRP-system now covers over 90% of XTEP retail stores and feeds into an APP which allows retail staff to monitor, analyze and quickly react to retail data in order to generate higher store efficiency. As a result of the past three years of channel flattening, stores have become more manageable, distribution channels have become quicker to react, and inventory levels have become more transparent. We strategically increased the proportion of directly-managed retail stores by distributors to reduce multi-layered sales, and implemented a uniform 7th generation store design to reinforce XTEP’s new professional sports brand image.

XTEP e-commerce has generated stellar sales because of the Group’s dedication to this retail channel. We view it as complementary to our offline retail growth. XTEP has captured top positions in our product category on both Tmall.com and JD.com, and continues to generate high sales growth with our committed team of over 300 professionals. In 2016 we have launched O2O, defined as inventory sharing with our distributors and acting as another retail platform for their sales as well. This increased our overall sales as a Group, and created a win-win situation where both the Group and our distributors can enjoy higher profitability. E-commerce will remain a key part of our retail

CHAIRMAN'S STATEMENT

channel going forward, as we believe China online retails will remain robust in the near future.

RUNNER'S BRAND, MORE THAN PRODUCTS

The Group will continue on the path of the “3+” strategy, which fuels our organic growth by “Products+,” “Sports+” and “Internet+.” Each of these will be a part of the long term business strategy of the Group, where we drive differentiation between ourselves and competitors. “Products+” indicates our continued effort to upgrade our products in technical aspects and to broaden our product categories. In the second half of the year we will launch our smart running shoes “XTEP Motion” and going forward, we plan to have indoor training, outdoor, yoga and other product categories, as well as increased cooperation with celebrity spokespersons to increase our brand exposure. “Sports+” exemplifies the Group's dedication to running beyond products. We intend to continue XTEP 3.21 Running Festival as an annual celebration dedicated to runners that involves both offline and online channels to create a multifaceted impactful event to promote a healthy and sporty lifestyle. Further, the XTEP Motion Tracker APP will create a seamless system where XTEP can interact with consumers and gather data to better provide products and services customized to their needs. “Internet+” shows XTEP's emphasis on using technology to improve our sports ecosystem. We plan to roll-out smart retail in our offline stores and use big data to increase sales and profitability, customer stickiness, and better serve the running community.

ACKNOWLEDGEMENTS

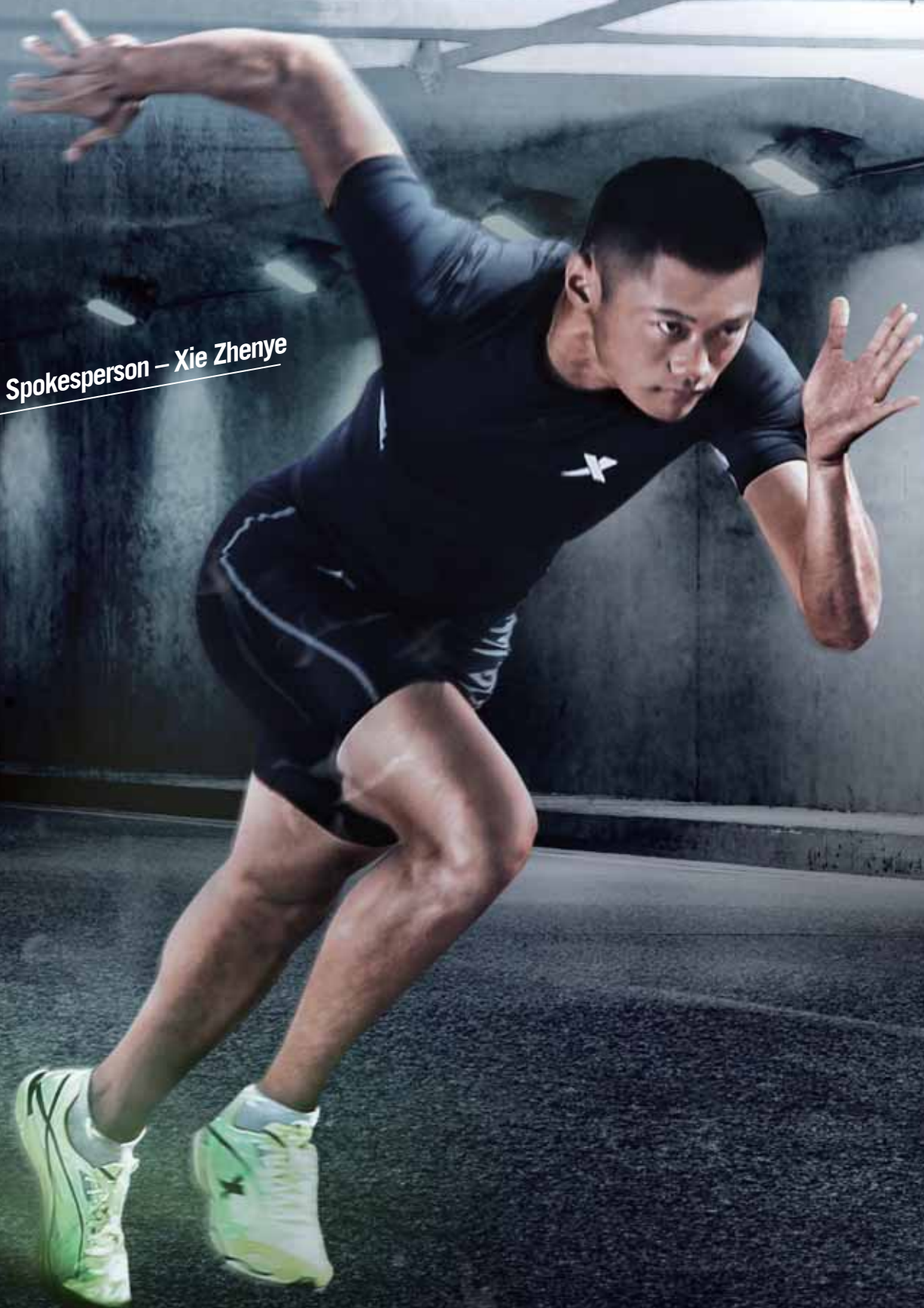
Lastly, on behalf of the Board, I would like to extend my gratitude to our Shareholders, business partners and customers for their continuous support, understanding and trust. I would also like to express my deepest appreciation to our Board members, management team, and all employees for their dedication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

Ding Shui Po

Chairman

Hong Kong, 22 August 2016

XTEP Spokesperson – Xie Zhenye





XTEP MISSION

To be the Runners' Brand of Choice

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW:

The global economy recovery was affected by the recent Brexit incident and has raised global economic uncertainty, which led the IMF to downgrade its global economic growth forecast from 3.2% to 3.1%. China is expected to grow 6.3% according to the IMF, much more robust compared with the global forecast, and far ahead of emerging markets, forecast to grow at 4.3%. China retail sales grew by 10.3%¹ in the first six months of 2016, ahead of overall GDP growth of 6.7%. All these indicators show that while China is experiencing some slowdown in the overall economy, retail remains healthy.

In May of 2016, the Chinese government announced the 13th Five-Year Plan (the "Plan") for sports industry, laying out government targets and making the industry a key focus for government support for the next five years. The Plan sets the goal of having the overall scale of the sports industry reach RMB3 trillion by 2020; the average annual growth rate of sports industry to increase significantly faster than economic growth rate in the same period; and the number of people who regularly participate in sports activities to grow exponentially and reach 435 million by 2020².

According to Nielsen, a leading global information and measurement company, running is the most preferred sport in China among sports enthusiasts (defined as those who are aged 16-45 years old and have participated in sports or athletics or watched sporting events in the past 3 months), with around 71% of male respondents and 69% of female respondents picking running as their top choice in this study in late 2015. Running is a sports category with a low penetration rate in China. In 2014, the number of marathons held in China was around 51, in comparison to the United States, where approximately 1,200 marathons were held in the same year³. According to the Chinese Athletic Association, a total of 134 major marathons and other running events were registered through the Chinese Athletic Association in 2015, representing an increase exceeding 160% compared to 2014, and the target for 2016 will reach over 213. The total number of participants in marathons and related running events exceeded 1,500,000 in 2015, compared with 900,000 in 2014, and is expected to reach another record high in 2016. The past three years saw tremendous growth in running, and we believe with the increasing health awareness of Chinese consumers, running, being one of the easiest exercises to start as it has minimal entry requirement for equipment and space, will be one of the fastest growing sports categories in China.

Another highlight for sports industry development for the next five years is the focus on football, especially within the youth and student population. By 2020, the nationwide target for football fields is to exceed 70,000, from only around 10,000 currently, for specialized football schools to reach 20,000, and the number of people who regularly participate in football to exceed 50 million². Football has recently been included in the Chinese school physical education curriculum as a compulsory course. Students' football skill level is also part of their comprehensive evaluation as a criterion for schools when selecting students entering next level of schooling. Education departments across the country are asked to set up four different levels of football leagues within schools as the base unit, namely at the elementary school, junior school, high school, and university levels, according to the national campus football competition plan. We believe that domestic sportswear brands will have an advantage over international peers when working with local schools and governments, both from the supporting domestic brand perspective and to meet the value-for-money demands of parents. We believe that XTEP as a leading domestic sports brand will be able to attain a large market share of this school-based student population.

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

2 Source: General Administration of Sports of China

3 Source: "China Athletic Association" and "Running USA"

MANAGEMENT DISCUSSION AND ANALYSIS

E-commerce remains one of the fastest growing retail channels in China. In 2015, China e-commerce retail sales reached RMB3.8 trillion (vs. RMB2.8 trillion in 2014) with year-on-year growth of 35.7%⁴. 2015 China Online retail sales accounted for 12.7% of total retail sales of consumer goods, compared with 10.6% in 2014, but is still very low compared to 49% in Japan and 60% in the United States and Korea. The overall internet user population amounted to around 460 million people in 2015 (380 million, 2014), growing 21% year-on-year, but the penetration rate is only 33% compared to 80-90% in most developed countries. China's e-commerce retail growth is expected to remain high in the near future.

BUSINESS REVIEW:

While 2015 was the year of change for XTEP, 2016 began as the year of consolidating our internal resources towards the post-change direction of professional sports brand with stylish and functional products. Building on the success of the significant improvements in branding, product, and retail management made in 2015, we have aligned our resources and the focuses of these business units to improve retail efficiency, ensuring a higher percentage of every dollar spent is translated into profits for the Group. Working around the same campaigns and towards the same goals, this has led to the expansion of our gross profit margin to 43.3% and net profit margin to 15.0%, solidifying our advantage in running ahead of peers.

Running remains the core sports category focus for the Group, as we believe running is still the most preferred sport in China among sports enthusiasts, according to Nielsen, a leading global information and measurement company, which conducted a study in late 2015. Looking ahead, we believe running will have a long growth cycle as it is one of the easiest sports for Chinese mass participation, with its relatively low requirement for equipment and space. Based on our observation, the participation rate in running in lower tier cities remains low compared to first/second tier cities. We expect this penetration rate will rise gradually, leading to further market share gains as our Group focuses on providing value-for-money professional running products for mass market consumers.

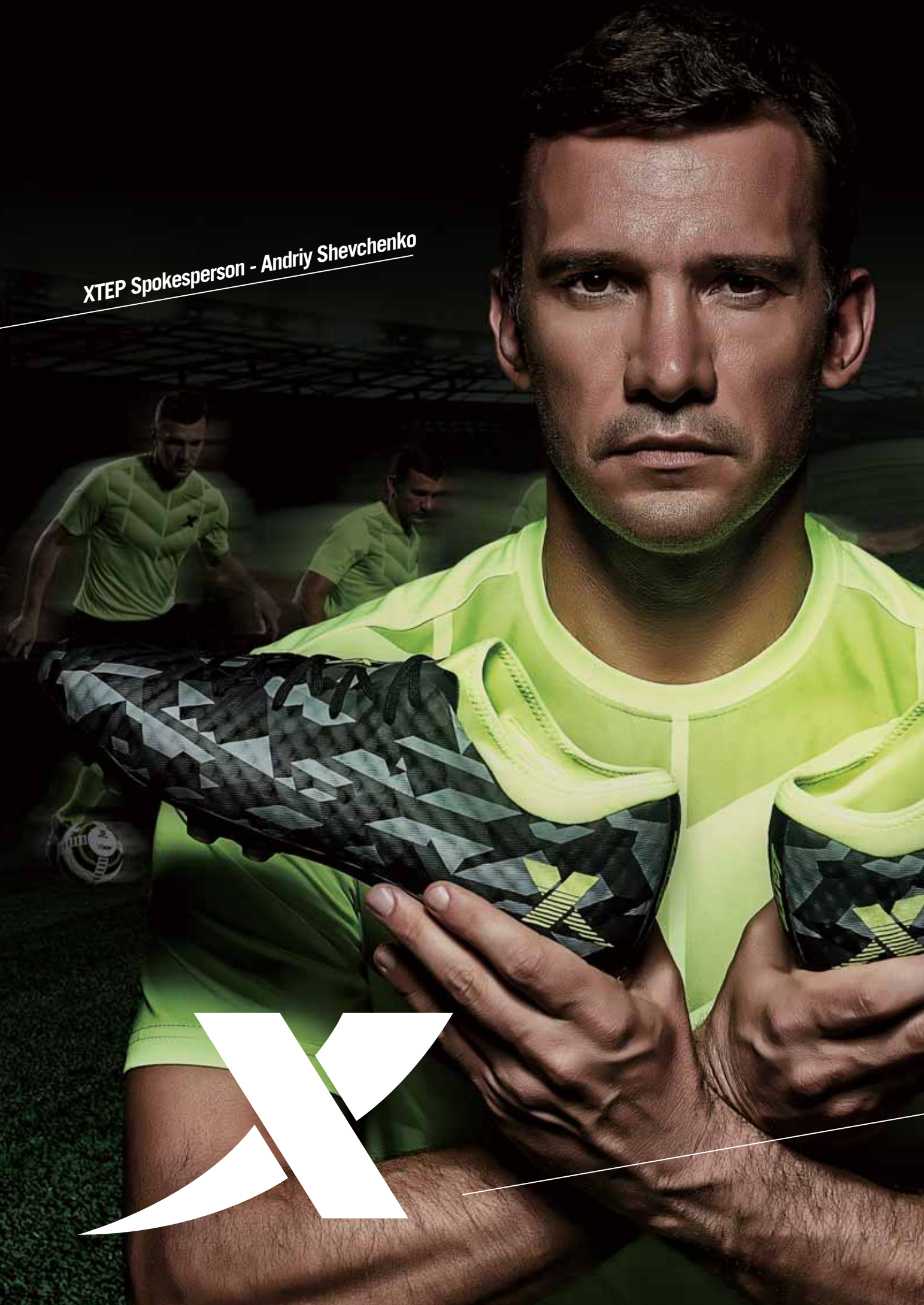
Football is a rising category that has received both the attention of the Chinese government and media. While mass participation is still fairly low, we believe that XTEP is positioned well ahead of peers to take advantage of this sports segment's growth in the future. We have launched our comprehensive football strategy in April 2016 and completed the new product launch in June 2016, and will continue to support this category's growth in China with sponsorships and new product launches.

E-commerce has become increasingly more important for our business growth as it offers an alternate channel for both XTEP and our distributors to increase revenue and profit. Revenue growth rate of our e-commerce business is higher than overall China e-commerce growth as China e-commerce sector grew 35.7% in 2015 while our revenue generated by e-commerce business grew almost 100% and now accounted for approximately 15% of the Group's revenue. Our XTEP flagship online store has maintained leading sales positions on leading B2C platforms such as Tmall.com and JD.com. We have maintained our position as the top sportswear seller on JD.com and top sports footwear seller on Tmall.com by volume, over other domestic and international brands. We continue to see e-commerce as a key growth driver for our business.



4 Source: China E-Commerce Research Center

XTEP Spokesperson - Andriy Shevchenko





XTEP BRAND

Professional Sports Brand with
Stylish and Functional Products

MANAGEMENT DISCUSSION AND ANALYSIS

BRAND PROMOTION:

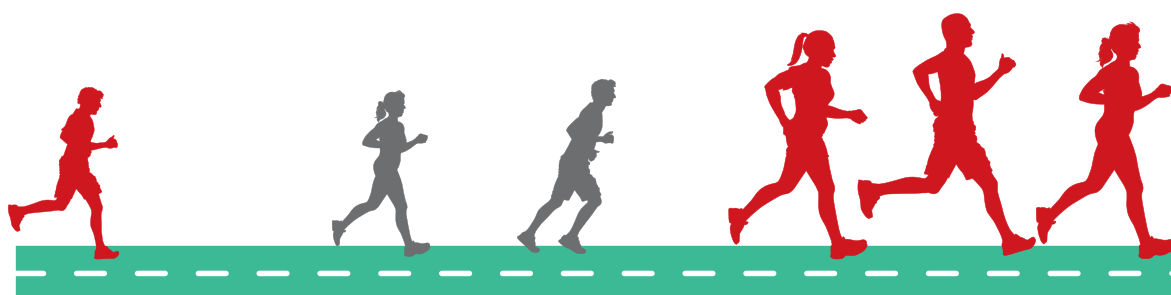
With XTEP's strategic shift to being a professional sports brand with stylish and functional products, we have re-oriented our branding resources to devote more focus to sports marketing and reduced some of the less effective general marketing programs. On the other hand, to balance the need for higher marketing spending during the period of 2016 Olympic Games starting in the second half of 2016, the advertising and promotional expenses for the six months ended 30 June 2016 was reduced to 9.3% of revenue, as compared to 13.4% in the same period of 2015.

Sports Marketing:**Running**

XTEP was the sportswear sponsor of the most number of marathons in China in 2015, with 17 major marathons in total. XTEP will sponsor over 40 running events, including more than 20 major marathons. We carry the number one position into 2016 with 12 major marathons sponsored as at 30 June 2016 (5 major marathons in the same period of 2015), in major cities such as Beijing, Hong Kong, Tianjin, Wuhan, Xiamen, etc.

Major Marathons sponsored by the Group as at 30 June 2016

- 🏃 Xiamen International Marathon (廈門國際馬拉松賽)
- 🏃 Standard Chartered Hong Kong Marathon (渣打香港國際馬拉松)
- 🏃 Hainan International Marathon (海南國際馬拉松)
- 🏃 Kunming Marathon (昆明馬拉松)
- 🏃 Chongqing International Marathon (重慶國際馬拉松賽)
- 🏃 China Zheng-kai International Marathon (中國鄭開國際馬拉松賽)
- 🏃 Wuhan Marathon (武漢馬拉松)
- 🏃 Nanjing International Women's Half Marathon (南京國際女子半程馬拉松)
- 🏃 Beijing Half Marathon (北京半程馬拉松)
- 🏃 Yangzhou Jianzhen International Half Marathon (揚州鑿真國際半程馬拉松賽)
- 🏃 Cross-strait Ladies Half Marathon (海峽兩岸(廈門海滄)女子半程馬拉松賽)
- 🏃 Tianjin Wuqing Development Area Cup International Marathon (天津武清開發區杯國際馬拉松賽)

**2008**

2 marathons
11,000 participants

2009

3 marathons
38,000 participants

2010

5 marathons
84,000 participants

2011

9 marathons
300,000 participants

2012

9 marathons
301,000 participants

MANAGEMENT DISCUSSION AND ANALYSIS



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

2008-2016
XTEP sponsored **89** marathons
over **2,500,000** participants

12 marathons
388,000 participants
(1Jan - 30Jun)

9* marathons
203,000 participants
(1Jul - 31Dec)



2013
10 marathons
368,000 participants

2014
13 marathons
373,000 participants

2015
17 marathons
507,000 participants

2016
21* marathons
591,000 participants

* Estimate based on currently confirmed events

MANAGEMENT DISCUSSION AND ANALYSIS

Besides organizing our own running event, the Group has title sponsored China's first 10km run championship circuit – Xtep Happy 10k, which has already held 10km runs in five cities during first half of 2016. We have also sponsored four “Finding Mr. Right Love Marathons” in association with the popular film “Finding Mr. Right 2: Book of Love”, in order to introduce another social function of running as an activity where couples can increase their bond with each other, or where singles can meet “Ms./Mr. right”. Continuing from 2015, the Group has sponsored two ILLUMI RUNs held in Beijing and Guangzhou as at 30 June 2016. These 5km night runs end with a concert and gather thousands in participation to each event. They match perfectly with XTEP's belief that running is fun and running can be for anyone. In the second half of 2016, we will continue to sponsor more running events.

Major running events sponsored/organised by the Group as at 30 June 2016

- 🏃 321 Running Festival (321跑步節)
- 🏃 Xtep Happy 10k – Shanghai (特步歡樂跑 — 中國10公里錦標賽 — 上海站)
- 🏃 Xtep Happy 10k – Chongqing (特步歡樂跑 — 中國10公里錦標賽 — 重慶站)
- 🏃 Xtep Happy 10k – Guangzhou (特步歡樂跑 — 中國10公里錦標賽 — 廣州站)
- 🏃 Xtep Happy 10k – Changzhou (特步歡樂跑 — 中國10公里錦標賽 — 常州站)
- 🏃 Xtep Happy 10k – Suzhou (特步歡樂跑 — 中國10公里錦標賽 — 蘇州站)
- 🏃 Finding Mr. Right Love Marathons – Hangzhou (“北西愛情馬拉松” — 杭州站)
- 🏃 Finding Mr. Right Love Marathons – Chengdu (“北西愛情馬拉松” — 成都站)
- 🏃 Finding Mr. Right Love Marathons – Guangzhou (“北西愛情馬拉松” — 廣州站)
- 🏃 Finding Mr. Right Love Marathons – Beijing (“北西愛情馬拉松” — 北京站)
- 🏃 ILLUMI RUN – Guangzhou (炫彩夜跑 — 廣州站)
- 🏃 ILLUMI RUN – Beijing (炫彩夜跑 — 北京站)



MANAGEMENT DISCUSSION AND ANALYSIS

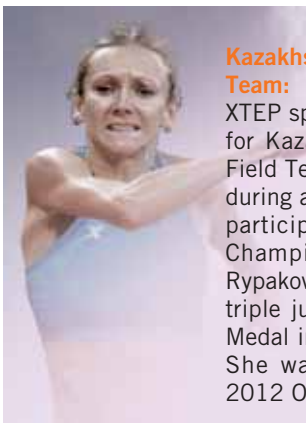
Sports Celebrity Endorsement

**Xie Zhenye 謝震業:**

Xie is part of China's 4x100m relay Olympic team during the summer of 2016 and competes in the 100m dash individually as well. He made history with his 4x100m run teammates on 8 August 2015 by finishing the race in 38.01 seconds, winning a silver medal at the Beijing IAAF World Championships in Beijing, and setting the best results ever achieved by an Asian team. Xie and his teammates also broke Asian records for 4x100m run on 2 October 2014 at the Incheon Asian Games, finishing the race in 37.99 seconds. In 2016, Xie and his teammates won the 4x100m run title at the IAAF Diamond League Shanghai on 14 May and he finished third in the Men's 100 meters at the 2016 IAAF World Challenge Beijing on 18 May.

**Andriy Shevchenko:**

Shevchenko is a former Ukrainian footballer who played for FC Dynamo Kyiv, A.C. Milan, Chelsea F.C. and the Ukrainian national team as a forward. Shevchenko has the record of total 375 goals during his 18 years football career. With 175 goals scored for A.C. Milan, Shevchenko is the second highest scorer in the history of the club. Shevchenko's career has been highlighted by many awards, the most prestigious of which was the European Footballer of the Year in 2004. He has been the head coach of the Ukraine National Football Team since July 2016.

**Kazakhstan National Track and Field Team:**

XTEP sponsors competition sportswear for Kazakhstan's National Track and Field Team, which wears XTEP clothes during all world competitions the team participates in, such as IAAF World Championships and Olympics. Olga Rypakova is one of the world's leading triple jump athletes, and won Bronze Medal in the summer 2016 Olympics. She was the Gold medalist in the 2012 Olympics.

**Chen Ding 陳定:**

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

**Trentavis Friday:**

Friday is a rising star running towards the Olympics. He was the Gold medal winner at the IAAF World Junior Championships in Athletics in July, 2014 in the 200m dash and is currently first in the world junior ranking in the 200m run. He was also a member of the Team USA 4x100m relay in the World Junior Championship, USA Men's High School Record Holder in the 100m dash and winner of the 100m dash in the USA Track & Field Junior Championships.

**Zhao Qinggang 趙慶剛:**

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

MANAGEMENT DISCUSSION AND ANALYSIS

XTEP Runner's Club

XTEP Runner's Club continues to attract more runners from all over China. We currently have over 33,000 members across the country, all of them are frequent runners, and many participate in multiple full marathons each year. They are not only our loyal fan base that takes the XTEP brand and our products on marathons all over the world, but also, serve as the focal point of local running communities. They lead in organizing local running events, and social runs, and publicize their success stories and their product experiences to their own followers on Wechat and Weibo. They also help test and provide feedback on our new products, ensuring the best user experience when those products are launched in the market. We gather these runners around unique services, such as entry quota to marathons we sponsor, training camps with professional coaches, and special social runs aimed at socializing through running. During first six months of 2016, there have been more than 60 events organized by or for Runner's Club members.



Football

Football is the Group's next sports category, echoing the Chinese government's recent strong push for the sport's development; we have announced our comprehensive football strategy — “Blade Project” (鋒芒計劃) on 22 April 2016.

The project focuses on developing wide exposure for XTEP in the football field. Our goal is to serve 5 million of the Chinese youth football population in five years. The Group has the unique advantage of continuously title sponsoring XTEP China College Futsal League (“CCFL”, 特步中國大學生五人制足球聯賽) for the 5th year since 2011 and XTEP China University Football League (“CUFL”, 特步中國大學生足球聯賽) for the 4th year since 2012, the only two nationally recognized university level football leagues in China. This year, the Group has also added the sponsorship of China High School Football League (中國高中足球聯賽), that reaches nearly 20,000 participants every year. We have established official sportswear partnerships with many Chinese youth football education and training services providers, who will promote XTEP products through their events. XTEP products have been tested by tens of thousands of professional and university football players over the past 5 years, assuring safety and the highest quality. The Group launched the first XTEP professional football shoe — “Blade I” (刀鋒1代) in stores in June 2016, coinciding with the start of the UEFA EURO 2016. The Group has signed former European Footballer of the Year, currently Ukraine National Football Team head coach — Andriy Shevchenko as Xtep Football Ambassador to promote both XTEP football products and the development of Chinese youth football segment overall.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group has also sponsored a number of domestic and foreign football clubs to expand XTEP's presence both nationally and internationally.

Football teams and clubs sponsored by the Group in the first half of 2016:

- ⊕ China All Star Football Team (中國明星足球隊)
- ⊕ China Football Press United (中國足球記者聯隊)
- ⊕ Hong Kong Rangers FC (香港標準流浪足球會)
- ⊕ Hong Kong All Star Sports Association (香港明星足球隊)
- ⊕ ZSFL Xtep League (浙江省中小學生校園足球聯賽)
- ⊕ La Liga, Villarreal C.F. (Spanish National League)

All of the above football club players have worn XTEP professional football products during their matches and achieved stellar performance. These football matches were broadcasted on TV and through other media channels where world-wide audiences, including PRC fans, can watch.



MANAGEMENT DISCUSSION AND ANALYSIS

Entertainment Marketing

The Group has realigned our resources to focus more on sports marketing in 2016, to better promote XTEP as a professional sports brand with stylish and functional products. We still continue to retain our entertainment marketing elements as it helps us reach a wider audience, especially those younger populations who primarily purchase our lifestyle sports products.

TV Program Sponsorship

“Run For Time” (全員加速中) is a reality show broadcasted on Hunan Satellite TV in the first half of 2016, ranked top 3 among all programs broadcasted during the same time slot. As a high profile creative live-action game show, it involves “chasing and escape” challenges incorporating sports and athleticism. XTEP is the show’s official shoe and apparel sponsor, where the hosts and guest participants adorn XTEP outfits from head to toe. The Group’s products that constantly receive close-ups in the show coincide with the product sales cycle in retail stores, leading to increased revenue generation.



“321 Go” (321動起來) is a TV show with sports and fashion elements broadcasted on Hunan TV Entertainment Channel and Mango TV online. It invites celebrity coaches across China to share their training techniques with a primarily female audience looking to lose weight and keep fit. As the title sponsor of this program, not only are our products worn by all those on the program, but “XTEP” will constantly be seen on screen whether it is during the “XTEP warm-up time” or in the “XTEP equipment corner”. We also cooperated with the show to organize daily night runs offline across the country, making a linkage between sponsorship and real runners. The show has shown more than 160 episodes as at 30 June 2016 and has reached around 16.5 million in audience.

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



“Big Hands with Small Hands” (大手牽小手) produced by CCTV Children’s Channel, promoted Xtep Kids brand to 360 million children in the PRC and their parents. It is the display platform for top children’s performing groups in PRC. Famous artists perform together with the kids, big hands with small hands, to boost children’s dreams. The show covers most provinces in China, selecting the best local performers to be broadcasted on national television. The Group title sponsors this program and is involved in the local as well as national selection process, achieving not only publicity but also local Xtep Kids sales. Over 200 PRC media published stories on this show, which contributed to increase brand influence of Xtep kids brand.

MANAGEMENT DISCUSSION AND ANALYSIS

Entertainment Celebrity Spokespersons

**Nicholas Tse (謝霆鋒):**

A widely-known artiste and young accomplished entrepreneur, he was XTEP's first celebrity spokesperson, and has maintained solid ties with the brand for over a decade. During his acting career, he has won the Hong Kong Film Award for Best New Performer in 1998 and Hong Kong Film Award for Best Actor in 2011, attributed to his professional acting performances in "Young and Dangerous: The Prequel" and "The Stool Pigeon". His ties with XTEP have continued to blossom, with XTEP serving as the official sportswear sponsor in the sports-entertainment TV show "Yes! Coach" in 2015, in which Tse makes regular appearances.

**Li Yifeng (李易峰):**

One of the most popular young stars in PRC, he is an actor, singer and producer. He has over 31 million followers on his official Weibo account, and over 30 million page views on his Baidu Baike page. Because of his handsome image and modest attitude, he is also regarded as "Male Idol" (男神) by many female fans. He won The Most Popular Actor by Letv Award Ceremony in 2013, and The Most Popular Actor in Mainland China, and The Actor with the Highest Business Value presented by Domestic TV Series Ceremony in 2014.

**Calvin Tu (杜天皓):**

A Taiwanese-born, rising young actor active in Mainland China. He debuted in "Tiny Times", one of the hottest series films in PRC film industry which currently has four films, gaining wide popularity. He has numerous followers on his official Weibo account. Since then, he joined TV variety-shows and acted in other film and is growing in popularity among young fans.

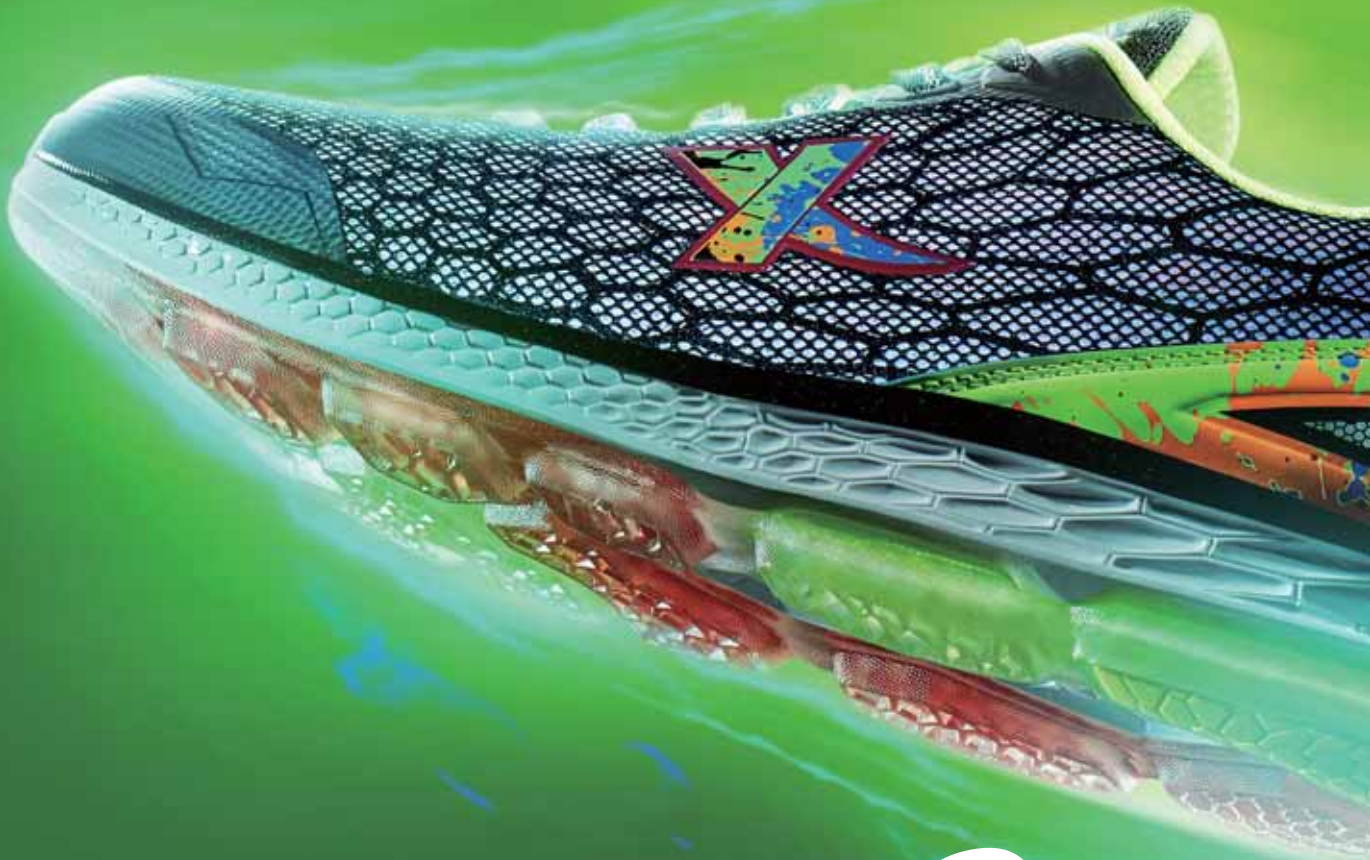
**Im Jin-ah (林珍娜, aka "Nana"):**

A South Korean singer, actress and model. She is a member of girl group "After School" and its subgroup "Orange Caramel". According to the "The 100 Most Beautiful Faces" selected by American Film Website TC Candler, Nana ranked No.2 in 2013 and No.1 in 2014. In recent years, she mainly focuses on the Chinese market and successfully gained high exposure in China through participating in TV dramas, reality TV shows and films.

UNIQ:

A five-member Chinese-South Korean boy group formed by Chinese company Yuehua Entertainment in 2014. UNIQ officially debuted on 20 October 2014 with their debut single "Falling In Love" in both China and South Korea. In 2015, they have won the Best New Artist in Mainland China at KU Music Asian Music Awards, and been nominated as the Best Artist in Mainland China & Hong Kong at MTV Europe Music Awards.





RUNNING

XTEP PRODUCTS



FOOTBALL

MANAGEMENT DISCUSSION AND ANALYSIS

PRODUCTS:

Running continues to be the core product category focus of XTEP. We aim to constantly raise the professionalism of our functional running products, while maintaining our consistent fashionable design. Thanks to our management's foresight in building a team of designers led by an international design talent who has extensive working experience in international brands, we are confident that our product quality is competitive to that of international brands. We are also cooperating with leading international fiber material developers, such as the Dow Chemical Company and 3M in the United States, and Toray in Japan, to co-develop fiber technology for XTEP's exclusive use, in order to stay ahead of global trends. We have trademarked technologies such as "Softpad"TM, where material co-developed with the Dow Chemical Company is applied to XTEP's unique scientific designs. We will continue to bring new products to market that are competitive against both domestic and international peers.

In June of 2016, XTEP launched its first line of football products in retail stores. This marks the beginning of organic growth from multi-product category under the same XTEP brand. Our football products are industry leading in functionality, quality and style. In the near future, we will launch more categories of high performance value-for-money products under the XTEP brand.



MANAGEMENT DISCUSSION AND ANALYSIS

Running Products:**Footwear**

In footwear products, the Group continued to strengthen our three professional running performance series with new generations of product launches. At the same time, we have incorporated more unique technologies to increase the functionality of these product lines and to boost the core running brand image of XTEP.

The followings are the three major XTEP running series:

- The “Dynamic Foam” (動力巢) series offers bounce and soft rebound in shock absorption, securely protecting runners’ joints. “PUE Foam” (特步雙向控震) provides maximal low temperature resistance, hydrolysis resistance, and super cushioning material, to improve users’ sports performance through quickly absorbing and transforming shock force into rebound motion
- The “Reactive Coil” (減震旋) series applies stabilization technology with XTEP’s signature DNA hollow loop structure, supporting shape recovery from compression and impact, and provides shoe sole integrity and foot stability using highly flexible shock absorbent material
- The “Air Mega” (氣能環) series utilizes the multiple-segmented connected support structure around the entire sole, providing a flexible range of soft cushioning protection during foot impact

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

Other features added to sports performance and sports lifestyle products include: “Xtep-Aroma” (芳香科技) with long lasting refreshing scent release, “Dow” (仙護盾) with intelligent silver ions which can effectively restrain odor and pathogenic microorganisms, and “X-Flex” with regular cutting grooves on the sole preserving its flexibility and the stability of the foot, which offers comfort to the barefoot.



MANAGEMENT DISCUSSION AND ANALYSIS

Apparel

The Group also introduced more professional sports performance related apparel products especially related to its running series. The key technologies are:

- “Xtep Sports Elastic Technology” (X-S.E.T.特步運動彈性科技) is a new professional sportswear fabric in the sportswear market. The stretchable and elastic recovery features allow athletes and sports participants to stretch freely during exercise
- “XTEP-FROZEN” (冰纖科技) technology applies cooling nano-powder in clothing fibers, which reflects sunlight and absorbs heat immediately when it comes into contact with the skin, thus providing users with a feeling of instant coolness
- “XTEP-DRY” (酷乾科技) transfers moisture on the skin quickly to the surface of the fabric through the special permutation and combination of yarn, which then evaporates into the air to achieve the effect of instant absorption and immediate dryness

In addition to the above, the sports apparel products of XTEP also included other features like: Dupont™ Sorona® cotton from U.S. for lightweight and soft to skin comfort, waterproof, quick-dry, antibacterial and deodorization.

The performance technologies were highlighted by stylish designs, which XTEP is well known to be a leader of, in the Chinese sportswear sector. These new features were well received by our customers, who look for high quality and value-for-money sports products.



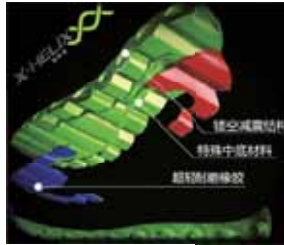
MANAGEMENT DISCUSSION AND ANALYSIS



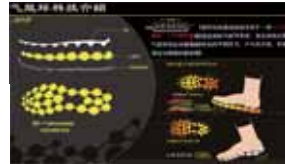
Highly-elastic Cushioning Material. Bounce: Elastic materials are made into honeycomb-like mid-sole, which offer bounce when extruded, helping each step of running. Cushioning: Excellent cushioning function in mid-sole, which can absorb shock and offer protection to the knee and the ankle.



Structural cushioning with light materials. Cushioning: Infinite circulation structure offers cushioning protection and stability; Light: Hollow structural mid-sole with light ethylene vinyl acetate (EVA) materials decreases the weight of shoes and makes running feel lighter.



Cushioning: Several spheroidal air-soles are integrated into mid-sole air circulation system. Cushioning protection absorbs shock in sports. Soft: Soft and comfortable air-soles.



Long tasting refreshing scent release.



Using high performance material with a resistance to low temperature and hydrolysis, it can quickly absorb the impact and turn it into resilience, improving the performance.



New memory material, slow rebound and extremely soft, perfectly fits the feet.



Shoe pads are designed according to human body kinematics, improve the comfortability of the inner space of the shoe.



Release silver ion which can effectively restrain odor and pathogenic microorganisms, and also makes it durable for washing.



New professional sportswear fabric in the sportswear market. The stretchable and elastic recovery features allow athletes and sports participants to stretch freely during exercise.



Regular cutting grooves on the sole guarantee its flexibility and the stability of foot, which offers barefoot-like comfort. Phylon middle sole has excellent cushioning effect and gives reliable protection, extraordinary durability and stability to the feet.



Transfer moisture from the skin quickly to the surface of the fabric through special permutation and combination of yarn, which then evaporates into the air to achieve the effect of instant absorption and immediate dryness



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



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



More comfortable and flexible walking by using cube modules to support pressure from the foot and ground, while applying memory type material to bring increased softness, cushioning and resistance to wear

ENVIRONMENTAL PROTECTION



X-ORGANIC COTTON
有机棉

Environmental-friendly organic cotton without polluting the environment, good air permeability and soft to the touch.



X-WATERPROOF
防水科技

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



X-REFLECT
反光科技

X-reflect material enhances visibility in dark environment and offers all-time protection.

HYGIENE



X-ANTIBACTERIAL
抗菌科技

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



X-DEODORIZATION
消臭科技

Keeps the clothes fresh and unaffected.



X-SEAMLESS TECH
无缝一体

TECHNOLOGY

MANAGEMENT DISCUSSION AND ANALYSIS

Football Products:

The first XTEP professional football product series — “Blade I” was launched in stores in June of 2016. Even though this was the first generation of products being sold in retail stores, our football product series have been worn on the competition field by over 3,000 Chinese collegiate football players over the past five years. The Group has recognized the potential importance of football as a sport category early-on, and therefore, has sponsored the only two officially recognized university level football leagues in China since 2011 and 2012. This allowed us to sample and collect feedback from Chinese players during high level of football competition, with the aim to develop the shoe with the perfect fit for the Chinese player. We believe both our football platform and our football products are in a leading position amongst peers.

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



MANAGEMENT DISCUSSION AND ANALYSIS

Sports Lifestyle Products:

Sports lifestyle products captured the growing “athleisure” trend and offers fashionable and comfortable street-wear for the Chinese consumers. We have two main lines of sports lifestyle footwear: Casual sports shoes, which are light sport shoes designed mainly for walking, and Skateboard shoes bearing the unique “π” symbol of XTEP design. Sports lifestyle apparel was separated into two series based on age and style: Campus series is geared towards the student population with colorful designs, while Urban series is dominated by black and white colors, and captures the feeling of city life. All sports lifestyle products of XTEP were well received by customers with XTEP strong fashionable and chic style image.

Kids Products:

The kids division is undergoing restructuring in 2016, to better position for higher efficiency in future profit generation. After the restructuring, resources will be aligned between the kids and the adult divisions, and operational management will be consolidated. This will allow us to optimize our advertising and promotion spending, our new product research and development applications, our retail management systems, and our retail networks.

Supply Chains:

The Group is fully committed to operating a seamless and vertically-integrated business with the support of an efficiently managed supply chain. For the first six months of 2016, the in-house production mix for footwear and apparel products accounted for approximately 56% (2015: 57%) and 15% (2015: 29%) of the corresponding total sales volume for the Period, respectively. We also utilized out-sourced suppliers in the PRC to produce footwear and apparel products, but the Group controlled the sourcing of all materials. All of the out-sourced suppliers are constantly monitored by the Group’s quality control team to uphold our top quality standards. The products are manufactured and inspected continuously by batch, and the same batch of products was transported to stores across China according to the logistic delivery schedule.











XTEP RETAIL MANAGEMENT

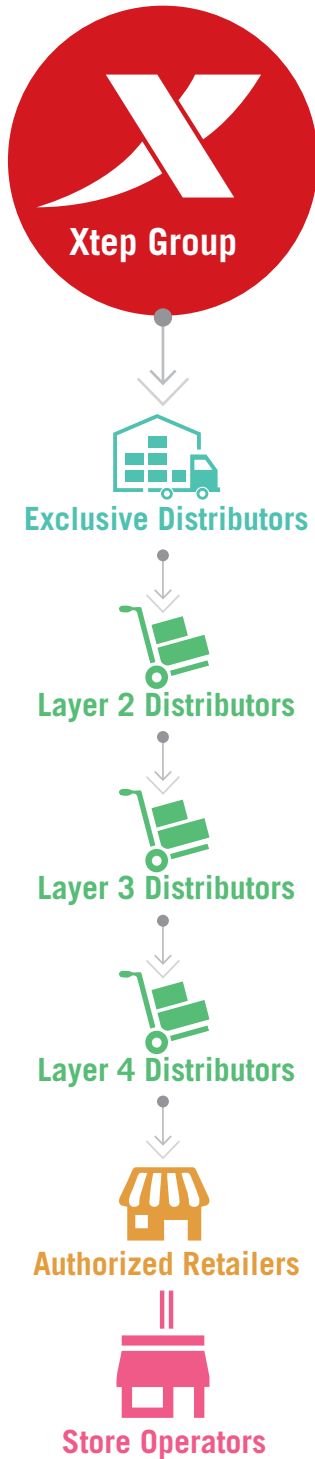




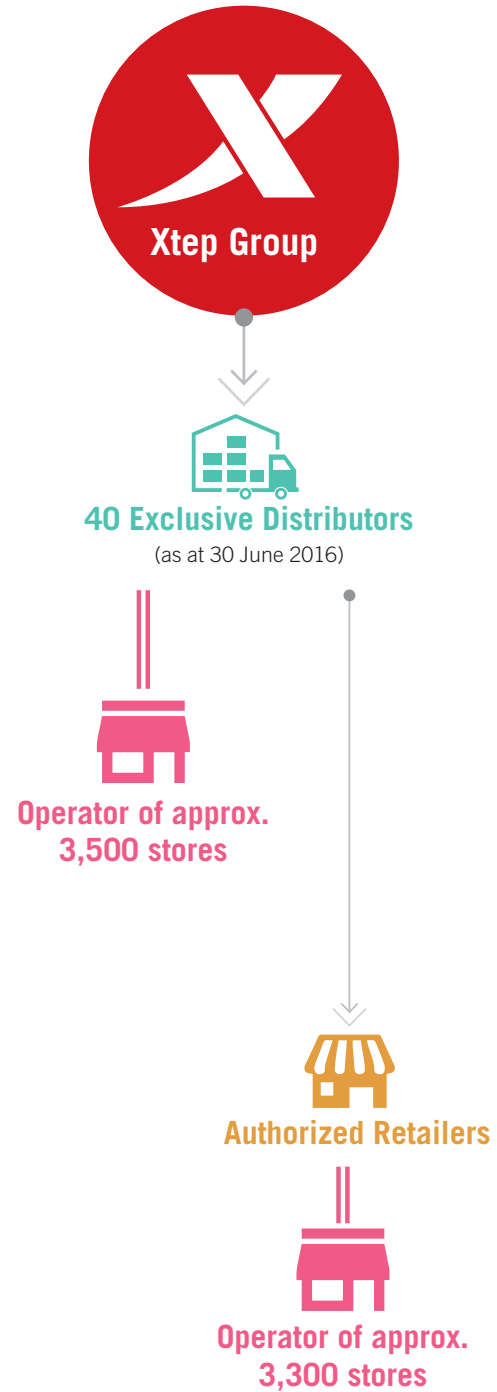
MANAGEMENT DISCUSSION AND ANALYSIS

Retail channel comparison before and after flattening of distribution channels:

RETAIL CHANNEL BEFORE FLATTENING



RETAIL CHANNEL AFTER FLATTENING



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

MANAGEMENT DISCUSSION AND ANALYSIS

RETAIL MANAGEMENT:

Domestic Market:

One of the main goals of the Group is to increase per store operational efficiency at the retail store level. Building on the encouraging results of retail channel management improvements over the past 3 years, the Group continued to implement stringent retail channel management control to monitor the operational details in retail channels, operated by XTEP's exclusive distributors and authorized retailers. We achieved significant improvements to lower the Group's inventory and maintained the amount of XTEP products in the retail channels at a healthy level. The Group's inventory level as at 30 June 2016 has significantly reduced by 11% to approximately RMB463.1 million as compared to last year (30 June 2015: RMB520.2 million). Also, the Group's inventory turnover days for the Period continued to be reduced to 55 days as compared to same period last year (30 June 2015: 72 days).

The Group carried out detailed daily monitoring on the operational efficiency of all retail stores operated by XTEP's exclusive distributors, which are either operated directly by the distributors themselves or by authorized retailers managed by the distributors. The Group discussed with the distributors on a regular basis in the decision to open new retail stores in new areas with high market potential and close down those under-performing retail stores. The total number of XTEP retail stores as at 30 June 2016 was approximately 6,800 (31 December 2015: approximately 7,000) and the total number of Xtep kids brand POS as at 30 June 2016 was approximately 600 (31 December 2015: approximately 600).

Real-time monitoring and Internal APP for rapid response

The Group's centralized real-time DRP system covered over 90% of XTEP retail stores as at 30 June 2016. The retail management team monitored and analyzed the real-time data that was collected daily through an internal retail management APP "Super Shopping Guide", which allowed them to quickly act upon customer retail behavior anywhere and anytime. The data allowed the Group to gain more insights into customer preferences in different geographical locations and provide distributors with accurate products pricing and product mix strategies. More importantly, the Group can discuss and review more frequently on the speed of product movement and clear the retail inventory level on a timely basis. This action has effectively controlled the retail inventory within a healthy level.

The retail management team communicates two-way with the entire retail chain of staff via Super Shopping Guide APP, whether it is the retail management team sending a training video on a new product to help store managers and clerks generate higher sales, or store managers asking the retail team to help improve their sales efficiency. There are training courses and tests on the APP, where store managers and clerks have to pass the required training to collect their rewards; the test results also act as support for upward employment promotion. The APP has been rolled out to around 75% of stores, covering over 21,000 staffs as of 30 June 2016. We target to have 90% store inclusion by end-2017.

Unifying XTEP's professional sports image

The Group continued to execute the universal retail store image upgrade to present XTEP as a professional sport brand with stylish and functional products. The "7th generation" retail store layout is equipped with upgraded sportive store display, emphasizing products which bring out XTEP's strong core focus on running. Although new product ordering was conducted on a quarterly basis, the Group has systematically divided the quarterly new product collections into monthly new product cycle, with different new products delivered on a monthly basis. Therefore, new sports products were produced monthly and delivered to all the retail stores at the same time. This product launch schedule coincided with the Group's nationwide promotion campaign on new sports product of XTEP, attracting greater customer interests. The Group strives to unify XTEP image through dispensing the latest promotion campaign information including posters, banners, standardize displays and video advertisements to all retail stores.





MANAGEMENT DISCUSSION AND ANALYSIS

Universal pricing policy

On pricing strategy, the Group set a universal retail sales price for all XTEP products that applied to all retail stores no matter where the store was located, to ensure standardized pricing policies were adopted throughout the nation. In general, no discount is allowed when new products are first launched in the market. The retail discount rates of products in each retail store must be authorized by the Group and each category of retail stores was only allowed a certain range of discount rates.

E-commerce:

The Group's e-commerce business held the leading position in sports footwear/sportswear categories on both of the leading e-commerce platforms in China Tmall.com and JD.com, which combined, has over 80% market share of the B2C online retail business. The Group's e-commerce business ranked first as the top selling sports footwear brand on Tmall.com and number one sportswear brand on JD.com in terms of volume sold in the first half of 2016. The overwhelming success of our e-commerce business is attributable to both the Group's precise and timely strategies, and an entirely internally managed team of professionals who can react quickly to market changes and new campaigns. This rapid reaction system complements our offline product cycle, and contributed to the increase in both revenue and margin for the Group.

Three phases of e-commerce development

The Group's e-commerce business has gone through three phases of development, closely timed with sports industry trends with high flexibility. During 2013-14, our e-commerce platform was primarily used to clear inventory while we developed our close working partnership with Tmall.com, JD.com, and other leading internet shopping platforms. In 2015, the Group's e-commerce business focused on providing online exclusive products differentiated from those sold in offline stores, in-order to coordinate interests between offline distributors and the Group, maximizing sales. These products were often seasonal, or related to a marketing campaign or a sponsored celebrity. In 2016, we were the first of the sportswear companies to start using O2O model with our distributors.



MANAGEMENT DISCUSSION AND ANALYSIS

We define O2O as inventory sharing. The Group sets the prices of the same products listed online and offline to be identical, with same discount promotion periods. Little inventory is kept by the e-commerce business, but rather, rely on those inventory from the offline retail channel. Products ordered by consumers are delivered from their nearby store, ensuring quick to doorstep customer service. In the reverse direction, customers can order a product from a physical store and we can deliver from the online platform or another distributor that has inventory. We have designed a profit-sharing system, where interests are aligned for the platform and the distributors. In effect, XTEP e-commerce functions as another retail channel for not only the Group, but also for our distributors. With our proven success in the e-commerce channel, it 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 distributors. For example, one of our popular shoe models “Air Mega with Nite Optics” is a top-seller both online and offline, sharing the multiplier effect of combining online and offline channels around the same promotional campaign. Currently the O2O model is rolled out to around 200-300 stores, and we plan to roll this out to around 1,000 stores by end of 2016.

Overseas market:

As at 30 June 2016, the Group had XTEP points-of-sale exposure across the Middle East, Southeast Asia, and Europe, operated by XTEP’s distributors and authorized retailers. The Group believes business expansion to overseas markets can enhance XTEP’s global exposure, enhance brand value, and broaden revenue streams.







PRODUCTS+



SPORTS+



INTERNET+



3+ FUTURE

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PROSPECTS:**Products+:****Running products**

The Group will continue to introduce new generation products of “Dynamic Foam” (動力巢), “Reactive Coil” (減震旋) and “Air Mega” (氣能環) series, such as upgrading to Air Mega 2.0 in the second half of 2016, where Air Mega and Dynamic Foam materials are combined in shoe soles, to provide double cushioning effects. The Group will also launch a new XTEP “Comfycubes” (柔立方) series that aims for more comfortable and flexible walking by using cube modules to support pressure from the foot and ground, and uses Softpad™ on both the insole and base of the shoe to bring better soft cushioning and resistance to wear.

The Group will launch our XTEP smart running shoes — “XTEP Motion” (特步全芯競速跑鞋) in the third quarter of 2016. It uses a six-axial motion detection smart chip linked to Xtep Motion Tracker (特步智能芯) APP, and emphasizes its social networking and tracking functions. The six-axial motion detection technology is industry leading, which not only accurately monitors and records running distances and paths, differentiate between six states of motion from walking to running to stairs climbing, but also detects different running postures such as identifying the location of the force of impact being on the front/back/inside/outside of the foot. This provides more detailed analysis to runners enabling them to purchase the most suitable shoe, and also help runners prevent injuries and improve performance by adjusting posture. The smart running shoes has internal memory which enables it to function on a stand-alone basis for recording data, making running less cumbersome for runners as they will no longer need to bring their mobile phones or a wearable device to track their running performance. Finally the APP suggests professional running plans based on running records and measures completion rate, gives XTEP product suggestions and promotions, as well as offers social sharing and rankings functions both within the APP and linked to Wechat Sports. The running data can be kept for two years, versus most competitive products only offering one year. The launch of this shoe along with the APP will help XTEP gather more runner data and allow us to develop ever more accurately fitting running shoes for the Chinese consumer. Also, the APP will help gather a tighter fan-base around XTEP’s running ecosystem, as we grow from a product company to providing other running related services. The Group will complete China’s first dedicated running research laboratory, with global leading research technology and researchers by end-2016. The laboratory will test and study the different types of feet and postures of Chinese runners, in order to develop the best fitting running shoes for Chinese runners.

The Group will continue to launch new professional running apparel products with improved functionality and stylish appearance. In the winter quarter of 2016, XTEP will introduce the heating technology “X-warm” (遠紅外升溫科技), which uses ceramic powder to absorb and reflect heat, creating internal heat circulation between clothing layers to reduce temperature loss, allowing runners to stay warm in the winter. In 2017, we will launch the 2nd generation of “Xtep-Dry” (酷乾科技) with added functions of being wind and water proof.

New sports category product launches

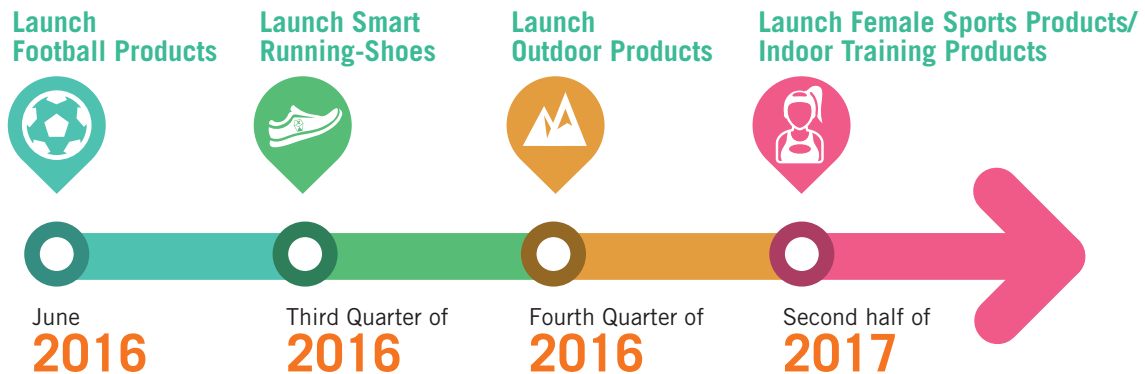
XTEP has a product development plan that takes our sustainable growth to second half of 2017 and beyond. Following the launch of football products in June 2016 and smart running-shoes in third quarter of 2016, we will launch outdoor products in the winter of 2016/2017. In second half of 2017, XTEP will launch more female focused products, such as yoga and fitness products, as well as products specifically for indoor training.



MANAGEMENT DISCUSSION AND ANALYSIS

New celebrity product line

The Group announced our cooperation with Nicholas Tse in July of 2016 to involve him in the designing and promotion of his related product line. We believe this type of cooperation between celebrities and XTEP strengthens brand recognition, broadens consumer base, and leads to additional revenue for the Group. We may continue to cooperate with third parties to develop new product lines that enhance our brand image and increase profitability.

**Sports+:**

The Group is taking steps towards our vision of being a part of, and operating, a running ecosystem beyond products and sponsorships. What we envision is a comprehensive suite of running related services that starts with products, and goes to events and activities, to the community, and even beyond the sports industry to applications in other industries such as health industry. In the first steps beyond products and sponsorships, we have organized our own 3.21 Running Festival that offers multifaceted approach to running from celebrity-lead offline marathons, to online running rewards, from shopping discounts, to limited edition products, from title sponsoring Beijing Olympic Forest Park Xtep Running Track, to runner clinics. In the future, our Xtep Motion Tracker APP will enable a closer bond to form between the Group and runners, and we will be able to provide tailor-made offerings to individuals by analyzing their user data.

Internet+:

The Group will harness the power of the internet, mobile internet and other digital technologies for big data gathering, omni-channel sales, O2O community building, and precise marketing to build a new era of seamless multi-channel marketing and sales. In stores, the Group will pilot the smart retail model in 50 stores in the second half of 2016, which uses automatic Traffic counter (客流計數器), e-payment, iBeacon (比肯), Foot scanner (足型掃描器) and 3D e-Fitting system (3D智能試衣系統) to provide more precise services to consumers at retail stores. More importantly, it records these customer data for analysis by the retail management team, and leads to improvement in retail efficiency, product design, and targeted promotion.

Conclusion:

The Group strongly believes that the “3+” strategies will reinforce XTEP as a professional sports brand with functional and stylish sports products, and continue to deliver sustainable and steady growth. We strive to continue generating value for our shareholders, and to be China’s “runners’ brand of choice”.



MANAGEMENT DISCUSSION AND ANALYSIS

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

	2016		2015		Changes in Revenue (%)
	Revenue (RMB Million)	(% of Revenue)	Revenue (RMB Million)	(% of Revenue)	
Footwear	1,738.3	68.6	1,495.0	62.5	+16.2
Apparel	736.3	29.0	844.2	35.3	-12.8
Accessories	60.0	2.4	51.4	2.2	+16.7
Total	2,534.6	100.0	2,390.6	100.0	+6.0

The Group's total revenue for the period ended 30 June 2016 amounted to approximately RMB2.53 billion (2015: RMB2.39 billion), representing an increase of approximately 6.0% compared to last year. This improvement in revenue was mainly due to:

1. successful repositioning of XTEP brand as a professional sports brand with stylish and functional products which focus on running and leads to significant increase of footwear products revenue by 16%;
2. significant increase in revenue contribution from e-commerce business by approximately 100% and accounted for approximately 15% of Group's revenue;
3. effective control to maintain healthy inventory level on retail channels; but
4. offset by reduction in apparel products revenue which was affected by unusual weather conditions and reducing casual and non-sports specific related apparel products in order to fit in XTEP professional sports brand image.

XTEP has repositioned to become a strong and unique professional sports brand with stylish and functional products that focus on running. The Group allocated effective and well-balanced promotional and advertisement resources throughout various major marathons and running events in China to promote XTEP's focus on running. As such, our professional running product series were well accepted by the runners and hence gaining in both reputation and market share among sportswear industry in the PRC. Hence, the revenue from footwear products for the Period has increased significantly by 16%.

We mainly used the Group's official flagship stores as our XTEP e-commerce retail channel on various major internet platforms such as Tmall.com and JD.com. The revenue through XTEP e-commerce platform has recorded significant growth by approximately 100% and accounted for approximately 15% of the Group's revenue (2015: high-single digit). Such growth was mainly contributed by our outstanding e-commerce team which focused on developing a sophisticated online platform which seamlessly cooperated with major internet platforms and major delivery groups, to provide excellent e-commerce logistics and services. During the Period, the volume sales of XTEP footwear products were mostly ranked as the best seller in most of the major internet platform.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, the Group has consistently applied a prudent approach when accepting product orders from distributors and authorised retailers in each quarter. Prompt response actions are taken to adjust the delivery of products to the retail channels according to actual sell-through in retail stores, which were reflected from the DRP system of the Group. Therefore, retail inventory has maintained at a healthy level during the Period while the Group has maintained a healthy growth in revenue.

During the Period, the Group recorded strong growth in revenue derived from footwear and accessories products which were mostly related to running categories. On the other hand, the revenue from apparel products was mainly affected by unusual weather conditions and also due to the repositioning of the Group's professional sports brand image and therefore change the product mix structure to reduce the casual and non-sports specific related categories.

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

	2016		2015		Changes in gross profit margin (%)
	Gross profit (RMB Million)	Gross profit margin (%)	Gross profit (RMB Million)	Gross profit margin (%)	
Footwear	767.8	44.2	650.6	43.5	+0.7
Apparel	307.4	41.7	330.1	39.1	+2.6
Accessories	23.3	38.9	18.7	36.3	+2.6
Total	1,098.5	43.3	999.4	41.8	+1.5

The Group's overall gross profit margin increased by 1.5 percentage points to 43.3% (2015: 41.8%). The increase in the overall gross profit margin was mainly due to increases in sales proportion of functional products in all three categories which have higher gross profit margin than lifestyle products.

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

OTHER INCOME AND GAINS

For the period ended 30 June 2016, other income and gains of the Group mainly represented the subsidized income from the PRC Government, which amounted to approximately RMB20.1 million (2015: RMB12.0 million); and the income derived from available-for-sale financial investments and structured deposits was approximately RMB21.9 million (2015: RMB59.2 million), which was mainly derived from the interest income from treasury deposit products.

MANAGEMENT DISCUSSION AND ANALYSIS

SELLING AND DISTRIBUTION EXPENSES

For the period ended 30 June 2016, the Group's selling and distribution expenses amounted to approximately RMB320.4 million (2015: RMB397.9 million), representing approximately 12.6% (2015: 16.6%) of the Group's total revenue. The decrease in selling and distribution expenses was mainly due to the decrease in advertising and promotional costs.

The advertising and promotional costs for the Period amounted to approximately RMB234.6 million (2015: RMB321.0 million), represented approximately 9.3% (2015: 13.4%) of the Group's total revenue and the decrease in advertising and promotional costs was mainly related to:

1. decrease in non-sports related TV program sponsorships;
2. decrease in non-sports related events sponsorships; but
3. offset by the increase of sponsorships of major marathon from 5 events in 2015 to 12 events for the Period.

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

GENERAL AND ADMINISTRATIVE EXPENSES

For the period ended 30 June 2016, the Group's general and administrative expenses amounted to approximately RMB242.5 million (2015: RMB176.1 million), which represented approximately 9.6% (2015: 7.4%) of the Group's total revenue. The R&D costs for the Period amounted to approximately RMB58.0 million (2015: RMB48.8 million), representing approximately 2.3% (2015: 2.0%) of the Group's total revenue. The increase in R&D costs were mainly related to:

1. increase in hiring of international designers with extensive experience in professional sports products;
2. increase in new material research costs in cooperating with international sports material suppliers; and
3. increase in research and development costs related to football products categories.

Maintaining a prudent approach towards financial management, the Group made a net provision for doubtful debt for the long outstanding account receivables for the Period, which amounted to approximately RMB63.7 million (2015: RMB2.3 million).

NET FINANCE COSTS

The total net finance cost of the Group for the Period amounted to approximately RMB6.8 million (2015: RMB11.5 million). The decrease was mainly due to the increase in interest income to RMB26.0 million (2015: RMB23.3 million) as a result of increase in cash balance while the interest expenses on bank loans and discounted bills receivables increased to approximately RMB38.1 million (2015: RMB36.8 million) primarily as a result of the increase in average balance of bank loans and discounted bills receivable during the Period.

OPERATING PROFIT MARGIN

The operating profit margin for the Period increased by 2.1 percentage points to 23.0% (2015: 20.9%). This was mainly due to the increase in gross profit margin by 1.5 percentage points.

MANAGEMENT DISCUSSION AND ANALYSIS

INCOME TAX EXPENSES

Income tax provision of the Group for the Period was approximately RMB172.7 million (2015: RMB144.6 million). The income tax provision included profit tax provision relating to operating companies amounted to approximately RMB151.6 million (2015: RMB128.3 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 RMB7.1 million (2015: RMB5.2 million). The Company holds certain PRC subsidiary companies which have retained profits that can be distributed to the Company in the future. Therefore, the Company has made a provision of withholding tax amounted to approximately RMB14.0 million (2015: RMB11.0 million).

PROFIT ATTRIBUTABLE TO ORDINARY EQUITY SHAREHOLDERS AND NET PROFIT MARGIN

For the period ended 30 June 2016, the profit attributable to ordinary equity Shareholders was approximately RMB380.1 million (2015: RMB343.5 million), representing an increase of approximately 10.6% over the same period last year. The increase was mainly due to the increase in gross profit as both the Group's revenue and gross profit margin increased, but at the same time, it was offset by the increase of general and administrative expenses and income tax expenses for the Period.

The Group's net profit margin increased to 15.0% (2015: 14.4%).

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 (2015: HK10.0 cents) per Share, representing an increase of 5.0%. The interim dividend payout ratio for the Period amounted to 52.4% (2015: 52%).

WORKING CAPITAL CYCLE

For the period ended 30 June 2016, the Group has significantly improved the overall working capital turnover days by 28 days to 57 days (2015: 85 days).

For the period ended 30 June:

WORKING CAPITAL TURNOVER DAYS	2016 Days	2015 Days	Changes Days
Inventories	55	72	-17
Trade receivables	122	104	+18
Trade payables	120	91	+29
Overall working capital turnover days	57	85	-28

Inventories

INVENTORIES	2016 RMB million	2015 RMB million
Balance at 1 January	398.4	569.0
Balance at 30 June	463.1	520.2
Average balance (note 1)	430.8	544.6
Cost of sales for the period ended 30 June	1,436.1	1,391.3
Average turnover days (note 2)	55 days	72 days

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2016, the Group's balance of inventory was approximately RMB463.1 million (30 June 2015: RMB520.2 million; 31 December 2015: RMB398.4 million), representing a decrease of 11.0% from 30 June 2015. The turnover days of inventories for the Period improved by 17 days to 55 days (2015: 72 days). The improvement was mainly due to stringent stock control through prudent products ordering, flattened distribution channel and real-time retail inventory monitoring management.

Trade Receivables

TRADE RECEIVABLES	2016	2015
	RMB million	RMB million
Balance at 1 January	1,603.2	1,231.4
Balance at 30 June	1,773.5	1,488.1
Average balance (note 1)	1,688.4	1,359.8
Revenue for the period ended 30 June	2,534.6	2,390.6
Average turnover days (note 2)	122 days	104 days

As of 30 June 2016, the Group's net balance of trade receivables was approximately RMB1,773.5 million (30 June 2015: RMB1,488.1 million; 31 December 2015: RMB1,603.2 million). The increase in trade receivables turnover days compared to last year was due to the Group providing temporary support to assist its distributors to increase the proportion of their directly owned retail stores. This measurement flattened the retail distribution channel by reducing multi-layer which resulted in significant reduction of inventory level at the retail end. This in turn reduced the Group's inventory level as shown above. On the other hand, the Group has utilized the credit facilities of suppliers to improve the overall working capital days.

Trade Payables

TRADE PAYABLES	2016	2015
	RMB million	RMB million
Balance at 1 January	895.8	719.1
Balance at 30 June	988.0	661.7
Average balance (note 1)	941.9	690.4
Cost of sales for the period ended 30 June	1,436.1	1,391.3
Average turnover days (note 2)	120 days	91 days

As at 30 June 2016, the Group's trade payables balance was approximately RMB988.0 million (30 June 2015: RMB661.7 million; 31 December 2015: RMB895.8 million). The increase was due to the Group having utilized the credit period of suppliers and extending the payment days in order to improve the working capital cycle of the Group. The average trade payable turnover days for the Period improved by 29 days to 120 days (2015: 91 days).

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Bills Receivables and Bills Payables

In order to have more flexibility in utilising working capital facilities, the Group utilized the acceptance and usage of bills receivables and bills payables, respectively. As of 30 June 2016, the bills receivables amounted to approximately RMB121.5 million (30 June 2015: RMB440.0 million; 31 December 2015: RMB288.6 million) and the bills payables were nil (30 June 2015: nil; 31 December 2015: nil). For the period ended 30 June 2016, the number of turnover days of bills receivables was 15 days (2015: 27 day) and the number of turnover days of bills payables was nil (2015: nil).

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2016, the Group's cash and cash equivalents amounted to approximately RMB2,720.3 million (31 December 2015: RMB3,607.0 million), representing a decrease of approximately RMB886.7 million. The net cash and cash equivalents (including fixed deposits held at banks with maturity dates of over three months, pledged deposits, available-for-sale investments and structured deposits, minus bank loans) was approximately RMB2,886.4 million as at 30 June 2016 (as at 31 December 2015: RMB2,866.3 million). This was mainly attributable to:

- (a) Net cash inflow from operating activities for the Period amounted to RMB232.4 million, which represented significant improvement from last period net cash outflow of RMB151.6 million. The improvement was mainly due to improvements on overall working capital management;
- (b) Net cash outflow from investing activities amounted to RMB880.1 million, and was mainly due to the placement of fixed deposits at bank with maturity over three months amounting to RMB300.0 million, the decrease in available-for-sale investments amounting to RMB100.0 million and increase of structured deposits amounting to RMB650.0 million;
- (c) Net cash outflow from financing activities amounted to RMB265.5 million, mainly due to the payment of a final dividend in respect of the 2015 financial year amounting to RMB192.3 million and the repayment of bank borrowings amounting to RMB102.5 million.

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

	Six months ended 30 June	
	2016	2015
	RMB million	RMB million
Cash generated from/(used in) operating activities	353.3	(6.4)
Income and withholding tax paid	(108.8)	(131.6)
Others	(12.1)	(13.6)
Net cash flow generated from/(used in) operating activities	232.4	(151.6)
Placement of fixed deposits with maturity over three months	(300.0)	(63.5)
Decrease in available-for-sale investments	100.0	200.0
Increase in structured deposits	(650.0)	–
Deposit for acquisition of land use rights	–	(7.0)
Dividends paid	(192.3)	(137.6)
Net proceeds from/(repayment of) bank loans	(102.5)	307.9
Repurchase of Shares	–	(120.4)
Others	(0.8)	45.1
Net increase/(decrease) in cash and cash equivalents	(913.2)	72.9

As at 30 June 2016, the Group's gearing ratio was 18.9% (30 June 2015: 26.2%; 31 December 2015: 19.8%), which is defined as the total bank borrowings divided by the Group's total assets.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2016, the total assets of the Group amounted to RMB8,230.8 million (31 December 2015: RMB8,114.0 million), represented by non-current assets of RMB1,090.6 million (31 December 2015: RMB1,063.2 million) and current assets of RMB7,140.2 million (31 December 2015: RMB7,050.8 million). The total liabilities of the Group amounted to RMB3,136.0 million (31 December 2015: RMB3,242.3 million), represented by non-current liabilities of RMB156.5 million (31 December 2015: RMB275.9 million) and current liabilities of RMB2,979.5 million (31 December 2015: RMB2,966.4 million). The total non-controlling interests of the Group amounted to RMB48.3 million (31 December 2015: RMB19.8 million). Hence, the total net assets of the Group amounted to RMB5,094.8 million (31 December 2015: RMB4,871.7million), representing an increase of 4.6%. Net assets per Share as at 30 June 2016 were approximately RMB2.31 (31 December 2015: RMB2.22), representing an increase of 4.1%.

INVENTORY PROVISION

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

IMPAIRMENT PROVISION FOR TRADE RECEIVABLES

For the Period, the Group recorded a net impairment provision for trade receivables amounting to approximately RMB63.7 million (2015: RMB2.3 million).

COMMITMENTS

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

CONTINGENT LIABILITIES

As at 30 June 2016, the Group did not have any material contingent liabilities.

CHARGE OF ASSETS

Save as disclosed in notes 16 and 19 of the financial statements relating to certain amounts of bank deposits pledged to secure the banking facilities, none of the Group's assets were pledged as at 30 June 2016.

FOREIGN CURRENCY RISKS

The Group mainly operates in the PRC with most of its transactions settled in RMB. The Group's assets and liabilities, and transactions arising from operation are mainly denominated in RMB. Accordingly, it is believed that the Group does not have any material foreign currency risks that would affect the Group's operation. The Group has not used any forward contracts or currency borrowings to hedge its interest rate 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 2016, the Group had approximately 8,000 employees (31 December 2015: approximately 8,100 employees). The Group provided introductory orientation programs and continuous training to its employees. Topics covered include industry knowledge, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and standards of its staff. The Group will strive to strengthen human resources management to provide strong support for the development of the Group's business through staff recruitment initiatives, optimization of the organizational structure and promulgation of its corporate culture to ensure that the Group will be able to maintain sustainable development in the future.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions throughout the six months ended 30 June 2016, 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. The Board currently consists of five executive Directors and four independent non-executive Directors and has a strong independence element in its composition.

MODEL CODE

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions during the six months ended 30 June 2016.

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 2016.

The external auditor has reviewed the interim financial information for the six months ended 30 June 2016 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2016, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Long Positions in the Company

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company ⁽¹⁾
Mr. Ding Shui Po	Beneficiary of a trust ^{(2)/} Beneficial interests ⁽³⁾	1,327,375,000	60.08%
Ms. Ding Mei Qing	Beneficiary of a trust ⁽²⁾	1,310,059,500	59.30%
Mr. Lin Zhang Li	Interests of spouse ⁽⁴⁾	1,310,059,500	59.30%
Mr. Ding Ming Zhong	Beneficial of a trust ⁽²⁾	1,310,059,500	59.30%
Mr. Ho Yui Pok, Eleutherius	Beneficial interests	6,400,000 ⁽⁵⁾	0.29%
Mr. Tan Wee Seng	Beneficial interests	1,380,000 ⁽⁶⁾	0.06%

Notes:

- (1) It was based on 2,209,285,000 issued Shares of the Company as at 30 June 2016.
- (2) Each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong established a family trust (each, a "Family Trust" and collectively, the "Family Trusts") for the benefit of himself/herself and their respective family members. UBS Trustees (BVI) Limited is the trustee of the Family Trusts.
The Family Trusts (through their controlled companies) indirectly hold 1,310,059,500 Shares in aggregate and therefore each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong is deemed to be interested in 1,310,059,500 Shares of the Company.
- (3) Mr. Ding Shui Po is also beneficially interested in 17,315,500 Shares of the Company.
- (4) Mr. Lin Zhang Li, the husband of Ms. Ding Mei Qing and an executive Director, is deemed to be interested in his wife's interests in the Company.
- (5) 1,500,000 of these shares are subject to the exercise of options granted on 29 July 2009 under the Share Option Scheme. Another 1,000,000 of these shares are subject to the exercise of options granted on 28 May 2010 under the Share Option Scheme. Another 3,500,000 of these shares are subject to the exercise of options granted on 7 December 2011 under the Share Option Scheme. The remaining 400,000 shares of these shares were acquired by Mr. Ho Yui Pok, Eleutherius on the Hong Kong Stock Exchange.
- (6) 600,000 of these shares are subject to the exercise of options granted on 30 March 2010 under the Share Option Scheme. Another 600,000 of these shares are subject to the exercise of options granted on 7 December 2011 under the Share Option Scheme. The remaining 180,000 of these shares were acquired by Mr. Tan Wee Seng on the Stock Exchange.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

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

Note:

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

Save as disclosed above, as at 30 June 2016, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

So far as is known to any Director or chief executive of the Company, as at 30 June 2016, the persons or corporations (other than the Directors or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Nature of Interest	Number of Shares interested	Approximate percentage of interest in issued share capital of the Company ⁽¹⁾
Group Success	Beneficial interests	1,310,059,500	59.30%
Wan Xing International Holdings Limited	Interests of controlled corporation ⁽²⁾	1,310,059,500	59.30%
Ding Wang Fortune Limited	Interests of controlled corporation ⁽³⁾	1,310,059,500	59.30%
Guan Hong Development Limited	Interests of controlled corporation ⁽³⁾	1,310,059,500	59.30%
Ming Zhong Family Limited	Interests of controlled corporation ⁽³⁾	1,310,059,500	59.30%
UBS Trustees (BVI) Limited	Trustee ⁽³⁾	1,310,059,500	59.30%

CORPORATE GOVERNANCE AND OTHER INFORMATION

Notes:

- (1) It was based on 2,209,285,000 issued Shares of the Company as at 30 June 2016.
- (2) Wan Xing International Holdings Limited is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing International Holdings Limited.
- (3) Each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong established a family trust (each, a "Family Trust" and collectively, the "Family Trusts") for the benefit of himself/herself and their respective family members. UBS Trustees (BVI) Limited is the trustee of the Family Trusts and, through its nominee UBS Nominees Limited, holds the entire issued share capital of each of Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited as the respective trust assets under the Family Trusts. Each of Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing International Holdings Limited, which is in turn held as to 55%, 35% and 10% by Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited, respectively.

Save as disclosed above, as at 30 June 2016, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE 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 2016 are as follows:

Name	Outstanding as at 1 January 2016	Exercised during the six months ended 30 June 2016	Outstanding as at 30 June 2016
Director			
Mr. Ho Yui Pok, Eleutherius	1,000,000	(1,000,000)	–
Employees			
In aggregate	12,465,000	(740,000)	11,725,000
Total	13,465,000	(1,740,000)	11,725,000

Save as disclosed above, no options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the six months ended 30 June 2016.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Share Option Scheme

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

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

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

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

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

Details of the share options granted under the Share Option Scheme as at 30 June 2016 are as follows:

Name	Date of Grant	Exercise price per Share	Exercise Period ⁽¹⁾⁽²⁾⁽³⁾	Outstanding as at 1 January 2016	Granted during the six months ended 30 June 2016	Cancelled during the six months ended 30 June 2016	Exercised during the six months ended 30 June 2016	Lapsed during the six months ended 30 June 2016	Outstanding as at 30 June 2016
Directors									
Mr. Ho Yui Pok, Eleutherius	29 July 2009	HK\$4.11	29 July 2010 – 28 July 2019	1,500,000	-	-	-	-	1,500,000
Mr. Ho Yui Pok, Eleutherius	28 May 2010	HK\$6.00	28 May 2012 – 27 May 2020	1,000,000	-	-	-	-	1,000,000
Mr. Ho Yui Pok, Eleutherius	7 December 2011	HK\$2.35	14 January 2012 – 13 January 2021	4,500,000	-	-	(1,000,000)	-	3,500,000
Mr. Tan Wee Seng	30 March 2010	HK\$6.13	30 March 2011 – 29 March 2020	600,000	-	-	-	-	600,000
Mr. Tan Wee Seng	7 December 2011	HK\$2.35	14 January 2012 – 13 January 2021	600,000	-	-	-	-	600,000
Past Director									
Mr. Ye Qi	28 May 2010	HK\$6.00	28 May 2012 – 27 May 2020	1,000,000	-	-	-	(1,000,000)	-
Mr. Ye Qi	7 December 2011	HK\$2.35	14 January 2012 – 13 January 2021	1,500,000	-	-	(1,500,000)	-	-
Employees									
In aggregate	29 July 2009	HK\$4.11	29 July 2010 – 28 July 2019	7,790,000	-	-	-	-	7,790,000
In aggregate	28 January 2010	HK\$5.01	28 January 2011 – 27 January 2020	500,000	-	-	-	-	500,000
In aggregate	28 May 2010	HK\$6.00	28 May 2012 – 27 May 2020	8,000,000	-	-	-	-	8,000,000
In aggregate	7 December 2011	HK\$2.35	14 January 2012 – 13 January 2021	38,295,000	-	-	(10,050,000)	-	28,245,000
Total				65,285,000	-	-	(12,550,000)	(1,000,000)	51,735,000

Save as disclosed above, during the six months ended 30 June 2016, no share options were granted, exercised, lapsed or cancelled under the Share Option Scheme.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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\$4.18.

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

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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SPECIFIC PERFORMANCE OBLIGATIONS ON CERTAIN CONTROLLING SHAREHOLDERS

On 9 January 2014, the Company as borrower entered into a facility agreement (the “**Facility Agreement**”) with a consortium of 11 banks arranged by Hang Seng Bank Limited (“**HASE**”) as co-ordinator, a mandated lead arranger and facility agent in the principal amount of US\$92,000,000 and HK\$452,400,000 (equivalent to approximately HK\$1,170,000,000 in aggregate) (the “**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:

- (a) Mr. Ding Shui Po is not or ceases to be the chairman of the Board;
- (b) Mr. Ding Shui Po does not or ceases to maintain control over the management and business of the Group;
- (c) Mr. Ding Shui Po and Ms. Ding Mei Qing (the “**Majority Shareholders**”) collectively do not or cease 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 are not or cease to be the single largest shareholder of the Company.

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

As at 30 June 2016 and as at the date of this report, Mr. Ding Shui Po was an executive director, the chairman and a controlling shareholder of the Company. Ms. Ding Mei Qing was an executive director and a controlling shareholder of the Company. Mr. Ding Shui Po and Ms. Ding Mei Qing collectively held indirectly approximately 59.30% of the issued share capital of the Company. Mr. Ding Shui Po also had personal beneficial interests in approximately 0.78% of the issued share capital of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2016

	Notes	Six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
REVENUE	5	2,534,584	2,390,619
Cost of sales		(1,436,072)	(1,391,259)
Gross profit		1,098,512	999,360
Other income and gains	5	47,752	75,201
Selling and distribution expenses		(320,434)	(397,857)
General and administrative expenses		(242,480)	(176,119)
Operating profit	6	583,350	500,585
Net finance costs	7	(6,843)	(11,537)
PROFIT BEFORE TAX		576,507	489,048
Income tax expense	8	(172,653)	(144,580)
PROFIT FOR THE PERIOD		403,854	344,468
Attributable to:			
Ordinary equity holders of the Company		380,066	343,526
Non-controlling interests		23,788	942
		403,854	344,468
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10		
Basic		RMB17.25 cents	RMB15.86 cents
Diluted		RMB17.12 cents	RMB15.79 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2016

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	403,854	344,468
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements of operations outside Mainland China	(22,602)	1,515
Other comprehensive income/(loss) for the period, net of tax	(22,602)	1,515
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	381,252	345,983
Attributable to:		
Ordinary equity holders of the Company	357,598	345,031
Non-controlling interests	23,654	952
	381,252	345,983

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2016

	Notes	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		627,826	591,483
Prepaid land lease payments		206,033	208,663
Deposits for acquisition of land use rights	13	62,790	62,790
Intangible assets		4,639	3,239
Available-for-sale investments		72,000	72,000
Deposits	14	17,355	25,064
Pledged bank deposits	16	100,000	100,000
Total non-current assets		1,090,643	1,063,239
CURRENT ASSETS			
Inventories	11	463,137	398,385
Trade receivables	12	1,773,458	1,603,226
Bills receivables	12	121,500	288,631
Prepayments, deposits and other receivables	14	441,153	381,351
Tax recoverable		102	2,395
Available-for-sale investments		–	100,000
Structured deposits	15	650,000	–
Pledged bank deposits	16	606,587	605,825
Time deposits	16	364,000	64,000
Cash and cash equivalents	16	2,720,298	3,607,000
Total current assets		7,140,235	7,050,813
CURRENT LIABILITIES			
Trade payables	17	987,957	895,835
Deposits received, other payables and accruals	18	329,126	536,369
Interest-bearing bank borrowings	19	1,554,534	1,489,361
Tax payable		107,884	44,862
Total current liabilities		2,979,501	2,966,427
NET CURRENT ASSETS		4,160,734	4,084,386
TOTAL ASSETS LESS CURRENT LIABILITIES		5,251,377	5,147,625
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	19	–	121,199
Other payables	18	–	1,693
Deferred tax liabilities	20	108,277	109,705
Deferred subsidy		48,265	43,315
Total non-current liabilities		156,542	275,912
NET ASSETS		5,094,835	4,871,713
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Share capital	21	19,475	19,354
Reserves	22	5,027,035	4,832,588
		5,046,510	4,851,942
Non-controlling interests		48,325	19,771
Total equity		5,094,835	4,871,713

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2016

SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

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

SIX MONTHS ENDED 30 JUNE 2015 (UNAUDITED)

Attributable to ordinary equity holders of the Company												
Reserves												
Notes	Share capital RMB'000	Share	Capital	Statutory	Treasury	Share	Exchange	Retained	Total	Non-controlling interests RMB'000	Total equity RMB'000	
		premium account RMB'000	reserve RMB'000	surplus fund RMB'000	share RMB'000	option reserve RMB'000	fluctuation reserve RMB'000	profits RMB'000	reserves RMB'000			
At 1 January 2015	19,214	132,300	118,600	481,322	-	113,888	41,159	3,793,972	4,681,241	4,700,455	9,893	4,710,348
Total comprehensive income for the period	-	-	-	-	-	-	1,505	343,526	345,031	345,031	952	345,983
2014 final and special dividends declared and paid	9(b)	-	-	-	-	-	-	(137,624)	(137,624)	(137,624)	-	(137,624)
Repurchase of shares	21	-	-	-	(120,447)	-	-	-	(120,447)	(120,447)	-	(120,447)
Acquisition of additional interest in a subsidiary (Note)	-	-	-	-	-	-	-	(909)	(909)	(909)	(4,091)	(5,000)
At 30 June 2015	19,214	132,300	118,600	481,322	(120,447)	113,888	42,664	3,998,965	4,767,292	4,786,506	6,754	4,793,260

Note: During the six months period ended 30 June 2015, the Group acquired 10% additional interest in a subsidiary, 特步湖南體育用品有限公司 ("Hunan Xtep") from the then non-controlling shareholder of Hunan Xtep at a cost of approximately RMB5,000,000 and the Group's interest in Hunan Xtep increased from 90% to 100%. A premium on acquisition of approximately RMB909,000 was debited to retained profits.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2016

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Operating activities:		
Cash from/(used in) operations	353,319	(6,416)
Income tax paid	(108,766)	(131,635)
Others	(12,157)	(13,560)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	232,396	(151,611)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES⁽ⁱ⁾	(880,129)	183,747
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES⁽ⁱⁱ⁾	(265,497)	40,717
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(913,230)	72,853
Cash and cash equivalents at beginning of period	3,607,000	3,137,110
Effect of foreign exchange rate changes, net	26,528	64
Cash and cash equivalents at end of period	2,720,298	3,210,027
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	2,720,298	3,210,027

The accompanying notes form part of these interim financial statements.

- (i) Net cash flows from/(used in) investing activities for the period include increase in the placement of fixed deposits held at banks with maturity over three months of RMB300,000,000 (2015: RMB63,500,000), decrease in available-for-sale investments of RMB100,000,000 (2015: RMB200,000,000), increase in structured deposits of RMB650,000,000 (2015: Nil) and net income derived from available-for-sale investments and structured deposits of RMB21,945,000 (2015: RMB59,163,000). Net cash flows from investing activities for the six months ended 30 June 2015 also included increase in deposits for acquisition of land use rights of RMB7,025,000.
- (ii) Net cash flows from/(used in) financing activities for the period include the dividends paid to equity shareholders of the Company of RMB192,827,000 (2015: RMB137,624,000), net repayment of bank borrowings of RMB102,465,000 (2015: net proceeds from bank borrowings of RMB307,920,000) and net proceeds from exercise of share options of RMB29,797,000 (2015: Nil). Net cash flow from financing activities for the six months ended 30 June 2015 also included repurchase of shares of RMB120,447,000.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2016

1. CORPORATE AND GROUP INFORMATION

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

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

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

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES

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

The condensed consolidated interim financial statements do not include all the information and disclosures required in the financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2015.

The condensed consolidated interim financial statements have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2015 except as described below. In the current period, the Group has applied, for the first time, the following revised standards (“revised HKFRSs”) issued by the HKICPA which are effective for the Group’s financial year beginning on 1 January 2016.

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

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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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 2015.

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 regions 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	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Revenue		
Manufacture and sale of sportswear:		
Footwear	1,738,267	1,494,954
Apparel	736,353	844,248
Accessories	59,964	51,417
	2,534,584	2,390,619
Other income and gains		
Subsidy income from the PRC government*	20,063	11,996
Rental income	1,875	1,528
Net income derived from available-for-sale financial investments and structured deposits	21,945	59,163
Others	3,869	2,514
	47,752	75,201
	2,582,336	2,465,820

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

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6. OPERATING PROFIT

The Group's operating profit is arrived at after charging:

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Advertising and promotional costs	234,606	320,980
Provision for impaired of trade receivables, net	63,680	2,265
Loss on write-off of items of property, plant and equipment	–	1,427
Research and development costs*	57,981	48,799
Staff costs	238,248	207,035
Depreciation	25,759	27,283
Amortisation of intangible assets	347	230
Amortisation of prepaid land lease payments	2,627	2,530
Write-back of long-aged prior year accruals	36,247	–

* The research and development costs for the six months ended 30 June 2016 include RMB36,749,000 (six months ended 30 June 2015: RMB31,141,000) relating to the depreciation of research and development centres and staff costs for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses.

7. NET FINANCE COSTS

An analysis of net finance costs is as follows:

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Interest expense on bank loans	(12,738)	(21,224)
Interest expense on discounted bills receivable	(25,397)	(15,614)
Amortisation of bank charges on syndicated loans	(2,457)	(3,401)
Bank interest income	25,978	23,292
Unrealised gain on interest rate swaps*	7,771	5,410
	(6,843)	(11,537)

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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8. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the six months ended 30 June 2016 (six months ended 30 June 2015: 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	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Current tax – Overseas		
Charge for the period	151,599	128,341
Underprovision in prior periods	7,054	5,239
	158,653	133,580
Deferred tax	14,000	11,000
	172,653	144,580

9. DIVIDENDS

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

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Interim dividend – HK10.5 cents (six months ended 30 June 2015: HK10.0 cents) per ordinary share	199,275	178,603

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

At the board meeting held on 20 August 2015, the board of directors declared and approved an interim dividend of HK10.0 cents (equivalent to approximately RMB8.2 cents) per ordinary share, totalling approximately HK\$217,809,000 (equivalent to approximately RMB178,603,000), for the six months ended 30 June 2015.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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9. DIVIDENDS (continued)

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

	Six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Dividends paid during the period:		
Final dividends in respect of the financial year ended:		
31 December 2015 – HK7.0 cents per ordinary share	128,551	–
31 December 2014 – HK5.0 cents per ordinary share	–	86,015
Special dividends in respect of the financial year ended:		
31 December 2015 – HK3.5 cents per ordinary share	64,276	–
31 December 2014 – HK3.0 cents per ordinary share	–	51,609
	192,827	137,624

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 2016 was based on the profit for the period attributable to ordinary equity holders of the Company of RMB380,066,000 (six months ended 30 June 2015: RMB343,526,000) and the weighted average number of ordinary shares in issue during the six months ended 30 June 2016 of 2,203,288,000 (six months ended 30 June 2015: 2,165,307,000), as adjusted to exclude the shares held under the share award scheme of the Company (note 21).

(b) Diluted earnings per share

The calculation of the diluted earnings per share amount for the six months ended 30 June 2016 is based on the profit for the period attributable to ordinary equity holders of the Company of RMB380,066,000 (six months ended 30 June 2015: RMB343,526,000). The weighted average number of ordinary shares of 2,220,359,000 (six months ended 30 June 2015: 2,175,197,000) used in the calculation is the weighted average number of 2,203,288,000 (six months ended 30 June 2015: 2,165,307,000) ordinary shares in issue during that period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options into 17,071,000 (six months ended 30 June 2015: 9,890,000) ordinary shares during that period.

11. INVENTORIES

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Raw materials	113,314	88,684
Work in progress	63,736	72,519
Finished goods	286,087	237,182
	463,137	398,385

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12. TRADE AND BILLS RECEIVABLES

	Notes	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Trade receivables		2,124,927	1,891,015
Less: provision for impaired receivables		(351,469)	(287,789)
	(a)	1,773,458	1,603,226
Bills receivable	(b)	121,500	288,631

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

Notes:

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

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Within 3 months	1,068,101	1,125,562
4 to 6 months	343,983	330,221
Over 6 months	361,374	147,443
	1,773,458	1,603,226

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

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Neither past due nor impaired	1,068,101	1,125,562
Less than 3 months past due	343,983	330,221
Past due over 3 months	361,374	147,443
	1,773,458	1,603,226

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12. TRADE AND BILLS RECEIVABLES (continued)

Notes: (continued)

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

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Within 3 months	90,500	130,500
4 to 6 months	31,000	158,131
	121,500	288,631

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

13. DEPOSITS FOR ACQUISITION OF LAND USE RIGHTS

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

During the six months ended 30 June 2016, the Group has entered into two sales and purchase agreements with the local government authority for acquiring certain portion of the Land at a total cash consideration of RMB62,820,000, partly to be settled by cash and partly by utilising a portion of the Deposit. Subsequent to the end of the reporting period, the cash portion of consideration was fully paid by the Group on 5 July 2016.

On 20 May 2016, the remaining portion of the Land was successfully auctioned by the Group at a cash consideration of RMB27,170,000, of which the sales and purchase agreement has not yet been entered into between/among the Group and the local government authority up to the date of approval of these interim financial statements.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Prepayments	237,331	205,174
Deposits and advance payments to suppliers	169,766	159,535
Deposits for construction contracts	2,299	9,910
Other deposits	7,626	8,357
Value added tax ("VAT") recoverable	15,014	17,231
Other receivables	26,472	6,208
	458,508	406,415
Less: Non-current portion	(17,355)	(25,064)
	441,153	381,351

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.

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15. STRUCTURED DEPOSITS

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

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

	Note	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Time deposits		1,070,587	1,260,417
Cash and bank balances*		2,720,298	3,116,408
		3,790,885	4,376,825
Less: Current portion of pledged deposits: for short term bank loans	19	(592,932)	(592,170)
for bank guarantees**		(13,655)	(13,655)
		(606,587)	(605,825)
Less: Non-current portion of pledged deposits for short term bank loans	19	(100,000)	(100,000)
Less: Time deposits with original maturity of more than three months when acquired*		(364,000)	(64,000)
Cash and cash equivalents		2,720,298	3,607,000

* The time deposits of RMB64,000,000 (31 December 2015: RMB64,000,000) out of total time deposits of RMB364,000,000 (31 December 2015: RMB64,000,000) with original maturity of more than three months when acquired and bank balance of RMB54,728,000 (31 December 2015: RMB169,924,000) were capital guaranteed funds undertaken by a wholly-owned subsidiary of the Company to maintain in PRC bank accounts pursuant to the terms of the Group's short-term revolving banking facilities.

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

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB2,550,554,000 (2015: RMB2,912,755,000) and RMB364,000,000 (2015: RMB1,260,417,000), respectively. RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day to one year (2015: one day to two years) depending on the immediate cash requirements of the Group, and earn interest at the respective deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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17. TRADE PAYABLES

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

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Within 3 months	888,961	779,356
4 to 6 months	34,097	62,865
Over 6 months	64,899	53,614
Trade payables	987,957	895,835

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 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Deposits and advances from customers	23,330	73,446
Other payables	20,060	119,634
VAT payables	34,945	25,103
Derivative financial instruments	4,280	11,808
Accruals	246,511	308,071
	329,126	538,062
Less: Non-current portion	–	(1,693)
	329,126	536,369

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19. INTEREST-BEARING BANK BORROWINGS

	Notes	30 June 2016 (Unaudited)			31 December 2015 (Audited)		
		Effective interest rate per annum %	Maturity	RMB'000	Effective interest rate per annum %	Maturity	RMB'000
Current							
Current portion of syndicated loans	(a)	HIBOR/LIBOR +2.2%	2017	422,424	HIBOR/LIBOR +2.2%	2016	562,180
Other bank loans	(b)	HIBOR+1.2% to 1.55%	2016	1,132,110	HIBOR+1.2% to 2.0%	2016	927,181
				1,554,534			1,489,361
Non-current							
Syndicated loans	(a)			-	HIBOR/LIBOR +2.2%	2017	121,199
				1,554,534			1,610,560
Analysed into:							
Bank loans repayable:							
Within one year and on demand							
In the second year							
				1,554,534		1,489,361	
				-		121,199	
				1,554,534		1,610,560	

Notes:

- (a) The bank loans are supported by a corporate guarantee provided by certain of the Company's wholly-owned subsidiaries, to the extent of HK\$452,400,000 (equivalent to approximately RMB383,726,000) (2015: HK\$452,400,000 (equivalent to approximately RMB373,275,000)) and US\$92,000,000 (equivalent to approximately RMB606,308,000) (2015: US\$92,000,000 (equivalent to approximately RMB588,448,000)) as at the end of the reporting period.
- (b) The bank loans are supported by:
- the pledge of certain of the Group's time deposits amounting to RMB692,932,000 (31 December 2015: RMB692,170,000);
 - corporate guarantees provided by a wholly-owned subsidiary of the Company to the extent of HK\$1,100,212,000 (equivalent to approximately RMB933,200,000) (31 December 2015: HK\$1,103,018,000 (equivalent to approximately RMB910,100,000)) as at the end of the reporting period; and
 - time deposits of RMB64,000,000 (31 December 2015: RMB64,000,000) and bank balance of RMB54,728,000 (31 December 2015: RMB169,924,000), which were capital guaranteed funds undertaken by a wholly-owned subsidiary of the Company to maintain in PRC bank accounts pursuant to the terms of the Group's short-term revolving loan facilities (note 16).

As at 30 June 2016, except for bank loan of RMB258,465,000 (31 December 2015: RMB418,330,000) which was denominated in the United States dollars ("US\$"), all bank borrowings are denominated in Hong Kong dollars.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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20. DEFERRED TAX LIABILITIES

Pursuant to the income tax law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings accrued after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and 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 dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future.

At 30 June 2016, there were no significant unrecognised deferred tax liabilities (31 December 2015: 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 2016 and 31 December 2015 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 2016

	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: 2,209,285,000 ordinary shares of HK\$0.01 each	22,093	19,475

At 31 December 2015

	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: 2,194,995,000 ordinary shares of HK\$0.01 each	21,950	19,354

During the period, the subscription rights attaching to 12,550,000 (year ended 31 December 2015: 13,260,000) share options granted under the Share Option Scheme (as defined in note 23) and 1,740,000 (year ended 31 December 2015: 3,330,000) share options granted under the Pre-IPO Scheme (as defined in note 23) were exercised at the subscription prices of HK\$2.35 and HK\$3.24 per share, respectively, pursuant to the exercise of the Company's share options for a total cash consideration, before expenses of approximately HK\$35,130,000 (equivalent to approximately RMB29,797,000) (31 December 2015: HK\$43,292,000) (equivalent to approximately RMB35,713,000)). Details of the Company's share option schemes are included in note 23 to the condensed interim financial statements.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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21. SHARE CAPITAL (continued)

During the six months period ended 30 June 2015 the Company repurchased 50,000,000 shares of HK\$0.01 at HK\$3.052 per share at an aggregate consideration of HK\$152,600,000 (equivalent to approximately RMB120,447,000) for the share award scheme in which the Group's employees, executives, officers or directors will be entitled to participate. Details of this scheme was set out in an announcement of the Company dated 15 May 2015. Up to the date of approval of the condensed consolidated interim financial statements, no share was granted under this scheme.

Subsequent to the end of the reporting period, the subscription rights attaching to 250,000 share options granted under the Share Option Scheme were exercised at the subscription price of HK\$2.35. In addition, 5,000,000 shares of HK\$0.01 each were issued for cash at a subscription price of HK\$4.50 per share for a total cash consideration of HK\$22,500,000 on 3 August 2016. Accordingly, the number of ordinary shares of the Company increased to 2,214,535,000 (31 December 2015: 2,194,995,000) at the date of approval of these interim financial statements. Details of the subscription of the 5,000,000 shares were set out in the announcement of the Company dated 3 August 2016.

22. RESERVES

The amounts of the Group's reserves and movements therein for the six months ended 30 June 2016 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.

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.

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 2015.

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23. SHARE OPTION SCHEMES (continued)**(a) Pre-IPO share option scheme** (continued)

At 30 June 2016, a total of 11,725,000 (31 December 2015: 13,465,000) share options (the "Pre-IPO Share Options") under the Pre-IPO Scheme remained outstanding. During the six months ended 30 June 2016, the subscription rights attaching to 1,740,000 (six months ended 30 June 2015: 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 1,740,000 additional ordinary shares (six months ended 30 June 2015: Nil) of the Company and additional share capital of approximately HK\$17,000 (equivalent to approximately RMB15,000) (six months ended 30 June 2015: Nil) and share premium account of approximately HK\$5,620,000 (equivalent to approximately RMB4,767,000) (six months ended 30 June 2015: Nil), before related issuance expenses.

At the date of approval of these interim financial statements, the Company had 11,725,000 Pre-IPO Share Options outstanding under the Pre-IPO Scheme, which represented approximately 0.5% of the issued share capital of the Company as at that date.

(b) Share option scheme

The Company has also adopted a share option scheme (the "Share Option Scheme") pursuant to the shareholders' written resolution passed on 7 May 2008. Further details of the Share Option Scheme are disclosed in the Company's annual report for the year ended 31 December 2015.

As at 30 June 2015, a total of 51,735,000 (31 December 2015: 65,285,000) share options (the "Share Option") under the Share Option Scheme remained outstanding. During the six months ended 30 June 2016, other than the lapse of 1,000,000 share options, the subscription rights attaching to 12,550,000 (six months ended 30 June 2015: Nil) share options granted under the Share Option Scheme were exercised at the subscription price of HK\$2.35 per share, resulting in the issue of 12,550,000 additional ordinary shares (six months ended 30 June 2015: Nil) of the Company and additional share capital of approximately HK\$126,000 (equivalent to approximately RMB106,000) (six months ended 30 June 2015: Nil) and share premium account of approximately HK\$29,367,000 (equivalent to approximately RMB24,909,000) (six months ended 30 June 2015: Nil), before related issuance expenses.

At the date of approval of these interim financial statements, the Company had 51,735,000 share options outstanding under the Share Option Scheme, which represented approximately 2.3% of the issued share capital of the Company as at that date.

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24. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its production facilities, office premises and staff quarters under operating lease arrangements. Leases for these properties are negotiated for terms ranging from two to ten years (2015: two to ten years).

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

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Within one year	9,052	9,246
In the second to fifth years, inclusive	19,328	19,047
After five years	13,964	19,369
	42,344	47,662

25. COMMITMENTS

In addition to the operating lease commitments detailed in note 24 above, the Group had the following commitments at the end of the reporting period:

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Contracted for commitments in respect of:		
– construction of new buildings	64,829	85,752
– construction of new manufacturing facilities	23,644	28,741
– advertising and promotional expenses	373,701	380,310
– software	100	100
– acquisition for land use rights	30,931	–
	493,205	494,903

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26. FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY

At 30 June 2016, the Group discounted certain commercial bills receivable with a carrying amount in aggregate of approximately RMB1,292,300,000 (31 December 2015: bank and commercial bills of RMB1,208,400,000) to a bank (31 December 2015: two banks) in the PRC (the “Derecognised Bills”) for cash. The Derecognised Bills had a remaining maturity from approximately sixty-one days to six months (2015: twenty-four days to six months) at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC bank and/or the issuers of bills receivable default (the “Continuing Involvement”). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair value of the Group’s Continuing Involvement in the Derecognised Bills is not significant.

During the six months ended 30 June 2016, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills (six months ended 30 June 2015: Nil). No gains or losses were recognised from the Continuing Involvement, both during the period or cumulatively. The discount of bills receivable of RMB1,292,300,000, RMB1,962,500,000 and RMB754,100,000 has been made near the period ended 30 June 2016, the year ended 31 December 2015 and the period ended 30 June 2015, respectively.

27. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

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

The fair values of the non-current time deposits and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group’s own non-performance risk for interest-bearing bank borrowings as at 30 June 2016 was assessed to be insignificant.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2016

27. 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 2016 and 31 December 2015, the financial instruments measured at fair value held by the Group comprised derivative financial instruments and were classified as Level 2.

During the six months ended 30 June 2016, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (30 June 2015: Nil).

28. 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 2016.

REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS



To the board of directors of Xtep International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial statements set out on pages 65 to 85 which comprises the condensed consolidated statement of financial position of Xtep International Holdings Limited and its subsidiaries as at 30 June 2016, 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 2016

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
“Brexit”	Refers to the British vote to exit the European Union
“B2C”	Business-to-Consumer
“Board”	The Board of Directors of the Company
“Business Day”	Any day on which the Hong Kong Stock Exchange is open for the business of dealing in securities
“CCFL”	China College Futsal League
“Company”	Xtep International Holdings Limited
“Corporate Governance Code”	The Corporate Governance Code as set out in Appendix 14 of the Listing Rules
“CUFL”	China University Football League
“Director(s)”	The director(s) of the Company
“DRP System”	Distribution Resource Planning System
“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
“Listing Date”	3 June 2008, on which dealing in the Shares first commenced on the Hong Kong Stock Exchange

GLOSSARY

“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Model Code”	The Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
“O2O”	Online to Offline
“Period”	The period of six months ended 30 June 2016
“POS”	Points of sale
“PRC” or “China” or “Mainland China”	The People’s Republic of China excluding, for the purpose of this interim report, Hong Kong, Macau and Taiwan
“Pre-IPO Share Option Scheme”	The share option scheme for employees of the Group approved and adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed “Pre-IPO Share Option Scheme” in Appendix VI to the prospectus of the Company dated 21 May 2008
“R&D”	Research and development
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	Ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Share Option Scheme”	The share option scheme adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed “Share Option Scheme” in Appendix VI to the prospectus of the Company dated 21 May 2008
“Shareholder(s)”	Shareholder(s) of the Company
“U.S.”	United States of America
“US\$”	U.S. dollars, the lawful currency of the U.S.
“XTEP”	Xtep brand



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