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TOPSPORTS INTERNATIONAL HOLDINGS LIMITED

滔搏國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 6110)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2019

FINANCIAL HIGHLIGHTS

		Unaudited Six months ended 31 August	
		2019	2018
Revenue	RMB million	16,957.6	15,092.8
Gross profit	RMB million	7,409.7	6,463.6
Operating profit	RMB million	2,092.2	1,777.8
Profit attributable to the Company's equity holders	RMB million	1,470.9	1,214.1
Non-IFRS Measure – Adjusted operating profit ⁽¹⁾	RMB million	2,160.7	1,795.6
Non-IFRS Measure – Adjusted profit attributable to the Company's equity holders ⁽¹⁾	RMB million	1,535.0	1,227.5
Gross profit margin	%	43.7	42.8
Operating profit margin	%	12.3	11.8
Profit margin attributable to the Company's equity holders	%	8.7	8.0
Non-IFRS Measure – Adjusted operating profit margin	%	12.7	11.9
Non-IFRS Measure – Adjusted profit margin attributable to the Company's equity holders	%	9.1	8.1
Earnings per share – basic and diluted ⁽²⁾	RMB cents	27.91	23.03
Adjusted earnings per share – basic and diluted, for illustrative purpose ⁽²⁾	RMB cents	23.72	19.58
Interim dividend per share	RMB cents	12.00	N/A

Notes:

- (1) *Our adjusted operating profit and adjusted profit attributable to the Company's equity holders are not calculated in accordance with IFRS, and they are considered as non-IFRS financial measures. The adjusted operating profit and adjusted profit attributable to the Company's equity holders are adjusted by adding back the effect of listing expenses and the amortization of our intangible assets arising from business combination. We believe that this information is useful for investors in comparing our performance without regard to items that do not affect our ongoing operating performance or cash flow, and it allows investors to consider metrics used by our management in evaluating our performance. Investors should not consider our non-IFRS financial measures a substitute for or superior to our IFRS results.*
- (2) *Basic earnings per share is calculated by dividing profit attributable to the Company's equity holders of RMB1,470.9 million for the six months ended 31 August 2019 (six months ended 31 August 2018: RMB1,214.1 million) by the weighted average number of ordinary shares of the Company in issue after the Capitalization Issue (as defined in the prospectus of the Company dated 26 September 2019 (the "**Prospectus**")) and before completion of the Global Offering (as defined in the Prospectus), which amounted to 5,271,038,024 shares, taking into account the effect of the Capitalization Issue. The basic and diluted earnings per share does not and is not required to account for the 930,184,000 new shares issued pursuant to the Global Offering of the Company on 10 October 2019. For illustrative purpose and provide with more relevant information for investors, the adjusted earnings per shares is calculated by dividing profit attributable to the Company's equity holders by the weighted average number of ordinary shares in issue after the Capitalization Issue and completion of the Global Offering, which amounted to 6,201,222,024 shares, taking into account the effect of the Capitalization Issue and the Global Offering.*

INTERIM RESULTS

The board of directors (the “**Board**” or “**Directors**”) of Topsports International Holdings Limited (the “**Company**”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 31 August 2019 (the “**Period under Review**”), together with comparative information for the same period of 2018, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE SIX MONTHS ENDED 31 AUGUST 2019

		Unaudited	
		Six months ended 31 August	
		2019	2018
	<i>Note</i>	<i>RMB million</i>	<i>RMB million</i>
Revenue	4	16,957.6	15,092.8
Cost of sales	6	(9,547.9)	(8,629.2)
Gross profit		7,409.7	6,463.6
Selling and distribution expenses	6	(4,727.8)	(4,204.7)
General and administrative expenses	6	(721.5)	(610.7)
Impairment of trade receivables		-	(22.7)
Other income	5	131.8	152.3
Operating profit		2,092.2	1,777.8
Finance income		6.5	7.5
Finance costs		(118.2)	(93.9)
Finance costs, net	7	(111.7)	(86.4)
Profit before income tax		1,980.5	1,691.4
Income tax expense	8	(509.6)	(477.3)
Profit for the period attributable to equity holders of the Company		1,470.9	1,214.1
Earnings per share for profit attributable to equity holders of the Company during the period		<i>RMB cents</i>	<i>RMB cents</i>
Basic and diluted earnings per share	9	27.91	23.03

**CONDENSED CONSOLIDATED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 AUGUST 2019**

	Unaudited	
	Six months ended 31 August	
	2019	2018
	<i>RMB million</i>	<i>RMB million</i>
Profit for the period attributable to equity holders of the Company	1,470.9	1,214.1
Other comprehensive income		
<i>Items that may be subsequently reclassified to profit or loss:</i>		
Exchange differences	2.3	-
Total comprehensive income for the period attributable to equity holders of the Company	1,473.2	1,214.1

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 31 AUGUST 2019

		Unaudited As at 31 August 2019 RMB million	Audited As at 28 February 2019 RMB million
	Note		
ASSETS			
Non-current assets			
Property, plant and equipment		997.0	1,115.6
Right-of-use assets		3,271.9	3,451.8
Intangible assets		1,127.1	1,144.8
Long-term deposits, prepayments and other receivables		258.8	214.9
Deferred income tax assets		196.3	128.4
		5,851.1	6,055.5
Current assets			
Inventories		6,598.4	6,138.7
Trade receivables	11	2,105.6	2,517.8
Deposits, prepayments and other receivables		1,265.8	801.9
Amounts due from related companies		-	52.0
Bank balances and cash		631.5	650.5
		10,601.3	10,160.9
Total assets		16,452.4	16,216.4
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		74.7	127.3
Lease liabilities		2,092.0	2,301.1
		2,166.7	2,428.4
Current liabilities			
Trade payables	12	686.0	642.0
Other payables, accruals and other liabilities		1,165.4	1,434.9
Amounts due to related companies		3,363.3	3,560.2
Dividend payable	10	1,902.0	3,500.0
Short-term borrowings		1,982.5	1,300.0
Lease liabilities		1,011.0	999.8
Current income tax liabilities		752.5	402.3
		10,862.7	11,839.2
Total liabilities		13,029.4	14,267.6
Net assets		3,423.0	1,948.8

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 31 AUGUST 2019

	Unaudited As at 31 August 2019 <i>RMB million</i>	Audited As at 28 February 2019 <i>RMB million</i>
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	-	-
Other reserves	1,487.1	1,458.0
Retained earnings	1,935.9	490.8
Total equity	3,423.0	1,948.8

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 AUGUST 2019

	Unaudited	
	Six months ended 31 August	
	2019	2018
	<i>RMB million</i>	<i>RMB million</i>
Cash flows from operating activities		
Net cash generated from operations	2,490.8	1,824.4
Income tax paid	(279.9)	(725.8)
Net cash generated from operating activities	<u>2,210.9</u>	<u>1,098.6</u>
Cash flows from investing activities		
Payments for purchases of property, plant and equipment and intangible assets	(271.4)	(280.7)
Proceeds from disposals of property, plant and equipment	8.5	6.7
Payments for acquisition of a business	-	(83.7)
Placement of structured bank deposits	-	(400.0)
Interest received	6.5	7.5
Net cash used in investing activities	<u>(256.4)</u>	<u>(750.2)</u>
Cash flows from financing activities		
Repayments of borrowings	(400.0)	-
Payment for lease liabilities (including interest)	(890.0)	(693.2)
Dividends paid	(1,598.0)	-
Changes in balances with related companies	(144.9)	686.6
Interest paid for bank borrowings	(23.1)	(13.2)
Dividends paid to then equity holders	-	(574.3)
Net cash used in financing activities	<u>(3,056.0)</u>	<u>(594.1)</u>
Net decrease in cash and cash equivalents	<u>(1,101.5)</u>	<u>(245.7)</u>
Cash and cash equivalents at beginning of the period	450.5	63.6
Cash and cash equivalents at end of the period	<u>(651.0)</u>	<u>(182.1)</u>
Cash and cash equivalents comprise of:		
Bank balances and cash	631.5	717.9
Bank overdrafts	(1,282.5)	(900.0)
	<u>(651.0)</u>	<u>(182.1)</u>

NOTES

1 GENERAL INFORMATION

Topsports International Holdings Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) are principally engaged in the sales of sportswear products and leasing commercial spaces to other retailers for concessionaire sales in the People’s Republic of China (the “**PRC**”).

The Company was incorporated in the Cayman Islands on 5 September 2018 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The immediate holding company and an intermediate holding company of the Company are Belle Sports Limited, a company incorporated in the British Virgin Islands (the “**BVI**”) with limited liability and Belle International Holdings Limited, a company incorporated in the Cayman Islands with limited liability, respectively. The directors of the Company regard Muse Holdings Inc. (“**Muse Inc.**”), a company incorporated in the Cayman Islands with limited liability, as being the ultimate holding company and the ultimate controlling party of the Company. The address of the Company’s registered office is P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands.

The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 10 October 2019.

The condensed consolidated interim financial information for the six months ended 31 August 2019 is unaudited and has been reviewed by the audit committee and external auditor of the Company. The condensed consolidated interim financial information was approved for issue by the Board of Directors on 23 October 2019.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial information for the six months ended 31 August 2019 has been prepared in accordance with International Accounting Standard (“**IAS**”) 34 “Interim Financial Reporting” and should be read in conjunction with the Group’s financial information for the year ended 28 February 2019 as set out in the accountant’s report (the “**Accountant’s Report**”) included in Appendix I to the prospectus of the Company in connection with the initial public offering of the Company’s shares on the Main Board of the Stock Exchange dated 26 September 2019.

As at 31 August 2019, the Group’s current liabilities exceeded its current assets by RMB261.4 million, which included a dividend payable to the then sole shareholder of the Company amounting to RMB1,902.0 million. In preparing the condensed consolidated interim financial information, the directors have taken into account the projected future performance of the Group, its unused banking facilities and other available sources of financing, and concluded that the Group has sufficient financial resources to continue in operational existence for the foreseeable future and are therefore satisfied that it is appropriate to prepare the condensed consolidated interim financial information on a going concern basis.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

(a) Effect of adopting new standard, amendments to standards and interpretation

The accounting policies used in the preparation of the condensed consolidated interim financial information are consistent with those used in the preparation of the Accountant's Report. All of the new standards, amendments to standards, and interpretations that are effective on 1 March 2019 have been adopted by the Group throughout the years ended 28 February 2017, 2018 and 2019 and the three months ended 31 May 2019 as set out in the Accountant's Report.

(b) New standards and amendments to standards that have been issued but are not yet effective

A number of new standards and amendments to standards have been issued but are not effective for the year beginning on or after 1 March 2019 and have not been early adopted by the Group:

Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associates or joint venture ⁽³⁾
IFRS 17	Insurance contracts ⁽²⁾
Amendment to IAS 1 and IAS 8	Definition of material ⁽¹⁾
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting ⁽¹⁾
Amendments to IFRS 3	Definition of a business ⁽¹⁾

(1) Effective for the Group for annual period beginning on 1 March 2020.

(2) Effective for the Group for annual period beginning on 1 March 2021.

(3) Effective date to be determined.

The Company's directors have performed an assessment on these new standards and amendments to standards, and have concluded on a preliminary basis that the adoption of these new standards and amendments to standards is not expected to have a significant impact on the Group's financial performance and position.

(c) Tax

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3 SEGMENT INFORMATION

The Group is principally engaged in sales of sportswear products and leasing commercial spaces to retailers and distributors for concessionaire sales.

The directors of the Company consider that the Group has only one reportable segment. Accordingly, no segment information is presented.

All of the Group's revenues are derived from external customers located in the PRC.

As at 31 August 2019 and 28 February 2019, substantially all of the non-current assets of the Group were located in the PRC.

4 REVENUE

	Six months ended 31 August	
	2019	2018
	<i>RMB million</i>	<i>RMB million</i>
Sale of goods recognized at a point in time	16,818.3	14,958.4
Concessionaire fee income	139.3	134.4
	<u>16,957.6</u>	<u>15,092.8</u>

5 OTHER INCOME

	Six months ended 31 August	
	2019	2018
	<i>RMB million</i>	<i>RMB million</i>
Government incentives (<i>note</i>)	122.7	151.8
Rental income	-	0.5
Others	9.1	-
	<u>131.8</u>	<u>152.3</u>

Note: Government incentives comprise subsidies received from various local governments in the PRC.

6 EXPENSES BY NATURE

	Six months ended 31 August	
	2019	2018
	<i>RMB million</i>	<i>RMB million</i>
Cost of inventories recognized as expenses included in cost of sales	9,547.9	8,629.2
Staff costs	1,622.6	1,496.7
Lease expenses (mainly including concessionaire fee)	1,626.0	1,520.4
Depreciation on property, plant and equipment	354.9	296.7
Depreciation on right-of-use assets	779.1	625.8
Amortization of intangible assets	27.0	17.8
Write-off of property, plant and equipment	5.9	2.2
Loss/(gain) on disposal of property, plant and equipment	2.6	(0.8)
Other tax expenses	85.4	70.1
Listing expenses	50.7	-
Others	895.1	786.5
	<u>14,997.2</u>	<u>13,444.6</u>

7 FINANCE COSTS, NET

	Six months ended 31 August	
	2019	2018
	<i>RMB million</i>	<i>RMB million</i>
Interest income from bank deposits	6.5	3.9
Interest income from structured bank deposits	-	3.6
	<hr/>	<hr/>
Finance income	6.5	7.5
	<hr/>	<hr/>
Interest expense on short-term bank borrowings	(23.1)	(13.2)
Interest expense on lease liabilities	(95.1)	(80.7)
	<hr/>	<hr/>
Finance costs	(118.2)	(93.9)
	<hr/>	<hr/>
Finance costs, net	(111.7)	(86.4)
	<hr/>	<hr/>

8 INCOME TAX EXPENSE

	Six months ended 31 August	
	2019	2018
	<i>RMB million</i>	<i>RMB million</i>
Current income tax - PRC corporate income tax		
- Current period	543.3	470.3
- Under/(over)-provision in prior years	0.9	(1.4)
- Withholding tax on dividends	85.9	1.3
	<hr/>	<hr/>
Deferred income taxes	(120.5)	7.1
	<hr/>	<hr/>
	509.6	477.3
	<hr/>	<hr/>

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gains. Subsidiaries incorporated in Hong Kong are subject to Hong Kong profits tax at a rate of 16.5% (six months ended 31 August 2018: 16.5%). No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profit in Hong Kong.

During the period, substantially all of the PRC established subsidiaries of the Company are subject to the PRC corporate income tax rate of 25% (six months ended 31 August 2018: 25%) except that certain subsidiaries are subject to preferential tax rates of 15% to 20% and other preferential tax treatments (six months ended 31 August 2018: same).

According to applicable tax regulations prevailing in the PRC, dividends distributed by a company established in the PRC to a foreign investor are generally subject to a 10% withholding tax. If a foreign investor is incorporated in Hong Kong, under the double taxation arrangement between the PRC and Hong Kong, the relevant withholding tax rate applicable to the Group will be reduced from 10% to 5% subject to the fulfilment of certain conditions.

9 EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

		Six months ended 31 August	
		2019	2018
Profit for the period attributable to equity holders of the Company	<i>RMB million</i>	1,470.9	1,214.1
Weighted average number of ordinary shares for the purpose of basic earnings per share (<i>note</i>)	<i>thousand of shares</i>	5,271,038	5,271,038
Basic earnings per share	<i>RMB cents</i>	27.91	23.03

Note: The weighted average number of ordinary shares for the purposes of basic earnings per share for the six months ended 31 August 2019 and 31 August 2018 has been retrospectively adjusted for the effect of the capitalization issue which took place on 10 October 2019.

(b) Diluted

Diluted earnings per share presented is the same as the basic earnings per share as there was no potentially dilutive ordinary share outstanding as at 31 August 2019, 1 March 2019, 31 August 2018 and 1 March 2018.

10 DIVIDENDS

During the six months ended 31 August 2018, dividends of RMB574.3 million were declared by certain companies now comprising the Group to the then equity holders of the companies, after elimination of intra-group dividends. The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this condensed consolidated interim financial information.

During the year ended 28 February 2019, the Company declared a dividend of RMB3,500.0 million per share, totaling RMB3,500.0 million. As at 28 February 2019 and 31 August 2019, the dividend remained payable amounting to RMB3,500.0 million and RMB1,902.0 million respectively.

At a meeting held on 23 October 2019, the directors declared an interim dividend of RMB12.0 cents per ordinary share (totaling RMB744.1 million) for the year ending 29 February 2020, which will be paid and reflected as an appropriation of retained earnings for the year ending 29 February 2020.

11 TRADE RECEIVABLES

	As at 31 August 2019 <i>RMB million</i>	As at 28 February 2019 <i>RMB million</i>
Trade receivables	2,139.3	2,551.5
Loss allowance	(33.7)	(33.7)
	<u>2,105.6</u>	<u>2,517.8</u>

The Group's concessionaire sales through department stores are generally collectible within 30 days from the invoice date. As at 31 August 2019, the aging analysis of trade receivables, based on invoice date, is as follows:

	As at 31 August 2019 <i>RMB million</i>	As at 28 February 2019 <i>RMB million</i>
0 to 30 days	1,949.5	2,301.8
31 to 60 days	68.1	101.1
61 to 90 days	12.9	18.8
Over 90 days	108.8	129.8
	<u>2,139.3</u>	<u>2,551.5</u>
Loss allowance	(33.7)	(33.7)
	<u>2,105.6</u>	<u>2,517.8</u>

The carrying amounts of trade receivables approximate their fair values and are denominated in RMB.

12 TRADE PAYABLES

The normal credit period granted by suppliers generally ranges from 0 to 60 days. As at 31 August 2019, the aging analysis of trade payables is as follows:

	As at 31 August 2019 <i>RMB million</i>	As at 28 February 2019 <i>RMB million</i>
0 to 30 days	681.9	638.5
31 to 60 days	3.1	3.2
Over 60 days	1.0	0.3
	<u>686.0</u>	<u>642.0</u>

The carrying amounts of trade payables approximate their fair values.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS MODEL AND OPERATING ENVIRONMENT

In the First Half of the Financial Year ending 29 February 2020, we further developed our consumer-centric sportswear retail and service platform. In addition to continuously improving the platform itself to provide superior sportswear products, we made strides to develop our differentiated service capability and continued to broaden our consumer reach and expand the breadth and depth of our engagement with consumers.

The nationwide retail network we operate directly helps us engage with and serve millions of consumers every day. Through years of hard work, we have built local, community-level relationships with consumers, which enable us to develop consumer and market insights and provide them with better services.

We have continuously enriched the content and services on our platform by experimenting with and leveraging our extensive and deeply penetrating store network across the country and in various city-tiers. For example, we use widely used social media and instant messaging tools to actively explore new ways of consumer engagement and service, with an aim to integrate high quality physical and digital consumer relationships in a high quality way and satisfy the sports lifestyle needs of our consumers in more dimensions.

With the sustained and strong growth of China's economy over the years, China's national regular sports participation rate increased from 14.7% in 2014 to 18.7% in 2018, and this growth trend has been prevalent across all age groups highlighting the overall increase in China's sports participation. At the same time, China's central government has, in various occasions, promulgated a series of favorable policies to support the country's sports industry, such as the "Opinions on Promoting the National Fitness and Sports Consumption to Promote High-Quality Development of the Sports Industry" (關於促進全民健身和體育消費推動體育產業高質量發展的意見) issued by the State Council on 17 September 2019. We are optimistic about the overall development of China's sports market and look forward to embracing the positive changes in the market by continuously improving our operational capabilities and expanding the diversity and professionalism of our products and services provided to consumers.

BUSINESS REVIEW

In the First Half of the Financial Year ending 29 February 2020, we recorded a steady growth in terms of the number of stores and members, revenue and profit. We also fostered closer digital relationships with our consumers through our membership program while expanding and optimizing our physical store network. As the direction of our technological exploration become clearer, we will continue to promote our digital transformation, enhance our store-based online community, and deepen our integration of online and offline consumer interactions.

1. Retail Network Pruning and Optimization

We constantly assess and optimize our retail network, and have recently been closing low-productivity and loss-making stores. In terms of store count, we recorded a net increase of 22 stores in the six months ended on 31 August 2019, with gross selling area increasing by 5.2%, while recorded a net decrease of 223 stores as compared with 31 August 2018, with gross selling area increasing by 6.8%. The store pruning and optimization is approaching its end, through which we have consolidated our retail network advantage. In the future, while prudently opening new stores, we will continue to proactively transform and upgrade the stores with proven higher sales potential to create better store services and experiences.

The following table sets forth the numbers and percentages of our stores by size as of the dates indicated.

	2017		As of 28 February 2018		2019		As of 31 August 2019	
		%		%		%		%
<i>Store size:</i>								
150 sq.m or smaller	5,918	77.8%	6,268	75.5%	5,947	71.3%	5,859	70.0%
Between 150 and 300 sq.m	1,487	19.6%	1,779	21.4%	1,978	23.7%	1,961	23.5%
Larger than 300 sq.m	200	2.6%	255	3.1%	418	5.0%	545	6.5%
Total	7,605	100.0%	8,302	100.0%	8,343	100.0%	8,365	100.0%

2. Continuous Development of Our Membership Program

In the past six months, through continuously enriching our member benefits, we have further enhanced our engagement with consumers. Our cumulative number of enrolled members as well as the number of active purchasing members have steadily increased. As of 31 August 2019, our cumulative number of enrolled members reached 21.2 million, and during the quarters as of 31 May and 31 August 2019, the number of active purchasing members was 5.1 million and 5.9 million, respectively. The continued expansion of our membership program not only helps us serve our consumers in more dimensions and across a wider range, but also enables us to continue to enhance our understanding of consumers.

	30 November 2018	As of 28 February 2019	31 May 2019	31 August 2019
Cumulative number of our enrolled members	11.9	14.2	17.4	21.2
Number of active purchasing members during the quarter ended	2.6	3.5	5.1	5.9
Total in-store retail sales value (inclusive of VAT) contributed by members for the quarter ended	41.5%	52.3%	70.8%	81.4%

Unit: Million

3. Deepen Technology-Enabled Initiatives

In the six months ended 31 August 2019, we accelerated the pace of our digital transformation, continuing the implementation of our technology-enabled initiatives across all aspects of business operations. We also improved our operational efficiency and enhanced consumer and market insights by leveraging new technology tools and measures. For example, we used mobile digital toolkits to empower our front-line employees to conduct real-time operational adjustments, reduce their operational burden and increase their efficiency, thereby allowing them to focus on serving our customers; at the same time, we continued to develop the store-based online communities in certain pilot stores from our retail network, continued the in-depth integration of our online and offline consumer interactions, and continued our active exploration on how to improve the service capability of our individual stores and reach our customers beyond the physical boundaries of stores.

OUTLOOK

Our growth measures mainly include:

- Accelerate our digital transformation
- Expand and continuously upgrade our store network
- Drive deeper integration between digital and physical consumer engagement
- Expand our brand offerings and deepen collaboration with brand partners

FINANCIAL REVIEW

During the six months ended 31 August 2019, the Group recorded revenue of RMB16,957.6 million, an increase of 12.4% compared with the same period of last year. The Group recorded operating profit of RMB2,092.2 million, an increase of 17.7% compared with the same period of last year. The profit attributable to the Company's equity holders during the Period under Review amounted to RMB1,470.9 million, an increase of 21.2% compared with the same period of last year.

During the six months ended 31 August 2019, the Group recorded adjusted operating profit of RMB2,160.7 million, an increase of 20.3% compared with the same period of last year. The adjusted operating profit is adjusted by adding back the effect of listing expenses at RMB50.7 million (six months ended 31 August 2018: nil) and the amortization of intangible assets arising from business combination at RMB17.8 million (six months ended 31 August 2018: RMB17.8 million).

During the six months ended 31 August 2019, the Group recorded adjusted profit attributable to the Company's equity holders of RMB1,535.0 million, an increase of 25.1% compared with the same period of last year. The adjusted profit attributable to the Company's equity holders is adjusted by adding back the effect of listing expenses at RMB50.7 million (six months ended 31 August 2018: nil) and the amortization of intangible assets arising from business combination, net of deferred tax at RMB13.4 million (six months ended 31 August 2018: RMB13.4 million).

REVENUE

The Group's revenue increased by 12.4%, from RMB15,092.8 million for the six months ended 31 August 2018 to RMB16,957.6 million for the six months ended 31 August 2019. The growth was mainly due to further enhancement of our store performance and growth in the gross selling area of our directly operated stores. The following table sets forth a breakdown of our revenue from sale of goods by brand categories and concessionaire fee income for the periods indicated:

	Six months ended 31 August		2018		Growth rate
	2019		2018		
	Revenue	% of total	Revenue	% of total	
Principal brands*	14,895.6	87.9%	13,450.1	89.1%	10.7%
Other brands*	1,922.7	11.3%	1,508.3	10.0%	27.5%
Concessionaire fee income	139.3	0.8%	134.4	0.9%	3.6%
Total	16,957.6	100.0%	15,092.8	100.0%	12.4%

Unit: RMB million

* Principal brands include Nike and Adidas. Other brands include PUMA, Converse, VF Corporation's brands (namely Vans, The North Face and Timberland), Reebok, ASICS, Onitsuka Tiger and Skechers. Principal brands and other brands are classified according to the Group's relative revenue.

We sell sportswear products sourced from international sports brands either directly to consumers through our retail operations or to our downstream retailers under our wholesale operations. The following table sets forth our revenue from sale of goods by sales channel and concessionaire fee income for the periods indicated:

	Six months ended 31 August		2018		Growth rate
	2019		2018		
	Revenue	% of total	Revenue	% of total	
Retail operations	14,684.5	86.6%	13,144.6	87.1%	11.7%
Wholesales operations	2,133.8	12.6%	1,813.8	12.0%	17.6%
Concessionaire fee income	139.3	0.8%	134.4	0.9%	3.6%
Total	16,957.6	100.0%	15,092.8	100.0%	12.4%

Unit: RMB million

PROFITABILITY

The Group's operating profit increased by 17.7% to RMB2,092.2 million for the six months ended 31 August 2019. The profit attributable to the Company's equity holders increased by 21.2% to RMB1,470.9 million for the six months ended 31 August 2019.

	Six months ended 31 August		
	2019	2018	Growth rate
Revenue	16,957.6	15,092.8	12.4%
Cost of sales	(9,547.9)	(8,629.2)	10.6%
Gross Profit	7,409.7	6,463.6	14.6%
Gross profit margin	43.7%	42.8%	

Unit: RMB million

Cost of sales increased by 10.6% from RMB8,629.2 million for the six months ended 31 August 2018 to RMB9,547.9 million for the six months ended 31 August 2019. Gross profit increased by 14.6% to RMB7,409.7 million for the six months ended 31 August 2019 from RMB6,463.6 million for the six months ended 31 August 2018.

During the Period under Review, the gross profit margin of the Group was 43.7%, increased by 0.9 percentage points, from 42.8% for the six months ended 31 August 2018.

Selling and distribution expenses for the six months ended 31 August 2019 were RMB4,727.8 million (six months ended 31 August 2018: RMB4,204.7 million), accounting for 27.9% of our revenue (six months ended 31 August 2018: 27.9%). Our selling and distribution expenses primarily include concessionaire and lease expenses, depreciation of right-of-use assets in relation to our stores, sales personnel salaries and commissions, other depreciation and amortization charges, and other expenses which mainly include store operation expenses, property management fees, logistic expenses and online service fees.

General and administrative expenses for the six months ended 31 August 2019 were RMB721.5 million (six months ended 31 August 2018: RMB610.7 million), accounting for 4.3% of our revenue (six months ended 31 August 2018: 4.0%). Our general and administrative expenses primarily include lease expenses in relation to our offices, management and administrative personnel salaries, depreciation and amortization charges, other tax expenses, other expenses and listing expenses. Increase in general and administrative expenses primarily due to the listing expenses of RMB50.7 million recorded during the six months ended 31 August 2019 while no such expenses for the same period of last year.

Finance income slightly decreased from RMB7.5 million for the six months ended 31 August 2018 to RMB6.5 million for the six months ended 31 August 2019. It was mainly due to decrease in bank deposits during the Period under Review.

Finance costs increased from RMB93.9 million for the six months ended 31 August 2018 to RMB118.2 million for the six months ended 31 August 2019, primarily as a result of (i) an increase in interest expense on our lease liabilities, as our previously opened new stores under lease agreements resulted in higher lease liabilities; and (ii) an increase in interest expense on our short-term bank borrowings.

Income tax expense for the six months ended 31 August 2019 amounted to RMB509.6 million (six months ended 31 August 2018: RMB477.3 million). The effective income tax rate decreased by 2.5 percentage points to 25.7% for the six months ended 31 August 2019 from 28.2% for the six months ended 31 August 2018, primarily due to the fact that we provided withholding tax provision on the profits generated by our subsidiaries in the PRC based on our latest dividend policy of approximately 50% whereas full provision was provided for the same period of last year, resulting in a decrease in income tax expenses. The statutory income tax rate for the Group in Mainland China is generally 25%.

OTHER INCOME

Other income for the six months ended 31 August 2019 amounted to RMB131.8 million (six months ended 31 August 2018: RMB152.3 million) mainly consists of government incentives.

CAPITAL EXPENDITURE

The Group's capital expenditures primarily comprised of expenditures for property, plant and equipment and intangible assets. During the six months ended 31 August 2019, the total capital expenditure was RMB261.6 million (six months ended 31 August 2018: RMB272.3 million).

NON-IFRS MEASURES

Our adjusted operating profit and adjusted profit attributable to the Company's equity holders are not calculated in accordance with IFRS, and they are considered as non-IFRS financial measures. We believe that this information is useful for investors in comparing our performance without regard to items that do not affect our ongoing operating performance or cash flow, and it allows investors to consider metrics used by our management in evaluating our performance. Investors should not consider our non-IFRS financial measure a substitute for or superior to our IFRS results.

The following table sets forth the reconciliations of our adjusted operating profit and adjusted profit attributable to the Company's equity holders for the periods indicated:

	Six months ended 31 August	
	2019	2018
Operating profit	2,092.2	1,777.8
Adding back:		
Listing expenses ⁽¹⁾	50.7	-
Amortization of intangible assets arising from business combination ⁽²⁾	17.8	17.8
Non-IFRS Measure – Adjusted operating profit	2,160.7	1,795.6
Profit attributable to the Company's equity holders	1,470.9	1,214.1
Adding back:		
Listing expenses ⁽¹⁾	50.7	-
Amortization of intangible assets arising from business combination, net of deferred tax ⁽²⁾	13.4	13.4
Non-IFRS Measure – Adjusted profit attributable to the Company's equity holders	1,535.0	1,227.5
<i>Unit: RMB million</i>		
Non-IFRS Measure – Adjusted operating profit margin	12.7%	11.9%
Non-IFRS Measure – Adjusted profit margin attributable to the Company's equity holders	9.1%	8.1%

Notes:

(1) We incurred RMB50.7 million of listing expenses for the six months ended 31 August 2019 which were recognized as expenses (six months ended 31 August 2018: nil).

(2) The amortization of our intangible assets arising from business combination is an adjustment item that is non-cash in nature. Our intangible assets arising from business combination are expected to be fully amortized by March 2020.

BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share for the six months ended 31 August 2019 increased by 21.2% to RMB27.91 cents from RMB23.03 cents for the same period of last year.

Basic earnings per share is calculated by dividing profit attributable to the Company's equity holders of RMB1,470.9 million for the six months ended 31 August 2019 (six months ended 31 August 2018: RMB1,214.1 million) by the weighted average number of ordinary shares of the Company in issue after the Capitalization Issue (as defined in Prospectus) and before completion of the Global Offering (as defined in the Prospectus), which amounted to 5,271,038,024 shares, taking into account the effect of the Capitalization Issue.

The above basic and diluted earnings per share does not and is not required to account for the 930,184,000 new shares issued pursuant to the Global Offering of the Company on 10 October 2019. As if these new shares been issued throughout the periods under review, our basic and diluted earnings per share, for illustrative purpose, is as follows:

		Six months ended 31 August 2019	2018
Profit for the period attributable to the Company's equity holders	<i>RMB million</i>	1,470.9	1,214.1
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<i>thousand of shares</i>	5,271,038	5,271,038
As if 930,184,000 new shares have been issued throughout the period	<i>thousand of shares</i>	930,184	930,184
	<i>thousand of shares</i>	6,201,222	6,201,222
Adjusted basic and diluted earnings per share, for illustrative purpose	<i>RMB cents</i>	23.72	19.58

LIQUIDITY AND FINANCIAL RESOURCES

During the Period under Review, net cash generated from operations increased by RMB666.4 million to RMB2,490.8 million for the six months ended 31 August 2019 from RMB1,824.4 million for the six months ended 31 August 2018.

Net cash used in investing activities for the six months ended 31 August 2019 was RMB256.4 million (six months ended 31 August 2018: RMB750.2 million). During the Period under Review, the Group invested RMB271.4 million on payments for purchases of property, plant and equipment and intangible assets, partly offset by proceeds from disposals of property, plant and equipment of RMB8.5 million and interest received of RMB6.5 million.

During the Period under Review, net cash used in financing activities was RMB3,056.0 million (six months ended 31 August 2018: RMB594.1 million), mainly attributable to the repayment of borrowings of RMB400.0 million, payments of the 2018/19 interim dividend of RMB1,598.0 million, payment for lease liabilities (including interest) of RMB890.0 million and changes in balances with related companies of RMB144.9 million by the Group during the period.

As at 31 August 2019, the Group held bank balances and cash totaling RMB631.5 million, after netting off the short-term bank borrowings of RMB1,982.5 million, it was in a net debt position of RMB1,351.0 million. As at 28 February 2019, the Group held bank balances and cash totaling RMB650.5 million, after netting off the short-term bank borrowings of RMB1,300.0 million, it was in a net debt position of RMB649.5 million.

PLEDGE OF ASSETS

As at 31 August 2019, no assets were pledged as security for banking facilities available to the Group.

For further details of the security granted by the Company over certain of the Company's undertakings and assets of and shares in the subsidiaries of the Company, which was released on the Listing Date (i.e. 10 October 2019), please refer to the section headed "History, Reorganization and Corporate Structure - Prior Listing of Belle International on the Stock Exchange and Subsequent Delisting" in the Prospectus.

HUMAN RESOURCES

As at 31 August 2019, the Group had a total of 38,726 employees (28 February 2019: 38,613 employees). During the six months ended 31 August 2019, total staff cost was RMB1,622.6 million (six months ended 31 August 2018: RMB1,496.7 million), accounting for 9.6% (six months ended 31 August 2018: 9.9%) of the revenue of the Group. The Group offers a competitive remuneration package to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus may be granted to eligible employees based on the Group's and individual's performance. The Group also allocated resources for providing continuing education and training for management and employees so as to improve their skills and knowledge.

GENERAL INFORMATION

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

Pursuant to the written resolutions passed by the then sole shareholder of the Company on 6 September 2019, subject to the share premium account of the Company having sufficient balance, or otherwise being credited as a result of the Offer Shares (as defined in the Prospectus) pursuant to the Global Offering, our Directors are authorized to allot and issue a total of 5,271,038,023 Shares credited as fully paid at par value to the Shareholder whose name appears on the register of members of the Company at the close of business on the date immediately preceding the date on which the Global Offering becomes unconditional (i.e. 9 October 2019) by way of capitalization of the sum of HK\$5,271.038023 standing to the credit of the share premium account of the Company.

On the Listing Date, 930,184,000 Shares of HK\$0.000001 each were issued at a price of HK\$8.5 per Share in connection with the Company's share offering and listing of its Shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Saved as disclosed above, there are no other significant events subsequent to 31 August 2019 which would materially affect the Group's operating and financial performance as of the date of this announcement.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of RMB12.00 cents per ordinary share, totaling RMB744.1 million for the six months ended 31 August 2019. The interim dividend will be paid on or about Tuesday, 10 December 2019 to members whose names appear on the register of members of the Company on Thursday, 28 November 2019.

The actual exchange rate for the purpose of dividend payment in Hong Kong dollars is the offshore exchange rate (Buying TT) of RMB against Hong Kong dollars (RMB1.00 = HK\$1.0953) as quoted by the Hong Kong Association of Banks on Wednesday, 23 October 2019, being the date on which the interim dividend is declared by the Board. Accordingly, the amount of the interim dividend is HK\$13.14 cents per ordinary share.

CLOSURE OF REGISTER OF MEMBERS

The interim dividend will be paid on or about Tuesday, 10 December 2019 to the shareholders whose names appear on the register of members of the Company on Thursday, 28 November 2019. The register of members of the Company will be closed from Tuesday, 26 November 2019 to Thursday, 28 November 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the above mentioned interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Monday, 25 November 2019.

CORPORATE GOVERNANCE

The Company's corporate governance practices are based on the principles and code provisions of the Corporate Governance Code, as set out in Appendix 14 to the Listing Rules (the "**CG Code**"), and the Company has adopted the CG Code as its own corporate governance code. The CG Code has been applicable to the Company since the Listing Date.

The Board believes that the Company has complied with all the code provisions as set out in the CG Code since the Listing Date, except for the Code Provision A.5.1 of the CG Code.

Code Provision A.5.1

Under the code provision A.5.1 of the Code, the nomination committee shall be chaired by the chairman of the Board or an independent non-executive director. Currently, Mr. YU Wu, an executive director of the Company, serves as the chairman of the Nomination Committee. Given Mr. YU is the sole executive director of the Company who is responsible for the day-to-day management and operations of the Group and his extensive expertise and insight to sportswear industry, the Board considered that Mr. YU is the suitable candidate for the chairmanship of the Nomination Committee. Besides, in consideration of the size of the Group, the appointment and removal of directors were determined collectively by the Board. The Board is empowered under the articles of association of the Company to appoint any person as a director either to fill a casual vacancy on or as an addition to the Board. The Board will select and recommend candidates for directorship and senior management having regard to the balance of skills, experience and qualifications appropriate to the Group's business.

The Board will periodically review and enhance its corporate governance practices to ensure that the Company continues to meet the requirements of the CG Code. The Directors are aware that the Group is expected to comply with the Code. Any deviation from the Code should be carefully considered and disclosed in the interim and annual reports. Save as disclosed above, the Company will continue to comply with the Code to protect the best interests of the shareholders of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the Period under Review, the Model Code as set out in Appendix 10 to the Listing Rules was not applicable to the Company as the Shares were not listed on the Stock Exchange on 31 August 2019. The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct for Directors' securities transactions. After having made specific enquiries, each Director has confirmed that he/she has complied with the requirements of the Model Code from the Listing Date and up to the date of this announcement.

AUDIT COMMITTEE

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of our Group, review the financial information of our Group and consider issues in relation to the external auditors and their appointment.

The Audit Committee comprises three Independent Non-executive Directors, namely, Mr. LAM Yiu Kin, Mr. HUA Bin and Mr. HUANG Victor. The chairman of the Audit Committee is Mr. LAM Yiu Kin, who has a professional qualification in accountancy.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters, including a review of the interim financial information for the six months ended 31 August 2019.

REMUNERATION COMMITTEE

The primary duties of the Remuneration Committee are to evaluate and make recommendations to the Board on the remuneration policy covering the Directors and senior management of our Group.

The Remuneration Committee has three members comprising Mr. HUA Bin, Mr. YU Wu and Mr. LAM Yiu Kin, two of whom are Independent Non-executive Directors. The chairman of the Remuneration Committee is Mr. HUA Bin.

NOMINATION COMMITTEE

The primary duties of the Nomination Committee are to identify, screen and recommend to the Board appropriate candidates to serve as the directors of our Company, oversee the process for evaluating the performance of the Board, review the structure, size and composition of the Board and assess the independence of the independent non-executive Directors.

The Nomination Committee has three members comprising Mr. YU Wu, Mr. HUANG Victor and Mr. LAM Yiu Kin, two of whom are Independent Non-executive Directors. The chairman of the Remuneration Committee is Mr. YU Wu.

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

From the Listing Date and up to the date of this announcement, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this announcement, the Company has maintained the prescribed minimum public float under the Listing Rules.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds (the “**Net Proceeds**”) from the initial public offering of the shares of the Company in October 2019, after deducting the underwriting fees and commissions and other estimated related expenses, of HK\$7,622.1 million are and will be utilized as stated in the Company's Prospectus.

From the date of listing of the Company and up to the date of this announcement, HK\$3,687.7 million of the Net Proceeds has been utilized to repay the outstanding amounts due to Belle International Holdings Limited and the fellow subsidiaries of the Company with HK\$29.7 million un-utilized for the same intended purpose. The Net Proceeds of HK\$800.0 million, HK\$2,210.5 million, HK\$762.2 million and HK\$132.0 million (totaling HK\$3,904.7 million), intended to be used for investing in technology initiatives to accelerate the digital transformation of the Company's business, repaying the Company's short-term borrowings, working capital and other general corporate purpose and settlement of the Company's dividend payable, respectively, are un-utilized.

The un-utilized amounts of the Net Proceeds of HK\$3,934.4 million will be applied in the manner consistent with that mentioned in the Prospectus. The Board is not aware of any material change to the planned use of Net Proceeds as at the date of this announcement. The un-utilized net proceeds have been placed as bank balances with licensed banks in Mainland China and Hong Kong as at the date of this announcement.

By order of the Board
**Topsports International Holdings
Limited**
YU Wu
CEO & Executive Director

Hong Kong, 23 October 2019

As at the date of this announcement, the Board of directors of the Company comprises Mr. YU Wu as executive director and Mr. SHENG Baijiao, Mr. SHENG Fang, Mr. CHOW Kyan Mervyn, Ms. YUNG Josephine Yuen Ching and Ms. HU Xiaoling as non-executive directors, Mr. LAM Yiu Kin, Mr. HUA Bin and Mr. HUANG Victor as independent non-executive directors.

This interim results announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.topsports.com.cn), respectively. The interim report of the Company will be dispatched to the Shareholders in due course, and will be published on the websites of The Stock Exchange of Hong Kong Limited and the Company, respectively.