



XTEP INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

SEHK stock code: 1368



2021
Interim Report

XTEP

A GLOBAL SPORTSWEAR COMPANY



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ABOUT THE GROUP

Xtep International Holdings Limited (SEHK stock code: 1368) is a leading multi-brand sportswear company listed on the Main Board of the Hong Kong Stock Exchange on 3 June 2008. The Group engages mainly in the design, development, manufacturing, sales, marketing and brand management of sports products, including footwear, apparel and accessories. Established since 2001, its own signature brand "Xtep" is a leading professional sports brand with an extensive distribution network of over 6,000 stores covering 31 provinces, autonomous regions and municipalities across the PRC and overseas. In 2019, the Group has further diversified its brand portfolio which now includes four internationally acclaimed brands, namely K-Swiss, Palladium, Saucony and Merrell.



INTERIM RESULTS AT A GLANCE

Financial and Operational Overview



Revenue

RMB 4,135 m
^12.4%



Operating profit

RMB 684 m
^36.5%



Profit attributable to ordinary equity holders

RMB 427 m
^72.0%



Interim dividend per Share

HK 11.5 cents
^76.9%
(Payout ratio: 60.0%)



Net cash and cash equivalents

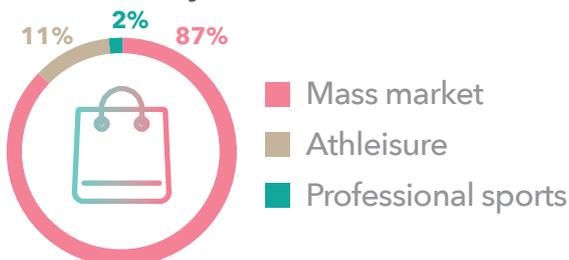
RMB 2,580 m
(31 December 2020: RMB 2,251m)



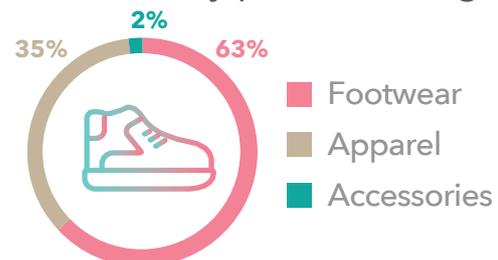
Net asset value per Share

RMB 2.91
(31 December 2020: RMB 2.87)

Revenue by brand nature¹



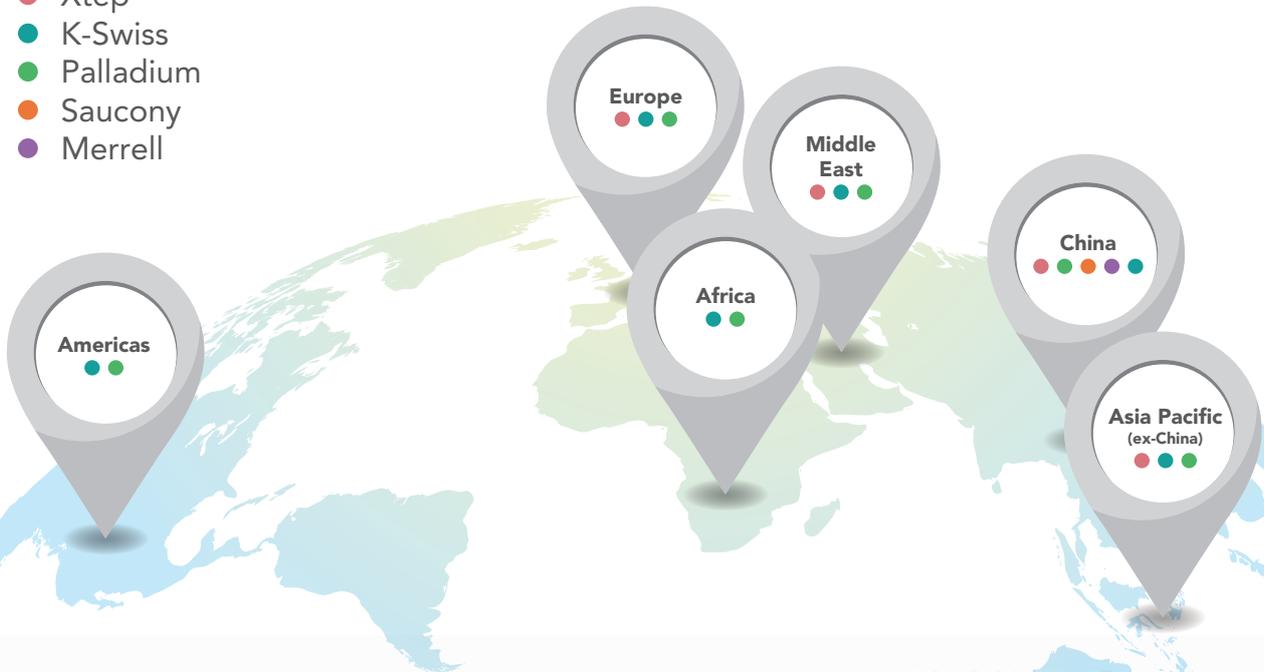
Revenue by product category



Note 1: Signature brands under different brand nature are as follows:
Mass market – Xtep
Athleisure – K-Swiss, Palladium
Professional sports – Saucony, Merrell

Worldwide retail and distribution network

- Xtep
- K-Swiss
- Palladium
- Saucony
- Merrell



FIVE-YEAR FINANCIAL SUMMARY

For the six months ended 30 June

	2021	2020	2019	2018	2017
Profitability data (RMB million)					
Revenue	4,134.9	3,679.1	3,356.9	2,729.0	2,310.8
Gross profit	1,729.4	1,489.1	1,497.3	1,193.1	1,015.6
Operating profit	683.6	500.7	717.3	592.0	479.1
Profit attributable to ordinary equity holders	426.5	247.9	463.0	375.2	310.3
Basic earnings per Share (RMB cents) (Note 1)	17.09	10.10	20.19	17.26	13.98
Profitability ratios (%)					
Gross profit margin	41.8	40.5	44.6	43.7	43.9
Operating profit margin	16.5	13.6	21.4	21.7	20.7
Net profit margin	10.3	6.7	13.8	13.7	13.4
Effective tax rate	34.7	39.6	32.0	31.8	28.1
Return on average total equity holders' equity (annualized) (Note 2)	11.5	7.1	15.2	14.1	12.2
Operating ratios (as a percentage of revenue) (%)					
Advertising and promotional costs	10.6	10.8	13.4	12.3	12.2
Staff costs	12.4	12.4	10.8	10.7	10.6
R&D costs	2.5	2.8	2.4	2.6	2.8

As at 30 June

	2021	2020	2019	2018	2017
Assets and liabilities data (RMB million)					
Non-current assets	3,682.0	3,628.2	1,438.6	1,117.7	946.4
Current assets	8,936.0	9,310.9	9,238.7	8,320.1	7,493.7
Current liabilities	3,295.5	3,810.9	3,458.3	3,091.9	2,267.4
Non-current liabilities	1,677.9	2,041.7	320.7	830.1	889.2
Non-controlling interests	70.3	88.1	64.5	108.3	94.7
Total equity holders' equity	7,574.3	6,998.4	6,833.8	5,407.4	5,188.8
Asset and working capital data					
Current asset ratio	2.7	2.4	2.7	2.7	3.3
Gearing ratio (%) (Note 3)	15.4	18.1	16.7	21.0	19.1
Net asset value per Share (RMB) (Note 4)	2.91	2.81	2.76	2.46	2.38
Average inventory turnover days (days) (Note 5)	79	94	81	104	67
Average trade receivables turnover days (days) (Note 6)	112	137	107	113	164
Average trade payables turnover days (days) (Note 7)	114	142	90	134	128
Overall working capital days (days)	77	89	98	83	103

NOTES:

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

CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Independent Non-executive Directors

Tan Wee Seng
Bao Ming Xiao
Wu Ka Chee, Davy

Board Committees

Audit Committee

Tan Wee Seng (*Chairman*)
Bao Ming Xiao
Wu Ka Chee, Davy

Remuneration Committee

Wu Ka Chee, Davy (*Chairman*)
Ding Mei Qing
Bao Ming Xiao

Nomination Committee

Ding Shui Po (*Chairman*)
Tan Wee Seng
Wu Ka Chee, Davy

Sustainability Committee

Tan Wee Seng (*Chairman*)
Ding Shui Po
Ding Mei Qing

Company Secretary

Yeung Lo Bun, FCPA

Authorized Representatives

Ding Shui Po
Yeung Lo Bun

Registered Office

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

Principal Place of Business in Hong Kong

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

Head Office in the PRC

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

Legal Adviser as to Hong Kong Laws

Loeb & Loeb LLP

Auditor

Ernst & Young
Certified Public Accountants and
Registered Public Interest Entity Auditor

Cayman Islands Principal Share Registrar and Transfer Office

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3
Building D, P.O. Box 1586
Gardenia Court, Camana Bay
Grand Cayman, KY1-1100, Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Bankers

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

Company Website

www.xtep.com.hk

CHAIRMAN'S STATEMENT

Dear Shareholders,

Mainland China started off with a positive sign in 2021 amid a largely easing and effectively controlled pandemic situation while the global pandemic still raged unabated. The Chinese economy made a remarkable turnaround in the first half of 2021 ("1H2021") and roared by 18.3% and 7.9%¹ of GDP growth in the first and second quarters of 2021, respectively, back to the pre-pandemic levels. Its total retail sales of consumer goods in the first quarter of 2021 also strongly rebounded year-on-year, resulting in a robust retail sentiment. Thanks to the multi-faceted restructuring completed in 2017 that expedited the Group's development and growth, along with the stable economic fundamentals in Mainland China and robust prospects for the sportswear sector, our core Xtep brand manifested exceptional resilience in 1H2021.

PERFORMANCE REVIEW

I am pleased to present the Group's financial performance in 1H2021. The Group's revenue rose 12.4% to RMB4,134.9 million (1H2020: RMB3,679.1 million). Revenue of the core Xtep brand increased by 12.4% to RMB3,597.1 million (1H2020: RMB3,201.0 million). The gross profit margin of the Group was 41.8% (1H2020: 40.5%). Operating profit of the Group amounted to RMB683.6 million (1H2020: RMB500.7 million). Profit attributable to ordinary equity holders of the Company was recorded at RMB426.5 million (1H2020: RMB247.9 million). Basic earnings per Share was RMB17.1 cents (1H2020: RMB10.1 cents). The Board has declared an interim dividend of HK11.5 cents (1H2020: HK6.5 cents) per Share, representing a year-on-year growth of 76.9%, with an option to receive scrip shares in lieu of cash, which is equivalent to a payout ratio of 60.0% (1H2020: 60.0%).

With full confidence in the sound business prospects, we formed a strategic partnership with private equity firm Hillhouse Group in June 2021, to provide the Group with more resources and experience to develop its global business, particularly K-Swiss and Palladium in Mainland China. Upon such cooperation and support, the Group will be in a better position than ever to go forward and gear up the development pace.

EXERT OUR STRENGTH IN FULL BLOOM ALONG WITH CHINA CHIC AESTHETIC

Against the backdrop of surging awareness of public health in Mainland China, the rise of "China chic" and patriotism among the Chinese millennials and Generation Z has further contributed to the bloom of

Chinese sportswear brands. As a leading domestic brand, our core Xtep brand, while fostering product and technology innovation, also pursues and incorporates the aesthetics of Chinese culture into our sportswear products that cater to the taste and preference of younger consumers.

Our signature "160X" professional series is an exemplar that demonstrates Xtep's state-of-the-art technology, enabling runners to achieve top speed records and win the championship in the national as well as the international marathons. Top Chinese runners such as Peng Jianhua, Yang Shaohui, and Dong Guojian who wore the signature "160X" professional series in various running competitions, surpassed their previous speeds and set new records for China. All three of them also successfully obtained the eligibility for marathon courses at the Tokyo Olympics by wearing the "160X PRO" in the Xuzhou Marathon in April this year. In one of the World's Platinum Label Race – the Xiamen Marathon, Xtep "160X" has also ranked first among all running shoe brands and surpassed international brands, with the wear rate of runners who finished the race within three hours leaping to over 50%².

Following the overwhelming success of the debut fashion show with Shaolin Temple for the crossover collection last year, we further collaborated this year to unveil our new premium label "XDNA" in the "2021 Xtep x Shaolin Series New Product Launch Conference" in May 2021. Leveraging the publicity of celebrities and influencers via livestreaming and short videos, the new label has successfully initiated topics on Weibo and went viral on various popular social media channels such as Douyin and Xiaohongshu.

Our e-commerce business enjoyed accelerated growth during 1H2021, thanks to a significant shift in consumer behaviour towards online shopping during and after the pandemic, coupling with our continuous efforts in fostering an omni-channel retailing strategy to provide an enhanced customer experience. We optimized our retail network and opened megastores with differentiated in-store layout and experience to boost sales. While leveraging various online channels, we do not only focus on marketplaces but also social media channels such as WeChat mini programs, Douyin and other live streaming platforms to drive online sales. In addition, the Kids business demonstrated robust growth in 1H2021 after its successful restructuring from product design and quality, to brand positioning and retail network management.

¹ Source: National Bureau of Statistics of China

² Source: Joyrun (Apr 2021) – footwear worn by participants who finished the 2021 Xiamen Marathon within three hours

Meanwhile, brand building and network expansion of our new brands in the Mainland China market is on track. Targeting the evolving demand of sophisticated customers for internationally acclaimed professional sports products, we continued to accelerate the store openings of Saucony and Merrell in the higher-tier cities, focus on providing localized designs without compromising on the quality of professional running shoes and apparel products.

The overseas business operations of K-Swiss and Palladium continued to be clouded by uncertainties against the backdrop of the global pandemic situation during 1H2021. The brand revamp and business restructuring for K-Swiss is still underway, with the grand opening of its first self-operated store in Mainland China expected to take place by early 2022. Palladium continued to optimize its retail network in higher-tier cities in Mainland China during 1H2021, as to enhance the brand's high street presence and brand awareness.

OUTLOOK

The uncertain pandemic situations cast a long shadow on the global landscape as well as the pace of global economic recovery. Yet, the prospects of Mainland China witnessed a solid recovery. Its economy is expected to see a major rebound this year with consumption being the pivot for economic recovery against the backdrop of the "dual circulation" policy. More efforts from the Chinese government will be made to boost domestic consumption by unleashing pent-up consumer demand. It is believed to lead to favourable market conditions for the long-term development of the sportswear sector in Mainland China. As such, we are optimistic about the Group's continual expansion and investment in Mainland China.

The core Xtep brand continues to be the Group's stable growth driver. We will focus on driving its store productivity through network optimization and enhanced customer engagement, such as enlarged store size with stylish layout and exceptional customer experience. As a vital component of our branding strategy to engage customers, we are also dedicated to uplifting the brand image by continual product innovation and diversification appealing to the youngsters' preferences.

The Group will expedite store openings in Mainland China for Saucony, Merrell and Palladium, and concentrate on K-Swiss's rebranding process. The four new brands targeting high-end customer groups with resilient spending power, are expected to give impetus to the Group in the future.

I would like to take this opportunity to express my gratitude to every staff member for their dedication, commitment and perseverance as well as our customers and business partners for their trust and support. I would also like to thank our Board members and management team for their strategic guidance. Lastly, I would like to extend my deepest gratitude to our shareholders for their support and recognition.

Mr. Ding Shui Po

Chairman

Hong Kong, 23 August 2021



MANAGEMENT DISCUSSION AND ANALYSIS



Ninth-generation stores

MARKET DEVELOPMENT

It has been more than a year after the COVID-19 outbreak. The global economy remains sluggish and its recovery still takes time. Mainland China, however, made a remarkable turnaround in 2021 given the rapid responses and strong containment measures taken by the government, alongside an increasing vaccination rate in the country, although some small COVID-19 outbreaks still scattered in certain regions. The GDP of Mainland China grew by 12.7% year on year in the first half of 2021³ as the recovery sped up. Meanwhile, the total retail sales of consumer goods in Mainland China soared 23.0% year on year in 1H2021⁴, reflecting an accelerated recovery of consumption and spending momentum.

People are changing their lifestyle into a healthier one amid the pandemic. Notably, running in Mainland China has become one of the most appealing sports activities. Benefiting from the long-term plan of the Chinese government to promote public health and a life-long exercise habit among Chinese people, including the "National Fitness Program (2021-2025)" issued by the State Council of China in August 2021, aiming to achieving a 38.5% sports participation rate by 2025, sportswear companies are able to take advantage of the exceptional development of the sports industry.

^{3,4} Source: National Bureau of Statistics of China

Embracing the wave of 'China chic'

The COVID-19 pandemic has accelerated several trends in Mainland China. The most notable of which is the growing trend of national pride and cultural confidence invoked by the successful control of pandemic and economic recovery. Consumers in Mainland China tend to shift from foreign brands to domestic brands. Statistics released by Baidu showed that the percentage of keyword searches for domestic brands surged to 75% in 2021, which was only 45% in 2016. Meanwhile, "China chic", a style which embeds the cultural heritage of China into fashion, has become sought-after, especially among millennials and Generation Z. As such, domestic sportswear companies that resonate with the tide of "China chic" to offer quality and innovative products, are well-placed to deliver better customer engagement and to further seize market share.

Stunning omni-channel development and digitalization

The development of digital ecosystem in Mainland China in 1H2021 continued to be stunning. Online retail sales of physical goods reached RMB5,026.3 billion, representing 23.7% of China's total retail sales of social consumer goods⁵.

Brands with established digital solutions were in a favorable position in the shift to digital channels. The increasing preference for omni-channel experience among consumers in Mainland China drove the rapid growth of livestreaming and private traffic online sales through platforms including Alibaba, Douyin and WeChat mini program. According to Syntun, the total

GMV of all e-commerce platforms during the 618 Shopping Festival achieved 26.5% year-on-year growth to RMB578.5 billion and the GMV driven by livestreaming channels reached RMB64.5 billion. On the other hand, physical stores in Mainland China were also experiencing digitalization. The escalating popularity of big-data analysis and tech-enabled solutions enhance the interactions between brands and consumers, thus leading to a better customer experience and eventually lifting store productivity. Domestic sportswear companies backed by a strong control over the supply chain and advanced operational infrastructures would be able to engage consumers digitally end-to-end in both online and offline channels.



BUSINESS REVIEW

Multi-brand business model

We continue to adopt the multi-brand strategy to cater to various customer groups with diverse needs. Our brand portfolio covers three market segments, namely the mass market that features the core Xtep brand, athleisure that features K-Swiss and Palladium and professional sports that features Saucony and Merrell.

Our core Xtep brand continues to offer runners in the mass market with functional and stylish sportswear of excellent value. With the growing popularity of health and wellness lifestyles, athleisure wear has turned into the new normal. K-Swiss and Palladium are committed to introducing fashion-inspired athleisure sportswear to the younger generation. Besides, Saucony and Merrell provide elite runners with professional sportswear embedded with high-end technology, aiming to boost their performances.



林书豪
品牌代言人

⁵ Source: National Bureau of Statistics of China

Management Discussion and Analysis

Mass market



Our core Xtep brand is committed to offering value-for-money professional and stylish sportswear products in the mass market. In 1H2021, the brand ranked first among all running shoe brands⁶ for the first time, with its wear rate surpassing the international brands. Besides, we continued to drive product innovation and introduced various collections that fully integrated the aesthetics of Chinese culture to gauge the tastes and preferences of the younger consumers.

Products

Performance sportswear

Award-winning professional running shoes – 160X series

In March 2021, Xtep launched new professional carbon fiber-plated running shoes, “160X 2.0”, “160X PRO” and “300X 2.0” at Shanghai International Circuit as the highlight of the Xtep 321 running festival. The model has been widely recognized by the running community, particularly, with all stocks sold out promptly within one week since its launch. “160X 2.0” also garnered the 2021 Editors’ Choice Award and Hot List Award in Mainland China again this year from Runner’s World, one of the most influential running magazines in the world.



New product release at Shanghai International Circuit

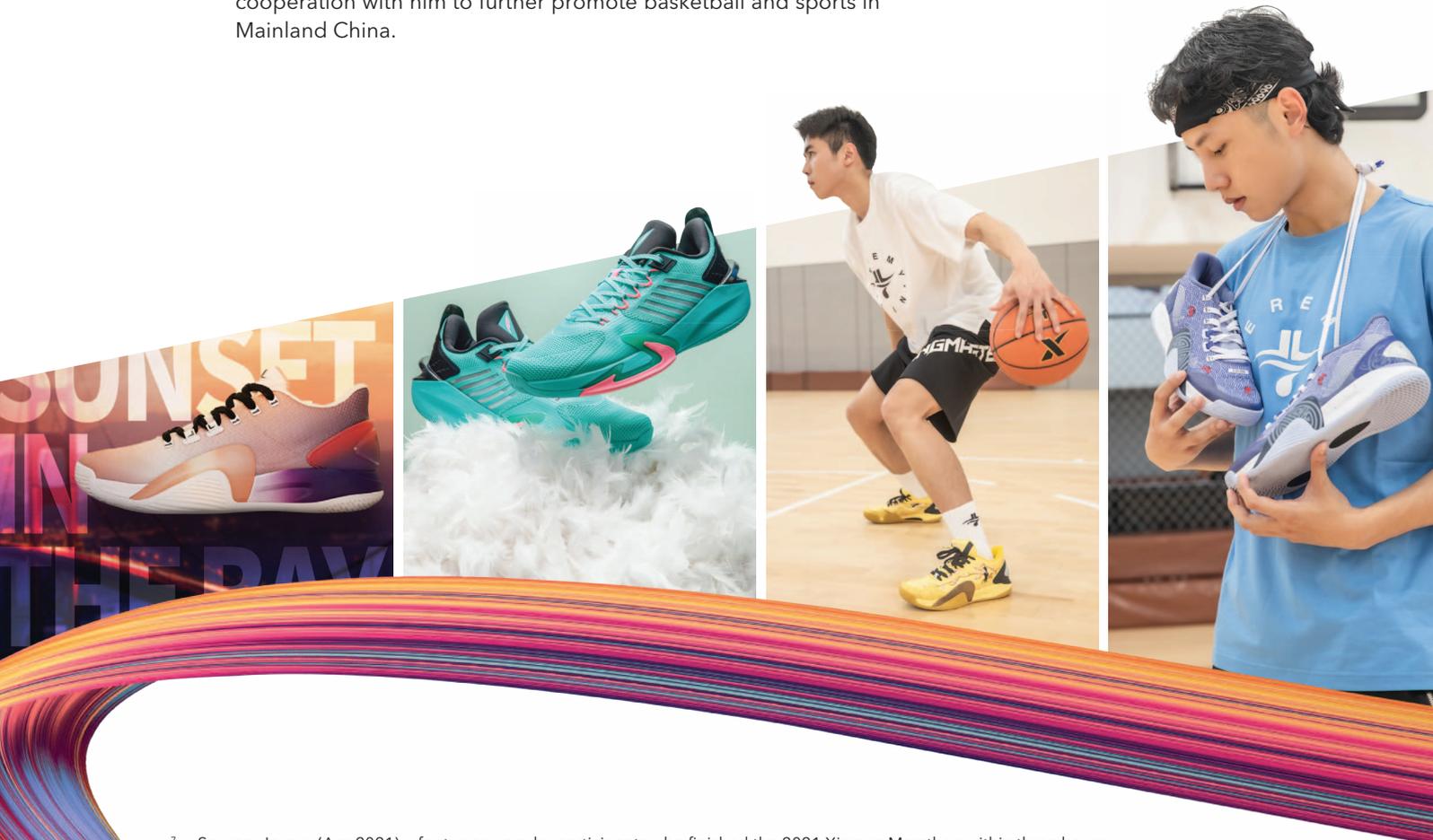
⁶ Source: Joyrun (Apr 2021) – footwear worn by participants who finished the 2021 Xiamen Marathon within three hours

Equipped with upgraded Propulsive Cushioning System, our "160X" professional series enabled runners to achieve breakthroughs in their top speed records. Top Chinese runners including Peng Jianhua, Yang Shaohui, and Dong Guojian wore the series to set new records for China in various running competitions and successfully obtained the eligibility for marathon competitions at the Tokyo Olympics this year. In addition, the shoe marked the first time for a domestic running shoe brand surpassing all international brands and ranked first in the World Platinum Label Race – the Xiamen Marathon in April 2021, with its wear rate of runners who finished the race within three hours leaping to over 50%⁷.

To further solidify our leading position in the running community, we stepped up our effort in creating a running ecosystem via the promotion of Xtep Runners Club (特跑族) to offer various running services such as product launches, community, trainings and events.

XTEP JLIN ONE basketball shoes collections

Following the successful launch of Jeremy Lin's first signature basketball shoes back in October 2020, we introduced several new designs of JLIN ONE inspired by the basketball spirit of "Nothing Stops Me" and Chinese cultural heritage. With the return of Jeremy Lin to China, we will have strong and in-depth cooperation with him to further promote basketball and sports in Mainland China.



⁷ Source: Joyrun (Apr 2021) – footwear worn by participants who finished the 2021 Xiamen Marathon within three hours

Management Discussion and Analysis

Athleisure sportswear

"XDNA" new premium label riding the wave of "China chic"

Following the debut of "Xtep x Shaolin (少林)" collection in June 2020, Xtep and Shaolin Temple have deepened the collaboration and unveiled the new premium label "XDNA" on Tmall Super Brand Day on 15 May 2021. A large scale incredible fashion show was held in Shaolin to showcase the new collections. The total GMV of the Xtep Tmall official flagship store during the brand day campaign, from 15 to 17 May 2021, reached over RMB60 million.

The new premium label "XDNA" keeps the "X" element of Xtep while integrating DNA genes from different cultures, aiming to tap into the "China chic" trend with premium collections representing beautiful elements of Chinese culture. "XDNA" will position itself at the high end of trendy product lines which heralds the start of the "New China chic" era of our core Xtep brand. The cultural and spiritual elements have been making a strong resonance with customers who never go with the flow.





Fashion show held in Shaolin

Sustainable collection

As a socially responsible company, Xtep steadfastly continued its efforts to fully integrate sustainability standards into the design, development, manufacturing, sales, marketing and brand management of sports products.

Echoing the call of the society to promote product sustainability and environmental protection, in 2020, Xtep created an environmentally-friendly technology platform, namely "XTEP-ECO", to advance the use of biodegradable materials in its products. Polylactic acid fibre ("PLA") products were introduced at the same time, with PLA content in apparel at 19%. In June 2021, we launched the PLA T-shirt, where PLA content increased from 19% to 60%. It can naturally degrade within one year if buried in a specific condition. Replacing plastic chemicals fibre with PLA can reduce the harm to the environment.



Management Discussion and Analysis

Retail management and branding

As at 30 June 2021, there were 6,015 branded stores mainly operated by authorized distributors of the Group in Mainland China and overseas.

Customer experience

We intensified our efforts to usher in new design and refurbishments to the retail stores, thereby providing customers with the vibrant spirit of moving forward with

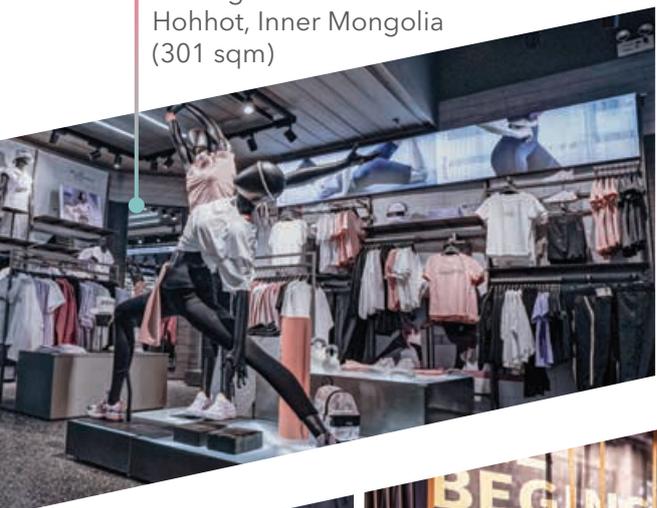
self-confidence, perseverance, and great faith. The ninth-generation stores with a larger gross floor area on average were introduced to offer a more comprehensive product assortment. With intelligent retail facilities and the trendy design, customers are able to get immersed in the breadth and depth of the core Xtep brand through the exceptional customer experience, leading to improved store productivity and brand equity.



Number of ninth-generation stores in Mainland China as at 30 June 2021:

428

Ninth-generation store in Hohhot, Inner Mongolia (301 sqm)



Ninth-generation store in Mile, Yunnan Province (518 sqm)

Management Discussion and Analysis

During 1H2021, four Xtep Run Clubs with new images and upgraded features were opened in Chengdu, Xiamen, Jiaxing and Huludao, respectively. Xtep Run Clubs, served as a focal point of local running communities, provide runners with one-stop professional running services including camp courses, training, running events, etc, in order to promote running culture and enable Xtep to obtain the runners' feedback on our products directly.



Xiamen East Rim Sea Area
Xtep Run Club



Number of Xtep
Run Clubs as at
30 June 2021:

13

Chengdu Xtep Run Club



Management Discussion and Analysis

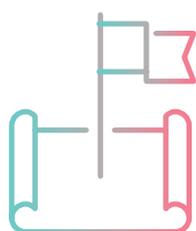
Marathon and running event sponsorship

Amid the restrictions on outdoor activities due to the COVID-19 pandemic, selected physical marathons and road races were resumed in Mainland China in 1H2021. Xtep is committed to promoting public health and we sponsored six marathons and running events during the period. Among the events sponsored by Xtep, the 2021 Xiamen Marathon has been awarded the Road Race Elite Platinum Label by World Athletics.

Xiamen Marathon



Beijing Half Marathon



Number of marathons and running events organized or sponsored by Xtep in 1H2021:

6

List of marathons and running events organized or sponsored by Xtep:

Events	Dates
1. Xiamen Marathon	10 April 2021
2. Road to Renaissance • Burnfire Relay 100 km Relay Race	11 April 2021
3. Xi'an Marathon	17 April 2021
4. Huaian Marathon	18 April 2021
5. Beijing Half Marathon	24 April 2021
6. Rushan Women's Half Marathon	16 May 2021

Celebrity spokespersons⁸

Celebrity spokespersons are crucial for us to promote a positive and stylish image of our core Xtep brand and raise brand awareness among the younger customer group.

In August 2021, we were delighted to have Dilraba, one of the most popular actresses in China, as our new spokesperson for the brand. Besides, our co-operation with Jeremy Lin continued to raise our brand affinity among basketball fans.



Sports celebrities

During 1H2021, we sponsored more than 15 professional athletes of different sport fields. Supported by our performance products with enhanced technologies, our sports spokespersons, including gold medalist Gong Lijiao, Tokyo Olympic participation standards achievers Peng Jianhua, Yang Shaohui and Dong Guojian and women's 20km race walk world record breaker Yang Jiayu, achieved extraordinary performances in various competitions.



⁸ Note: Photos of spokespersons are presented in reverse order according to contract signing time

Management Discussion and Analysis

E-commerce

The COVID-19 pandemic accelerated the shift of consumer spending from traditional physical stores to online platforms and social media channels in Mainland China. Coupled with our dedicated efforts in fostering omni-channel retail development, our e-commerce business enjoyed robust year-on-year growth and it accounted for over 30% of the core Xtep brand's revenue during 1H2021.

During the 618 Shopping Festival, the online sales of our core Xtep brand reached RMB300 million, driven by a year-on-year growth of 40% and 300% in the Xtep Tmall flagship store and JD.com official store, respectively.

Xtep Kids

The Kids business also enjoyed remarkable growth in 1H2021 after its successful restructuring from product design and quality, to brand positioning and retail network management. As at 30 June 2021, there were around 1,000 POS (31 December 2020: 800 POS) in Mainland China for Xtep Kids.

We teamed up with China Hip-Hop Union Committee (CHUC) since 2019 and in June 2021, Xtep Kids and CHUC announced an in-depth strategic partnership to support youngsters to chase their dreams through street dance with funding and superior sportswear. Besides, through the cooperation with Shaolin Temple, Xtep Kids are committed to implementing our strategy to promote positive attitudes in children and youth as well as encouraging them to build self-confidence by promoting China's intangible cultural heritage. Apart from that, Xtep Kids achieved tremendous progress in e-commerce business with year-on-year online sales growth reaching 150% during the 618 Shopping Festival in 2021.



Xtep Kids store in
Shenyang, Liaoning Province

Athleisure



The overseas business operations of K-Swiss and Palladium remained lackluster amid the macro headwinds brought by the global pandemic. During 1H2021, revenue from the athleisure segment amounted to RMB461.9 million, contributing 11.2% of the Group’s revenue.

While the recovery of the overseas business takes time, the brand revamp and business restructuring continue to take place, particularly the shift of its development focus to Mainland China. In June 2021, Hillhouse Group and Xtep formed a strategic partnership to pursue the global development of K-Swiss and Palladium. We believe that our partnership would gear up the growth of the brands and the Group going forward.

Retail management and product innovations

The business restructuring of K-Swiss and its brand repositioning are well on track. At the same time, we spare no effort in product development to expand its apparel and accessories offerings. In early 2022, K-Swiss is scheduled to launch its physical stores and e-commerce business in Mainland China. As at 30 June 2021, there were 44 self-operated stores for K-Swiss in Asia-Pacific.

During the first half of 2021, we focused on optimizing Palladium’s retail network and increasing store productivity, thus we slowed down the pace of store opening particularly in Mainland China. We expected that the store expansion plan will accelerate again in 2022. As at 30 June 2021, there were 57 and three self-operated stores for Palladium in Asia-Pacific and Europe, respectively, of which 25 stores were in Mainland China. To increase the exposure in the market and drive sales, Palladium launched its official accounts in new online platforms, including DeWu App and Douyin in May 2021. Palladium also tapped into live streaming by cooperating with celebrities and KOLs, and will further engage top-tier influencers in Tmall to increase its brand awareness and reach out to more customers.

Taking subtle inspiration from archive styles, Palladium released the canvas sneaker PALLA ACE in the first half of 2021, which were evolved for the street with standout colorways, catering to the young generations. Besides, Palladium continued to lead the sustainable footwear movement. As a frontrunner for sustainability, Palladium released the new ECO-FRIENDLY equipment collection, which employed 100% organic cotton and 100% recyclable PET material, echoing “Earth Day” 2021. On the other hand, harnessing the heritage tennis roots, K-Swiss released its new featured collections such as Ambassador Elite to merge classic design with vintage performance styling.

The two brands also continued to collaborate with various famous IPs to launch new capsule collections including Palladium X Smiley, Palladium X Finisterre and K-Swiss X My Hero Academia.



Palladium store in Shanghai New World Daimaru



Professional sports



Revenue from the professional sports segment remained minimal in 1H2021 at RMB75.8 million, contributing 1.8% of the Group’s revenue. Nonetheless, with our dedicated efforts to develop Saucony and Merrell in Mainland China, the two global leading brands have successfully lifted their recognition among Chinese customers. In particular, Saucony has achieved remarkable ranking of No. 4 among international brands in 2021 Xiamen Marathon⁹.

Retail management and product innovations

In 1H2021, we continued to roll out new stores in tier one and two cities in Mainland China with upgraded store design and layout, delivering the pioneering spirit of Saucony. In May 2021, our second-generation

store debuted in Grand Gateway 66, known as one of Shanghai’s prime and luxury shopping malls. To unlock the potential of Saucony and Merrell, more store openings of the two brands in higher-tier cities are expected in the second half of 2021. As at 30 June 2021, there were 36 and six self-operated stores for Saucony and Merrell in Mainland China, respectively.

During the Period, Saucony proactively expanded its e-commerce presence by engaging with more major e-commerce platforms in Mainland China, including DeWu APP, PDD, VIP, and other live streaming channels such as Douyin. During the 618 Shopping Festival, Saucony and Merrell achieved over 257% and 221% year-on-year online sales growth, respectively.

Saucony second generation store in Grand Gateway 66, Shanghai (93 sqm)



⁹ Source: Joyrun (Apr 2021) – footwear worn by participants who finished the 2021 Xiamen Marathon within three hours

Management Discussion and Analysis

Saucony is dedicated to offering runners boundary-pushing products that reinforce our commitment to design and innovation to help runners run faster and easier. In 1H2021, we continued to roll out new designs for the award-winning Endorphin collections. Apart from that, Saucony is always at the forefront of taking

real steps towards an eco-friendly future. The brand released sustainable collections including Jazz Court RFG, which is made with 100% natural materials and utilizes zero plastic in manufacturing. Featuring "Protecting Polar Bears' Home" as a theme, a series of apparel products, made of organic cotton, were introduced.

Jazz Court RFG made with 100% natural materials



Saucony's "Protecting Polar Bears' Home" feature products

As for Merrell, the new Hydro Moc collection designed for the trails that take adventurers in and out of water was released. By collaborating with well-known surfers and KOLs, our water-friendly Hydro Moc family went viral. The brand also released a new crossover collection Merrell X A.FOUR Found by Kazuki Kuraish, a Japanese fashion and footwear designer. This collection caters to the growing popularity of urban outdoor activities and gained recognition among young generations.

Merrell Hydro Moc



Merrell X A.FOUR Found by Kazuki Kuraish

Management Discussion and Analysis

Operations Management

Supply chain management

We continued to optimize our supply chain management to ensure seamless business operations.

Group's production capacity allocation



We began the construction of our new in-house production facility with a gross floor area of approximately 85,000 square meters in 2020 in Shishi, Fujian Province in Mainland China. Upon completion, the facility will enhance our productivity efficiency.

The construction of our industrial park with a gross floor area of approximately 200,000 square meters in Jinjiang, Fujian Province in Mainland China is on track. The industrial park will be our central warehouse to deliver the finished products manufactured in our in-house production facilities directly to our branded retail stores and designated warehouses in Mainland China. The industrial park will also serve as the sales fair and product exhibition center for new products.

Human resources management

We continued to support our employees through comprehensive professional training and development to drive their individual growth. Our Xtep Talent Development Center has offered diversified and comprehensive training to the employees since 2014. We continued to offer courses ranging from professional skills, corporate culture and retail to leadership. As at 30 June 2021, our Xtep Talent Development Center provided over 140,000 hours of online and offline training to the employees.





Prospects

The Group remains optimistic about the prospects of business, in particular in Mainland China, supported by the country's basically recovered economy and the favorable sportswear market, as well as its higher domestic consumption towards local brands on the rise of "China chic" that serves as a catalyst to the Group's growth.

Our core Xtep brand that fosters product advancement and technology innovation, will continue to offer breakthrough products to the mass market. The brand will also focus on opening the "ninth generation stores" with enlarged store area and exceptional customer experience, aiming to boost store productivity and enhance its brand positioning. We are confident that the core Xtep brand will continue to be a leading driver of growth to the Group.

On the other hand, our four new brands will lead us to a sustainable business development in the coming years. Saucony and Merrell, under the professional sports segment, will mainly focus on brand building in Mainland China. Saucony will continue its store opening and increase its apparel and localized product

offerings in the second half of 2021 to build up its brand awareness and recognition.

Our strategic partnership with Hillhouse Group also gives us a big boost to build K-Swiss and Palladium, our two new brands in athleisure segment, globally. Brand restructuring of K-Swiss is on track, with its first self-operated store in Mainland China expected to be launched in early 2022. Palladium will focus its effort on retail network optimization this year, and plan to roll out more stores in higher-tier cities in Mainland China in 2022 in order to lift its brand awareness and exposure among the younger generation.

Against the backdrop of stable economic fundamentals and resilient market demand in the sportswear sector in Mainland China, our multi-brand strategy can further ride on such advantages to fully cater to different customer groups from the mass market to the sophisticated customer base, and address their diverse needs from professional sportswear to athleisure products. We are confident to pursue a long-term sustainable growth of the Group and drive the market share with our robust strategies, as well as to solidify the Group's position as one of the leading sportswear companies in Mainland China.

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 ended 30 June

	2021 Revenue		2020 Revenue		Change in revenue
	(RMB Million)	(% of Revenue)	(RMB Million)	(% of Revenue)	(%)
Footwear	2,604.1	63.0	2,253.8	61.3	15.5
Apparel	1,451.6	35.1	1,339.3	36.4	8.4
Accessories	79.2	1.9	86.0	2.3	-8.0
Total	4,134.9	100.0	3,679.1	100.0	12.4

Group Revenue Breakdown by Brand Nature

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

For the period ended 30 June

	2021 Revenue		2020 Revenue		Change in revenue
	(RMB Million)	(% of Revenue)	(RMB Million)	(% of Revenue)	(%)
Mass market	3,597.1	87.0	3,201.0	87.0	12.4
Athleisure	461.9	11.2	458.6	12.5	0.7
Professional sports	75.9	1.8	19.5	0.5	289.5
Total	4,134.9	100.0	3,679.1	100.0	12.4

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

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

The Group's total revenue for the period ended 30 June 2021 amounted to approximately RMB4.1 billion (2020: RMB3.7 billion), which was mainly driven by revenue contributions from mass market's signature brand as a result of replenishment orders from distributors, growth from e-commerce business and kids business.

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 ended 30 June

	2021		2020		Change in gross profit (%)	Change in gross profit margin (% point)
	Gross profit (RMB Million)	Gross profit margin (%)	Gross profit (RMB Million)	Gross profit margin (%)		
Footwear	1,110.9	42.7	901.4	40.0	23.2	2.7
Apparel	592.1	40.8	558.5	41.7	6.0	-0.9
Accessories	26.4	33.3	29.2	33.9	-9.5	-0.6
Total	1,729.4	41.8	1,489.1	40.5	16.1	1.3

The Group's overall gross profit margin increased by 1.3 percentage point to 41.8% (2020: 40.5%). The increase in the overall gross profit margin was mainly contributed by the change in product mix, margin contributions from different brands and e-commerce channel.

Gross Profit and Gross Profit Margin Breakdown by Brand Nature

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

For the period ended 30 June

	2021		2020		Change in gross profit (%)	Change in gross profit margin (% point)
	Gross profit (RMB Million)	Gross profit margin (%)	Gross profit (RMB Million)	Gross profit margin (%)		
Mass market	1,494.3	41.5	1,296.0	40.5	15.3	1.0
Athleisure	200.7	43.5	185.6	40.5	8.1	3.0
Professional sports	34.4	45.4	7.5	38.7	357.0	6.7
Total	1,729.4	41.8	1,489.1	40.5	16.1	1.3

Other Income and Gains

For the period ended 30 June 2021, other income and gains of the Group mainly represented the subsidized income from the governments, which amounted to approximately RMB145.1 million (2020: RMB139.2 million); the income derived from financial investments, term deposits and structured bank deposits was approximately RMB34.4 million (2020: RMB48.2 million), which was the interest income derived from treasury deposit products; dividend income from an equity investment designated at fair value through other comprehensive income ("FVOCI") was approximately RMB9.5 million (2020: Nil). The increase in other income and gains was mainly due to the increase in dividend income from an equity investment designated at FVOCI and the increase in subsidized income from the governments.

Selling and Distribution Expenses

For the period ended 30 June 2021, the Group's selling and distribution expenses amounted to approximately RMB774.2 million (2020: RMB685.2 million), representing approximately 18.7% (2020: 18.6%) of the Group's total revenue. The increase in selling and distribution expenses of approximately RMB89.0 million was mainly due to the increase in advertising and promotional costs and staff costs. The advertising and promotional costs for the period amounted to approximately RMB436.6 million (2020: RMB396.2 million), representing approximately 10.6% (2020: 10.8%) of the Group's total revenue. The increase in advertising and promotional costs was mainly due to the increase in running events promotions.

Management Discussion and Analysis

General and Administrative Expenses

For the period ended 30 June 2021, the Group's general and administrative expenses amounted to approximately RMB482.6 million (2020: RMB512.9 million), which represented approximately 11.7% (2020: 13.9%) of the Group's total revenue. The decrease in general and administrative expenses was mainly attributed to:

- 1) a write-back of impairment for trade receivables amounted to RMB19.5 million (2020: impairment of trade receivables amounted to RMB43.9 million).
- 2) a reversal of impairment provision for inventories amounted to RMB7.3 million (2020: impairment provision for inventories amounted to RMB14.5 million).

which were offset by an increase in staff costs and share award scheme expense of approximately RMB32.6 million and RMB13.8 million respectively.

Net Finance Costs

The total net finance costs of the Group for the period ended 30 June 2021 amounted to approximately RMB30.3 million (2020: RMB77.4 million). The decrease in net finance costs was mainly due to the fair value gain on interest rate swaps amounted to RMB4.0 million (2020: fair value loss amounted to RMB15.1 million) and the decrease in interest expense on bank loans and discounted bills receivables (2021: RMB37.9 million; 2020: RMB58.0 million) which was resulted from the decrease in interest rates and bank borrowings during the Period.

Operating Profit and Operating Profit Margin Breakdown

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

For the period ended 30 June

	2021		2020		Change in operating profit/(loss) (%)	Change in operating profit/(loss) margin (% point)
	Operating profit/(loss) (RMB Million)	Operating profit/(loss) margin (%)	Operating profit/(loss) (RMB Million)	Operating profit/(loss) margin (%)		
Mass market	771.1	21.4	584.7	18.3	31.9	3.1
Athleisure	(40.5)	(8.8)	(47.7)	(10.4)	-15.0	1.6
Professional sports	(10.7)	(14.1)	(4.0)	(20.4)	170.2	6.3
	719.9	17.4	533.0	14.5	35.0	2.9
Corporate	(36.3)	N/A	(32.3)	N/A	12.4	N/A
Total	683.6	16.5	500.7	13.6	36.5	2.9

The operating profit margin increased by 2.9 percentage points due to the increase in operating profit from mass market and offset by the operating losses arising from the athleisure and professional sports during the Period.

Income Tax Expenses

Income tax provision of the Group for the period ended 30 June 2021 was approximately RMB224.0 million (2020: RMB165.6 million). The income tax provision included profit tax provision relating to operating companies, which amounted to approximately RMB183.4 million (2020: RMB166.2 million). Also, there was an under-provision of income tax of approximately RMB4.0 million (2020: over-provision of RMB4.7 million). The Company holds certain PRC subsidiary companies which have retained profits that can be distributed to the Company in the future. In this connection, the Company had provided a provision of withholding tax on undistributed profits amounted to RMB38.0 million (2020: RMB5.0 million) during the Period.

Profit Attributable to Ordinary Equity Holders and Net Profit Margin

For the period ended 30 June 2021, the profit attributable to ordinary equity holders was approximately RMB426.5 million (2020: RMB247.9 million), representing an increase of approximately 72.0% over the same period in last year. The increase was mainly due to the increase in operating profit during the Period.

The Group's net profit margin amounted to 10.3% (2020: 6.7%).

Dividend

The Group maintained a high level of cash and bank balances. The Board continued to maintain high Shareholders' dividend return and therefore resolved to distribute an interim dividend of HK11.5 cents per Share (2020: HK6.5 cents per Share). The proposed interim dividend will be offered with a scrip dividend option to the Shareholders, which will allow them to receive new shares of the Company in lieu of cash. Participation in the scrip dividend scheme will be optional. The scrip dividend scheme is subject to the Hong Kong Stock Exchange granting the listing of and permission to deal in the new Shares to be issued pursuant thereto. A circular containing details of this scrip dividend scheme and a form of election, together with this interim report, will be dispatched to the Shareholders.

Working Capital Cycle

For the period ended 30 June 2021, the Group's overall working capital turnover days was 77 days (2020: 89 days).

For the period ended 30 June

WORKING CAPITAL TURNOVER DAYS	2021 Days	2020 Days	Changes Days
Inventories	79	94	-15
Trade receivables	112	137	-25
Trade payables	114	142	-28
Overall working capital turnover days	77	89	-12

The turnover days for inventories, trade receivables and trade payables decreased by 15 days, 25 days and 28 days respectively resulting in a decrease in overall working capital turnover days by 12 days.

Bills Receivables

In order to have more flexibilities in utilizing working capital facilities, the Group utilized the acceptance and usage of bills receivables. As of 30 June 2021, the bills receivables amounted to approximately RMB456.6 million (31 December 2020: RMB475.5 million). For the period ended 30 June 2021, the number of turnover days of bills receivables was 21 days (2020: 18 days).

Management Discussion and Analysis

Liquidity and Capital Resources

As of 30 June 2021, the Group's cash and cash equivalents amounted to approximately RMB3,757.8 million (31 December 2020: RMB3,471.9 million), representing an increase of approximately RMB285.9 million. The increase in the Group's cash and cash equivalents is summarized as follows:

	Six months ended 30 June	
	2021	2020
	RMB million	RMB million
Cash generated from operating activities	884.7	505.8
Income and withholding tax paid	(173.3)	(172.5)
Net interest expenses paid	(27.0)	(59.8)
Net cash flow generated from operating activities	684.4	273.5
Decrease in pledged bank deposits	177.4	163.2
Decrease in structured bank deposits	-	400.0
Increase in term deposits	-	(500.0)
Prepayment for investment in an associate	(125.5)	-
Increase in investment in an associate	(29.4)	(12.8)
Increase in property, plant and equipment	(120.7)	(62.5)
Dividends paid	(122.5)	(155.5)
Net repayment of bank borrowings	(150.2)	(63.7)
Others	(27.6)	39.6
Net increase in cash and cash equivalents	285.9	81.8

The net cash and cash equivalents (including term deposits and pledged bank deposits minus bank borrowings) were approximately RMB2,580.2 million as at 30 June 2021 (31 December 2020: RMB2,251.4 million).

	30 June	31 December
	2021	2020
	RMB million	RMB million
Cash and cash equivalents	3,757.8	3,471.9
Bank deposits	759.9	937.3
Total bank deposits and bank balances	4,517.7	4,409.2
Less: Bank borrowings	(1,937.5)	(2,157.8)
Net cash and cash equivalents	2,580.2	2,251.4

As of 30 June 2021, the Group's gearing ratio was 15.4% (31 December 2020: 17.2%), which is defined as the total bank borrowings divided by the Group's total assets.

As of 30 June 2021, the total assets of the Group amounted to RMB12,618.0 million (31 December 2020: RMB12,571.7 million), represented by non-current assets of RMB3,682.0 million (31 December 2020: RMB3,544.4 million) and current assets of RMB8,936.0 million (31 December 2020: RMB9,027.3 million). The total liabilities of the Group amounted to RMB4,973.4 million (31 December 2020: RMB5,273.0 million), represented by non-current liabilities of RMB1,677.9 million (31 December 2020: RMB1,938.7 million) and current liabilities of RMB3,295.5 million (31 December 2020: RMB3,334.3 million). The total non-controlling interests of the Group amounted to RMB70.3 million (31 December 2020: RMB75.4 million). Hence, the total net assets of the Group amounted to RMB7,644.6 million (31 December 2020: RMB7,298.7 million), representing an increase of 4.7%. Net assets per Share as at 30 June 2021 were approximately RMB2.91 (31 December 2020: RMB2.87), representing an increase of 1.4%.

Impairment Provision for Inventories

During the Period, the Group recorded a reversal of impairment provision for inventories amounted to RMB7.3 million (2020: impairment provision for inventories amounted to RMB14.5 million).

Impairment for Trade Receivables

During the Period, the Group recorded a write-back of impairment for trade receivables amounted to RMB19.5 million (2020: impairment for trade receivables amounted to RMB43.9 million).

Impairment for Right-of-use Assets

During the Period, the Group did not record any impairment for right-of-use assets (2020: impairment for right-of-use assets amounted to RMB6.6 million) mainly relating to the leases of certain retail stores in the athleisure segment.

Commitments

Details of the Group's commitments are stated in note 21 of the interim financial information.

Contingent Liabilities

As of 30 June 2021, the Group did not have any material contingent liabilities.

Charge of Assets

Save as disclosed in notes 15 and 18 of the interim financial information relating to certain amounts of bank deposits pledged to secure certain banking facilities, none of the Group's assets was pledged as at 30 June 2021.

Foreign Currency Risks

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

Interest Rate Risks

Interest on bank borrowings is mainly charged at floating rates. To mitigate the exposures to floating interest rate risk, the Group had entered into various interest rate swap contracts at an aggregate notional amount of HK\$1,440 million (equivalent to approximately RMB1,179.4 million) (2020: HK\$1,440 million) with fixed swap rates ranging from 0.88% to 1.18% per annum in 2020.

Significant Investments and Material Acquisitions and Disposals of Subsidiaries

During the Period, the Group did not have any significant investments or acquisitions or sales of subsidiaries. No plans have been authorized by the Board for any material investments or additions of capital assets as at the date of this interim report.

Acquisition of Property by a wholly-owned Subsidiary

On 5 February 2021, Shanghai Xtep Sports Products Co., Ltd. (上海特步體育用品有限公司), a wholly-owned subsidiary of the Company, being the Purchaser, and an independent third party, being the Vendor, entered into the letter of intent in connection with the acquisition of the property situated at Tower E, Land Lot 19-02, Qibao Eco-commercial Park, Alley 1699, Xinzhen Road, Minxing District, Shanghai, PRC (上海市閔行區新鎮路1699弄七寶生態商務園區19-02地塊E棟) (the "Property") and the 80 parking spaces at the basement of the Property at a total consideration of RMB463,600,000 (subject to adjustment).

On 16 August 2021, formal sales agreements for the acquisition of all units of the Property were entered into between the parties. Formal sales agreements for the parking spaces will be entered into between the parties at a later date.

Management Discussion and Analysis

Issue of Convertible Bonds in Principal Amount of HK\$500,000,000 under General Mandate and the Use of Proceeds

On 15 June 2021, the Company entered into the subscription agreement with an investor, pursuant to which the investor had conditionally agreed to subscribe for and the Company had conditionally agreed to issue the convertible bonds in the aggregate principal amount of HK\$500,000,000, subject to the terms and conditions set out in the subscription agreement. The ultimate beneficial owner of the investor was a third party independent of the Company and its connected persons. Upon full conversion of the convertible bonds at the initial conversion price, a maximum of 54,362,449 conversion shares will be issued.

The gross proceeds and net proceeds from the issue of the convertible bonds will be HK\$500,000,000 and approximately HK\$499,000,000, respectively. The Group intends to apply the net proceeds from the issue of the convertible bonds for the refinancing of existing debts, working capital and other general corporate purposes.

As at 30 June 2021 and up to the date of this interim report, the issue of the convertible bonds had not been completed.

Human Resources

As of 30 June 2021, the Group had approximately 8,500 employees (31 December 2020: 8,000 employees). The Group provides introductory orientation programs and continuous training to its employees. Topics covered included industry knowledge, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and standards of our staff. The Group will strive to strengthen human resources management to provide strong support for the development of its business through staff recruitment initiatives, optimization of the organizational structure and promotion of our corporate culture to ensure that it can maintain sustainable development in the future.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE CODE

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

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

MODEL CODE

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

REVIEW OF INTERIM FINANCIAL INFORMATION

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules. The audit committee of the Company has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of the interim results and the unaudited interim financial information for the Period.

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

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

Except for the potential issue of convertible bonds in principal amount of HK\$500,000,000 under general mandate by the Company, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Period.

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 2021, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO). They have notified 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 have otherwise notified the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Long Positions in the Company

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company ⁽¹⁾
Mr. Ding Shui Po	Founder and beneficiary of a discretionary trust ⁽²⁾ / Beneficial interests ⁽³⁾	1,370,734,500	52.14%
Ms. Ding Mei Qing	Founder and beneficiary of a discretionary trust ⁽²⁾	1,310,059,500	49.83%
Mr. Ding Ming Zhong	Founder and beneficiary of a discretionary trust ⁽²⁾	1,310,059,500	49.83%
Mr. Tan Wee Seng	Beneficial interests	283,068 ⁽⁴⁾	0.01%

Notes:

- (1) It was based on 2,628,843,069 issued Shares of the Company as at 30 June 2021.
- (2) Each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong established a family trust (each, a "Family Trust" and collectively, the "Family Trusts") for the benefit of himself/herself and their respective family members. UBS Trustees (BVI) Limited is the trustee of the Family Trusts.

The Family Trusts (through their controlled companies) indirectly hold 1,310,059,500 Shares in aggregate and therefore each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong is deemed to be interested in 1,310,059,500 Shares of the Company.
- (3) Mr. Ding Shui Po is also beneficially interested in 60,675,000 Shares of the Company.
- (4) 100,000 of these Shares were issued to Mr. Tan Wee Seng upon the exercise of options granted on 7 December 2011 under the Share Option Scheme. The remaining 180,000 of these Shares were acquired by Mr. Tan on the Stock Exchange. Mr. Tan elected to receive the 2020 final dividend of HK\$0.075 per Share by way of scrip dividends in lieu of cash for the 280,000 Shares held by Mr. Tan, which amounted to 3,068 Shares.

Saved as disclosed above, as at 30 June 2021, 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.

Corporate Governance and Other Information

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

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

So far as is known to any Director or chief executive of the Company, as at 30 June 2021, 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	49.83%
Wan Xing International Holdings Limited	Interests of controlled corporation ⁽²⁾	1,310,059,500	49.83%
Ding Wang Fortune Limited	Interests of controlled corporation ⁽³⁾	1,310,059,500	49.83%
Guan Hong Development Limited	Interests of controlled corporation ⁽³⁾	1,310,059,500	49.83%
Ming Zhong Family Limited	Interests of controlled corporation ⁽³⁾	1,310,059,500	49.83%
UBS Trustees (BVI) Limited	Trustee ⁽³⁾	1,310,059,500	49.83%

Notes:

- (1) It was based on 2,628,843,069 issued Shares of the Company as at 30 June 2021.
- (2) Wan Xing International Holdings Limited is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing International Holdings Limited.
- (3) Each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong established a family trust (each, a "Family Trust" and collectively, the "Family Trusts") for the benefit of himself/herself and their respective family members. UBS Trustees (BVI) Limited is the trustee of the Family Trusts and, through its nominee UBS Nominees Limited, holds the entire issued share capital of each of Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited as the respective trust assets under the Family Trusts.

Each of Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing International Holdings Limited, which is in turn held as to 67%, 21% and 12% by Ding Wang Fortune Limited, Guan Hong Development Limited and Ming Zhong Family Limited, respectively.

Save as disclosed above, as at 30 June 2021, 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.

Corporate Governance and Other Information

SHARE AWARD SCHEME

The Company has adopted a 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.

During the period ended 30 June 2021, a total of 75,000,000 Awarded Shares were granted to employees of the Group at nil consideration under the Scheme subject to vesting conditions.

Further details of the Scheme are set out in note 20 to the interim financial information.

SPECIFIC PERFORMANCE OBLIGATIONS ON CERTAIN CONTROLLING SHAREHOLDERS

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

The Facility is guaranteed by certain subsidiaries of the Company.

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

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

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

As at 30 June 2021 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 49.83% of the issued share capital of the Company. Mr. Ding Shui Po also had personal beneficial interests in approximately 2.31% of the issued share capital of the Company.

INDEPENDENT REVIEW REPORT



To the board of directors of Xtep International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 38 to 65, which comprise the condensed consolidated statement of financial position of Xtep International Holdings Limited and its subsidiaries as at 30 June 2021, and the related condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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

Scope of review

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

Conclusion

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

Ernst & Young

Certified Public Accountants

27/F, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

23 August 2021

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
REVENUE	5	4,134,888	3,679,061
Cost of sales		(2,405,503)	(2,189,918)
Gross profit		1,729,385	1,489,143
Other income and gains, net	5	210,975	209,697
Selling and distribution expenses		(774,193)	(685,180)
General and administrative expenses		(482,590)	(512,911)
Operating profit	6	683,577	500,749
Net finance costs	7	(30,317)	(77,434)
Share of losses of associates		(7,628)	(5,342)
PROFIT BEFORE TAX		645,632	417,973
Income tax expense	8	(223,952)	(165,583)
PROFIT FOR THE PERIOD		421,680	252,390
Attributable to:			
Ordinary equity holders of the Company		426,539	247,921
Non-controlling interests		(4,859)	4,469
		421,680	252,390
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10		
Basic		RMB17.09 cents	RMB10.10 cents
Diluted		RMB16.84 cents	RMB10.01 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2021

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	421,680	252,390
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Other comprehensive expense that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements of operations outside Mainland China	(3,996)	(4,615)
	(3,996)	(4,615)
Other comprehensive income/(expense) that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income	30,700	8,400
Income tax effect	(4,605)	(1,260)
	26,095	7,140
Other comprehensive income for the period, net of tax	22,099	2,525
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	443,779	254,915
Attributable to:		
Ordinary equity holders of the Company	448,910	250,446
Non-controlling interests	(5,131)	4,469
	443,779	254,915

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2021

	Notes	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		852,190	796,230
Investment properties		29,762	31,170
Right-of-use assets		393,930	429,283
Goodwill		758,133	787,112
Intangible assets		678,932	709,415
Investments in associates		56,112	33,691
Term deposits	15	500,000	500,000
Equity investments designated at fair value through other comprehensive income	14	215,265	184,565
Prepayment, deposits and other asset	13	197,650	72,931
Total non-current assets		3,681,974	3,544,397
CURRENT ASSETS			
Inventories	11	1,096,264	974,803
Trade receivables	12	2,303,192	2,760,306
Bills receivable	12	456,616	475,500
Prepayments, other receivables and other assets	13	1,055,746	898,937
Tax recoverable		6,503	8,498
Pledged bank deposits	15	259,907	437,297
Cash and cash equivalents	15	3,757,754	3,471,951
Total current assets		8,935,982	9,027,292
CURRENT LIABILITIES			
Trade payables	16	1,514,924	1,478,866
Other payables and accruals	17	927,129	1,051,972
Interest-bearing bank borrowings	18	616,780	642,335
Lease liabilities		126,397	74,845
Deferred subsidies		577	577
Tax payable		109,662	85,719
Total current liabilities		3,295,469	3,334,314
NET CURRENT ASSETS		5,640,513	5,692,978
TOTAL ASSETS LESS CURRENT LIABILITIES		9,322,487	9,237,375

Interim Condensed Consolidated Statement of Financial Position

30 June 2021

	Notes	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	18	1,320,675	1,515,507
Derivative financial instruments	17	17,144	21,912
Lease liabilities		46,527	130,858
Deferred tax liabilities		260,809	237,027
Deferred subsidies		20,207	20,495
Other liabilities		12,497	12,851
Total non-current liabilities		1,677,859	1,938,650
NET ASSETS			
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Share capital	19	23,080	22,395
Reserves		7,551,287	7,200,938
Non-controlling interests		7,574,367	7,223,333
		70,261	75,392
Total equity		7,644,628	7,298,725

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2021

Six months ended 30 June 2021 (Unaudited)

	Attributable to ordinary equity holders of the Company													Non-controlling interests	Total equity
	Notes	Reserves											Total		
		Share capital	Share premium account	Capital reserve	Statutory surplus fund	Treasury shares	Share award reserve	Exchange fluctuation reserve	Fair value reserve	Retained profits	Total reserves				
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2021 (audited)		22,395	1,652,502	118,615	892,031	(116,321)	3,174	(51,494)	31,590	4,670,841	7,200,938	7,223,333	75,392	7,298,725	
Profit/(loss) for the period		-	-	-	-	-	-	-	-	426,539	426,539	426,539	(4,859)	421,680	
Other comprehensive income/(expense) for the period		-	-	-	-	-	-	(3,724)	26,095	-	22,371	22,371	(272)	22,099	
Total comprehensive income/(expense) for the period		-	-	-	-	-	-	(3,724)	26,095	426,539	448,910	448,910	(5,131)	443,779	
2020 final dividend declared and paid	9(b)	-	-	-	-	-	-	-	-	(153,202)	(153,202)	(153,202)	-	(153,202)	
Shares issued in lieu of cash dividend	19(a)	56	38,489	-	-	(7,832)	-	-	-	-	30,657	30,713	-	30,713	
Issuance of shares for share award scheme	19(b)	629	250,861	-	-	(251,490)	-	-	-	-	(629)	-	-	-	
Transfer to statutory surplus fund		-	-	-	64,556	-	-	-	-	(64,556)	-	-	-	-	
Equity-settled share award arrangement	20	-	-	-	-	21,924	-	-	-	-	21,924	21,924	-	21,924	
Vesting of awarded shares	20	-	-	-	-	-	(1,203)	-	-	1,203	-	-	-	-	
Dividend for treasury shares		-	-	-	-	-	-	-	-	2,689	2,689	2,689	-	2,689	
At 30 June 2021 (unaudited)		23,080	1,941,852	118,615	956,587	(353,719)	1,971	(55,218)	57,685	4,883,514	7,551,287	7,574,367	70,261	7,644,628	

Six months ended 30 June 2020 (Unaudited)

	Attributable to ordinary equity holders of the Company													Non-controlling interests	Total equity
	Note	Reserves											Total		
		Share capital	Share premium account	Capital reserve	Statutory surplus fund	Treasury shares	Share award reserve	Share option reserve	Exchange fluctuation reserve	Fair value reserve	Retained profits	Total reserves			
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2020 (audited)		22,093	1,570,728	118,615	873,408	(118,860)	4,460	68,031	(81,843)	26,065	4,407,777	6,868,381	6,890,474	69,764	6,960,238
Profit for the period		-	-	-	-	-	-	-	-	-	247,921	247,921	247,921	4,469	252,390
Other comprehensive income/(expense) for the period		-	-	-	-	-	-	-	(4,615)	7,140	-	2,525	2,525	-	2,525
Total comprehensive income/(expense) for the period		-	-	-	-	-	-	-	(4,615)	7,140	247,921	250,446	250,446	4,469	254,915
2019 final dividend declared and paid	9(b)	-	-	-	-	-	-	-	-	-	(169,312)	(169,312)	(169,312)	-	(169,312)
Shares issued in lieu of cash dividend	64	17,719	-	-	(4,006)	-	-	-	-	-	-	13,713	13,777	-	13,777
Lapse of share options		-	-	-	-	-	-	(60,233)	-	-	60,233	-	-	-	-
Repurchase of shares		-	-	-	(5,985)	-	-	-	-	-	-	(5,985)	(5,985)	-	(5,985)
Capital contribution from a non-controlling interest		-	-	-	-	-	-	-	-	-	-	-	-	24,902	24,902
Deemed acquisition of a non-controlling interest		-	-	-	-	-	-	-	-	-	10,889	10,889	10,889	(10,889)	-
Equity-settled share award arrangement		-	-	-	-	8,085	-	-	-	-	-	8,085	8,085	-	8,085
Vesting of awarded shares		-	-	-	-	-	(1,325)	-	-	-	1,325	-	-	-	-
Exchange differences on translation of foreign operations		-	-	-	-	-	-	-	-	-	-	-	-	(119)	(119)
At 30 June 2020 (unaudited)		22,157	1,588,447	118,615	873,408	(120,766)	3,135	7,798	(86,458)	33,205	4,558,833	6,976,217	6,998,374	88,127	7,086,501

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2021

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Operating activities:		
Cash from operations	884,674	505,801
Income tax paid	(173,331)	(172,472)
Net interest expenses paid	(26,950)	(59,803)
NET CASH FLOWS FROM OPERATING ACTIVITIES	684,393	273,526
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES⁽ⁱ⁾	(56,270)	32,972
NET CASH FLOWS USED IN FINANCING ACTIVITIES⁽ⁱⁱ⁾	(335,067)	(227,915)
NET INCREASE IN CASH AND CASH EQUIVALENTS	293,056	78,583
Cash and cash equivalents at beginning of period	3,471,951	2,969,504
Effect of foreign exchange rate changes, net	(7,253)	3,225
Cash and cash equivalents at end of period	3,757,754	3,051,312
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	3,657,754	3,051,312
Non-pledged time deposit with original maturity of less than three months when acquired	100,000	-
Cash and cash equivalents as stated in the interim condensed consolidated statement of financial position	3,757,754	3,051,312

The accompanying notes form part of this interim financial information.

- (i) Net cash flows from/(used in) investing activities for the period included investment income derived from financial assets at fair value through profit or loss, term deposits and structured bank deposits of RMB34,392,000 (2020: RMB48,152,000), decrease in pledged bank deposits of RMB177,390,000 (2020: RMB163,166,000), increase in investment in an associate of RMB29,384,000 (2020: RMB12,828,000), prepayment for investment in an associate of RMB125,500,000 (2020: Nil) and purchase of items of property, plant and equipment of RMB120,722,000 (2020: RMB62,540,000).
- (ii) Net cash flows used in financing activities for the period included the dividends paid to ordinary equity holders of the Company of RMB122,489,000 (2020: RMB155,535,000) apart from scrip shares in lieu of cash, net repayment of bank borrowings of RMB150,159,000 (2020: RMB63,688,000) and principal elements of lease payments of RMB46,664,000 (2020: RMB33,460,000).

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

30 June 2021

1. CORPORATE AND GROUP INFORMATION

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

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

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

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

2.1 Basis of preparation

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

The interim condensed consolidated financial information does not include all the information and disclosures required in the financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2020.

The interim condensed consolidated financial information has been prepared under the historical cost convention, except for bills receivables, financial assets at fair value through profit or loss (“FVPL”), equity investments designated at fair value through other comprehensive income (“FVOCI”) and derivative financial instruments which have been measured at fair value. The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2020 except for the changes in accounting policies made after the adoption of the revised HKFRSs as further detailed in note 2.2 below.

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

2.2 Changes in accounting policies and disclosures

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

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)</i>

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

Amendment to HKFRS 16 issued in April 2021 extends the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the period ended 30 June 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the covid-19 pandemic. No material impact was noted to the interim condensed consolidated financial information for the period ended 30 June 2021.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

In preparing the interim condensed consolidated financial information, the significant judgements made by management in applying the Group’s accounting policies and key sources of estimation uncertainty were the same as those used by management in the preparation of the Group’s annual financial statements for the year ended 31 December 2020.

Notes to Interim Condensed Consolidated Financial Information

30 June 2021

4. OPERATING SEGMENT INFORMATION

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

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

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

Segment assets exclude tax recoverable, pledged bank deposits, term deposits, equity investments designated at fair value through other comprehensive income and other unallocated corporate assets as these assets are managed on a group basis.

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

The operating segment information for the six months ended 30 June 2021 and 2020 are as follows:

Six months ended 30 June 2021	Mass market RMB'000 (Unaudited)	Athleisure RMB'000 (Unaudited)	Professional sports RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment revenue (note 5)				
Sales to external customers	3,597,127	461,928	75,833	4,134,888
Segment results	771,094	(40,548)	(10,704)	719,842
Share of losses of associates	-	-	(7,628)	(7,628)
Bank interest income				10,949
Finance costs				(41,266)
Corporate and other unallocated expenses				(36,265)
Profit before tax				645,632

4. OPERATING SEGMENT INFORMATION (Continued)

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

The following table presents the asset and liability information of the Group's operating segments as at 30 June 2021 and 31 December 2020, respectively.

30 June 2021	Mass market RMB'000 (Unaudited)	Athleisure RMB'000 (Unaudited)	Professional sports RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment assets	8,996,520	2,087,873	220,533	11,304,926
Corporate and other unallocated assets				1,313,030
				12,617,956
Segment liabilities	2,242,981	311,434	43,669	2,598,084
Corporate and other unallocated liabilities				2,375,244
				4,973,328

31 December 2020	Mass market RMB'000 (Audited)	Athleisure RMB'000 (Audited)	Professional sports RMB'000 (Audited)	Total RMB'000 (Audited)
Segment assets	8,854,838	2,225,994	207,589	11,288,421
Corporate and other unallocated assets				1,283,268
				12,571,689
Segment liabilities	2,318,883	358,540	36,380	2,713,803
Corporate and other unallocated liabilities				2,559,161
				5,272,964

Notes to Interim Condensed Consolidated Financial Information

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5. REVENUE, OTHER INCOME AND GAINS, NET

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

(i) Revenue

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

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Product categories		
Footwear	2,604,080	2,253,732
Apparel	1,451,640	1,339,301
Accessories	79,168	86,028
	4,134,888	3,679,061
(ii) Other income and gains, net		
Subsidy income from the governments *	145,144	139,182
Rental income	6,568	6,192
Royalty income	11,428	11,957
Income derived from financial assets at FVPL, term deposits and structured bank deposits	34,392	48,152
Dividend income from an equity investment designated at FVOCI	9,500	-
Others	3,943	4,214
	210,975	209,697

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

6. OPERATING PROFIT

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Advertising and promotional costs	436,572	396,211
Impairment/(write-back of impairment) of trade receivables, net	(19,542)	43,923
Impairment of right-of-use assets [#]	-	6,583
Provision/(reversal of provision) for inventories	(7,276)	14,536
Research and development costs [*]	102,430	101,320
Depreciation of property, plant and equipment	45,193	33,066
Depreciation of right-of-use assets	45,315	39,549
Amortisation of intangible assets	6,959	7,377
Staff costs	511,869	456,734
Equity-settled share award scheme expense	21,924	8,085

* The research and development costs for the six months ended 30 June 2021 included RMB58,492,865 (six months ended 30 June 2020: RMB56,401,000) relating to the depreciation of research and development centres and staff costs for research and development activities, which were also included in the total amounts disclosed above for each of these types of expenses.

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

7. NET FINANCE COSTS

An analysis of net finance costs is as follows:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expense on bank loans	20,951	34,948
Interest expense on discounted bills receivables	16,949	23,007
Interest expense on lease liabilities	4,315	4,387
Amortisation of bank charges on syndicated loans	3,089	2,551
Fair value (gain)/loss, net:		
Derivative instruments – transactions not qualified as hedges (note 17(b))	(4,038)	15,081
Bank interest income	(10,949)	(2,540)
	30,317	77,434

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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 2021 (six months ended 30 June 2020: 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	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax – Overseas		
Charge for the period	183,429	166,179
Under/(over)-provision in prior periods	3,978	(4,662)
	187,407	161,517
Deferred tax	36,545	4,066
	223,952	165,583

9. DIVIDENDS

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interim dividend – HK11.5 cents (six months ended 30 June 2020: HK6.5 cents) per ordinary share	255,942	148,697

At the board meeting held on 23 August 2021, the board of directors declared and approved an interim dividend of HK11.5 cents (equivalent to approximately RMB9.7 cents) per ordinary share, totalling approximately HK\$302,317,000 (equivalent to approximately RMB255,942,000), for the six months ended 30 June 2021. The interim dividend will be payable in cash with a scrip dividend alternative. This interim dividend has not been recognised as a liability in the interim condensed consolidated financial information.

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

9. DIVIDENDS (Continued)

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends paid during the period:		
Final dividends in respect of the financial years ended:		
31 December 2020 – HK7.5 cents per ordinary share	153,202	-
31 December 2019 – HK7.5 cents per ordinary share	-	169,312
	153,202	169,312

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

The calculation of basic earnings per share for the six months ended 30 June 2021 is based on the profit for the period attributable to ordinary equity holders of the Company of RMB426,539,000 (six months ended 30 June 2020: RMB247,921,000) and the weighted average number of 2,495,552,390 (six months ended 30 June 2020: 2,455,295,826) ordinary shares in issue during the period as adjusted to reflect the treasury shares held under the share award scheme of the Company.

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

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2021 is based on the profit for the period attributable to ordinary equity holders of the Company of RMB426,539,000 (six months ended 30 June 2020: RMB247,921,000) and the weighted average number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, as adjusted to reflect the dilution effect of share awards (note 20) and share options as follows:

	Six months ended 30 June	
	2021 (Unaudited)	2020 (Unaudited)
Weighted average number of ordinary shares as used in the basic earnings per share calculation	2,495,552,390	2,455,295,826
Effect of dilution – weighted average number of ordinary shares:		
– Share award	36,646,379	18,472,842
– Share option	-	2,870,237
Weighted average number of ordinary shares	2,532,198,769	2,476,638,905

11. INVENTORIES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Raw materials	146,116	72,509
Work in progress	86,564	106,658
Finished goods	937,109	875,769
	1,169,789	1,054,936
Less: Provision for inventories	(73,525)	(80,133)
	1,096,264	974,803

12. TRADE AND BILLS RECEIVABLES

	Notes	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade receivables		2,667,006	3,143,848
Less: Impairment of trade receivables		(363,814)	(383,542)
	(a)	2,303,192	2,760,306
Bills receivables	(b)	456,616	475,500

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

Notes:

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 3 months	1,232,298	1,666,910
3 to 6 months	536,452	556,122
6 to 9 months	311,494	292,274
Over 9 months	222,948	245,000
	2,303,192	2,760,306

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 3 months	165,116	105,500
3 to 6 months	291,500	320,000
6 to 9 months	-	-
Over 9 months	-	50,000
	456,616	475,500

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13. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Note	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Prepayments to contracted manufacturers		92,625	76,203
Deposits and advance payments to suppliers		363,646	383,531
Deposits and advance payments to subcontractors		185,906	112,971
Right-of-return assets		5,116	4,545
Other asset		65,010	65,010
Value added tax ("VAT") recoverable		261,462	260,690
Other receivables	(a)	110,512	52,286
Other deposits		43,619	16,632
Prepayment for investment in an associate		125,500	-
		1,253,396	971,868
Less: Non-current portion prepayments, deposits and other asset		(197,650)	(72,931)
		1,055,746	898,937

Note:

- (a) Included in the other receivables are amounts due from the associates of RMB23,939,000 (31 December 2020: RMB8,719,000), which are repayable on demand.

These financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts.

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

	Note	RMB'000
At 1 January 2021 (audited)		184,565
Changes in fair values	(a)	30,700
At 30 June 2021 (unaudited)		215,265

As at 30 June 2021, the Group held three unlisted equity investments with fair values of RMB172,400,000 (31 December 2020: RMB142,500,000), RMB22,900,000 (31 December 2020: RMB22,100,000) and RMB19,965,000 (31 December 2020: RMB19,965,000), representing 5%, 11% and 0.3% (31 December 2020: 5%, 11% and 0.3%) equity interests in three corporate entities, which were established in the PRC on 22 December 2014, 22 October 2012 and 28 August 2018 with paid-up capital of RMB1,900,000,000, RMB300,000,000 and RMB1,047,000,000, respectively. During the period ended 30 June 2021, the Group received dividend of RMB9,500,000 from an unlisted equity investment (six months ended 30 June 2020: Nil).

Note:

- (a) During the period, fair value gain of RMB30,700,000 (six months ended 30 June 2020: RMB8,400,000) in respect of the Group's equity investments designated at FVOCI were recognised in the interim condensed consolidated statement of comprehensive income.

15. TERM DEPOSITS, CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Note	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Term deposits		500,000	500,000
Cash and bank balances		4,017,661	3,909,248
		4,517,661	4,409,248
Less: Pledged bank deposits for:			
– short-term bank loans	18	(259,907)	(437,297)
Less: Non-current term deposits		(500,000)	(500,000)
Cash and cash equivalents		3,757,754	3,471,951

At the end of the reporting period, the cash and bank balances and term deposits of the Group denominated in RMB amounted to RMB3,807,752,000 (31 December 2020: RMB3,677,036,000). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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16. TRADE PAYABLES

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 3 months	1,389,941	1,268,177
3 to 6 months	36,990	132,659
Over 6 months	87,993	78,030
	1,514,924	1,478,866

Notes:

- (a) The trade payables are non-interest-bearing and are normally settled within 60 to 120 days.
- (b) Included in the trade payables are amounts due to associates of RMB5,103,000 (31 December 2020: RMB4,497,000) which is repayable on demand.

17. OTHER PAYABLES AND ACCRUALS AND DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Contract liabilities		112,493	134,154
Refund liabilities		8,741	7,529
Other payables	(a)	165,326	219,489
VAT payables		7,980	6,738
Accruals		632,589	684,062
Other payables and accruals		927,129	1,051,972
Derivative financial instruments	(b)	17,144	21,912

Notes:

- (a) Included in the other payables were amounts due to associates of RMB3,743,000 (31 December 2020: RMB1,807,000), which is repayable on demand.
- (b) The Group entered into various interest rate swap ("IRS") contracts with a creditworthy financial institution with an aggregate notional amount of HK\$1,440,000,000 (equivalent to RMB1,179,360,000) for certain of its floating-interest rate loans denominated in Hong Kong dollars to manage its exposure to interest rate fluctuations for the period from 2020 to 2023.

The IRS contracts are not designated for hedging purposes and are measured at fair value through profit or loss. A fair value gain of the IRS contracts amounting to RMB4,038,000 was credited (six months ended 30 June 2020: a fair value loss amounting to RMB15,081,000 was debited) to the interim condensed consolidated income statement during the period.

18. INTEREST-BEARING BANK BORROWINGS

	Notes	30 June 2021 (Unaudited)			31 December 2020 (Audited)		
		Effective interest rate per annum	Maturity	RMB'000	Effective interest rate per annum	Maturity	RMB'000
Current							
Syndicated loan	(a)	HIBOR+1.52%	2022	141,031	-	-	-
Revolving loans	(b)	HIBOR+1.10% to HIBOR+1.25%	2022	385,749	HIBOR+1.10% to HIBOR+1.35%	2021	539,090
Other bank loans	(b)	2.55%	2022	90,000	1.00% to 2.55%	2021	103,245
				616,780			642,335
Non-current							
Syndicated loan	(a)	HIBOR+1.52%	2023	1,320,675	HIBOR+1.52%	2022 to 2023	1,514,422
Other bank loans	(b)	-	-	-	1.10% to 1.30%	2022 to 2023	1,085
				1,320,675			1,515,507
				1,937,455			2,157,842

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Analysed into:		
Within one year and on demand	616,780	642,335
In the second year	289,570	293,740
In the third to fifth years, inclusive	1,031,105	1,221,767
	1,937,455	2,157,842

Notes:

- (a) The syndicated loan is supported by a corporate guarantee provided by certain of the Company's wholly-owned subsidiaries, to the extent of HK\$1,800,000,000 (equivalent to approximately RMB1,474,201,000) (31 December 2020: HK\$1,800,000,000 (equivalent to approximately RMB1,530,540,000) as at the end of the reporting period.
- (b) The revolving loans and other bank loans are supported by:
- the pledge of certain of the Group's deposits amounting to RMB259,907,000 (31 December 2020: RMB437,297,000) in aggregate; and
 - corporate guarantees provided by wholly-owned subsidiaries of the Company to the extent of HK\$1,275,000,000, Euro ("EUR") 177,000 (equivalent to approximately RMB1,044,225,000, RMB1,376,000 respectively) and RMB85,000,000 (31 December 2020: HK\$1,449,965,000 and EUR450,000 (equivalent to approximately RMB1,232,905,000 and RMB3,543,000 respectively)) at the end of the reporting period.

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19. SHARE CAPITAL

At 30 June 2021

	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: 2,628,843,069 ordinary shares of HK\$0.01 each	26,288	23,080

At 31 December 2020

	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: 2,546,965,472 ordinary shares of HK\$0.01 each	25,470	22,395

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

	Notes	Number of shares of HK\$0.01 each	Share capital HK\$'000	Share capital RMB'000	Share premium RMB'000
At 1 January 2020		2,546,965,472	25,470	22,395	1,652,502
Shares issued in lieu of cash dividend	(a)	6,877,597	68	56	38,489
Issuance of shares for share award scheme	(b)	75,000,000	750	629	250,861
At 30 June 2021		2,628,843,069	26,288	23,080	1,941,852

Notes:

- (a) On 7 May 2021, the shareholders of the Company had approved at the annual general meeting the payment of 2020 final dividend of HK7.5 cents (equivalent to approximately RMB6.2 cents) per ordinary share payable in cash with a scrip dividend alternative. During the six months ended 30 June 2021, 6,877,597 ordinary shares were issued and allotted by the Company at HK\$6.843 each to shareholders of the Company who had elected to receive scrip shares in lieu of cash. The total value of scrip dividend issued amounted to HK\$47,063,000 (equivalent to approximately RMB38,545,000), representing the addition of nominal value of ordinary shares of HK\$68,000 (equivalent to approximately RMB56,000) and share premium of HK\$46,995,000 (equivalent to approximately RMB38,489,000). During the six months ended 30 June 2021, 1,382,310 (six months ended 30 June 2020: 1,766,094) treasury shares amounting to RMB7,832,000 (six months ended 30 June 2020: RMB4,006,000) in form of scrip dividend were received by the Company.
- (b) During the current period, 75,000,000 new shares have been issued for the share awards granted to employees under share award scheme as detailed in note 20 at the market price of HK\$4 per share. The share capital and share premium were increased by HK\$750,000 (equivalent to approximately RMB629,000) and HK\$299,250,000 (equivalent to approximately RMB250,861,000), respectively.

20. SHARE AWARD SCHEME

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

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

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

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

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

On 19 March 2021, the Board resolved to grant 75,000,000 Awarded Shares to certain selected participants, who are not a director, chief executive or substantial shareholder of the Company, nor an associate (as defined under the Listing Rules) of any of them at nil consideration.

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20. SHARE AWARD SCHEME (Continued)

Details of each category of Awarded Shares granted on 10 January 2017 and 19 March 2021 under the Share Award Scheme at 30 June 2021 are as follows:

Grant date	Number of Awarded Shares to vest	Vesting period	Fair value at grant date HK\$ per share
10 January 2017	14,790,000	10 January 2017 to 10 January 2022	3.21
19 March 2021	7,500,000	19 March 2021 to 31 March 2023	4.00
19 March 2021	11,250,000	19 March 2021 to 31 March 2024	4.00
19 March 2021	15,000,000	19 March 2021 to 31 March 2025	4.00
19 March 2021	15,000,000	19 March 2021 to 31 March 2026	4.00
19 March 2021	26,250,000	19 March 2021 to 31 March 2027	4.00

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

Movements in the number of Awarded Shares were as follows:

	Number of Awarded Shares
Outstanding as at 1 January 2020	34,070,000
Awarded Shares vested	(9,120,000)
Outstanding as at 31 December 2020 and 1 January 2021	24,950,000
Awarded Shares granted	75,000,000
Awarded Shares vested	(10,160,000)
Outstanding as at 30 June 2021	89,790,000

During the period, share award scheme expense of RMB21,924,000 (six months ended 30 June 2020: RMB8,085,000) was recognised in the interim condensed consolidated income statement.

During the period, an amount of RMB1,203,000 (six months ended 30 June 2020: RMB1,325,000) was transferred from share award reserve to retained profits in respect of vesting of 10,160,000 Awarded Shares (30 June 2020: 9,120,000).

21. COMMITMENTS

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Contracted for commitments in respect of:		
– construction of new buildings	154,805	233,932
– construction of new manufacturing facilities	20,708	20,708
– advertising and promotional expenses	218,541	211,069
	394,054	465,709

22. RELATED PARTY TRANSACTIONS

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

- (i) The Group entered into several lease arrangements for the period from 2021 to 2023 with Hu Du Century (Xiamen) Investment Management Co., Ltd., a company established in the PRC and a wholly-owned subsidiary of Wan Xing, the ultimate holding company of the Company. The lease arrangements were accounted for under HKFRS 16 *Leases*.

The associated transactions and balances are disclosed below:

	Period ended 30 June 2021 RMB'000 (Unaudited)	Period ended 30 June 2020 RMB'000 (Unaudited)
Rental payment	5,684	4,783
Depreciation of right-of-use assets	5,041	4,725
Interest expenses on lease liabilities	301	473

	As at 30 June 2021 (Unaudited)	As at 31 December 2020 (Audited)
Right-of-use assets	8,670	13,565
Lease liabilities	9,891	14,761

- (ii) During the period ended 30 June 2021, purchases amounting to RMB39,670,000 (six months ended 30 June 2020: RMB18,786,000) were made by the Group from associates of the Group.

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

- (b) Outstanding balances with related parties:

Details of the Group's other receivable and trade and other payable balances with the associates are disclosed in notes 13, 16 and 17 to the interim condensed consolidated financial information, respectively.

23. FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY

At 30 June 2021, the Group discounted certain commercial bills receivable with a carrying amount in aggregate of approximately RMB810,000,000 (31 December 2020: RMB1,313,500,000) to a bank in the PRC (the "Derecognised Bills") for cash. The Derecognised Bills had a remaining maturity from approximately 91 days to 177 days (31 December 2020: 26 days to 257 days) at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC bank and/or the issuers of bills receivable default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair value of the Group's Continuing Involvement in the Derecognised Bills is not significant.

During the six months ended 30 June 2021, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills (six months ended 30 June 2020: Nil). No gains or losses were recognised from the Continuing Involvement, both during the period or cumulatively. The bills receivables of RMB867,000,000 (30 June 2020: RMB1,140,500,000) has been discounted during the period ended 30 June 2021.

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

The fair values of non-current term deposits and non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank borrowings as at 30 June 2021 were assessed to be insignificant. The fair values of non-current term deposits and non-current portion of interest-bearing bank borrowings approximate to their carrying amounts as at the end of the reporting period.

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

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

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

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

Below is a summary of significant unobservable inputs to the valuation of unlisted equity investments together with a quantitative sensitivity analysis as at 30 June 2021:

Description	Valuation technique	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Unlisted equity investments	Market multiples	P/B multiple of peers	30 June 2021: 0.23x to 1.20x (31 December 2020: 0.21x to 1.36x)	5% (31 December 2020: 5%) increase/decrease in multiple would result in increase/decrease in fair value by RMB9.8 million (31 December 2020: RMB8.2 million)
		Discount for lack of marketability	30 June 2021: 20% (31 December 2020: 20%)	2.5% (31 December 2020: 2.5%) increase/decrease in multiple would result in decrease/increase in fair value by RMB6.1 million (31 December 2020: RMB5.1 million)

Notes to Interim Condensed Consolidated Financial Information

30 June 2021

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

Fair value hierarchy

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

Assets measured at fair value:

As at 30 June 2021

	Fair value measurement using			Total RMB'000 (Unaudited)
	Quoted prices in active markets (Level 1) RMB'000 (Unaudited)	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Significant unobservable inputs (Level 3) RMB'000 (Unaudited)	
Equity investments designated at fair value through other comprehensive income	-	-	215,265	215,265
Bills receivables	-	456,616	-	456,616
	-	456,616	215,265	671,881

As at 31 December 2020

	Fair value measurement using			Total RMB'000 (Audited)
	Quoted prices in active markets (Level 1) RMB'000 (Audited)	Significant observable inputs (Level 2) RMB'000 (Audited)	Significant unobservable inputs (Level 3) RMB'000 (Audited)	
Equity investments designated at fair value through other comprehensive income	-	-	184,565	184,565
Bills receivables	-	475,500	-	475,500
	-	475,500	184,565	660,065

24. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)**Liabilities measured at fair value:****As at 30 June 2021**

	Fair value measurement using			Total RMB'000 (Unaudited)
	Quoted prices in active markets (Level 1) RMB'000 (Unaudited)	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Significant unobservable inputs (Level 3) RMB'000 (Unaudited)	
Derivative financial instruments	-	17,144	-	17,144

As at 31 December 2020

	Fair value measurement using			Total RMB'000 (Audited)
	Quoted prices in active markets (Level 1) RMB'000 (Audited)	Significant observable inputs (Level 2) RMB'000 (Audited)	Significant unobservable inputs (Level 3) RMB'000 (Audited)	
Derivative financial instruments	-	21,912	-	21,912

During the period ended 30 June 2021, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2020: Nil).

25. EVENT AFTER THE REPORTING PERIOD

On 5 February 2021, a wholly-owned subsidiary of the Company, Shanghai Xtep Sports Products Co., Ltd., being the Purchaser, entered into a letter of intent with an independent third party, being the Vendor, pursuant to which Purchaser had agreed to acquire the property and 80 parking spaces being constructed by Vendor situated in Tower E, Land Lot 19-02, Qibao Eco-commercial Park, Alley 1699, Xinzhen Road, Minxing District, Shanghai, PRC. The total consideration was RMB463,600,000 (subject to adjustment).

Subsequent to the end of the reporting period, the Group had entered into formal sales agreements and the supplemental agreements with the Vendor on 16 August 2021 in relation to the acquisition of all the units located at the abovementioned property. The aggregate consideration for these units was approximately RMB439,600,000. Formal sales agreements for parking spaces will be entered into between the Purchaser and the Vendor at a later date.

26. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The interim condensed consolidated financial information was approved and authorised for issue by the board of directors on 23 August 2021.

INFORMATION FOR INVESTORS

Information for Investors

Share information

Company name: Xtep International Holdings Limited	Basic earnings per share as at 30 June 2021:
Listing: Hong Kong Stock Exchange	RMB17.09 cents
Stock code: 1368	Interim dividends per share:
Listing date: 3 June 2008	HK11.5 cents with a scrip dividend option
Board lot size: 500 shares	
Number of issued shares as at 30 June 2021:	
2,628,843,069	
Market capitalization as at 30 June 2021:	
HK\$38,486,263,000	
Index constituent:	
<ul style="list-style-type: none">• Hang Seng Composite Index Series• MSCI Emerging Market Small Cap Index• MSCI All Country Far East Ex Japan Small Cap Index• MSCI China Small Cap Index	

Key dates for investors

23 August 2021	2021 interim results announcement
7 September 2021 to 9 September 2021	Closure of the register of shareholders (both days inclusive)
29 October 2021	Payment of interim dividends

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GLOSSARY

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

"App"	A software program for download onto mobile devices
"Board"	The Board of Directors of the Company
"Company"	Xtep International Holdings Limited
"Corporate Governance Code"	The Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"DeWu APP"	A leading sneaker trading platform in China
"Director(s)"	The director(s) of the Company
"Douyin"	A leading short-form video and live-streaming platform in China with TikTok being the international version of Douyin (抖音)
"GDP"	Gross domestic product
"Group"	The Company and its subsidiaries
"Group Success"	Group Success Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 23 February 2007, and is wholly owned by Wan Xing International Holdings Limited, which is in turn ultimately owned as to 67% by Mr. Ding Shui Po's family trust, 21% by Ms. Ding Mei Qing's family trust and 12% by Mr. Ding Ming Zhong's family trust
"HK\$" and "HK cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange" and "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Joyrun"	A leading Chinese App for runners
"Listing 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
"Period"	The six months ended 30 June 2021
"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
"R&D"	Research and development
"RMB"	Renminbi, the lawful currency of the PRC

Glossary

"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.
"Xiaohongshu"	A thriving lifestyle community platform in China
"Xtep"	Xtep brand
"Xtep Kids"	The children's sportswear business of the Group

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