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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1368)

2023 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the "**Board**") of Xtep International Holdings Limited (the "**Company**") is pleased to announce the audited results of the Company and its subsidiaries (together referred to as the "**Group**") for the year ended 31 December 2023. This announcement, containing the full text of the 2023 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of annual results. The printed version of the Company's 2023 Annual Report will be delivered to the shareholders of the Company and will be available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and of the Company at www.xtep.com.hk.

Xtep International Holdings Limited

(SEHK stock code: 1368)

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 in 2008. The Group principally engages in the design, development, manufacturing, sales, marketing and brand management of sports products covering footwear, apparel and accessories for adults and children. With a diverse brand portfolio encompassing the core Xtep brand, K·SWISS, Palladium, Saucony and Merrell to strategically target the mass market, athleisure and professional sports segments, the Group has an extensive global distribution network with more than 8,500 stores in Asia-Pacific, North America and EMEA.

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ANNUAL RESULTS AT A GLANCE

Revenue
RMB
14,346m
▲ 10.9%

Profit attributable to ordinary equity holders
RMB
1,030m
▲ 11.8%

Net asset value per Share
RMB
3.38
As at 31 December 2023

Final dividend per Share
HK
8.0 cents
For the year ended 31 December 2023

Full year dividend payout ratio
50.0%

8,583
branded stores globally as at 31 December 2023

100% ownership in Saucony and Merrell's China business

> **Acquisition of Wolverine's interests** in the 2019 Joint Venture and **40% of Saucony's intellectual property rights in China**

> **The joint venture** entities became wholly owned subsidiaries of **Xtep** from January 2024

saucony

MERRELL

FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December	**2023**	2022	2021	2020	2019
Profitability data (RMB million)					
Revenue	**14,345.5**	12,930.4	10,013.2	8,171.9	8,182.7
Gross profit	**6,049.7**	5,291.7	4,177.9	3,198.4	3,550.4
Operating profit	**1,579.9**	1,464.3	1,396.2	918.2	1,234.0
Profit attributable to ordinary equity holders	**1,030.0**	921.7	908.3	513.0	727.7
Basic earnings per Share (RMB cents) (Note 1)	**40.76**	36.61	36.35	20.83	30.72
Profitability ratios (%)					
Gross profit margin	**42.2**	40.9	41.7	39.1	43.4
Operating profit margin	**11.0**	11.3	13.9	11.2	15.1
Net profit margin	**7.2**	7.1	9.1	6.3	8.9
Effective tax rate	**28.7**	33.0	30.9	33.7	34.8
Return on average total equity holders' equity (Note 2)	**12.0**	11.4	12.0	7.3	11.9
Operating ratios (as a percentage of revenue) (%)					
Advertising and promotional costs	**13.7**	11.9	10.2	11.2	14.4
Staff costs	**10.1**	11.3	11.1	12.1	11.0
R&D costs	**2.8**	2.3	2.5	2.7	2.4

As at 31 December	**2023**	2022	2021	2020	2019
Assets and liabilities data (RMB million)					
Non-current assets	**5,281.0**	4,155.4	4,183.0	3,544.4	3,056.7
Current assets	**12,044.4**	12,338.1	10,432.4	9,027.3	9,265.9
Current liabilities	**5,850.6**	6,644.8	4,053.0	3,334.3	3,671.1
Non-current liabilities	**2,551.5**	1,542.0	2,580.0	1,938.7	1,691.2
Non-controlling interests	**60.7**	62.5	53.1	75.4	69.8
Total equity holders' equity	**8,862.6**	8,244.2	7,929.3	7,223.3	6,890.5
Asset and working capital data					
Current asset ratio	**2.1**	1.9	2.6	2.7	2.5
Gearing ratio (%) (Note 3)	**20.3**	19.6	17.4	17.2	19.1
Net asset value per Share (RMB) (Note 4)	**3.38**	3.15	3.03	2.87	2.77
Average inventory turnover days (days) (Note 5) (Note 8)	**90**	90	77	74	77
Average trade receivables turnover days (days) (Note 6) (Note 8)	**106**	98	107	120	96
Average trade payables turnover days (days) (Note 7) (Note 8)	**113**	121	120	107	88
Overall working capital days (days)	**83**	67	64	87	85

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 year.

2 Return on average total equity holders' equity is equal to the profit attributable to ordinary equity holders of the Company for the year divided by the average of opening and closing total equity holders' equity.

3 The calculation of gearing ratio is based on the total borrowings divided by the total assets of the Group at the end of the year.

4 The calculation of net asset value per Share is based on the total number of Shares in issue at the end of the year.

5 Average inventory turnover days is equal to the average of opening and closing inventory divided by costs of sales and multiplied by 365 days (or 366 days in 2020).

6 Average trade receivables turnover days is equal to the average of opening and closing trade receivables divided by revenue and multiplied by 365 days (or 366 days in 2020).

7 Average trade payables turnover days is equal to the average of opening and closing trade payables divided by cost of sales and multiplied by 365 days (or 366 days in 2020).

8 When calculating the average inventory turnover days, trade receivables turnover days and trade payable turnover days for 2019, the opening balances of inventories, trade receivables and trade payables include the respective consolidated balances of K-Swiss Holdings, Inc. (previously known as E-Land Footwear USA Holdings Inc.) and its subsidiaries as if it had been part of the Group since 1 January 2019, and the revenue and cost of sales used for the calculations include the annualised consolidated revenue and cost of sales of K-Swiss Holdings, Inc. and its subsidiaries recorded since the Group's acquisition on 1 August 2019.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Tan Wee Seng

Independent Non-executive Directors

Bao Ming Xiao
Wu Ka Chee, Davy
Chan Yee Wah

BOARD COMMITTEES

Audit Committee

Chan Yee Wah *(Chairlady)*
Tan Wee Seng
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
Chan Yee Wah

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,

In 2023, Mainland China's economic growth remained volatile amidst heightened macroeconomic uncertainties and geopolitical tensions, resulting in a dampened momentum. The retail sector faced challenges in achieving a strong post-COVID recovery, given weakening consumer confidence and modest GDP growth of 5.2%. At a time when price-conscious consumers responded to economic uncertainty by switching to more affordable options, the retail industry in Mainland China stepped up promotional efforts to wrestle with excessive inventory and market consolidation. Additionally, the e-commerce business underperformed due to a significant decline in online ordering, which continued to weigh on the retail industry throughout 2023. Despite these challenges, the sportswear sector posted stable growth of 14.2%[1], outperforming the overall retail sector for the year. In particular, companies focusing on the mass market with greater specialization in performance gear are poised to gain market share.

PERFORMANCE REVIEW

2023 was a landmark year for the Group as we celebrated our 15th anniversary of listing on the Hong Kong Stock Exchange. During the 15-year journey, we have weathered the ups and downs of various economic cycles and expanded our business into a globally diversified portfolio. In 2023, the Group's revenue increased by 10.9% to an all-time high of RMB14,345.5 million (2022: RMB12,930.4 million). Revenue of the core Xtep brand also increased by 7.4% to RMB11,947.3 million (2022: RMB11,127.9 million). The Group's gross profit margin reached 42.2% (2022: 40.9%). The Group's operating profit increased by 7.9% to RMB1,579.9 million (2022: RMB1,464.3 million). Profit attributable to ordinary equity holders of the Company also hit an all-time high of RMB1,030.0 million (2022: RMB921.7 million), an increase of 11.8%. Basic earnings per Share was RMB40.8 cents (2022: RMB36.6 cents). The Board has proposed a final dividend of HK8.0 cents per Share, with an option to receive scrip shares in lieu of cash. Together with the interim dividend of HK13.7 cents per Share, the full-year dividend payout ratio was approximately 50.0% (2022: 50.0%).

[1] Source: Euromonitor

DRIVING SUSTAINABLE GROWTH THROUGH LEADING PERFORMANCE IN RUNNING SEGMENT

Our industry-leading position in the running segment has continued to fuel the Group's business growth. In 2023, Xtep outperformed all international and domestic brands in the most prestigious marathons in Mainland China, including the 2023 Xiamen Marathon and Beijing Marathon, achieving the top position with the highest wear rates among all participants and sub-three hour marathoners. Our exceptional "160X" running shoes also gained significant market recognition, helping 83 runners win 370 championships and set new records thus far. To capitalize on the booming running market, the core Xtep brand will continue to focus on expanding its business in the mass market segment by offering value-for-money professional products in Mainland China.

Meanwhile, Saucony, which caters to a sophisticated customer base, has been gaining momentum and increasing brand awareness in the running segment. It ranked third among all brands in terms of wear rate among all participants in the most prestigious marathons in Mainland China. Among runners representing the larger group of mass market runners in the 2023 Shanghai and Beijing Marathons, Saucony ranked third among domestic and international brands, underscoring the brand's exceptional product performance and market recognition.

FROM INITIAL SUCCESS TO MAXIMUM FUTURE POTENTIAL

Within our multi-brand portfolio, Saucony became the first new brand to achieve profitability in 2023. Its increasing competitiveness and superior performance in professional running gear have enabled its success, strengthening its position as a sustainable growth driver in China for the Group in the long term. We acquired 40% of Saucony's intellectual property rights in China in December 2023, as well as Wolverine's remaining stake in the 2019 joint venture in January 2024, making the joint venture entities become the wholly-owned subsidiaries of Xtep. This strategic move demonstrates our confidence in and commitment to the business development of the Saucony and Merrell brands and their growth potential in the country. Leveraging our innovation and R&D capabilities, we will continue to design and develop customized collections for Chinese consumers, in addition to sourcing products launched by Wolverine, while broadening Saucony's fashion and lifestyle offerings to accelerate the growth of our business and further explore global markets.

Meanwhile, Palladium in Mainland China experienced promising initial success in 2023, supported by its effective product development strategy and strategic brand positioning that resonated with the younger generation. The brand's revamped products received exceptionally positive response from younger Chinese consumers during the year. Tapping into the growing demand for individuality and the popularity of athleisurewear, Palladium has witnessed a significant surge in brand awareness, and store productivity has exceeded projections, which has further bolstered our confidence in its future development.

NAVIGATING CHALLENGES AND FORGING AHEAD

Throughout the year, the Group made immense efforts to enhance operational efficiency and alleviate inventory pressure on the core Xtep brand, while unlocking the potential of our new brands in Mainland China to strengthen our brand positioning strategies within our multi-brand portfolio. Although challenges lie ahead, 2024 holds tremendous promise and untapped potential. With our established track record in the running segment, our strategic focus on mass market consumers, and government support for the sports industry, we remain confident in the continued recovery of the sportswear sector and our ability to drive future success.

Lastly, I would like to express my heartfelt appreciation to our stakeholders. None of our achievements would be possible without the tireless efforts of our management team and employees, and the unwavering support of our shareholders, business partners and the communities we serve. Your trust and commitment enable us to aim higher and push boundaries. We are committed to fostering our business growth and creating unparalleled value for our shareholders, all the while upholding the highest standards of ESG and sustainability stewardship.

Mr. Ding Shui Po
Chairman
Hong Kong, 18 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET DEVELOPMENT

Marathons regain momentum in China

China's commitment to promoting a healthier lifestyle is evident. Millions of Chinese people participated in running events in 2023, and the country witnessed a notable resurgence in the popularity of marathons. The number of running events in 2023 appeared to be approaching pre-pandemic levels, indicating a robust comeback in China. According to the Chinese Athletics Association, 580 marathons and running events were organized in China in 2023, attracting 5.5 million participants. On 25 and 26 November 2023, more than 20 marathons were held across the country. China's flagship marathons also regained momentum at a record pace. The 2023 Beijing Marathon attracted more than 130,000 runners to register for the 30,000-place lottery, while the success rate of entry into the 2023 Shanghai Marathon was 14%. This trend is expected to continue in 2024, as evidenced by the record-breaking numbers at the Xiamen Marathon held early in the year and the Wuxi Marathon to be held in March 2024, which saw over 130,000 and 260,000 entries, marking the lowest success rates for any marathon in China's history at mere 5% and 4%, respectively.

Running has enjoyed a huge boom in China, especially after the COVID-19 pandemic, and 2023 proved to be an exceptional year for the growth of Chinese brands in marathon events. Among the major marathons in China in 2023, domestic brands quickly caught up with international brands in terms of wear rate, accounting for more than 50% and 65% among all participants and sub-three hour marathoners, respectively. Some domestic brands also outperformed their international rivals, overtaking the top positions in wear rate among all brands and further solidifying their dominance over international counterparts. This trend is expected to continue as value-conscious consumers in China continue to favour domestic brands for their value-for-money sporting goods, further increasing their market share in the ever-evolving sporting goods market in the long run.

Prudent consumption among Chinese consumers

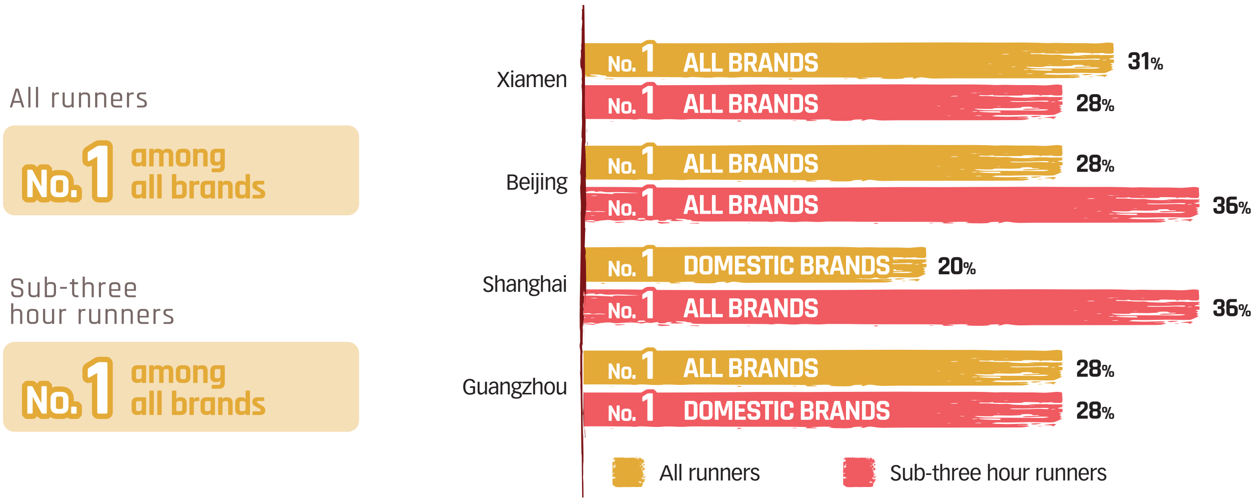
China's economic recovery has fallen short of expectations due to factors including low consumer confidence and a housing slump. The country slipped into deflation for the first time since 2021, with consumer prices dropping by 0.3% year on year in July 2023. After a brief rebound in August, prices declined steadily from September to December. In light of China's ongoing economic slowdown, Chinese consumers have become more astute and practical, as they tend to look for bargains while prioritizing quality. According to the 2023 China Consumer Report published by McKinsey, functionality and quality of the product are regarded as the most important factors influencing consumers' buying behaviour. Companies with a comprehensive offering of functional products would edge closer to demand and therefore be able to reap the maximum benefit from this trend.

BUSINESS REVIEW

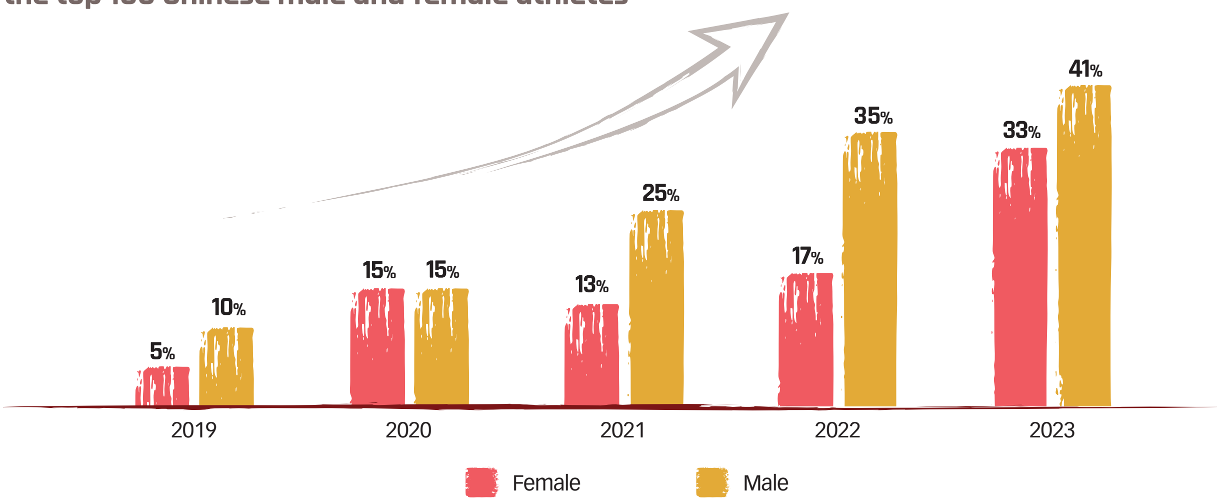
Running shoes favored by Chinese consumers

With superior product quality and performance, Xtep running shoes have gained widespread recognition of a broad range of running enthusiasts, solidifying the brand's unwavering dominance in China's running market, with the highest wear rate in Chinese marathons[2]. In the major marathons held in Mainland China in 2023, Xtep achieved the highest wear rates among all runners and among sub-three hour runners, ranking first among international and domestic brands. In 2023, Xtep emerged as the preferred brand among runners participating in the Xiamen, Beijing and Guangzhou Marathons and among sub-three hour runners in the Shanghai Marathon. Continuing its remarkable performance, Xtep maintained its dominant position in the recently concluded 2024 Xiamen Marathon, boasting a wear rate of 41.8% and 43.8% among all participants and sub-three hour marathoners respectively. Xtep also clinched the top position in wear rate among the top 100 Chinese male and female runners for two consecutive years, which clearly underscores its brand positioning as a professional running brand.

Xtep's wear rate in major marathons in China in 2023



2019-2023 Xtep running shoes wear rate among the top 100 Chinese male and female athletes



2 Source: Frost & Sullivan

MANAGEMENT DISCUSSION AND ANALYSIS

Witnessing new records and championships with "160X" running series

The "160X" carbon fiber plate running shoes continue to be competitive in helping Chinese athletes set personal records and create national history. As of 31 December 2023, this series has helped 83 Chinese athletes win 370 championships. In 2023, our running shoes were instrumental in numerous sports personalities breaking national records and making history. Notable examples include Yang Shaohui, the national marathon record holder; He Jie, China's first men's marathon gold at the Asian games; and Dong Guojian, an evergreen marathoner who achieved under 2:10:00 five times in his professional career. In December 2023, we also witnessed Liang Tiantian win the champion title and set the best domestic women's half marathon record of the year in the Xiamen Huandong Half Marathon. These amazing achievements further underscore the excellence of Xtep running shoes in empowering athletes to reach new heights.

The "160X" championship running shoe has also helped athletes shine in international marathon events. In August 2023, Fatima Ezzahra Gardadi climbed the podium at the World Championships, positioning Xtep as the only domestic brand among the top 10 female marathoners in the event. In September 2023, Othmane El Goumri emerged victorious in the Sydney Marathon, another World Athletics Platinum Label marathon. In September 2023, the "160X 5.0" running shoe made its debut at the Berlin Marathon, one of the Word Marathon Majors, where Josphat Kiptoo Boit set a new personal record.

"260X" carbon fiber plate running shoe meets the demands of professional runners in various scenarios

To meet the diverse needs of runners, we unveiled the "260X" carbon fiber plate running shoe in December 2023. Designed for both elite and professional runners in competition and training scenarios, the new collection is armed with midsole technology made of materials with higher propulsion capabilities compared with "260 2.0", offering a 14.5% increase in propulsion. The shoe also features a marathon-grade CPU outsole, which effectively reinforces runners' durability and allows them to handle long-distance training.

"360X" carbon fiber plate running shoe designed for mass market runners

In March 2024, Xtep further broadened its offerings with the launch of the "360X", a carbon fiber plate running shoe suitable for mass market runners who have cultivated a regular running routine. With stability at its core, the "360X" employs advanced midsole technology made of materials that provide enhanced support. In addition, the carbon fiber plate of the "360X" is designed to effectively minimize runners' risk of injury, allowing the shoe to demonstrate a 4.2% increase in stability compared with the "360" series. With a highly competitive pricing among all carbon fiber plate running shoes in the market, "360X" is expected to attract considerable attention from the mass market runners.

Comprehensive performance collection

Fortifying the running ecosystem

Marathon event sponsorship

As the public's passion for running continues to surge, we have continued to strengthen our running ecosystem in Mainland China. In 2023, we sponsored a total of 24 marathons, including the Xiamen Marathon, a highly prestigious World Athletics Platinum Label sponsored by Xtep for 16 consecutive years. Additionally, we supported other Gold Label marathons such as the Chongqing Marathon, the Yangzhou Jianzhen Half Marathon, the Taiyuan Marathon and the Changsha Marathon.

Marathons sponsored by Xtep in 2023

19.03.2023	Chongqing Marathon
02.04.2023	Xiamen Marathon
16.04.2023	Wuhan Marathon
16.04.2023	Beijing Half Marathon
16.04.2023	Yangzhou Jianzhen Half Marathon
07.05.2023	Hangzhou Women's Half Marathon
07.05.2023	Wuchang Ancient City Half Marathon
14.05.2023	"Beauty 18" Rushan Women's Half Marathon
21.05.2023	Taiyuan Marathon
23.06.2023	Baotou Marathon
09.07.2023	Hohhot Marathon
27.08.2023	Lhasa Half Marathon
17.09.2023	Shenyang Marathon
29.10.2023	Xi'an Marathon
29.10.2023	Changsha Marathon
29.10.2023	Zhengzhou Marathon
29.10.2023	Chengdu Marathon
05.11.2023	Lushan International Mountain Half Marathon
12.11.2023	Nanjing Marathon
26.11.2023	Quzhou Marathon
03.12.2023	Xiamen Haicang Half Marathon
03.12.2023	Jinjiang Marathon
17.12.2023	Xiamen Huandong Half Marathon
22.12.2023	Changsha Red Half Marathon

Xtep Running Club in Xi'an Daming Palace

Xtep Running Clubs

We have remained committed to spreading the unifying power of running and providing one-stop professional running services to runners through Xtep Running Clubs. Capitalizing on the rising popularity of running, we have expedited the establishment of these clubs in prominent running destinations. In October 2023, our Xtep Running Club was launched in Xi'an Daming Palace, making it the world's first running club situated within a UNESCO World Heritage Site. As at 31 December 2023, there were 65 Xtep Running Clubs across Mainland China and over two million Xtep Runners Club members.

FOOTWEAR TECHNOLOGIES

RUN FAST

For Expert/ Advanced Runners

who participate in marathons and seek high performance

160X Series

Featuring the world's first "PISA" supercritical foam technology, the "XTEP ACE" cushioning technology provides superb rebound while remaining lightweight. Its world-class T700 carbon fiber plate provides powerful propulsion for runners. Its ultra-thin and lightweight CPU outsole offers excellent wear resistance to help runners make breakthroughs in their top speed.

260X

Featuring the world's first "PISA" supercritical foam technology, the "XTEP ACE" cushioning technology provides superb rebound while remaining a lightweight design. The incorporation of a high-intensity T400 carbon fiber plate and marathon-grade CPU outsole ensures a better fit for Chinese feet, enhanced propulsion, and excellent wear resistance.

360X

Equipped with "XTEP ACE" cushioning technology, it efficiently absorbs landing shock and provides responsive rebound. Its T400 carbon fiber plate enhances propulsion, stability, and offers a comfortable fit for Chinese feet.

RUN DYNAMIC

For Intermediate Runners

who seek a balance between performance and comfort

ULTRA FAST

Equipped with "XTEP ACE" cushioning technology, it offers runners with quick rebound while remaining lightweight. It features a built-in TPU stabilization device and it is fitted with light, wear-resistant rubber strategically placed at the stress points of the gait, enhancing foot support, stability, and improving wear and slip resistance.

REACTIVE COIL

The unique hollow structure design provides effective structural cushioning. The double-layered hollow design of the rear sole section also enhances the space and level of force deformation to provide good shock absorption performance.

RUN FIT

For Beginner Runners

who prioritize comfort in their exercise experience

FEATHER FOAM

The special polymer material is lightweight and offers good pressure resistance, allowing runners to experience a light and rebounding stride with every step they take during exercise.

聚能弹 ENERGETEX

The newly developed PTU foam particles offer remarkable supple rebound capability and excellent compression durability. Experiments have shown a significant increase in resilience and a reduction in energy loss compared with ordinary materials, creating a comfortable exercise experience with dynamic rebound performance.

X-FLOW

The lightweight midsole materials and TPU hollow structure of the full-foot midsole effectively reduces the weight of the outsole and dissipate heat from the foot, helping to evaporate sweat from the sole of the foot, circulate air in and out of the shoe cavity, and reduce load during exercising.

AIR MEGA

Features a cushioning system comprising single or multiple air cushion structures of varying shapes. Its assortment is based on dynamic pressure distribution on the sole, resulting in effective pressure-buffer and shock absorption during exercising.

COMFYCUBES

After conducting an in-depth study on the human gait and distribution of stress points, a collection of independent soft cube modules for the sole was developed, which can arrange flexibly according to the dynamic pressure distribution of the sole, providing a comfortable stepping experience.

APPAREL TECHNOLOGIES

XTEP - COMFORT
KEEP YOU COMFORTABLE

X-SEAMLESS-TECH
Seamless, soft and lightweight clothes to subtly conform the body shape, providing runners with a comfortable experience.

Smooth and Skin-friendly Fabric
Selectively adopts even and flat fiber, which is delicate and soft, smooth to touch, and reduces skin friction.

Sports Elasticity
Ergonomic designs offer multi-dimensional protection and support during sports, assuring better athletic performance.

XTEP - SHIELD
KEEP YOU PROTECTED

Triple Protection
A functional fabric that prevents most water-based oil stains from penetrating, making it easy to keep clothes clean and tidy.

Antibacterial
Inhibit bacteria proliferation and growth on fabric, thus reducing odor and keeping activewear smelling fresher for a long period of time.

Anti-Static
Special anti-static technology used to effectively reduce static charges, ensuring a comfortable wearing experience.

Water-Resistant
Water-resistant to offer dryness and comfort to athletes in wet conditions.

Anti-UV
Protects the skin from harmful ultraviolet rays when engaging in outdoor sports.

XTEP - WARM
KEEP YOU WARM

Light, Thin and Warm
Adopts ultra-fine fiber high-density woven fabric, combined with high-fluffy padding, allowing for a lighter and warmer wearing experience, and effortless movement during sports.

Retaining Shape and Warmth
Material has a tightly-knitted outer layer and a fluffy inner layer that retains air in between, achieving both warmth and shape retention.

XTEP - ECO
PROTECT THE WORLD

Modal Fiber
Adopts modal fiber from European wood source, environmentally friendly and biodegradable, soft and skin-friendly, designed for long-lasting natural comfort.

Organic Cotton
All-natural, pollution-free and highly air-permeable organic cotton which is soft and warm to touch, allowing wearers to feel closer to nature.

Recycled Synthetic Fiber
Made of recycled plastic bottles or waste materials, crushed, melted and spun into fibers to conserve energy and safeguard ecological balance.

Degradable Polylactic Acid
Polylactic acid fiber made of raw materials including corn, through fermentation, polymerization and spinning, and can degrade quickly and be recycled, are skin-friendly and hypoallergenic, antibacterial and comfortable.

XTEP - COOL
KEEP YOU COOL

Polar Ice Fiber
Innovative silk materials of Polar Ice Fiber with heat conduction and heat dissipation technology to provide cool comfort.

Ice Print
When sweat comes into contact with the icy print, it triggers a cooling effect on the body surface, leaving the skin feeling cool.

Ice Fiber
The fibres increase the rate of heat dissipation for a long-lasting cool experience.

Cottony Soft Cooling Sensation
Quick cooling effect, breathable and comfortable on the skin, giving wearers cool sports experience.

XTEP - DRY
KEEP YOU DRY

Quick-Drying Cotton
The outstanding cotton fabric is breathable and wicks away perspiration for a dry and comfortable workout.

Moisture Absorption and Quick Drying
Rapid sweat absorption and drying technology to keep dry and comfortable, thus enhancing athletic performance.

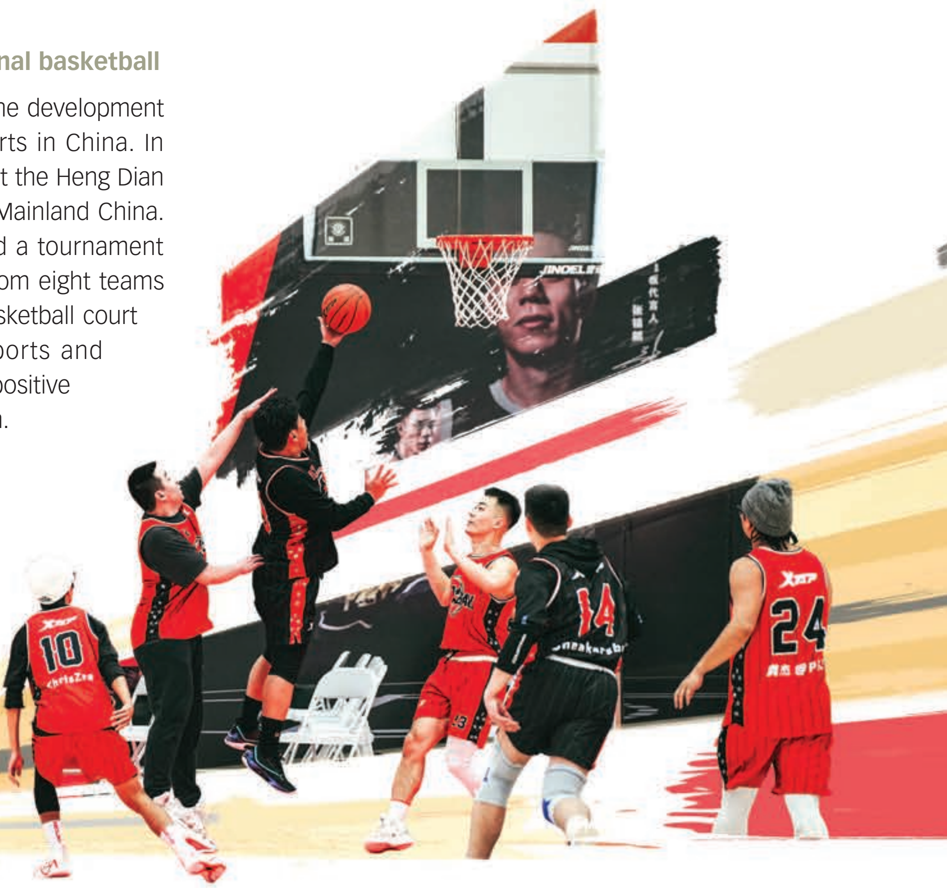
Basketball

Product innovation

We have maintained a consistent stream of new basketball collections and continuous upgrades to our existing products. In 2023, "SKY01", "LING REN 1.0", "YOU YUN 8 PRO" and "YU FENG 2.0" were launched into the market. We were also proud to witness Xtep Basketball spokesperson Malik Beasley helping his team reach the semifinals of the 2023 In-Season Tournament as a leading scorer wearing our "AO ZHAN" & "LING REN 1.0" shoes.

Supporting the development of professional basketball

Xtep has made tremendous efforts to foster the development of professional basketball and promote sports in China. In January 2024, we unveiled a basketball court at the Heng Dian World Studio, a renowned filming location in Mainland China. At the grand opening ceremony, Xtep hosted a tournament and sponsored over 100 basketball players from eight teams with sportswear. The establishment of this basketball court not only facilitates the convergence of sports and entertainment, but also aims to promote the positive impact of basketball on the younger generation.



Lifestyle

"NEW D BALL" eco-friendly and "HALF-SUGAR" women's collection

In our ongoing efforts to maintain and enhance our brand's appeal to the younger generation, we are constantly keeping pace with the evolving trends that align with their preferences. Recognizing young consumers' active interest in sustainability and love for coffee, we collaborated with our spokesperson, Wang Hedi, to launch the eco-friendly "NEW D BALL" collection in September 2023. Incorporating yarn made from recycled coffee grounds into our products, the new collection has resonated strongly with young people and won widespread acclaim.

Meanwhile, we remained dedicated to creating fashion ensembles for women through the "HALF-SUGAR" collection. Adhering to the brand's motto and mission, the women's collection has successfully empowered many young Chinese women to express their ability to make their own choices.

Celebrity spokespersons[3]

Appointing celebrity spokespersons has been effective in maintaining our brand awareness and reinforces our appeal among the younger generation.

3 Note: Photos of spokespersons are presented in reverse order of contract signing date

MANAGEMENT DISCUSSION AND ANALYSIS

Number of Xtep Adult branded stores in Mainland China and overseas as at 31 December 2023:

6,571

Retail management and branding

Retail network

Our ninth-generation stores have significantly enhanced our brand image with larger store size and vibrant visual merchandising, such as lighting control, AI robots, digital signage and rising stages, leading to an increase in foot traffic and cross-selling ratio. Prioritizing digital-first engagement with consumers, the new-format stores have also achieved remarkable results in attracting and connecting with younger consumers.

As at 31 December 2023, there were 6,571 Xtep Adult branded stores mainly operated by authorized distributors in Mainland China and overseas (31 December 2022: 6,313).

Xtep Kids

Thanks to the government's initiatives to enhance physical education in elementary and secondary schools, as well as our increased efforts to scale up the operations of Xtep Kids, this segment continued to fuel the growth of the core Xtep brand during the year. As of 31 December 2023, there were 1,703 Xtep Kids stores in Mainland China (31 December 2022: 1,520), predominantly operated by the Group's authorized distributors.

Upgraded "Xtep 100 2.0 PRO" signature running shoe endorsed by top universities

In November 2023, Xtep Kids launched the fully upgraded "Xtep 100 2.0 PRO" in collaboration with Shanghai University of Sport and Yi Lan Technology, an incubation team under Tsinghua University. The new model utilizes "XTEP ACE" cushioning technology, which is derived from the "160X" championship running shoe, to provide stronger racing power on the track. The "X-PLATE", which combines glass fiber and carbon fiber, in the midsole also effectively provides sustainable balance and stable torsional performance. The "Xtep 100 2.0 PRO" manifested a promising debut performance, helping Zhang Lvnan to win the championship in the U24 men's 10,000-meter final of the 2023 Public Athletic Fitness Qualification Competition.

Sports event sponsorship to improve youth physical literacy

In November 2023, Xtep became an official partner of the 2023 Public Athletic Fitness Qualification Campus Series Competition, providing sportswear support to 1,500 contestants in the finals. Throughout the year, the sporting event held over 120 competitions in 72 cities across 24 provinces in Mainland China, improving the physical health of over 100,000 youth athletes.

We also continued to work with the China Hip-Hop Union Committee (CHUC) to organize street dance events and competitions for children, including the 2023 Xtep Kids BDS World Kids Street Dance Game. As the most influential street dance event in China and the only event for CHUC youth street dance national team selection, the competition has been widely recognized by young street dancers, with over one million kids from over 20 cities participating.

MANAGEMENT DISCUSSION AND ANALYSIS

Thanks to its exceptional design and superior product performance, Saucony has attracted considerable attention from an expanding customer base, thus sustaining a strong growth trajectory. In 2023, the revenue generated from the professional sports segment exhibited robust performance and soared by 98.9% to reach RMB795.5 million, accounting for 5.5% of the Group's total revenue.

Business development

Leveraging its outstanding design and quality, Saucony has experienced remarkable growth in brand awareness among Chinese consumers, accompanied by a rapid increase in store productivity and an encouraging expansion throughout Mainland China. To further enhance control and synergies with Xtep in product innovation, marketing, and distribution channels, the Group acquired 40% of Saucony's intellectual property rights in China in December 2023, as well as Wolverine Group's interests in the 2019 joint venture in January 2024, making the joint venture entities become the wholly-owned subsidiaries of Xtep. These transactions demonstrated our confidence in and commitment to the business development of both brands and their growth potential in China.

We remain committed to the expansion and enhancement of our retail network in Mainland China. Following the successful launch of our first third-generation image store at the Shanghai Super Brand Mall in June 2023, we continued to expand our retail presence in Tier 1 cities while establishing our retail footprint in premium shopping malls in Tier 2 cities. As of 31 December 2023, there were 110 Saucony stores and four Merrell stores in Mainland China.

Product innovation and marketing

Renowned for its legacy of outstanding performance, Saucony's running shoes have captivated both professional and the mass market runners in Mainland China. The brand's popularity has been reflected in the wear rate of various major marathons. In the major marathons in Mainland China, Saucony ranked third among all brands in terms of wear rate among all participants. This outstanding increase in popularity is a testament to Saucony's quality and performance, reinforcing its position as one of the preferred brands among runners participating in these highly competitive events.

Throughout the year, Saucony released the "ENDORPHIN ELITE", "KINVARA 14" and "TRIUMPH 21" in the first half of 2023, and introduced the "KINVARA PRO" and "TRIUMPH RFG" in August 2023. It also teamed up with creative brand LAMFO to unveil the "MILES KILLA Capsule Series", which includes a special edition of the "ENDORPHIN PRO 3". In addition to the "Performance" series, Saucony further developed its "Originals" and "Commuter" series to broaden its fashion and lifestyle offerings to meet the growing demand for personalized and versatile products for various scenarios. The newly launched "2K CAVALRY Chevalier Shoe" of the "Originals" series not only prioritizes fashionable aesthetics, but also embraces modern technologies and innovative materials, catering to the dual pursuit of fashion and sport among young consumers.

As a global leader in outdoor apparel and footwear, Merrell has strived to blend performance, style, and comfort to empower individuals to confidently explore the outdoors. In September 2023, Merrell joined forces with JEEP to launch "MERRELL X JEEP MOAB 3". Drawing inspiration from JEEP's limited edition "RUBICON" paint, the new product seamlessly blends individuality with functionality. In October 2023, Merrell unveiled new series of AW23 products. The series includes reversible Sherpa jackets with the popular teddy fleece, down jackets filled with lightweight yet warm down, and camping shoes made of environmentally friendly materials, offering the perfect combination of winter fashion and warmth.

Comprehensive collection for Saucony

MANAGEMENT DISCUSSION AND ANALYSIS

While the overseas market for K·SWISS and Palladium has experienced stagnation, both brands have made remarkable progress in rebranding efforts within Mainland China, as evidenced by the rapid increase in brand recognition and store productivity. In 2023, revenue from the athleisure segment increased by 14.3% to RMB1,602.6 million, accounting for 11.2% of the Group's revenue. Revenue from Mainland China grew rapidly by 224.3%, its revenue contribution also significantly increased from 10.2% in 2022 to 29.0% in 2023.

Business development

As K·SWISS and Palladium continue to enhance their product portfolios and retail network, they are beginning to reap the rewards of their successful rebranding initiatives in Mainland China. In particular, one of K·SWISS' pilot stores in Changchun achieved an annual store productivity of over RMB10 million, serving as a strong testament to the brand's exceptional product design and quality. Throughout the year, K·SWISS accelerated the opening of stores in premium shopping malls in higher-tier cities in Mainland China, including the first store in Shenzhen at Coastal City Shopping Center. As of 31 December 2023, there were 101 K·SWISS stores in Asia Pacific, including Mainland China.

To cater to the high-end consumer segment, Palladium also expanded its presence by opening new stores in various higher-tier cities in Mainland China. Following the launch of a new store in Beijing in September 2023, Palladium further expanded its footprint in Southern China with the opening of its first store in Shenzhen at The Mixc World in November 2023. As of 31 December 2023, there were 94 Palladium stores in Asia Pacific, including Mainland China.

Product innovation and marketing

Committed to the development of tennis, K·SWISS consistently offers cutting-edge tennis sportswear to help athletes reach their full potential. After marking a significant milestone in Chinese men's tennis history at a grand slam in France in June 2023, K·SWISS' brand spokesperson, Zhang Zhizhen, continued to dazzle audiences with his remarkable performance, wearing the "Ultrashot 3" and winning the gold medal in the men's tennis singles final at the Hangzhou sports event. To broaden its influence in the professional tennis arena and demonstrate its commitment to the sport's high-quality development, K·SWISS sponsored the Zhuhai Championships 2023 and the Hong Kong Tennis Open 2024 in September 2023 and January 2024, respectively, providing gear and support to caddies and staff. These sponsorships exemplify the brand's dedication to fostering confidence and composure in competition, while promoting a refined and elegant lifestyle to tennis and sports enthusiasts worldwide.

In addition to tennis, K·SWISS has taken an active role in promoting pickleball in recent years. In November 2023, K·SWISS sponsored and partnered with the Oakley Hong Kong Open Pickleball Championships 2023, the largest international pickleball tournament in Hong Kong. K·SWISS provided athletic footwear for the event organizers and guests for the day, and offered high-performance tennis shoes as prizes for the winners. Through various types of sponsorship, K·SWISS has successfully raised brand awareness among local and international athletes and skillfully delivered diverse tennis-inspired collections embedded with elements of the sport that are suitable for different situations.

Through strategic collaborations and revivals, Palladium continues to align itself with current youth and fashion trends. In August 2023, Palladium announced the appointment of renowned singer and actor Tan Jianci as its first brand spokesperson in Asia-Pacific. In September 2023, Palladium partnered with the French brand KARL LAGERFELD to introduce the "PALLADIUM X KARL LAGERFELD" series. The new collection harmoniously blends Palladium's distinctive retro sportswear DNA with KARL LAGERFELD's iconic black and white style, embodying the shared spirit of fearless exploration of both brands. In November 2023, the brand unveiled the "Hello Kitty X PALLADIUM" series, showcasing a perfect balance of cuteness and trendy elements. After a successful collaboration in June 2023, the brand again partnered with Jeremy Lin to launch the "PALLADIUM X Jeremy Lin No.17 Series" in December 2023, integrating Jeremy Lin's unique elements throughout and seamlessly blending fashion and sport.

Sponsor of the Oakley Hong Kong Open Pickleball Championship 2023

Sponsor of the Hong Kong Tennis Open 2024

MANAGEMENT DISCUSSION AND ANALYSIS

Sustainability

Building a sustainable future and contributing to society's well-being

As part of its corporate culture, Xtep is committed to contributing to the society. In August 2023, when torrential rains caused severe flooding in Beijing, Tianjin and Hebei in Mainland China, Xtep swiftly responded by donating RMB20 million worth of sportswear through the China Youth Development Foundation to support disaster relief efforts. In December 2023, when a 6.2-magnitude earthquake struck Linxia Hui Prefecture in Gansu Province, Xtep donated RMB20 million worth of warmth supplies to affected areas in Gansu and Qinghai Provinces in partnership with the China Next Generation Education Foundation to support frontline emergency relief efforts and post-disaster reconstruction.

Promoting eco-marathons

Following the successful launch of our eco-friendly T-shirt line for the 2023 Wuhan Marathon, Xtep continued its commitment to environmental protection by sponsoring over 30,000 participants in the 2024 Xiamen Marathon with official T-shirts made from recycled fibers. Each T-shirt utilized fibers recycled from six to seven plastic bottles, and each kilogram of recycled fiber represents a projected reduction of 1.8 kilograms of carbon emissions. These green initiatives represent our determination and leadership in promoting eco-marathons in Mainland China.

Sponsoring charity walk organized by Youth Outreach in Hong Kong

In November 2023, Xtep became one of the sponsors of "YO! Let's Walk the Road 2023", a charity walk organized by Youth Outreach in Hong Kong. The activity aimed to support at-risk youths, with the goal of helping them grow up to be responsible members of the community. Xtep also invited its employees to participate in the event. They all enjoyed the various booths set up by the youngsters as a means of making a positive contribution to society.

Sponsorship at UBS HK Family Sports Day to help promote physical health

Saucony extended its support by providing sportswear for the UBS HK Family Sports Day in October 2023. The event serves as a flagship gathering for UBS staff and their families to promote physical health and well-being. With over 700 participants, the event also featured two outstanding athletes, Stephanie Au and Shek Wai Hung, who shared their inspiring stories. The event also celebrated the remarkable achievements of Anson Chan, a valued colleague at UBS, who recently won a silver medal in roller skating at the Asian Championships.

Launch of the first low-carbon Xtep Running Club

In November 2023, Xtep renovated and launched the first low-carbon running club in the Shanghai Century Park in collaboration with Covestro. The traditional material "Desmodur MDI" was replaced with "Polyisocyanate Desmodur CQ Zero Carbon Footprint MDI" sprayed on the roof for thermal insulation. This new material, produced using Covestro's mass balance approach, could achieve zero-carbon emissions throughout the product cycle, significantly reducing the potential carbon emissions of the running club's insulation system while achieving the same level of insulation performance.

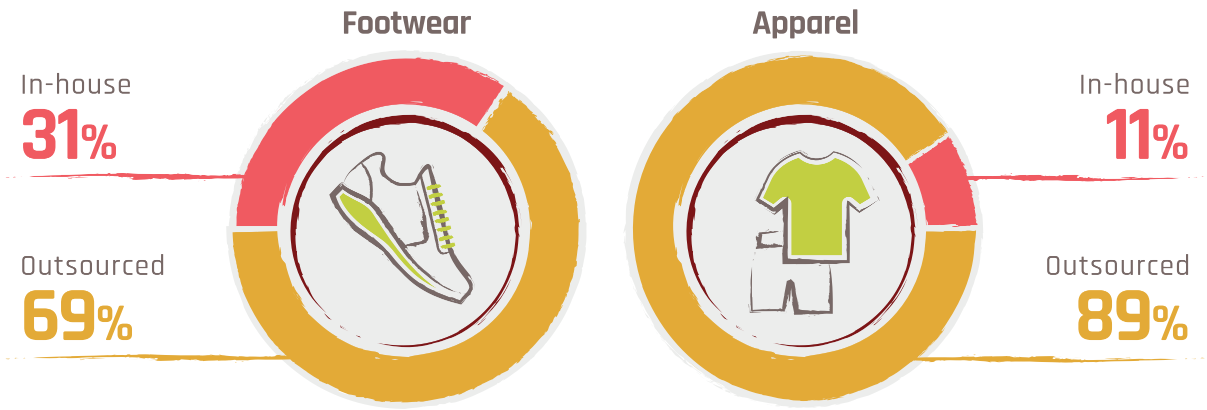
For more details regarding our sustainability performance and initiatives, please refer to the *Environmental, Social and Governance Report 2023*.

Operations management

Supply chain management

We are steadfast in maintaining seamless business operations and processes supported by an expertly managed supply chain. With the aim of maximizing production efficiency, we are striving to refine the manufacturing processes for footwear and apparel production through the collective procurement of materials.

The Group's production capacity allocation



Following the launch of the first phase of the in-house production facility in Shishi, Fujian Province, the construction of second phase is well underway. With a total planned gross floor area of approximately 170,000 square meters, the second phase of the facility will be equipped with state-of-the-art footwear assembly lines to cater to the growing product demand, of which 35,000 square meters is expected to be completed in August 2024.

The new industrial park in Bengbu, Anhui Province, commenced operation in May 2023. Comprising a footwear production facility of approximately 48,000 square meters and an apparel production facility of 25,000 square meters, the industrial park has effectively accommodated the ever-expanding business.

Additionally, we are currently in the process of constructing a logistics park in Jinjiang, Fujian Province. With a planned gross floor area of approximately 240,000 square meters, the logistics park will serve as a central warehouse to effectively facilitate the delivery of finished goods directly to our branded retail stores and optimizing our overall operational efficiency.

Human resources management

As of 31 December 2023, the Group employed approximately 9,100 employees (31 December 2022: approximately 9,800 employees), of which 56.8% were production employees (31 December 2022: 57.8%). We remain committed to attracting and retaining talent through our sophisticated performance management system. To facilitate decisions regarding promotions and salary adjustments, we encourage employees to engage in regular performance reviews with their supervisors.

Furthermore, we prioritize supporting our employees' career growth and providing them with the necessary training. Our Xtep Talent Center offers courses in three key areas, including professionalism, leadership, and cultural operation. These comprehensive courses are supported by an enhanced online learning platform, enabling our employees to access customized training programs tailored to strengthen their work performance. As of 31 December 2023, the Xtep Talent Center has delivered more than 430,000 hours of online and offline training to employees.

Prospects

The core Xtep brand has strategically positioned itself in the running field, actively building the largest running ecosystem in Mainland China, and taking a leading position in the market. As a domestic brand that offers value-for-money products to the mass market, the core Xtep brand will continue to enhance its research and development capabilities, refine the performance of its products, and create running shoes that are tailored for Chinese runners, helping them to achieve personal breakthroughs.

Possessing the capabilities to compete with rival international brands on the world stage, the Group is committed to maximizing the synergies for success. The strategic move to consolidate ownership of the joint venture entities of the Saucony and Merrell brands will not only maximize synergies in product innovation, marketing and distribution channels with the core Xtep brand, but also enhance operational efficiency to unleash the full growth potential of these brands. Looking ahead, the Group will expand the business scale for the Saucony and Merrell brands through customized collections that are catered for Chinese consumers, while exploring business opportunities in the global market. Meanwhile, Saucony will further develop its "Originals" and "Commuter" series to broaden its range of fashion and lifestyle offerings, in addition to its existing "Performance" series, to address the increasing demand for personalized and versatile products across various scenarios throughout China.

As consumers in the U.S. and Europe have continued to be cautious about discretionary spending due to high inflation, the overseas athleisure business saw sluggish growth in 2023. In contrast, the strong growth momentum of K·SWISS and Palladium in Mainland China — driven by a successful rebranding campaign, has raised our confidence in the sustainable development of the athleisure segment. To capitalize on an uptick in demand for athleisurewear, the two brands will continue to accelerate growth through new store openings in high-tier cities and product mix optimization. While K·SWISS will launch tennis-inspired sportswear to accentuate its professionalism in tennis, Palladium will roll out stylish collections that capture the hearts of younger consumers.

Driven by the growing emphasis on a healthy lifestyle and supportive national policies to promote sports development, Mainland China's sports consumption has demonstrated tremendous resilience and a notable recovery in 2023. These favorable factors, coupled with the Chinese government's pledge to implement proactive fiscal policies in 2024, such as expanding domestic demand to revive the economy, has boosted market confidence. The sportswear sector in Mainland China is poised for a continuous upswing in 2024 and beyond, presenting encouraging long-term prospects.

FINANCIAL REVIEW

Group Revenue Breakdown by Product Category

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

For the year ended 31 December

	2023 Revenue (RMB Million)	2023 Revenue (% of Revenue)	2022 Revenue (RMB Million)	2022 Revenue (% of Revenue)	Change in revenue (%)
Footwear	8,171.9	57.0	7,760.2	60.0	5.3
Apparel	5,903.5	41.1	4,896.9	37.9	20.6
Accessories	270.1	1.9	273.3	2.1	–1.2
Total	14,345.5	100.0	12,930.4	100.0	10.9

Group Revenue Breakdown by Brand Nature

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

For the year ended 31 December

	2023 Revenue (RMB Million)	2023 Revenue (% of Revenue)	2022 Revenue (RMB Million)	2022 Revenue (% of Revenue)	Change in revenue (%)
Mass market	11,947.4	83.3	11,127.9	86.1	7.4
Athleisure	1,602.6	11.2	1,402.5	10.8	14.3
Professional sports	795.5	5.5	400.0	3.1	98.9
Total	14,345.5	100.0	12,930.4	100.0	10.9

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

Brand Nature	Signature Brands
Mass market	Xtep
Athleisure	K·SWISS, Palladium
Professional sports	Saucony, Merrell

The Group's total revenue for the year ended 31 December 2023 increased to RMB14.3 billion (2022: RMB12.9 billion). Revenue of mass market segment exhibited a steady increase driven by the strong demand of our running products, and continual growth from kids business; revenue of athleisure segment showed an encouraging growth thanks to contributions from strong demand of our products and its e-commerce business; revenue of professional sports segment also showed strong growth thanks to the contributions from strong demand of our Saucony products and its e-commerce business.

Gross Profit and Gross Profit Margin Breakdown by Product Category and Brand Nature

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

For the year ended 31 December

	2023		2022			
	Gross profit (RMB Million)	Gross profit margin (%)	Gross profit (RMB Million)	Gross profit margin (%)	Change in gross profit (%)	Change in gross profit margin point (% point)
Footwear	3,421.9	41.9	3,177.1	40.9	7.7	1.0
Apparel	2,530.6	42.9	2,022.6	41.3	25.1	1.6
Accessories	97.2	36.0	92.0	33.7	5.6	2.3
Total	6,049.7	42.2	5,291.7	40.9	14.3	1.3

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

For the year ended 31 December

	2023		2022			
	Gross profit (RMB Million)	Gross profit margin (%)	Gross profit (RMB Million)	Gross profit margin (%)	Change in gross profit (%)	Change in gross profit margin (% point)
Mass market	5,012.7	42.0	4,593.3	41.3	9.1	0.7
Athleisure	718.5	44.8	527.4	37.6	36.2	7.2
Professional sports	318.5	40.0	171.0	42.7	86.3	–2.7
Total	6,049.7	42.2	5,291.7	40.9	14.3	1.3

The Group's overall gross profit margin increased by 1.3 percentage points to 42.2% (2022: 40.9%). The increase in the overall gross profit margin was mainly contributed by an increase in revenue and gross profit from functional products (which had higher gross profit margins) and a notable improvement in gross profit margins for athleisure products.

Other Income and Gains, net

For the year ended 31 December 2023, other income and gains, net of the Group mainly represented the subsidy income from the PRC government, which amounted to approximately RMB284.2 million (2022: RMB178.2 million); and the income derived from financial investments, term deposits and structured bank deposits amounted to approximately RMB58.0 million (2022: RMB64.2 million) and it was the interest income derived from treasury deposit products. Net fair value loss from convertible bonds amounted to approximately RMB27.0 million (2022: a net fair value gain of approximately RMB8.6 million). The increase in other income and gains, net was mainly due to the increase in government grants.

Selling and Distribution Expenses

For the year ended 31 December 2023, the Group's selling and distribution expenses amounted to approximately RMB3,369.0 million (2022: RMB2,690.2 million), representing approximately 23.5% (2022: 20.8%) of the Group's total revenue. The increase in selling and distribution expenses of approximately RMB678.8 million arose mainly from the increase in advertising and promotional costs. The advertising and promotional costs for the year amounted to approximately RMB1,961.5 million (2022: RMB1,537.3 million), representing approximately 13.7% (2022: 11.9%) of the Group's total revenue. The increase in the advertising and promotional costs was mainly due to increase in advertising campaigns and event sponsorships.

General and Administrative Expenses

For the year ended 31 December 2023, the Group's general and administrative expenses amounted to approximately RMB1,539.5 million (2022: RMB1,453.9 million), which represented approximately 10.7% (2022: 11.2%) of the Group's total revenue. The increase in general and administrative expenses was mainly attributed to an increase in R&D cost — the R&D cost for the year amounted to approximately RMB398.0 million (2022: RMB299.0 million), representing approximately 2.8% (2022: 2.3%) of the Group's total revenue. The R&D cost was mainly related to the salary costs of the research and design team, material costs for research and development of new products and equipment costs for new production technology, and it was partly offset by a write-back of provision for inventories amounted to RMB12.3 million (2022: a provision for inventories amounted to RMB36.4 million).

Net Finance Costs

The total net finance cost of the Group for the year ended 31 December 2023 amounted to approximately RMB145.5 million (2022: RMB91.2 million). The increase in net finance costs was mainly due to an increase in interest expense on bank loans to RMB121.8 million (2022: RMB61.1 million).

Operating Profit and Operating Profit Margin Breakdown

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

For the year ended 31 December

	2023		2022			
	Operating profit/(loss) (RMB Million)	Operating profit/(loss) margin (%)	Operating profit/(loss) (RMB Million)	Operating profit/(loss) margin (%)	Change in operating profit/(loss) (%)	Change in operating profit/(loss) margin (% point)
Mass market	1,891.0	15.8	1,758.6	15.8	7.5	–
Athleisure	(183.9)	(11.5)	(188.7)	(13.5)	–2.5	2.0
Professional sports	8.4	1.1	(19.6)	(4.9)	–142.9	6.0
	1,715.5	12.0	1,550.3	12.0	10.7	–
Corporate	(135.6)	N/A	(86.0)	N/A	57.8	N/A
Total	1,579.9	11.0	1,464.3	11.3	7.9	–0.3

The operating profit margin remained stable at around 11.0% during the year. The results of corporate segment included the net fair value changes arising from the derivative component of Xtep Convertible Bonds and K-Swiss Convertible Bonds.

Income Tax Expenses

Income tax provision of the Group for the year ended 31 December 2023 was approximately RMB416.1 million (2022: RMB448.7 million). The income tax provision included profit tax provision relating to operating companies, which amounted to approximately RMB406.5 million (2022: RMB405.7 million). Also, there were an over-provision of income tax of approximately RMB3.6 million (2022: RMB15.1 million), and a deferred tax amounting to RMB16.4 million (2022: RMB61.1 million) due to the provision of withholding tax as the Company holds certain PRC subsidiary companies which have retained profits that can be distributed to the Company in the future.

Profit Attributable to Ordinary Equity Holders and Net Profit Margin

For the year ended 31 December 2023, the profit attributable to ordinary equity holders was approximately RMB1,030.0 million (2022: RMB921.7 million), representing an increase of 11.8% over last year. The increase was mainly due to the increase in operating profit during the year.

The Group's net profit margin amounted to 7.2% (2022: 7.1%).

Dividend

The Group maintained a high level of cash and bank balances. The Board continued to maintain high shareholders' dividend return and therefore recommended a final dividend of HK8.0 cents per Share (2022: a final dividend of HK7.1 cents per Share). The proposed final 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's 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 will be dispatched to the Shareholders for the scrip dividend. Together with the interim dividend of HK13.7 cents (2022: HK13.0 cents) per Share payable in cash with a scrip dividend alternative, the total dividend for 2023 is HK21.7 cents (2022: HK20.1 cents), equivalent to a dividend payout ratio of 50.0% (2022: 50.0%).

Working Capital Cycle

For the year ended 31 December 2023, the Group's overall working capital turnover days was 83 days (2022: 67 days).

For the year ended 31 December

WORKING CAPITAL TURNOVER DAYS	2023 Days	2022 Days	Changes Days
Inventories	90	90	–
Trade receivables	106	98	+8
Trade payables	113	121	–8
Overall working capital turnover days	83	67	+16

The turnover days for trade receivables increased by 8 days, while the turnover days for trade payables decreased by 8 days, resulting in an increase in overall working capital turnover days by 16 days.

Bills Receivable and Bills Payable

In order to have more flexibilities in utilising working capital facilities, the Group utilised the acceptance and usage of bills receivable and bills payable.

As of 31 December 2023, the bills receivable amounted to approximately RMB457.0 million (2022: RMB403.2 million). For the year ended 31 December 2023, the number of turnover days of bills receivable was 11 days (2022: 11 days).

As of 31 December 2023, the bills payable amounted to approximately RMB100.0 million (2022: RMB50.0 million). For the year ended 31 December 2023, the number of turnover day of bills payable was 3 days (2022: 1 day).

Liquidity and Capital Resources

As of 31 December 2023, the Group's cash and cash equivalents amounted to RMB3,294.6 million (2022: RMB3,414.2 million). The decrease was mainly attributable to:

(a) net cash inflow from operating activities that amounted to RMB1,254.9 million, which was due to the cash generated from operations of RMB1,910.5 million, but offset by the payment of income and withholding tax of RMB530.6 million and the payment of net interest expenses of RMB103.9 million;

(b) net cash outflow from investing activities that amounted to RMB915.0 million, which was mainly due to the purchase of property, plant and equipment and the corresponding leasehold land included in right of use assets of RMB489.4 million and the increase in pledged bank deposits of RMB314.8 million; and

(c) net cash outflow from financing activities that amounted to RMB461.4 million, which was mainly due to the dividend payments of RMB468.8 million and principal elements of lease payments of RMB140.5 million but partially offset by net new bank borrowings of RMB188.9 million.

The net cash and cash equivalents (including pledged bank deposits and term deposits minus bank borrowings and convertible bonds) were approximately RMB932.1 million as at 31 December 2023 (2022: RMB1,225.7 million).

	2023 RMB Million	2022 RMB Million
Cash and cash equivalents	**3,294.6**	3,414.2
Bank deposits	**1,161.7**	1,047.3
Total bank deposits and bank balances	**4,456.3**	4,461.5
Less: Bank borrowings	**(2,645.0)**	(2,423.9)
Less: Convertible bonds	**(879.2)**	(811.9)
Net cash and cash equivalents	**932.1**	1,225.7

As of 31 December 2023, the Group's gearing ratio was 20.3% (2022: 19.6%), which is defined as the total bank borrowings and convertible bonds divided by the Group's total assets.

As of 31 December 2023, the total assets of the Group amounted to RMB17,325.4 million (2022: RMB16,493.5 million), represented by non-current assets of RMB5,281.0 million (2022: RMB4,155.4 million) and current assets of RMB12,044.4 million (2022: RMB12,338.1 million). The total liabilities of the Group amounted to RMB8,402.1 million (2022: RMB8,186.8 million), represented by non-current liabilities of RMB2,551.5 million (2022: RMB1,542.0 million) and current liabilities of RMB5,850.6 million (2022: RMB6,644.8 million). The total non-controlling interests of the Group amounted to RMB60.7 million (2022: RMB62.5 million). Hence, the total net assets of the Group amounted to RMB8,923.3 million (2022: RMB8,306.7 million), representing an increase of 7.4%. Net assets per Share as at 31 December 2023 were approximately RMB3.38 (2022: RMB3.15), representing an increase of 7.3%.

Impairment for Trade Receivables

During the year ended 31 December 2023, the Group recorded an impairment for trade receivables amounted to RMB22.2 million (2022: RMB19.5 million).

Provision for Inventories

During the year ended 31 December 2023, the Group recorded a write-back of provision for inventories amounted to RMB12.3 million (2022: a provision for inventories amounted to RMB36.4 million).

Commitments

Details of the Group's commitments are stated in note 38 to the financial statements.

Contingent Liabilities

As of 31 December 2023, the Group did not have any material contingent liabilities.

Charge of Assets

Save as disclosed in notes 13, 23 and 27 to the financial statements relating to certain amounts of properties and bank deposits pledged to secure certain bank loans, none of the Group's assets were pledged as at 31 December 2023.

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 in 2020 had entered into various interest rate swap contracts with fixed swap rates ranging from 0.88% to 1.18% per annum. All these contracts had been fulfilled during the year and there were no unfulfilled swap contracts as of 31 December 2023.

Significant Investments and Material Acquisitions and Disposals of Subsidiaries

With a view to further developing the Saucony and Merrell brands in Mainland China, Hong Kong and Macau, on 17 December 2023, certain members of the Group entered into agreements with Wolverine World Wide, Inc ("Wolverine", together with its subsidiaries the "Wolverine Group") and certain of its subsidiaries, pursuant to which the parties have agreed that:

- **Acquisition of interest in Saucony Asia IP Holdco and formation of a new joint venture**: XMS Sports Co. Limited ("XMS Sports", a wholly owned subsidiary of the Company) shall acquire 40% of ownership interest in Gemini Asia Saucony, LLC ("Saucony Asia IP Holdco"), a limited liability company incorporated under the laws of the State of Delaware of the United States of America which has been established for the purpose of holding, licensing and managing the intellectual property rights associated with the Saucony brand in Mainland China, Hong Kong and Macau. A joint venture agreement shall be entered into in relation to the management and operation of Saucony Asia IP Holdco.

- **Call options to acquire the remaining interest in Saucony Asia IP Holdco**: XMS Sports shall acquire the options to, in the event of global sale of the intellectual property of the Saucony brand or a change in control of Wolverine, purchase a further 35% or 60% ownership interest in Saucony Asia IP Holdco.

- **Acquisition of the Wolverine Group's interest in the 2019 joint venture entities**: MS (China) Sports Company Limited (previously known as Xtep Holdings Limited), a direct wholly owned subsidiary of the Company, shall acquire the Wolverine Group's interests in the certain joint venture entities to carry out the sale and distribution of products under the Saucony and Merrell brands. As a result, the aforesaid joint venture entities shall become wholly owned subsidiaries of the Group and the agreements constituting the said joint venture will be terminated.

All these transactions were completed on or before 1 January 2024.

Human Resources

As of 31 December 2023, the Group had approximately 9,100 employees (31 December 2022: 9,800 employees), of which 56.8% was production employees (31 December 2022: 57.8%). 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.

Non-GAAP Financial Measures for Professional Sports Segment

The following tables set forth the reconciliations of the Group's professional sports segment's non-GAAP financial measures and measures prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") for the year ended 31 December 2023 and 2022, which should be considered when evaluating our performance. We encourage you to review our financial information in its entirety and not rely on a single financial measure:

	For the year ended 31 December 2023		
	As reported (RMB Million)	**Adjustments[2] (RMB Million)**	**Non-GAAP (RMB Million)**
Revenue	**795.5**	**–**	**795.5**
Gross profit	**318.5**	**124.1**	**442.6**
Gross profit margin	**40.0%**	**N/A**	**55.6%**
Operating profit	**8.4**	**(0.2)**	**8.2**
Operating profit margin	**1.1%**	**N/A**	**1.0%**

	For the year ended 31 December 2022		
	As reported (RMB Million)	Adjustments[2] (RMB Million)	Non-GAAP (RMB Million)
Revenue	400.0	–	400.0
Gross profit	171.0	55.3	226.3
Gross profit margin	42.7%	N/A	56.5%
Operating loss	(19.6)	(47.6)	(67.2)
Operating loss margin	-4.9%	N/A	-16.8%

NOTES:

1 During the year ended 31 December 2023, the Group owned less than 50% of the share capital of certain operating entities in its professional sports segment and they were accounted for as associates of the Group. As a result, according to the applicable HKFRSs, while the Group should consolidate the results of its subsidiaries on a line-by-line basis, the Group could only recognise the share of results from its associates in its consolidated financial statements through equity method of accounting.

To provide investors with useful supplementary information to assess the performance of the overall operations of the Group's professional sports segment, the management also presents the revenue, gross profit, gross profit margin, operating loss and operating loss margin of the professional sports segment as if all the entities operating the professional sports segment were subsidiaries of a common parent and the financial results were combined on a line-by-line basis, which are not GAAP financial measures.

Nevertheless, the use of these non-GAAP financial measures has limitations as an analytical tool. These unaudited non-GAAP financial measures should be considered in addition to, not as a substitute for, analysis of the Group's financial performance prepared in accordance with HKFRSs.

2 These represent the adjustments to combine all the entities operating the professional segments as if they were the subsidiaries of a common parent.

INVESTOR RELATIONS REPORT

SUSTAINING INVESTOR CONFIDENCE AMID CHALLENGES

In the face of challenging market conditions and subdued economic growth, we recognize the importance of continuous engagement and communication to foster trust and understanding between the Company and our stakeholders. Throughout the past years, we have remained dedicated to utilizing both physical and virtual channels to articulate our visions, provide comprehensive updates on our business strategies and outlook, and actively seek feedback from our stakeholders. This proactive approach has allowed us to address concerns, relay insightful feedback to senior management, and strengthen the bond between our Company and our stakeholders.

Our investor relations program has received continuous support from the senior management and Board of Directors. Over the past year, our executive team and investor relations team have made it a priority to engage with both local and overseas investors through various means such as meetings, conferences, and roadshows. By fostering open dialogues and instilling confidence, we have nurtured these vital relationships and reinforced our commitment to delivering timely updates while addressing investors' needs. Through a clear focus on disclosure priorities and the implementation of effective investor engagement strategies, we have successfully maintained stability in the Company's share price and ensured the liquidity of our shares, thus preserving investor confidence during times of uncertainty.

The year 2023 witnessed a significant resurgence in in-person conferences, roadshows, and other investor events. In August, we resumed holding physical press conference and analyst briefing when announcing the company's results. Riding on our 15th listing anniversary, we hosted a celebration dinner in June 2023 in Hong Kong to express our heartfelt appreciation to investors and business partners, and share with the investment community about our future development strategies to strengthen bonding with stakeholders physically. This event served as a platform not only to celebrate our achievements but also to effectively communicate our vision, plans and commitment to building relationships on a personal level, solidifying existing partnerships and potentially opened doors to new collaborations. In June 2023, we also conducted a physical Annual General Meeting to enable more extensive and meaningful engagement with our stakeholders.

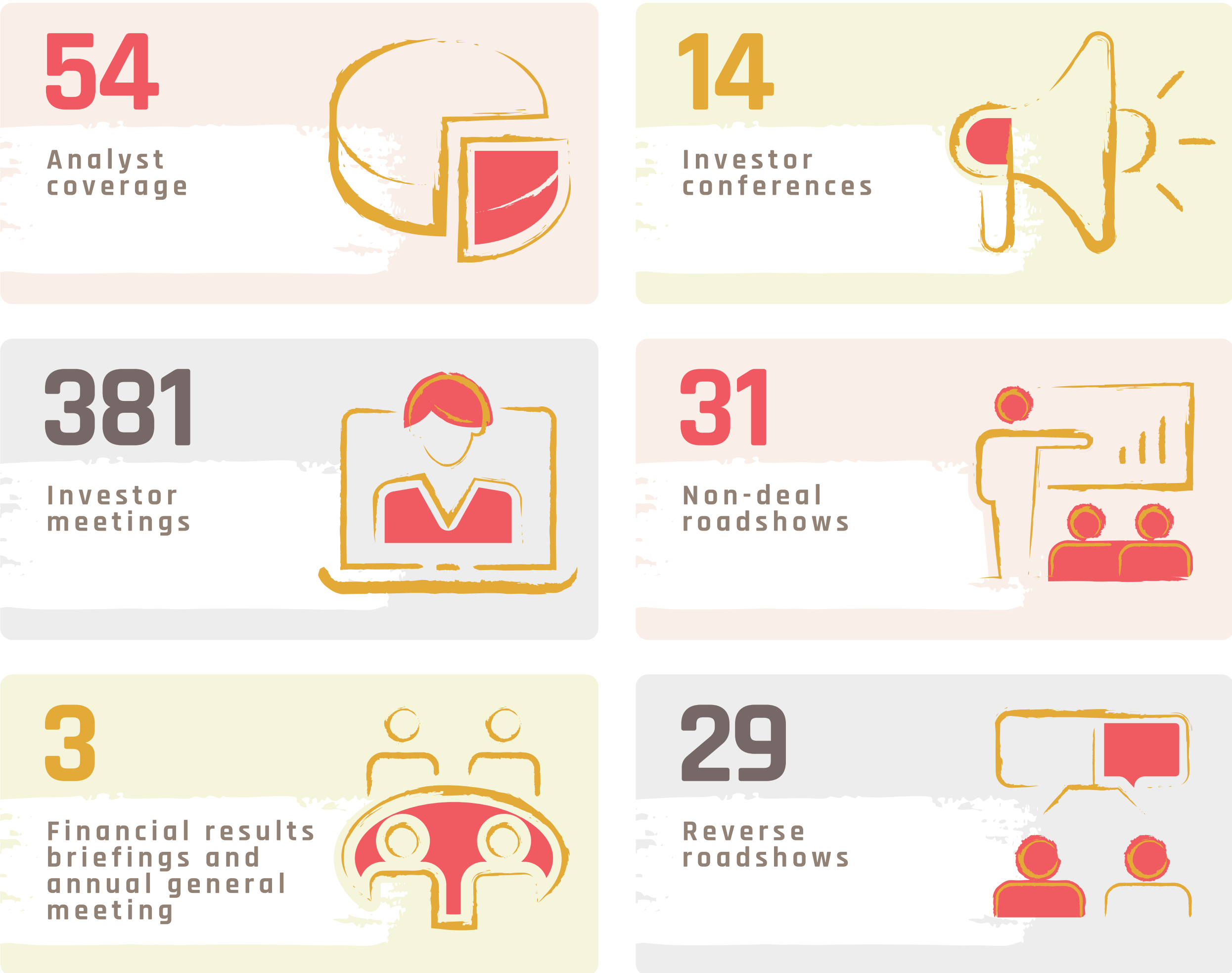
At the same time, we embraced the digital landscape to maintain ongoing dialogue with investors. Leveraging various online platforms, we ensured the timely dissemination of transparent information. Our quarterly operational updates were delivered through teleconferences, while our corporate website offered investors convenient access to a wide range of company information, including financial updates, presentations, and webcasts, available on any device.

15th listing anniversary celebration dinner in June 2023

2023 interim results investor presentation in August 2023

INVESTOR RELATIONS REPORT

CLOSE ENGAGEMENT WITH INSTITUTIONAL INVESTORS



Investor conferences and non-deal roadshows

During the year, we participated in physical and virtual non-deal roadshows and investor conferences in cities across North America, Europe, and the Asia-Pacific region, including but not limited to Mainland China, Hong Kong, Japan, Korea, Singapore, and Taiwan. These locations are home to a significant number of our institutional investors.

List of investor conferences attended during the year

Date	Event	Format
Jan 2023	Morgan Stanley Virtual China Opportunity Conference	Virtual
Jan 2023	UBS Greater China Conference 2023	Physical — Hong Kong
Jan 2023	Goldman Sachs Greater China Consumer & Leisure Day	Physical — Hong Kong
Apr 2023	CITIC CLSA China Event: Back in the game	Physical — Hong Kong
May 2023	Macquarie DELTAH China Conference 2023	Physical — Hong Kong
May 2023	Daiwa China Conference (Hong Kong)	Physical — Hong Kong
May 2023	Morgan Stanley China Summit 2023	Physical — Hong Kong
Jun 2023	UBS Asian Consumer, Gaming and Leisure Conference 2023	Physical — Hong Kong
Sept 2023	J.P. Morgan APAC CEO-CFO Forum	Physical — New York
Sept 2023	30th CITIC CLSA Investors' Forum	Physical — Hong Kong
Sept 2023	Goldman Sachs China+ Conference 2023	Physical — Hong Kong
Oct 2023	CMBI Consumer Day	Virtual
Nov 2023	Daiwa Investment Conference Hong Kong 2023	Physical — Hong Kong
Nov 2023	Morgan Stanley 22nd Asia Pacific Summit	Physical — Singapore

Reverse roadshows

Furthermore, we organized 29 reverse roadshows for analysts and investors to deepen their understanding of the operations at our Xiamen headquarters, the first running research laboratory in Mainland China, as well as the new retail experiences provided by the Xtep Running Clubs and our retail stores.

Site visit to our Saucony store in Beijing in April 2023

MAJOR AWARDS AND RECOGNITIONS

Institutional Investor's 2023 Asia Pacific (Ex-Japan) Executive Team Awards

Institutional Investor

- Most Honored Company – Overall (3rd place)
- Best CEO – Sell-side (1st place)
- Best CFO – Sell-side (1st place)
- Best IR Professional – Sell-side (2nd place)
- Best IR Team – Combined (3rd place)
- Best IR Team – Sell-side (2nd place)
- Best IR Program – Sell-side (1st place)
- Best ESG – Sell-side (1st place)
- Best Board of Directors – Sell-side (1st place)

Corporate Governance Asia 13th Asian Excellence Award 2023

Corporate Governance Asia

- Asia's Best CEO (Investor Relations)
- Asia's Best CFO (Investor Relations)
- Best Investor Relations Professional
- Best Investor Relations Company

9th Investor Relations Awards 2023

Hong Kong Investor Relations Association

- Overall Best IR Company (Mid Cap)
- Best IR by Chairman/CEO (Mid Cap)
- Best IR by CFO (Mid Cap)
- Best IRO (Mid Cap)
- Best IR Team (Mid Cap)
- Best IR Company (Mid Cap)
- Best Annual Report (Mid Cap)
- Best ESG (E) (Mid Cap)

INFORMATION FOR INVESTORS

Share information

Company name: Xtep International Holdings Limited
Listing: Hong Kong Stock Exchange
Stock code: 1368
Listing date: 3 June 2008
Board lot size: 500 shares
Number of issued shares as at 31 December 2023: 2,641,457,207
Market capitalization as at 31 December 2023: HK$11,648,826,283
Index constituent:

- Hang Seng Composite Index Series
- MSCI Emerging Market Index
- MSCI All Country Far East Ex Japan Index
- MSCI China Small Cap Index

Basic earnings per Share for 2023:

- Interim: RMB26.36 cents
- Final: RMB40.76 cents

Dividend per Share for 2023:

- Interim: HK13.7 cents
- Final: HK8.0 cents
- Full year total: HK21.7 cents

Key dates for investors

18 March 2024	2023 annual results announcement
26 April 2024 to 3 May 2024	Closure of the register of members (for determination of shareholders who are entitled to attend and vote at annual general meeting) (both days inclusive)
3 May 2024	Annual general meeting
7 May 2024	Dividend ex-entitlement for Shares
9 to 13 May 2024	Closure of the register of members (for determination of final dividend entitlement) (both days inclusive)
28 June 2024	Proposed payment of 2023 final dividend

Registrar & Transfer Offices

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

Enquiries

For information about the Group, please visit our corporate website:

www.xtep.com.hk

or contact our Investor Relations and Sustainability Department:

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Billion Centre, 1 Wang Kwong Road
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Fax: (852) 2153 0330
Investors enquiries: ir@xtep.com.hk
Media enquiries: media@xtep.com.hk
General enquiries: general@xtep.com.hk

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Ding Shui Po (丁水波), aged 53, is the founder, chairman of the Board and chief executive officer of the Group. Mr. Ding has over 30 years of experience in the sportswear industry and is primarily responsible for the overall corporate strategies, planning and business development of the Group. Mr. Ding is currently also the chairman of the Board of Directors and the president of various subsidiaries of the Group.

Mr. Ding participated in entrepreneurship programs offered by Peking University (北京大學) and Tsinghua University (清華大學) in 2004 and 2006, respectively, and studied for the China CEO/Finance CEO Program offered by Cheung Kong Graduate School of Business (長江商學院) in 2011. He also completed the CEO Program of the China Europe International Business School (中歐國際工商學院) and the EMBA program offered by Xiamen University (廈門大學) in 2014 respectively. He started attending China Europe International Business School's Sport and Leisure Management Program in 2015, Shanghai Advanced Institute of Finance's "CEO Program: Leading the Future" in 2016, Harvard University's "Global CEO Program" in 2018, Executive Education — SEM-Tsinghua University's "Seventh Class of Entrepreneur Scholar Program" in 2019 and "Entrepreneurship Scholars Program" of Cheung Kong Graduate School of Business in 2023. He is a brother of Ms. Ding Mei Qing and Mr. Ding Ming Zhong.

Mr. Ding personally obtained the following awards in the recent years:

Year	Award
2011	The "Seeding of Hope, Contribution to Brightness" medal, presented by All-China Federation of Returned Overseas Chinese
2011	Most Innovative Entrepreneur of Quanzhou City
2013	Outstanding Contribution Award on Community Donation by a Businessman in the Private Sector in Fujian Province
2013	Outstanding Contribution Award on Western Taiwan Straits Economic Zone Construction
2013	Top Ten Outstanding Young Persons in Quanzhou
2016	Outstanding Entrepreneur in China 2015–2016 presented by China Enterprise Confederation
2017	Next Generation Education and Charity Motivation Award 2017 by the China Next Generation Education Foundation
2019	2019 Outstanding Builder of Non-public Sector of Economy in Fujian Province
2019	Awarded the "Person of Year in Sportswear Industry" Award
2020	Enlisted in the 2020 China's Top 500 Brand figures
2020	Enlisted in the 2020 Forbes China Philanthropy List
2022	Awarded the 2021 Top Ten Person of the Economic Year in China
2022	Included in the 11th group of Honorary Citizen of Xiamen
2023	"Most Influential Enterprise Leader in 2023"

Mr. Ding held the following public offices in the recent years:

Year	Public Office
2011	Founding Chairman of the Hong Kong China Chamber of Commerce
2013	Committee Member of the 11th Fujian Provincial Committee of the Political Consultative Conference
2013	Executive Vice President of the 4th Congress of the China Federation of Overseas Chinese Entrepreneurs
2014	Chairman of the 2nd World Quanzhou Youth Friendship Association
2015	Committee Member of Marathon Committee of Chinese Athletic Association
2016	Chief Expert in the Sportswear Industry, for the Sports Economy Research Center of the Research Institute of Sports Science of the General Administration of Sport of China
2017	Deputy Director of Marathon Committee of Chinese Athletic Association
2017	Permanent Honorary Chairman of the Fourth Session of the Board of Education Fund Council of Quanzhou City
2018	Deputy President of the Seventh Session of the Board of the China National Garment Association
2018	Vice-Chairman of the China Next Generation Education Foundation
2019	Specially Invited Vice President of the 9th executive committee of Chinese Athletic Association
2022	The Fourteenth Vice-chairman of Xiamen Industrial and Commercial Association (General Chamber of Commerce)
2023	Specially Invited Vice President of the 10th executive committee of Chinese Athletic Association

DIRECTORS AND SENIOR MANAGEMENT

Ms. Ding Mei Qing (丁美清), aged 51, is the vice chairman of the Board and the vice president of the Group. Ms. Ding has over 20 years of experience in the sportswear industry, and is primarily responsible for the management of the product design and development as well as supply chains business of the Group. She is mainly responsible for consolidating the position and reputation of the footwear category in the industry, and is directly responsible for product innovation, research and development of technical standards, flexible supply chain platforms, intelligent manufacturing, vertical auxiliary systems and information technology and intelligent management. She is also a deputy general manager, a director and a vice president of various subsidiaries. Ms. Ding is the sister of Mr. Ding Shui Po and Mr. Ding Ming Zhong.

Ms. Ding participated in an entrepreneurship program offered by Tsinghua University (清華大學) and an business administration program offered by Cheung Kong Graduate School of Business (長江商學院) in 2006 and 2022, respectively. She has received Fortune (Chinese version)'s list featuring 40 young business elites in China "40 Under 40", Top Ten Eminent Young Entrepreneurs of Quanzhou in 2018, the March 8th Red-Banner Pacesetter of Fujian in 2021 and other recognitions.

Mr. Ding Ming Zhong (丁明忠), aged 47, is an executive Director of the Company and the vice president of the Group. He has over 20 years of experience in the sportswear industry and is primarily responsible for the management of the accessories business of the Group. Mr. Ding joined the Group in 1999 and is currently also a deputy general manager and a vice president of various subsidiaries of the Group. Mr. Ding participated in entrepreneurship programs offered by Peking University (北京大學) and Tsinghua University (清華大學) in 2004 and 2006, respectively. He is currently serving as a member of the 14th Fujian Political Consultative Committee and the deputy chairman of China Sporting Goods Federation. He is a brother of Mr. Ding Shui Po and Ms. Ding Mei Qing.

Mr. Tan Wee Seng (陳偉成), aged 68, is a non-executive Director and chairman of the Sustainability Committee of the Company. He is an independent non-executive director and chairman of the audit committee of Sa Sa International Holdings Limited, an independent non-executive director and chairman of the remuneration committee of Health and Happiness (H&H) International Holdings Limited, an independent non-executive director and chairman of the audit committee of CIFI Holdings (Group) Company Limited, and an independent non-executive director, chairman of the audit committee and remuneration committee of Shineroad International Holdings Limited, all of these companies are listed on the Main Board of the Hong Kong Stock Exchange. He is a board member of Beijing City International School, an academic institution in Beijing. Mr. Tan has been an independent director and chairman of audit committee for Sinopharm Group Company Limited from September 2014 to September 2020 listed on Hong Kong Stock Exchange Main Board and 7 Days Group Holdings Limited listed on the NYSE from November 2009 to July 2013 until it was privatized. Mr. Tan was also the chairman of special committee for privatization of the 7 Days Group Holdings Limited from October 2012 to July 2013. Mr. Tan was also an independent director and chairman of the audit committee of the ReneSola Ltd. whose shares are listed on the NYSE from April 2009 to January 2023.

Mr. Tan has over 40 years of experience in financial management, corporate finance, merger and acquisition, business management and strategy development. He has also held various management and senior management positions in a number of multi-national and Chinese corporations. From 2003 to 2008, he was an executive director, chief financial officer and company secretary of Li Ning Company Limited, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange. From 1999 to 2002, he was the senior vice president of Reuters for China, Mongolia and North Korea regions, and the chief representative of Reuters in China. Prior to that, he had served as the managing director of AFE Computer Services Limited, a Reuters subsidiary in Hong Kong mainly engaged in domestic equity and financial information services, and as the director of Infocast Pty Limited, a Reuters subsidiary in Australia and as the regional finance manager of Reuters East Asia. Mr. Tan is a professional accountant and a fellow member of both the Chartered Institute of Management Accountants in the United Kingdom and the Hong Kong Institute of Directors.

DIRECTORS AND SENIOR MANAGEMENT

Dr. Bao Ming Xiao (鮑明曉), aged 62, is an independent non-executive Director. Dr. Bao has over 36 years of experience in physical education. Dr. Bao was a professor of physical education theory at the Capital Institute of Physical Education from 1998 to 2000. He has been a researcher and the chairman of the Research Center of Physical Education Sociology and Science at the Research Institute of Physical Education and Science (體育科學研究所體育社會科學研究中心) of the General Administration of Sport of China (國家體育總局) since 2001. In 2011, Dr. Bao was appointed as deputy chairman of the Second Sport Committee of China Sport Science Society (中國體育科學學會). Dr. Bao graduated from Anhui Normal University (安徽師範大學) with a bachelor's degree in physical education in 1983. Dr. Bao then obtained a master's degree in education and a doctoral degree in education from Shanghai University of Sport (上海體育學院) in 1988 and 2005, respectively. Dr. Bao was appointed as director of the China Sports Economy Research Center (中國體育經濟研究中心) in 2016 and was appointed as the head of China Sports Policy Research Institute (中國體育政策研究院) in 2018.

Dr. Wu Ka Chee, Davy (胡家慈), aged 55, is an independent non-executive Director and chairman of the Remuneration Committee of the Company. He is currently a senior lecturer of the Department of Accountancy, Economics and Finance at The Hong Kong Baptist University, where he has been employed since September 1999. Dr. Wu was an independent non-executive director of Goal Rise Logistics (China) Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1529) from August 2017 to November 2021. Dr. Wu was an independent non-executive director of Wan Leader International Limited, a company listed on GEM of the Stock Exchange (stock code: 8482), from August 2018 to March 2021.

Dr. Wu attained a doctorate degree in law in December 2003, a postgraduate certificate in law in June 1994 and a bachelor's degree in law in November 1993, all from The University of Hong Kong. He also obtained a master's degree in business administration from The Hong Kong Polytechnic University in November 2013. He is a co-author of the Guide to Corporate Governance for Subvented Organisations, the second edition of which was published by the Hong Kong Government in June 2015.

From 2006 to 2012, he was a member of the Advisory Group on Share Capital, Distribution of Profits and Assets and Charges Provisions for the rewrite of the Companies Ordinance (Chapter 622 of the laws of Hong Kong), on appointment by the Financial Services and Treasury Bureau of the Hong Kong Government. From 2011 to 2016, he was a member of the Advisory Group on Modernisation of Corporate Insolvency Law, also on appointment by the Financial Services and Treasury Bureau. He has been serving the Hong Kong Institute of Certified Public Accountants as a director of a professional diploma programme in insolvency since 2012. He was appointed as a consultant on governance by Pok Oi Hospital in January 2023.

Dr. Chan Yee Wah (陳綺華), aged 58, is an independent non-executive Director and the chairlady of the Audit Committee. Dr. Chan has more than 26 years of financial and management experience and has been senior executives of various listed companies in Hong Kong. Dr. Chan is the founding chairlady of Hong Kong Investor Relations Association. Dr. Chan is also a fellow member of each of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Hong Kong Chartered Governance Institute (previously known as The Hong Kong Institute of Chartered Secretaries). Dr. Chan graduated from the City University of Hong Kong with a bachelor of arts degree in accounting. She then earned a master's degree in business administration from the University of Nottingham. She also obtained a doctorate degree in business administration from the Polytechnic University of Hong Kong. She is currently an independent non-executive director of Capital Environment Holdings Limited (stock code: 3989), a company listed on the Main Board of the Stock Exchange and an independent non-executive director and the chairlady of the Audit Committee of ST International Holdings Company Limited (stock code: 8521), a company listed on the GEM of the Stock Exchange. She is also the Head of Investor Relations of C C Land Holdings Limited.

SENIOR MANAGEMENT

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

COMPANY SECRETARY

Mr. Yeung Lo Bun (楊鷺彬), aged 46, is the company secretary and authorized representative of the Company as well as the chief financial officer and group vice president of the Group. He is responsible for the overall financial and accounting affairs, treasury, merger and acquisition, investor relations and company secretarial matters of the Group. He has over 20 years of experience in the field of audit, corporate finance and financial management. Mr. Yeung joined the Group on 20 September 2010. Prior to joining the Group, Mr. Yeung worked in DaChan Food (Asia) Limited (stock code: 3999), a company listed on the Main Board of the Hong Kong Stock Exchange, from 2003 to 2010 and his last position was senior finance manager. Mr. Yeung also worked for an international audit firm from 2001 to 2003.

Mr. Yeung graduated from The University of Melbourne with a bachelor's degree in commerce in 2000. He is a fellow member of the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2023, the Company complied with all code provisions and, where appropriate, adopted the recommended best practices as set out in the Corporate Governance Code in force during the year, with the exception of code provision C.2.1 (chairman and chief executive).

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

COMPLIANCE WITH MODEL CODE

The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 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 standards set out in the Model Code for the year ended 31 December 2023.

CULTURE AND STRATEGIC PLANNING

Perseverance, innovation, integrity and mutual success are part of Xtep's DNA and the core values it embraces. Throughout the years, they are pivotal to the Group's success and its sound reputation as a top-notched sportswear brand with an extensive global distribution network in Asia-Pacific, North America and EMEA.

Governed by its multiple-brand and multiple-market strategy, Xtep aspires to become a world leading sportswear brand and a respected Chinese brand operator. Upholding the belief that sports promote health and wellbeing without any gender, age, or ethnic differences, Xtep made strategic efforts to continuously create high-quality sportswear products, and create value for stakeholders and the communities in which it operates. With an ambitious mission to elevate sports to the extraordinary, it strives to empower sports lovers through the relentless pursuit of excellence and innovation.

BOARD OF DIRECTORS

Board Composition

As at 31 December 2023 and the date of this annual report, the Board is comprised of three executive Directors, one non-executive Director and three independent non-executive Directors.

The followings are the members of the Board:

Executive Directors
Mr. Ding Shui Po *(Chairman and Chief Executive Officer)*
Ms. Ding Mei Qing
Mr. Ding Ming Zhong

Non-Executive Director
Mr. Tan Wee Seng

Independent Non-Executive Directors
Dr. Bao Ming Xiao
Dr. Wu Ka Chee, Davy
Dr. Chan Yee Wah

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

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

Meetings of the Board

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

Directors may participate either in person or through electronic means of communications. The individual attendance record of each Director at the meetings of the Board and the general meetings during the year ended 31 December 2023 is set out below:

Name of Director	Attendance/Number of board meeting(s) held during a director's tenure	Attendance/Number of general meeting held during a director's tenure
Executive Directors		
Mr. Ding Shui Po	7/7	1/1
Ms. Ding Mei Qing	7/7	1/1
Mr. Ding Ming Zhong	7/7	1/1
Non-Executive Director		
Mr. Tan Wee Seng	7/7	1/1
Independent Non-Executive Directors		
Dr. Bao Ming Xiao	7/7	1/1
Dr. Wu Ka Chee, Davy	7/7	1/1
Dr. Chan Yee Wah	7/7	1/1

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

Functions and Duties of the Board

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

The main functions and duties conferred on the Board include:

— management of the overall business and strategic development;

— deciding business plans and investment plans;

— convening general meetings and reporting to the Shareholders;

— exercising other powers, functions and duties conferred by the Shareholders in general meetings; and

— performing corporate governance duties in compliance with the terms of reference set out in the Corporate Governance Code.

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

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

The Board is of the view that the following mechanisms adopted by the Company are effective in ensuring that independent views and inputs are available to the Board:

- The Board comprises a majority of non-executive Directors.
- In assessing suitability of the Director candidates, the Board will consider their profiles, including their character, experience, qualifications and time commitment; the Board will also consider the Board's overall composition and skill matrix as well as the Company's diversity policy.
- The Board will review each Director's time commitment to the Company's business annually.
- The Board will assess non-executive Directors' independence upon appointment and annually.
- Directors are required to abstain from voting in matters in which he has material interest.
- Directors can upon reasonable request seek independent professional advice at the Company's expenses to discharge their duties.

The quality of deliberations at meetings of the Board are reviewed during the annual evaluation of the Board's performance.

Independent Non-Executive Directors

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

The Board has three independent non-executive Directors in compliance with Rule 3.10(1) of the Listing Rules, which requires that every board of directors of a listed issuer must include at least three independent non-executive Directors. In addition, at least one independent non-executive Director, namely, Dr. Chan Yee Wah, possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 3.10(2) of the Listing Rules. The Company has appointed three independent non-executive Directors, representing more than one-third of the Board, in compliance with Rule 3.10A of the Listing Rules.

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

Training and Support for Directors

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

The Directors have been informed of the requirement under code provision C.1.4 of the Corporate Governance Code regarding continuous professional development. According to the records maintained by the Company, the current Directors received the following trainings with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Corporate Governance Code on continuous professional development during the year ended 31 December 2023:

	Corporate Governance/Updates on laws, rules and regulations		Accounting/Financial/ Management or other professional skills	
Name of Director	**Read materials**	**Attended seminars/ briefings**	**Read materials**	**Attended seminars/ briefings**
Executive Directors				
Mr. Ding Shui Po	✓	✓	✓	✓
Ms. Ding Mei Qing	✓	✓	✓	✓
Mr. Ding Ming Zhong	✓	✓	✓	✓
Non-Executive Director				
Mr. Tan Wee Seng	✓	✓	✓	✓
Independent Non-Executive Directors				
Dr. Bao Ming Xiao	✓	✓	✓	✓
Dr. Wu Ka Chee, Davy	✓	✓	✓	✓
Dr. Chan Yee Wah	✓	✓	✓	✓

Directors' and Officers' Insurance

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

Appointments and Re-Election of Directors

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

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

CHAIRMAN AND CHIEF EXECUTIVE

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

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Mr. Tan Wee Seng had entered into a service contract commencing from 29 March 2010 and the contract continued to have full force upon his re-designation as an non-executive Director effective from 17 March 2022. Dr. Bao Ming Xiao had entered into a service contract with the Company for an initial term of two years commencing from 21 December 2012. Dr. Wu Ka Chee, Davy had entered into a service contract with the Company for an initial term of two years commencing from 7 May 2021. Dr. Chan Yee Wah had entered into a service contract with the Company with no fixed term commencing from 17 March 2022.

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

BOARD COMMITTEES

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

Audit Committee

The Audit Committee was established on 7 May 2008, in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the Corporate Governance Code. The Audit Committee consists of four members, namely, Dr. Chan Yee Wah, Mr. Tan Wee Seng, Dr. Bao Ming Xiao and Dr. Wu Ka Chee, Davy, the majority of whom are independent non-executive Directors. Dr. Chan Yee Wah, who has appropriate professional qualifications and experience in accounting matters, is the chairlady of the Audit Committee. None of the members of the Audit Committee have any financial interest in or is a former partner of the existing external auditor of the Company, Ernst & Young.

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

During the year ended 31 December 2023, the Audit Committee mainly performed the following duties:

— reviewed the Group's audited annual results for the year ended 31 December 2022 and the unaudited interim results for the six months ended 30 June 2023, met with the external auditors to discuss such interim results and annual results without the presence of the Company's management, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made;

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

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

During the year ended 31 December 2023, two meetings were held by the Audit Committee. The attendance record of each member of the Audit Committee at the meetings of the Audit Committee is set out below:

Name of Director	Attendance/Number of Audit Committee meeting(s) held during a director's tenure
Dr. Chan Yee Wah	2/2
Mr. Tan Wee Seng	2/2
Dr. Bao Ming Xiao	2/2
Dr. Wu Ka Chee, Davy	2/2

There had been no disagreement between the Board and the Audit Committee during the financial year ended 31 December 2023.

Remuneration Committee

The Remuneration Committee was established on 7 May 2008, with written terms of reference in compliance with the Corporate Governance Code. The Remuneration Committee consists of three members, namely Dr. Wu Ka Chee, Davy, Ms. Ding Mei Qing and Dr. Bao Ming Xiao, the majority of whom are independent non-executive Directors. Dr. Wu Ka Chee, Davy is the chairman of the Remuneration Committee.

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

During the year ended 31 December 2023, the Remuneration Committee mainly performed the following duties:

— reviewed the Group's remuneration policy and reviewed the remuneration package of the executive Directors, non-executive Directors and senior management for the year of 2023; and

— reviewing matters relating to share schemes under Chapter 17 of the Listing Rules.

During the year ended 31 December 2023, two meetings were held by the Remuneration Committee. The attendance record of each member of the Remuneration Committee at the meetings of the Remuneration Committee is set out below:

Name of Director	Attendance/Number of Remuneration Committee meeting held during a director's tenure
Dr. Wu Ka Chee, Davy	2/2
Ms. Ding Mei Qing	2/2
Dr. Bao Ming Xiao	2/2

Nomination Committee

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

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

During the year ended 31 December 2023, the Nomination Committee mainly performed the following duties:

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

— reviewed the structure, size and composition of the Board during the year of 2023.

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

A "Nomination Policy" for Directors was formally adopted and this incorporated the nomination criteria and principles for Directors that are set out in the Nomination Committee's terms of reference. The Nomination Policy applies to the directors of the Company and where applicable, senior management prepared for Board positions under the succession planning of the Company.

The Nomination Policy aims to (i) set out the criteria and process in the nomination and appointment of directors of the Company; (ii) ensure that the Board of the Company has a balance of skills, experience and diversity of perspectives appropriate to the Company; and (iii) ensure the Board continuity and appropriate leadership at Board level.

In evaluating and selecting any candidate for directorship, the following criteria should be considered:

- character and integrity;

- qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy;

- any measurable objectives adopted for achieving diversity on the Board;
- requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Listing Rules;
- any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
- such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning.

Nomination Process

Appointment of New Director

i. The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents.

ii. The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

iii. If the process yields one or more desirable candidates, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

iv. The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.

v. For any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Where appropriate, the Nomination Committee and/or the Board should make recommendation to shareholders in respect of the proposed election of director at the general meeting.

Re-election of Director at General Meeting

i. The Nomination Committee and/or the Board should review the overall contribution and service to the Company of the retiring director and the level of participation and performance on the Board.

ii. The Nomination Committee and/or the Board should also review and determine whether the retiring director continues to meet the criteria as set out above.

iii. The Nomination Committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of director at the general meeting.

Where the Board proposes a resolution to elect or re-elect a candidate as director at the general meeting, the relevant information of the candidate will be disclosed in the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules and/or applicable laws and regulations.

During the year ended 31 December 2023, one meeting was held by the Nomination Committee. The attendance record of each member of the Nomination Committee at the meeting of the Nomination Committee is set out below:

Name of Director	Attendance/Number of Nomination Committee meeting held during a director's tenure
Mr. Ding Shui Po	1/1
Mr. Tan Wee Seng	1/1
Dr. Wu Ka Chee, Davy	1/1

Diversity

Board diversity

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

Having implemented the Board Diversity Policy, we believe we have achieved gender diversity in respect of the Board: currently the Board comprises five (71.4%) males and two (28.6%) females, which is higher than the average of the listed issuers on the Stock Exchange in the consumer discretionary sector (based on "Board Diversity & Inclusion in Focus", the Stock Exchange repository). It is our goal to maintain female representation in the Board at a level that is not less than the average of listed issuers in Hong Kong in the same industry. The Company will continue to enforce and review our Board Diversity Policy. In particular, when the Board identifies potential Director candidates in the future, it will ensure that sufficient consideration will be given to gender diversity in light of the gender distribution of the boards of listed issuers on the Stock Exchange which operates in the same industry as the Company.

Workforce diversity

As at 31 December 2023, the Group had a total workforce of approximately 9,100 employees, of which 44% are males, and 56% are females. Among the senior management team of three members, 66.7% (two) are males and 33.3% (one) is female.

While we believe our future employee recruitment should predominantly be merit-based and do not consider it appropriate to set any target gender ratio for our workforce, we recognize and embrace the benefits of having a diverse workforce, and will continue to enhance the diversity of our workforce, subject to availability of suitable candidates.

Sustainability Committee

The Sustainability Committee was established on 1 January 2021 and consists of four members, namely Mr. Tan Wee Seng, Mr. Ding Shui Po, Ms. Ding Mei Qing and Dr. Chan Yee Wah, the majority of whom are executive Directors. Mr. Tan Wee Seng is the chairman of the Sustainability Committee.

The primary duties of the Sustainability Committee are to assist the Board in overseeing the Company's Environmental, Social and Governance ("ESG") initiatives. Supported by the Sustainability Working Group which comprises the heads of various business and operations units, the Board-level Sustainability Committee oversees the ESG management approach, the implementation progress of the ESG initiatives, the achievement of the KPIs that are set out under our long-term sustainability plan and communicates all ESG-related issues to internal and external stakeholders. It also monitors the Company's sustainability and ESG information reporting and disclosure in annual ESG report and advises the Board on all the matters in the applicable code provision(s) of the ESG Reporting Guide (Appendix C2) of the Listing Rules.

During the year ended 31 December 2023, two meetings were held by the Sustainability Committee. The attendance record of each member of the Sustainability Committee at the meetings of the Sustainability Committee is set out below:

Name of Director	Attendance/Number of Sustainability Committee meeting held during a director's tenure
Mr. Tan Wee Seng	2/2
Mr. Ding Shui Po	2/2
Ms. Ding Mei Qing	2/2
Dr. Chan Yee Wah	2/2

AUDITOR'S REMUNERATION

The Company has re-appointed Ernst & Young as its external auditor during the year ended 31 December 2023. The external auditor is refrained from engaging in non-audit services except for specific approved items, such as review of interim results of the Group. The Audit Committee reviews the external auditor's statutory audit scope and non-audit services and approves its fees. Details of the fees paid/payable to Ernst & Young during the year are as follows:

	RMB
Review of interim results	876,000
Annual audit services	6,042,000
Other services	50,000
Total	6,968,000

FINANCIAL REPORTING

The Board, supported by the chief financial officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flows of the Company and its subsidiaries for that financial year. The Directors acknowledge their responsibilities for preparing the consolidated financial statements of the Group. As at 31 December 2023, the Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

The risk management and internal control systems of the Group are featured with a defined management structure with limits of authority and well-rounded policies and procedures, and are designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks, and to safeguard assets of the Group. The Group's risk management and internal control system are designed to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives. The senior management reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures taken to address such variances and identified risks. The Company has established policies and procedures applicable to all operating units to ensure the effectiveness of risk management and internal controls systems. The Company also has a process for identifying, evaluating, and managing the significant risks associated with the achievement of its operational objective. This process is subject to continuous improvement and was in place throughout 2023. The day-to-day operations are entrusted to individual departments, which are accountable for their own conducts and performance, and are required to strictly adhere to the policies set by the Board. The Company carries out reviews of the effectiveness of the risk management and internal control systems from time to time in order to ensure that they are able to meet and deal with the dynamic and ever changing business environment.

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

The Board and the Audit Committee considered that the key areas of the Group's risk management and internal control systems, including the adequacy of resources, qualifications and experience of our accounting, internal audit and financial reporting staff, and their training programs and budget, are reasonably implemented and the Group has fully complied with provisions of the Corporate Governance Code regarding risk management and internal control systems in general for the year ended 31 December 2023.

Objectives

The Board acknowledges its overall responsibility for overseeing the Group's risk management and internal control systems and ensures that a review of their effectiveness on ongoing basis. The Board has delegated and authorized its responsibilities of risk management to the Audit Committee, which is responsible for assisting the Board to evaluate and determine the nature and extent of the risks that the Group is willing to take to achieve its business strategic objectives and to ensure that the Group establishes and maintains appropriate and effective risk management and internal control systems and oversees the design, implementation and supervision of risk management and internal control systems. The Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to meet its business strategic objectives and to provide a reasonable, but not absolute, assurance against material misstatement or loss.

The management has confirmed to the Audit Committee and the Board that risk management and internal control systems were effective for the year ended 31 December 2023.

Main Features of the Risk Management and Internal Control Systems

The Company has established a risk governance organization structure with clear responsibilities and authorities.

Risk Governance Organization Structure

The primary responsibilities of each parties of the Group's risk governance structure are summarized as follows:

(a) **Board**

It determines the business strategic objectives of the Group, and evaluates the nature and extent of the risks that the Group is willing to take to achieve the strategic objectives of the Group. It also ensures that the Group appropriately and effectively establishes and maintains risk management and internal control systems and oversees the overall design, implementation and supervision of risk management and internal control systems.

(b) **Audit Committee**

It is responsible for supervising and guiding the risk management and internal audit department and the management to establish and operate the internal control systems, regularly supervising the Group's risk management and internal control systems, and making recommendations to the Board. The risk management and internal control systems are reviewed, at least annually, for its effectiveness and the review includes all major aspects of control, including financial, operational and compliance controls.

During the annual review, it ensures the effective risk management and internal control systems have the adequacy of resources, budget, adequate staff qualifications and experience and staff training programs of the Group's accounting, internal audit and financial reporting functions.

(c) **Risk Management and Internal Audit Department**

It assesses the effectiveness and adequacy of the Group's risk management and internal control systems and reports the findings to the Audit Committee for improvement of the identified control weaknesses or material systems deficiencies.

(d) **Management**

It is delegated and authorized to (i) design, implement and maintain risk management and internal control systems appropriately and effectively; (ii) identify, evaluate, manage and control the risks that may have potential and material impacts on the processes of the operations; (iii) monitor risks and take appropriate methods to mitigate risks; (iv) respond promptly to and follow up the findings of the risk management and internal control issues raised by the risk management and internal audit department; and (v) provide confirmation to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems.

Process for Identification, Assessment and Management of Material Risks

The processes used by the Group for identification, assessment and management of material risks are summarized as follows:

Risk Identification: Identifies risks that may potentially and materially affect its strategies, business, operations and finance.

Risk Evaluation: Evaluates the identified risks by using the designated risk assessment criteria developed by the management; and evaluates the potential impacts and the likelihood of their occurrence.

Risk Response: Prioritizes the material risks by comparison of the risk assessment results; and determines the risk control strategies and internal control processes to avoid, prevent or mitigate the identified risks.

Risk Reporting and Monitoring: Discusses about the results of risk management to the Board, the Audit Committee and the management regularly; continuously monitors the identified risks and ensures that internal control system processes appropriately; and reassesses the risk control strategies and internal control processes in case of any material changes in business and the external environment.

Process Used to Review the Effectiveness of the Risk Management and Internal Control Systems

During the year ended 31 December 2023, the Board and the Audit Committee have conducted annual review of the effectiveness of the Group's risk management and internal control systems on all major operations of the Group, with assistance from the Group's Audit Committee, risk management and internal audit department and the management. The Group's risk management and internal audit department has reported major risk management and internal control review findings to the Audit Committee. The Board considered that all recommendations from the Audit Committee will be properly followed up to ensure that the effectiveness of risks control and proper internal control systems.

Annual Review

A comprehensive review on the effectiveness of the Group's risk management and internal control system is conducted by the Board and the Audit Committee annually, covering all material controls including financial, operational and compliance monitoring.

The Group has conducted regular review of the effectiveness of the risk management and internal control systems for the year ended 31 December 2023. The Board and the Audit Committee discussed the risk management and internal control systems with management, which includes the adequacy of resources, staff qualifications and experience, training programs and budget to the Group's accounting, internal audit and financial reporting function, to ensure that management has performed its duty to have effective systems. The Board and the Audit Committee also considered the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and the work of the risk management and internal audit department.

During the year ended 31 December 2023, the Board and the Audit Committee considered that the adequacy of resources, qualifications and experience of our accounting, internal audit and financial reporting staff, and their training programs and budget, are reasonably implemented and considered that the risk management and internal audit department and the management are competent to carry out their roles and responsibilities. In accordance with such results, the Board and the Audit Committee are of the view that the Group has adequate workforce to satisfy with accounting and financial reporting duties and to comply with the Listing Rules. The Board and the Audit Committee also discussed the extent and communication of monitoring results annually to enables for the assessment of the Group's control and the effectiveness of risk management.

In the annual review, the Group's risk management and internal control system is subject to continuous review and improvement to enable timely responses to any changes of risks facing by the Group. The Board and the Audit Committee have considered major findings on risk management and internal control matters from the risk management and internal audit department and the management. No material control failure or weaknesses to the extent that have resulted in unforeseen outcomes or contingencies in the future which may have material impacts on the Group's financial performance or conditions have been identified by the Group.

The Board confirms that the Group has complied with provisions of the Corporate Governance Code regarding risk management and internal control systems for the year ended 31 December 2023. The Group therefore considers that the risk management and internal control systems are effective and adequate.

Internal Audit Function

The Group's internal audit function is performed by its risk management and internal audit department, which plays an important role in the assessment of the effectiveness of the risk management and internal control systems of the Group and reports regularly. The Board and the Audit Committee considered that the risk management and internal audit department had been provided with adequate resources and budget and comprised qualified staff with sufficient experience and training programs to perform its internal audit function. For the year ended 31 December 2023, the risk management and internal audit department implemented the internal audit functions and reports findings regularly to the Audit Committee, which makes recommendations based on the findings to the Board.

Anti-corruption and Whistle-blowing

We have adopted an anti-corruption policy which sets out the professional and ethical standards for our employees to observe in all business dealings. Our employees are made aware of the Group's "Anti-fraud complaints reporting management system" and the "Code of integrity", which details our anti-corruption requirements concerning relevant national policies such as the "Basic Norms for Internal Control" and "Guidelines for Application of Enterprise Internal Controls" published by the Chinese government. To raise staff awareness regarding anti-corruption topics, we organized anti-corruption training for new joiners in 2023 to build a culture of integrity among them. The training was also recorded and provided to employees in an e-learning format. In addition, all suppliers are required to comply with our supplier code of conduct to ensure that they are fully aware of the Group's requirements.

The Group is committed to achieving and maintaining the highest possible standards of openness, integrity and accountability. To prevent as far as possible violations and ensure compliance and operation by the highest ethical standards, the Group has designated specific whistle-blowing policies to allow employees, business partners and other relevant stakeholders to report illegal or non-compliant activities involving the Group to the risk management and internal audit department and the Audit Committee confidentially. The identity of the whistle-blower and the relevant records of the whistle-blowing are treated with the strictest confidential.

Inside Information and Information Disclosure

The Group has established a policy for ensuring that inside information is disclosed to the public in an equal and timely manner in compliance with the relevant laws and regulations. The policy regulates the handling and dissemination of inside information, including designates specific persons to be the main spokesperson of the Group to respond to external enquiries; designates reporting paths to facilitate each party to give an account of potential inside information to the designated responsible personnel; and designates responsible persons and departments to make decision about further actions to be taken and the ways to be disclosed.

COMPANY SECRETARY

The company secretary of the Company is Mr. Yeung Lo Bun, whose biography details are set out in the section headed "Directors and Senior Management" in this annual report.

Mr. Yeung has been informed of the requirement of the Rule 3.29 of the Listing Rules, and he has confirmed that he had attained no less than 15 hours of relevant professional training during the year ended 31 December 2023.

SHAREHOLDERS' RIGHTS

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

Pursuant to the Article 58 of the articles of association of the Company, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company by mail at Unit A, 27/F, Tower A, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by Which Enquiries May Be Put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the company secretary of the Company by mail at Unit A, 27/F, Tower A, Billion Centre, 1 Wang Kwong Road, Kowloon Bay, Kowloon, Hong Kong. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the chief executive officer of the Company.

INVESTOR RELATIONS

Constitutional Documents

In 2023, the Board proposed to make amendments to the Company's articles of association and to adopt the amended articles of association in order to bring the articles of association of the Company in line with the relevant requirements of the Listing Rules on shareholder protection for overseas issuers which came into effect on 1 January 2022, to enable attendance of the general meeting of members of the Company by way of electronic or hybrid meetings and to make certain other housekeeping improvements. A special resolution of the shareholders was passed at the annual general meeting held on 2 June 2023 to approve the amendments to the articles of association of the Company and the adoption of the amended and restated articles of association of the Company with effect from the same date.

Please refer to the AGM circular of the Company dated 17 April 2023 for details of the amendments to the Company's articles of association.

The amended and restated articles of association of the Company have been published on the Company's website (www.xtep.com.hk) and the Stock Exchange's website (www.hkexnews.hk).

Shareholders' Communication Policy

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

We also adhere to the highest standard of investor relations management and strive to maintain a long-term stable relationship with shareholders and investors. Through multiple physical and virtual channels, we timely disseminate accurate and comprehensive information about the Group to investors with the aim of engaging in an effective and bidirectional communication with them. Meanwhile, we uphold an open and candid attitude to listen to the views from the capital market and relay the feedback to our senior management and Board of Directors regularly. The Board of Directors and senior management have shown tremendous support for the investor relations program. Together with the investor relations team, they have participated heavily in the communication with the capital market and have frequently attended investor events to maintain an open dialogue with both local and overseas investors.

Please also refer to the Investor Relations Report in this Annual Report for the review of the implementation and effectiveness of our shareholders' communication policy conducted during the year.

Dividend Policy

On 19 February 2019, the Board has approved and adopted a dividend policy that, in recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements, future business growth and its shareholding value.

REPORT OF THE DIRECTORS

The Directors are pleased to present their report together with the audited financial statements for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in the design, development, manufacturing and marketing of sportswear, including footwear, apparel and accessory products, sold mainly under the self-owned Xtep brand and four internationally acclaimed brands, namely K·SWISS, Palladium, Saucony and Merrell.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2023 are set out in note 1 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2023 and the Group's financial position as at that date are set out in the financial statements on pages 80 to 163 of this annual report.

DIVIDENDS

An interim dividend of HK13.7 cents equivalent to approximately RMB12.6 cents per Share was declared and paid during the year, with an option to receive new fully paid shares of the Company in lieu of cash. The Board recommended a final dividend of HK8.0 cents (equivalent to approximately RMB7.3 cents) per Share for the year ended 31 December 2023, subject to approval by the Shareholders at the annual general meeting to be held on 3 May 2024. The proposed final 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's 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 will be dispatched to the Shareholders for the scrip dividend.

The total dividends for the year ended 31 December 2023, which included the interim dividend and final dividend, amount to HK21.7 cents (equivalent to approximately RMB19.9 cents) per Share and they represented a dividend payout ratio of approximately 50.0%. Details of the dividends for the year ended 31 December 2023 are set out in note 11 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2023, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB2,064.0 million. Details of the reserves of the Company as at 31 December 2023 are set out in note 44 to the financial statements.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2023 amounted to approximately RMB71.0 million.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2023 are set out in note 32 to the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2023 were:

Executive Directors

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

Non-Executive Director

Tan Wee Seng

Independent Non-Executive Directors

Bao Ming Xiao
Wu Ka Chee, Davy
Chan Yee Wah

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

Each of the executive Directors on the Board had entered into a service contract with the Company for an initial term of three years commencing on 3 June 2008.

Mr. Tan Wee Seng has been re-designated as an non-executive Director effective from 17 March 2022 and had entered into a service contract commencing from 29 March 2010 and the contract continued to have full force upon his redesignation.

For the independent non-executive Directors, Dr. Bao Ming Xiao had entered into a service contract with the Company for an initial term of two years commencing from 21 December 2012. Dr. Wu Ka Chee, Davy had entered into a service contract with the Company for an initial term of two years commencing from 7 May 2021. Dr. Chan Yee Wah had entered into a service contract with the Company with no fixed term commencing from 17 March 2022.

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

In accordance with article 87 of the Company's articles of association, Mr. Tan Wee Seng, Dr. Wu Ka Chee, Davy and Dr. Chan Yee Wah will retire from the Board by rotation at the forthcoming annual general meeting. Mr. Tan Wee Seng, Dr. Wu Ka Chee, Davy and Dr. Chan Yee Wah, being eligible, offer themselves for re-election.

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

Directors' and Senior Management's Biographies

Biographical details of the Directors and senior management are set out on pages 40 to 45 of this annual report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the paragraphs headed "Continuing connected transactions" below, there was no transaction, arrangement or contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director of the Company or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2023.

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

As at 31 December 2023, the Directors and the chief executive of the Company had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Long Positions in the Company

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company(1)
Mr. Ding Shui Po	Founder and beneficiary of a discretionary trust(2)/ Beneficial interests(3)	1,299,037,000	49.18%
Ms. Ding Mei Qing	Founder and beneficiary of a discretionary trust(2)/ Beneficial interests(4)	1,232,059,500	46.70%
Mr. Ding Ming Zhong	Founder and beneficiary of a discretionary trust(2)/ Beneficial interests(5)	1,232,859,500	46.73%
Mr. Tan Wee Seng	Beneficial interests(6)	283,068	0.01%

Notes:

(1) It was based on 2,641,457,207 issued Shares of the Company as at 31 December 2023.

(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 1,230,059,500 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 1,230,059,500 Shares of the Company.

(3) Mr. Ding Shui Po was also beneficially interested in 68,977,500 Shares of the Company.

(4) Ms. Ding Mei Qing was also beneficially interested in 2,000,000 Shares of the Company.

(5) Mr. Ding Ming Zhong was also beneficially interested in 2,800,000 Shares of the Company.

(6) 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 adopted by the Company on 7 May 2008. 180,000 of these shares were acquired by Mr. Tan Wee Seng on the Hong Kong Stock Exchange. The remaining 3,068 of these shares were received by Mr. Tan Wee Seng by way of scrip dividends for the 2020 final dividend.

Save as disclosed above, as at 31 December 2023, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

CONTINUING CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 39 to the financial statements also constituted continuing connected transactions under the Listing Rules which are required to be disclosed in this report in accordance with Chapter 14A of the Listing Rules. The details of such continuing connected transactions are set out below.

During the year ended 31 December 2023, certain subsidiaries of the Company leased certain office units in Xiamen from Hu Du Century (Xiamen) Investment Management Co., Ltd. ("HD Century", an indirect wholly-owned subsidiary of Wan Xing International Holdings Limited, a controlling shareholder of the Company and is therefore a connected person of the Company).

The Company entered into a framework agreement (the "Lease Framework Agreement") with HD Century on 8 December 2021 to govern the renewal of the existing leases and the entering into of new leases from time to time for the operations of the Group for the period from 1 January 2022 to 31 December 2024 (the "Term"). Under the Lease Framework Agreement, HD Century (as landlord) may, from time to time during the Term, enter into individual lease agreements with the Group (as tenant) to lease premises in the PRC to the Group for office or other uses for its operations. The Group shall determine the rent payable for each of the leases after arm's length negotiations with HD Century based on normal commercial principles with reference to the prevailing market rent of leases of comparable premises, the historical quotation to other independent third parties by HD Century for similar leases, and other factors such as floor area, facilities and location.

The annual caps for the total value of right-of-use assets related to the leases to be entered into in the three years ending 31 December 2024 will be RMB20,000,000, RMB10,000,000 and RMB15,000,000, respectively. The connected transactions contemplated under the Lease Framework Agreement will be continuously carried out in the ordinary and usual course of business of the Group, thus constituting continuing connected transactions of the Company under the Listing Rules and are therefore subject to annual review by the independent non-executive directors and the auditors of the Company.

For details, please refer to the announcement of the Company dated 8 December 2021.

During the year ended 31 December 2023, the total value of right-of-use assets related to the leases entered into by the Group with HD Century amounted to RMB4,740,000. The rental amounts under the lease agreements were determined based on arm's length negotiations between HD Century and the Group with reference to the prevailing market price of leases of comparable office buildings.

The Directors (including the independent non-executive Directors) have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or better; and

(3) according to the agreements governing them on terms which are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Company's auditor has been engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the above continuing connected transactions disclosed by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

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

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

So far as is known to any Director or chief executive of the Company, as at 31 December 2023, the persons or corporations (other than 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 the issued share capital of the Company[1]
Group Success	Beneficial interests	1,230,059,500	46.57%
Wan Xing International Holdings Limited	Interests of controlled corporation[2]	1,230,059,500	46.57%
Ding Wang Fortune Limited	Interests of controlled corporation[3]	1,230,059,500	46.57%
Guan Hong Development Limited	Interests of controlled corporation[3]	1,230,059,500	46.57%
Ming Zhong Family Limited	Interests of controlled corporation[3]	1,230,059,500	46.57%
UBS Trustees (BVI) Limited	Trustee[3]	1,230,059,500	46.57%

Notes:

(1) It was based on 2,641,457,207 issued Shares of the Company as at 31 December 2023.

(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 31 December 2023, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SHARE AWARD SCHEME

The Company has adopted the Share Award Scheme (the "Share Award Scheme") to recognize the contributions by the Group's employees, executives, officers or directors 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 is valid and effective for a period of 10 years from 1 August 2014 (the "Adoption Date") and will expire on 1 August 2024.

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 settled by cash contributed by the Group. The Trustee will hold the 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.

Under the Share Award Scheme, the Board shall not make any further award of Shares which will result in the nominal value of the Shares awarded by the Board under the Share Award 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 Share Award Scheme shall not exceed 1% of the issued share capital of the Company from time to time.

The vesting of Awarded Shares is subject to conditions and vesting schedules as determined by the Board in its sole discretion. The Awarded Shares 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.

The Awarded Shares shall be awarded and vested at no consideration. Vested Awarded 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.

During the year, no Awarded Share had been granted under the Share Award Scheme.

Since the Adoption Date and up to the date of this report, a total of 125,000,000 Awarded Shares had been awarded under the Share Award Scheme, representing about 4.73% of the number of Shares in issue as of the date of this report.

None of the grantees of the Awarded Shares is a director, chief executive or substantial shareholder of the Company, nor an associate (as defined under the Listing Rules) of any of them.

The total numbers of Shares which were available for being further awarded under the Share Award Scheme at the beginning and end of the year and the date of this report, and the percentage of the then issued share capital of the Company they represented are as follows:

Date	Number of Shares available for being further awarded	Percentage of the then issued share capital of the Company
1 January 2023	6,835,846	0.26%
31 December 2023	7,072,860	0.27%
Date of this report	7,072,860	0.27%

As of 31 December 2023, there were a total of 66,324,000 outstanding Awarded Shares, details of which are as follows:

			Number of Awarded Shares					
Name or category of grantees	Date of grant	Vesting period	Outstanding as at 1 January 2023	Granted during the year	Vested during the year	Forfeited during the year	Lapsed during the year	Outstanding as at 31 December 2023
Employees	10 January 2017	10 January 2018 to 10 January 2023	280,000	–	(280,000)[2]	–	–	–
	19 March 2021	Note 1	75,000,000	–	(8,676,000)[2]	–	–	66,324,000
Total			75,280,000	–	(8,956,000)	–	–	66,324,000

Notes:

1. The Awarded Shares are vested or to be vested in tranches of 10%, 15%, 20%, 20% and 35% of the total on 31 March 2023, 31 March 2024, 31 March 2025, 31 March 2026 and 31 March 2027, respectively. The vesting date of 1,176,000 Awarded Shares which were originally scheduled to be vested on 31 March 2024 had been brought forward to 31 March 2023 with the approval of the Board and the Remuneration Committee in consideration of the contribution of certain selected participants.

2. No purchase price was paid upon vesting. The weighted average closing price of the Shares immediately before the date on which the Awarded Shares were vested during the Period is HK$9.81.

Further details of the Share Award Scheme are set out in note 34 to the financial statements.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2023 and up to the date of this annual report.

ISSUE OF CONVERTIBLE BONDS

On 9 September 2021, the Company issued convertible bonds in the aggregate principal amount of HK$500,000,000 to an investor pursuant to the general mandate. The ultimate beneficial owner of the investor was a third party independent of the Company and its connected persons. The convertible bonds bear interest from and including the issue date at 1.8% per annum, and the interest shall be accrued quarterly and payable in kind and accumulate as additional principal amount of the convertible bonds. The convertible bonds will mature on the sixth anniversary of the date of issue. For details, please refer to the announcements of the Company dated 15 June 2021 and 9 September 2021.

As of 31 December 2023, the initial conversion price of HK$10.244 per conversion share had been adjusted to HK$9.6625 per conversion share. For details, please refer to the announcements of the Company dated 30 June 2022, 31 October 2022 and 30 October 2023.

Upon full conversion of the convertible bonds at the conversion price of HK$9.6625 per conversion share, a maximum of 57,634,042 conversion shares will be issued (based on the maximum quarterly accrued interest of 1.8% interest per annum at the maturity date) representing approximately 2.18% of the issued share capital of the Company on 31 December 2023 and approximately 2.14% of the issued share capital of the Company enlarged by the shares issued upon conversion of outstanding convertible bonds.

The gross proceeds and net proceeds from the issue of the convertible bonds were HK$500,000,000 and approximately HK$499,000,000, respectively. The Group intended 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. The net proceeds have been fully utilised as intended in 2021.

As at 31 December 2023, the principal amount has been adjusted to HK$520,618,354, the additional amount being the 1.8% interest per annum accrued quarterly since issuance and payable in kind as additional principal amount.

Further details of the convertible bonds are set out in note 28 to the financial statements.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2023.

SPECIFIC PERFORMANCE OBLIGATIONS ON CERTAIN CONTROLLING SHAREHOLDERS

On 2 September 2019, the Company as borrower entered into a facility agreement (the "2019 Facility Agreement") with a consortium of nine banks which was 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 facility agent, pursuant to which a 4-year term loan facility in the principal amount of HK$1,800,000,000 (the "2019 Facility") was made available to the Company on the terms and conditions stated therein.

The 2019 Facility was guaranteed by certain subsidiaries of the Company.

It was provided in the 2019 Facility Agreement, among other things, that an event of default would 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 2019 Facility whereupon the whole or relevant part of the 2019 Facility shall immediately be cancelled; (b) declare that all or part of the 2019 Facility, together with accrued interest, and all other amounts accrued or outstanding under the 2019 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 2019 Facility be payable on demand, whereupon they shall immediately become payable on demand by HASE on the instructions of the majority lenders.

No event of default under the 2019 Facility Agreement has occurred up to the expiry of the term of the 2019 Facility in September 2023.

To refinance the 2019 Facility and to finance the general corporate requirements of the Group, on 3 July 2023, the Company as borrower entered into another facility agreement (the ''2023 Facility Agreement'') with a consortium of six banks which is arranged by HASE, The Hongkong and Shanghai Banking Corporation Limited, Bank of China (Hong Kong) Limited and The Bank of East Asia, Limited as mandated lead arrangers and bookrunners, pursuant to which a 4-year term loan facility in the principal amount of HK$1,000,000,000 (the ''2023 Facility'') was made available to the Company on the terms and conditions stated therein.

The 2023 Facility is guaranteed by certain subsidiaries of the Company.

It is provided in the 2023 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 of the Company.

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

(c) Mr. Ding Shui Po, Ms. Ding Mei Qing, Mr. Ding Ming Zhong and any of their respective family trust established by him/her whereby he/she and his/her family members are the only beneficiaries of the trust (the ''Ding Family'') 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.

(d) The Ding Family 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 2023 Facility whereupon the whole or relevant part of the 2023 Facility shall immediately be cancelled; (b) declare that all or part of the 2023 Facility, together with accrued interest, and all other amounts accrued or outstanding under the 2023 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 31 December 2023 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. Each of Ms. Ding Mei Qing and Mr. Ding Ming Zhong was an executive Director and a controlling shareholder of the Company. The Family Trusts collectively held indirectly approximately 46.57% of the issued share capital of the Company. Each of Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong also had personal beneficial interests in approximately 2.61%, 0.13% and 0.16% of the issued share capital of the Company respectively.

NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders of the Company, who is an obligor under the Deed of Non-compete (as defined in the prospectus of the Company dated 21 May 2008), has confirmed to the Company of his/her compliance with the non-compete undertakings provided to the Company thereunder. The independent non-executive Directors of the Company have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-compete have been complied with by such controlling shareholders of the Company.

DIRECTORS’ INTEREST IN COMPETING BUSINESS

None of the Directors is or was interested in any business, apart from the Group’s business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group’s business at any time during the year ended 31 December 2023 and up to and including the date of this annual report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2023.

PRE-EMPTIVE RIGHTS

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

EMOLUMENT POLICY

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

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

The Company has adopted a share award scheme in which the Group’s employees, executives, officers or Directors will be entitled to participate. Details of this scheme are set out in this paragraph headed “Share Award Scheme” above and note 34 to the financial statements.

None of the Directors waived any emoluments during the year.

PENSION SCHEME

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

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

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

BUSINESS REVIEW

A business review of the Group for the year ended 31 December 2023 is shown on pages 8 to 34.

There is no important event affecting the Group that had occurred since the end of the year up to the date of this annual report except for the completion of the acquisition of the Wolverine Group's interest in the 2019 joint venture entities on 1 January 2024.

PERMITTED INDEMNITY PROVISION

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

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief or exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's largest and five largest customers were 2.7% (2022: 2.7%) and 12.0% (2022: 12.3%) of the Group's total sales, respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 3.9% (2022: 4.0%) and 15.9% (2022: 16.6%) of the Group's total purchases, respectively.

At no time during the year ended 31 December 2023, did a Director, his/her close associate(s) or a Shareholder which to the knowledge of the Director owns more than 5% of the Company's share capital have an interest in any of the Group's five largest customers and suppliers.

AUDITOR

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

COMPLIANCE WITH LAWS AND REGULATIONS

During the year ended 31 December 2023, the Company was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the year ended 31 December 2023.

BANK LOANS

Details of bank loans of the Company and the Group as at 31 December 2023 are set out in note 27 to the financial statements.

FIVE-YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 4 of this annual report.

On behalf of the Board
Ding Shui Po
Chairman

Hong Kong, 18 March 2024

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Xtep International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 80 to 163, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables As at 31 December 2023, the Group had gross trade receivables of RMB4,938 million, after netting off the impairment provision of RMB420 million, resulting in net trade receivables of RMB4,518 million. Significant judgement and estimation by management are involved in the assessment of impairment, based on the lifetime expected credit loss to be incurred, by taking into account the ageing of trade receivable balances, the credit quality and credit loss history of debtors, and the prevailing sportswear market conditions. Both current and future general economic conditions are also taken into consideration by management in the estimation. Where the expectation is different from the original estimate, such difference will impact the carrying value of the trade receivables and the loss allowance for trade receivables in the year in which such estimate has been changed. The significant judgement and estimates and disclosures for the recognition of impairment of trade receivables are included in notes 3 and 21 to the consolidated financial statements.	Our procedures included, among others, reviewing management's assessment on the recoverability of the trade receivables with reference to various factors such as historical settlement and settlement received from customers subsequent to the end of the reporting period. We test checked the accuracy of the ageing classification of trade receivables. We also evaluated management's assessment of the credit quality of customers based on the sales and repayment history. In addition, we examined the information used by management to estimate the loss allowance for trade receivables, including testing of the historical default data, evaluating adjustments made to the historical loss rates based on current economic conditions and forward-looking information by checking to the published macroeconomics factors, and examining the actual losses recorded during the current financial year.
Provision for inventories As at 31 December 2023, the Group had gross inventories of RMB1,876 million, after netting off the provision of RMB83 million, resulting in net inventories of RMB1,793 million. Because of the fast changing market conditions, significant judgement and estimation by management are involved in identifying inventories with net realisable values that are lower than their costs and obsolete inventories, with reference to the selling prices and saleability of inventories, and the prevailing sportswear sales trend in markets. The related judgement and estimates and the provision for inventories are disclosed in notes 3 and 20 to the consolidated financial statements.	Our procedures included, among others, selecting samples of inventories and reviewing their net realisable values with reference to their selling prices subsequent to the end of the reporting period and the Group's pricing strategy, including any management's plan for significant discounts to be offered which may affect the net realisable values of these inventory items. We evaluated management's assessment of obsolescence of inventories with reference to their ageing, the condition of inventories during our observation of physical inventory count, and the historical sales trend of sportswear products.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill and intangible assets As at 31 December 2023, the goodwill and intangible assets amounted to RMB842 million and RMB723 million, respectively. The Group is required to, at least annually, perform impairment assessments of goodwill and intangible assets that have indefinite useful life. For intangible assets with finite useful lives, the Group is required to review these for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. For the purpose of performing impairment assessments, the goodwill and intangible assets have been allocated to the relevant cash-generating unit ("CGU"). The recoverable amount of the underlying CGUs is determined by its fair value less cost of disposal ("FVLCD") based on discounted cash flow projections. The assumptions used in the discounted cash flow projections require significant judgement and estimates by management, particularly management's view of key internal inputs and external market conditions which impact the forecasted revenue growth rates, the discount rate and the long term growth rate. Disclosures of the related judgement and estimates and information about the impairment assessment are included in notes 3, 16 and 17 to the consolidated financial statements.	Our procedures included, among others, reviewing management's method in the determination of the CGUs and the recoverable amounts. With the assistance of our internal valuation specialists, we assessed the appropriateness of the valuation methodology and reviewed the key assumptions used in the FVLCD which related to the forecasted revenue growth rates, discount rate and long term growth rate taking into consideration external data as well as our knowledge and experience. We reviewed the calculation of FVLCD prepared by management and reperformed the calculations to check their arithmetic accuracy. We reviewed the discounted cash flow projections used by comparing them to historical performance of market players and current actual performance of the CGUs. We also assessed the adequacy of the disclosures made in the financial statements on the impairment assessment.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Chung Yuk Man.

Ernst & Young
Certified Public Accountants
27/F, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

18 March 2024

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
REVENUE	5	**14,345,508**	12,930,385
Cost of sales		**(8,295,833)**	(7,638,676)
Gross profit		**6,049,675**	5,291,709
Other income and gains, net	5	**438,770**	316,668
Selling and distribution expenses		**(3,368,996)**	(2,690,188)
General and administrative expenses		**(1,539,547)**	(1,453,905)
Operating profit		**1,579,902**	1,464,284
Net finance costs	7	**(145,450)**	(91,192)
Share of profits/(losses) of associates		**14,742**	(12,105)
PROFIT BEFORE TAX	6	**1,449,194**	1,360,987
Income tax expense	10	**(416,145)**	(448,710)
PROFIT FOR THE YEAR		**1,033,049**	912,277
Attributable to:			
Ordinary equity holders of the Company		**1,030,009**	921,694
Non-controlling interests		**3,040**	(9,417)
		1,033,049	912,277
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
— Basic		**RMB40.76 cents**	RMB36.61 cents
— Diluted		**RMB39.58 cents**	RMB35.71 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
PROFIT FOR THE YEAR		**1,033,049**	912,277
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 Chinese Mainland		**(30,925)**	(284,482)
Other comprehensive income/(expense) that will not be reclassified to profit or loss in subsequent periods:			
Exchange difference on translation of financial statements of the Company		**32,306**	150,322
Equity investments designated at fair value through other comprehensive income:			
Changes in fair values	19	**7,900**	27,700
Income tax effect	30	**(1,185)**	(4,155)
		6,715	23,545
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**39,021**	173,867
Other comprehensive income/(expense) for the year, net of tax		**8,096**	(110,615)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,041,145**	801,662
Attributable to:			
Ordinary equity holders of the Company		**1,038,143**	810,981
Non-controlling interests		**3,002**	(9,319)
		1,041,145	801,662

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,592,157**	1,367,520
Investment properties	14	**16,646**	25,540
Right-of-use assets	15(a)	**817,541**	685,516
Goodwill	16	**842,164**	830,217
Intangible assets	17	**723,345**	722,703
Investments in associates	18	**494,806**	190,387
Equity investments designated at fair value through other comprehensive income	19	**256,565**	248,665
Prepayment, deposits and other asset	22	**237,799**	84,875
Term deposits	23	**300,000**	–
Total non-current assets		**5,281,023**	4,155,423
CURRENT ASSETS			
Inventories	20	**1,793,774**	2,287,201
Trade receivables	21	**4,518,401**	3,809,438
Bills receivable	21	**457,000**	403,175
Prepayments, deposits, other receivables and other asset	22	**1,111,845**	1,370,506
Derivative financial instruments	26	**7,078**	5,440
Tax recoverable		**–**	911
Pledged bank deposits	23	**861,722**	546,918
Term deposits	23	**–**	500,349
Cash and cash equivalents	23	**3,294,627**	3,414,156
Total current assets		**12,044,447**	12,338,094
CURRENT LIABILITIES			
Trade payables	24	**2,430,501**	2,721,809
Bills payable		**100,000**	50,000
Other payables and accruals	25	**1,665,057**	1,425,863
Interest-bearing bank borrowings	27	**953,584**	2,230,924
Lease liabilities	15(b)	**144,359**	107,871
Deferred subsidies	31	**577**	577
Xtep Convertible Bonds	28	**418,791**	–
Derivative financial instruments	26	**74,805**	–
Tax payable		**62,968**	107,740
Total current liabilities		**5,850,642**	6,644,784
NET CURRENT ASSETS		**6,193,805**	5,693,310
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,474,828**	9,848,733
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	27	**1,691,366**	192,940
Xtep Convertible Bonds	28	**–**	392,356
K-Swiss Convertible Bonds	29	**460,424**	419,537
Derivative financial instruments	26	**–**	80,841
Lease liabilities	15(b)	**133,744**	122,222
Deferred tax liabilities	30	**242,878**	310,030
Deferred subsidies	31	**19,183**	19,341
Other liabilities		**3,947**	4,764
Total non-current liabilities		**2,551,542**	1,542,031
NET ASSETS		**8,923,286**	8,306,702

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Share capital	32	**23,191**	23,147
Treasury shares	33	**(282,991)**	(311,889)
Equity component of convertible bonds	28	**26,460**	26,460
Other reserves	33	**9,095,906**	8,506,439
		8,862,566	8,244,157
Non-controlling interests		**60,720**	62,545
Total equity		**8,923,286**	8,306,702

Ding Shui Po
Director

Ding Mei Qing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2023

	Notes	Share capital RMB'000 (note 32)	Treasury shares RMB'000 (note 33)	Equity component of convertible bonds RMB'000 (note 28)	Share premium account RMB'000 (note 44)	Capital reserve RMB'000 (note 33)	Statutory surplus fund RMB'000 (note 33)	Share award reserve RMB'000 (note 33)	Exchange fluctuation reserve RMB'000 (note 33)	Fair value reserve RMB'000 (note 33)	Retained profits RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to ordinary equity holders of the Company											
At 1 January 2022		23,092	(338,581)	26,460	1,958,798	118,615	1,067,751	1,840	(10,953)	62,530	5,019,738	53,149	7,982,439
Profit/(loss) for the year		–	–	–	–	–	–	–	–	–	921,694	(9,417)	912,277
Other comprehensive income/(expense) for the year		–	–	–	–	–	–	–	(134,258)	23,545	–	98	(110,615)
Total comprehensive income/(expense) for the year		–	–	–	–	–	–	–	(134,258)	23,545	921,694	(9,319)	801,662
Equity-settled share award arrangement	34	–	53,355	–	–	–	–	–	–	–	–	–	53,355
Awarded shares vested	34	–	–	–	–	–	–	(1,802)	–	–	1,802	–	–
2021 final dividend declared and paid	11	–	–	–	–	–	–	–	–	–	(288,516)	–	(288,516)
2022 interim dividend declared and paid	11	–	–	–	–	–	–	–	–	–	(296,253)	–	(296,253)
Shares issued in lieu of cash dividend	32	55	(26,663)	–	57,360	–	–	–	–	–	–	–	30,752
Capital contribution from non-controlling interest		–	–	–	–	–	–	–	–	–	–	19,600	19,600
Deemed acquisition of a non-controlling interest	1	–	–	–	–	–	–	–	–	–	885	(885)	–
Transfer to statutory surplus fund		–	–	–	–	–	236,593	–	–	–	(236,593)	–	–
Dividends for treasury shares		–	–	–	–	–	–	–	–	–	3,663	–	3,663
At 31 December 2022		23,147	(311,889)	26,460	2,016,158*	118,615*	1,304,344*	38*	(145,211)*	86,075*	5,126,420*	62,545	8,306,702

	Notes	Share capital RMB'000 (note 32)	Treasury shares RMB'000 (note 33)	Equity component of convertible bonds RMB'000 (note 28)	Share premium account RMB'000 (note 44)	Capital reserve RMB'000 (note 33)	Statutory surplus fund RMB'000 (note 33)	Share award reserve RMB'000 (note 33)	Exchange fluctuation reserve RMB'000 (note 33)	Fair value reserve RMB'000 (note 33)	Retained profits RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to ordinary equity holders of the Company											
At 1 January 2023		23,147	(311,889)	26,460	2,016,158	118,615	1,304,344	38	(145,211)	86,075	5,126,420	62,545	8,306,702
Profit for the year		–	–	–	–	–	–	–	–	–	1,030,009	3,040	1,033,049
Other comprehensive income/(expense) for the year		–	–	–	–	–	–	–	1,419	6,715	–	(38)	8,096
Total comprehensive income for the year		–	–	–	–	–	–	–	1,419	6,715	1,030,009	3,002	1,041,145
Equity-settled share award arrangement	34	–	47,149	–	–	–	–	–	–	–	–	–	47,149
Awarded shares vested	34	–	2,493	–	–	–	–	(38)	–	–	(2,455)	–	–
2022 final dividend declared and paid	11	–	–	–	–	–	–	–	–	–	(165,263)	–	(165,263)
2023 interim dividend declared and paid	11	–	–	–	–	–	–	–	–	–	(317,608)	–	(317,608)
Shares issued in lieu of cash dividend	32	44	(20,744)	–	34,818	–	–	–	–	–	–	–	14,118
Deemed acquisition of a non-controlling interest	1	–	–	–	–	–	–	–	–	–	458	(458)	–
Acquisition of a non-controlling interest	1	–	–	–	–	–	–	–	–	–	–	(4,369)	(4,369)
Transfer to statutory surplus fund		–	–	–	–	–	392,411	–	–	–	(392,411)	–	–
Dividends for treasury shares		–	–	–	–	–	–	–	–	–	1,412	–	1,412
At 31 December 2023		23,191	(282,991)	26,460	2,050,976*	118,615*	1,696,755*	–*	(143,792)*	92,790*	5,280,562*	60,720	8,923,286

* These reserve accounts comprise the consolidated other reserves of RMB9,095,906,000 (2022: RMB8,506,439,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,449,194**	1,360,987
Adjustments for:			
Depreciation of property, plant and equipment and investment properties	6	**146,877**	119,343
Depreciation of right-of-use assets	6	**142,184**	107,481
Share of losses/(profits) of associates		**(14,742)**	12,105
Amortisation of intangible assets	6	**15,983**	14,400
Gain on termination of lease	6	**(592)**	(1,307)
Impairment/(write-back of impairment) of right-of-use assets	6	**(510)**	599
Loss on write-off of items of property, plant and equipment	6	**20,592**	7,360
Gain on disposal of investment properties	5	**(20,001)**	–
Bank interest income	7	**(41,352)**	(25,493)
Interest expense on bank loans	7	**121,833**	61,120
Interest expense on discounted bills receivable	7	**23,380**	31,548
Interest expense on lease liabilities	7	**13,065**	11,328
Interest expense on Xtep Convertible Bonds	7	**20,670**	18,571
Amortisation of bank charges on syndicated loans	7	**2,362**	8,544
Fair value loss/(gain) on the derivative component of Xtep Convertible Bonds	5	**(7,169)**	24,815
Fair value loss/(gain) on K-Swiss Convertible Bonds	5	**34,182**	(33,437)
Fair value loss/(gain), net:			
Derivative financial instruments — transactions not qualified as hedges	7	**5,492**	(14,426)
Equity-settled share award expense	6	**47,149**	53,355
Impairment of trade receivables, net	6	**22,163**	19,535
Provision/(write-back of provision) for inventories	6	**(12,274)**	36,371
Income derived from financial assets at fair value through profit or loss, term deposits and structured bank deposits	5	**(58,026)**	(64,223)
		1,910,460	1,748,576
Decrease/(increase) in inventories		**514,504**	(785,919)
Increase in trade and bills receivables		**(782,202)**	(689,524)
Decrease in prepayments, deposits, other receivables and other asset		**260,808**	81,732
Increase/(decrease) in trade and bills payables		**(246,097)**	397,210
Increase in other payables and accruals		**231,903**	318,313
Cash generated from operations		**1,889,376**	1,070,388
Interest received		**41,352**	25,493
Interest paid		**(145,213)**	(92,668)
Overseas taxes paid		**(530,583)**	(431,381)
Net cash flows from operating activities		**1,254,932**	571,832

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	(388,522)	(364,995)
Addition of prepaid land lease	15	(100,925)	–
Additions of intangible assets	17	(6,274)	(4,650)
Decrease/(increase) in deposits for purchase of items of property, plant and equipment		2,795	(9,162)
Additions of investments in associates		(285,741)	(44,100)
Proceeds from disposal of investment properties		26,545	–
Prepayments for the acquisition of Merrell Brand and Saucony Brand	36(b)	(99,400)	–
Increase in pledged bank deposits		(314,804)	(513,571)
Decrease/(increase) in term deposits		200,349	(349)
Additions of derivative financial instruments	36(a)	(7,078)	–
Income derived from financial assets at fair value through profit or loss, term deposits and structured bank deposits		58,026	64,223
Net cash flows used in investing activities		(915,029)	(872,604)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		2,547,211	826,233
Repayment of bank loans		(2,358,326)	(359,794)
Prepayments for acquisition of non-controlling interests	36(c)	(56,319)	–
Acquisition of a non-controlling interest	1	(4,369)	–
Lease payments		(140,489)	(102,290)
Capital contribution from a non-controlling interest		–	19,600
Dividends paid		(468,753)	(550,354)
Exchange realignment		19,610	(69,499)
Net cash flows used in financing activities		(461,435)	(236,104)
DECREASE IN CASH AND CASH EQUIVALENTS		(121,532)	(536,876)
Cash and cash equivalents at beginning of year		3,414,156	3,929,792
Effect of foreign exchange rate changes, net		2,003	21,240
CASH AND CASH EQUIVALENTS AT END OF YEAR		3,294,627	3,414,156
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		3,294,627	3,414,156

31 December 2023

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

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

Information about subsidiaries

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

Name	Place of incorporation or establishment/ business	Issued ordinary share/ registered and paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Xtep International Development Limited	BVI	US$10,000	100	–	Investment holding
Xtep International E-Commerce Investment Limited	BVI	US$50,000	100	–	Investment holding
Xtep (Hong Kong) Enterprise Limited	Hong Kong	HK$1,000	–	100	Investment holding
Xtep Global Limited	Hong Kong	HK$10,000	–	100	Investment holding
特步集團有限公司 (note (b))	People's Republic of China ("PRC")/ Chinese Mainland	RMB1,986 million	–	100	Investment holding
特步中國有限公司 ("Xtep China") (note (b))	PRC/Chinese Mainland	HK$830 million	–	100	Manufacture and trading of sportswear
Koling (Fujian) Garment Co., Ltd. (note (b))	PRC/Chinese Mainland	HK$158 million	–	100	Manufacture and trading of sportswear
Xtep Sports Goods Co., Ltd. Jinjiang (note (b))	PRC/Chinese Mainland	RMB246 million	–	100	Manufacture and trading of sportswear
Xiamen Xtep Investment Company Limited (note (a))	PRC/Chinese Mainland	RMB490 million	–	100	Trading of sportswear

31 December 2023

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place of incorporation or establishment/ business	Issued ordinary share/ registered and paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
特步(安徽)有限公司 ("Xtep Anhui") (note (b))	PRC/Chinese Mainland	RMB450 million	–	100	Manufacture and trading of sportswear
特步湖南體育用品有限公司 (note (b))	PRC/Chinese Mainland	RMB50 million	–	100	Manufacture of sportswear
晉江特步貿易有限公司 (note (b))	PRC/Chinese Mainland	RMB10 million	–	100	Trading of sportswear
廈門市特步兒童用品有限公司 ("特步兒童") (notes (b) and (d))	PRC/Chinese Mainland	RMB998.3 million	–	100 (2022: 99)	Trading of sportswear
廈門特興貿易有限公司 (note (b))	PRC/Chinese Mainland	RMB30 million	–	100	Trading of sportswear
廈門天鄰緣電子商務有限公司 (note (a))	PRC/Chinese Mainland	RMB15.4 million	–	100	Trading of sportswear
福建省特步一名服飾有限公司 ("Xtep YiMing") (note (b))	PRC/Chinese Mainland	RMB10 million	–	100	Trading of sportswear
廈門特享跑體育運動有限公司 ("特享跑") (note (b))	PRC/Chinese Mainland	RMB100,000	–	100	Trading of sportswear
K-Swiss Holdings, Inc ("K-Swiss Holdings")	United States ("U.S.")	US$212	–	100	Investment holding
K-Swiss Inc.	U.S.	US$60	–	100	Trading of sportswear
KSGB Europe SAS	France	Euro3.5 million	–	100	Trading of sportswear
K-Swiss (Hong Kong) Ltd.	Bermuda/Hong Kong	US$10,000	–	100	Trading of sportswear
Merrell Distribution Operations Limited ("Merrell Distribution") (notes (c) and 36)	BVI	US$100	–	51	Investment holding
Saucony Distribution Operations Limited ("Saucony Distribution") (notes (c) and 36)	BVI	US$100	–	51	Investment holding

31 December 2023

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Notes:

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

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

(c) These entities together with the certain associates detailed in note 18 (collectively referred to as the "Merrell and Saucony Group") were established for holding the subsidiaries carrying out the development, marketing and distribution of footwear, apparel and accessories under the Merrell and Saucony brands in Chinese Mainland, Hong Kong and Macau.

(d) During the year ended 31 December 2023, the Group contributed RMB343.0 million (2022: RMB140.0 million) into 特步兒童 while no further contribution was made by the non-controlling shareholder. Accordingly, the equity interest of the non-controlling shareholder was diluted from 0.6% to 0.4% (2022: 1% to 0.6%), and such dilution constituted a deemed acquisition of non-controlling interest. The difference of RMB458,000 (2022: RMB885,000) between the net asset value of 特步兒童 owned by the non-controlling shareholder before and after the deemed acquisition, was transferred from non-controlling interest to retained profits.

Pursuant to the sale and purchase agreement entered into by the Group and non-controlling interest on 31 July 2023, the Group acquired the remaining 0.4% equity interest in 特步兒童 at a cash consideration of RMB4,369,000.

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

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for bill receivables, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, derivative financial instruments and financial liabilities at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2023. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

Generally, there is a presumption that a majority of voting rights results in control. When the Company has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 17	*Insurance Contract*
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to HKAS 8	*Definition of Accounting Estimates*
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to HKAS 12	*International Tax Reform — Pillar Two Model Rules*

The nature and the impact of the new and revised HKFRSs that are applicable to the Group are described below:

(a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

(b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

(c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The adoption has had no significant financial effect on these financial statements.

(d) Amendments to HKAS 12 *International Tax Reform — Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments and the mandatory temporary exception retrospectively. Further disclosures are included in note 10 to the financial statements.

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following revised HKFRSs, that have been issued but are not yet effective, in these financial statements. The Group intends to apply these revised HKFRSs, if applicable, when they become effective.

Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* [3]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback* [1]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current (the "2020 Amendments")* [1,4]
Amendments to HKAS 1	*Non-current Liabilities with Covenants (the "2022 Amendments")* [1,4]
Amendments to HKAS 7 and HKFRS 7	*Supplier Finance Arrangements* [1]
Amendments to HKAS 21	*Lack of Exchangeability* [2]

[1] Effective for annual periods beginning on or after 1 January 2024
[2] Effective for annual periods beginning on or after 1 January 2025
[3] No mandatory effective date yet determined but available for adoption
[4] As a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 10 and HKAS 28 address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 was removed by the HKICPA. However, the amendments are available for adoption now.

Amendments to HKFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of HKFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments shall be applied retrospectively with earlier application permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision but is not in a position to state whether these amendments would have any significant impact on its financial position.

Amendments to HKAS 7 and HKFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. Earlier application of the amendments is permitted. The amendments provide certain transition reliefs regarding comparative information, quantitative information as at the beginning of the annual reporting period and interim disclosures. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 21 specify how an entity shall assess whether a currency is exchangeable into another currency and how it shall estimate a spot exchange rate at a measurement date when exchangeability is lacking. The amendments require disclosures of information that enable users of financial statements to understand the impact of a currency not being exchangeable. Earlier application is permitted. When applying the amendments, an entity cannot restate comparative information. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening balance of retained profits or to the cumulative amount of translation differences accumulated in a separate component of equity, where appropriate, at the date of initial application. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 MATERIAL ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated income statement and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred.

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Fair value measurement

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

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2. ACCOUNTING POLICIES (Continued)

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Construction in progress is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are land and buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land and buildings held for a currently undetermined future use. Such properties are stated at cost less accumulated depreciation and any impairment losses.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Depreciation is calculated on the straight-line basis to depreciate the cost of each item of investment properties over the estimated useful life of 20 years.

Intangible assets (other than goodwill)

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

Brand names

Brand names acquired through business combination with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful lives of brand names with indefinite lives are reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

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2. ACCOUNTING POLICIES (Continued)

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Business relationship

Business relationship are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives from 7 years to 15 years.

Patents and trademarks

Purchased patents and trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 years.

Research and development costs

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

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

Impairment of non-financial assets

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

In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

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2. ACCOUNTING POLICIES (Continued)

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt instruments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the income statement and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the income statement.

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2. ACCOUNTING POLICIES (Continued)

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Financial assets at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the income statement. Dividends are recognised as other income in the income statement when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement. This category includes derivative financial instruments and structured bank deposits.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Impairment of financial assets

The Group recognises an allowance for expected credit loss ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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2. ACCOUNTING POLICIES (Continued)

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more that 30 days past due.

The Group considers a financial asset in default when contractual payments are 365 days past due. The Group has rebutted the 90 days past due presumption of default based on reasonable and supportable information, including the Group's credit risk control practices and the historical recovery rate of financial assets over 90 days past due. However, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt instruments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1	—	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	—	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	—	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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2. ACCOUNTING POLICIES (Continued)

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

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

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

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

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2. ACCOUNTING POLICIES (Continued)

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Financial liabilities at fair value through profit or loss (Continued)

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the income statement, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (trade and other payables, and borrowings)

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

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

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

Derecognition of financial liabilities

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

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

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Offsetting of financial instruments

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

Derivative financial instruments

Initial recognition and subsequent measurement

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

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

Treasury shares

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

Inventories

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

Other asset

Other asset is the right to receive the new properties under a disposal arrangement. Such asset, being the partial consideration to be received upon disposal of a subsidiary, is initially recognised at its fair value. Subsequent to the initial recognition, other asset is stated at cost less any impairment losses.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Plant	2 to 10 years
Buildings	22 to 120 months
Prepaid land lease payments	40 to 51 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that is considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the income statement due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Cash and cash equivalents

Cash and cash equivalents in the statements of financial position comprise cash on hand and at banks, and short-term highly liquid deposits with a maturity of within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and held for the purpose of meeting short-term cash commitments.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Provisions

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

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

Income tax

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

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

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except that deferred tax is not recognised for Pillar Two income taxes.

2. ACCOUNTING POLICIES (Continued)

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

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2. ACCOUNTING POLICIES (Continued)

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Revenue from the sale of sportswear goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the sportswear goods.

Some contracts for the sale of sportswear provide customers with rights of return, giving rise to variable consideration.

Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Royalty income is recognised on an accrual basis based on the agreement terms and correspondence with the licensees regarding actual sales.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholder's right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

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2. ACCOUNTING POLICIES (Continued)

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods to the customer).

Borrowing costs

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

Right-of-return assets

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset for any revisions to the expected level of returns, and any additional decreases in the value of the returned goods.

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Government grants

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

Share-based payments

The Company operates a share award scheme. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("equity-settled transactions").

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

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2. ACCOUNTING POLICIES (Continued)

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

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

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

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

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

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

Other employee benefits

Pension schemes

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

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

Other benefits

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

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2. ACCOUNTING POLICIES (Continued)

2.4 MATERIAL ACCOUNTING POLICIES (Continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in notes to the financial statements.

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

Foreign currencies

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

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of the Company and certain subsidiaries and associates operating outside Chinese Mainland are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at exchange rates prevailing at the end of the reporting period and their income statements are translated into RMB at the exchange rate that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve, except to the extent that the differences are attributable to non-controlling interests. On disposal of an operation outside Chinese Mainland, the cumulative amount in the reserve relating to that particular operation is recognised in the income statement.

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

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3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

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

Judgement

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

Classification between investment properties and owner-occupied properties

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

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

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

Estimation uncertainty

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

Provision for inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of each reporting period. As at 31 December 2023, the provision for inventories was RMB82,614,000 (2022: RMB94,888,000). The related disclosures are included in note 20 to the financial statements.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by product type and customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., inflation) are expected to deteriorate over the next year which can lead to an increased number of defaults in the retail and manufacturing sectors, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

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3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Provision for expected credit losses on trade receivables (Continued)

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. As at 31 December 2023, the impairment of trade receivables was RMB419,720,000 (2022: RMB404,697,000). The information about the ECLs on the Group's trade receivables is disclosed in note 21 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2023 was RMB663,491,000 (2022: RMB584,349,000). The related disclosures are included in note 30 to the financial statements.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques, e.g. the discounted cash flow ("DCF") model, binomial model, etc. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk, equity value and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments. The fair value of the Group's financial instruments stated at fair value through other comprehensive income, derivative financial instruments and K-Swiss Convertible Bond are disclosed in notes 19, 26, 28, 29 and 42 to the financial statements.

Withholding taxes arising from the distributions of dividends

In estimating the withholding taxes on dividends expected to be distributed by those subsidiaries established in Chinese Mainland in respect of earnings generated from 1 January 2008, the directors have made an assessment based on factors including future profitability, the dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future. The related disclosures are included in note 30 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the goodwill is allocated. Estimating the recoverable amount requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2023 was RMB842,164,000 (2022: RMB830,217,000). The related disclosures are included in note 16 to the financial statements.

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3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. If no such transactions can be identified, an appropriate valuation model is used. When value in use calculations or fair value less cost of disposal calculation under income approach are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. The related disclosures are included in notes 15 and 17 to the financial statements.

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 bank interest income, finance costs as well as corporate and other unallocated expenses are excluded from such measurement.

Segment assets exclude derivative financial instruments, 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, convertible bonds, tax payable, deferred tax liabilities and other unallocated corporate liabilities as these liabilities are managed on a group basis.

4. OPERATING SEGMENT INFORMATION (Continued)

For the year ended 31 December 2023

	Mass market RMB'000	Athleisure RMB'000	Professional sports RMB'000	Total RMB'000
Segment revenue (note 5)				
Sales to external customers	11,947,344	1,602,633	795,531	14,345,508
Segment results	1,891,009	(183,894)	8,414	1,715,529
Share of profits/(losses) of associates	15,494	–	(752)	14,742
Bank interest income				41,352
Finance costs, net				(186,802)
Corporate and other unallocated expenses				(135,627)
Profit before tax				1,449,194

For the year ended 31 December 2022

	Mass market RMB'000	Athleisure RMB'000	Professional sports RMB'000	Total RMB'000
Segment revenue (note 5)				
Sales to external customers	11,127,864	1,402,472	400,049	12,930,385
Segment results	1,758,579	(188,703)	(19,620)	1,550,256
Share of profits/(losses) of associates	1,797	–	(13,902)	(12,105)
Bank interest income				25,493
Finance costs, net				(116,685)
Corporate and other unallocated expenses				(85,972)
Profit before tax				1,360,987

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4. OPERATING SEGMENT INFORMATION (Continued)

For the year ended 31 December 2023

	Mass market RMB'000	Athleisure RMB'000	Professional sports RMB'000	Total RMB'000
Segment assets	**12,029,364**	**2,812,842**	**319,671**	**15,161,877**
Corporate and other unallocated assets				**2,163,593**
Total assets				**17,325,470**
Segment liabilities	**3,591,125**	**635,918**	**211,635**	**4,438,678**
Corporate and other unallocated liabilities				**3,963,506**
Total liabilities				**8,402,184**

For the year ended 31 December 2022

	Mass market RMB'000	Athleisure RMB'000	Professional sports RMB'000	Total RMB'000
Segment assets	11,680,795	2,964,906	266,799	14,912,500
Corporate and other unallocated assets				1,581,017
Total assets				16,493,517
Segment liabilities	3,533,641	704,243	158,638	4,396,522
Corporate and other unallocated liabilities				3,790,293
Total liabilities				8,186,815

4. OPERATING SEGMENT INFORMATION (Continued)

For the year ended 31 December 2023

	Mass market RMB'000	Athleisure RMB'000	Professional sports RMB'000	Total RMB'000
Other segment information:				
Depreciation of property, plant and equipment and investment properties	**109,262**	**25,679**	**11,936**	**146,877**
Depreciation of right-of-use assets	**41,846**	**58,967**	**41,371**	**142,184**
Write-back of impairment of right-of-use assets	**–**	**(510)**	**–**	**(510)**
Impairment of trade receivables, net	**16,998**	**5,165**	**–**	**22,163**
Provision/(write-back of provision) for inventories, net	**(15,405)**	**4,329**	**(1,198)**	**(12,274)**
Capital expenditure	**441,240**	**32,526**	**15,681**	**489,447**
Investments in associates	**387,153**	**–**	**107,653**	**494,806**
Prepayments for acquisition of non-controlling interests	**–**	**–**	**56,319**	**56,319**
Prepayments for acquisition of Merrell Brand and Saucony Brand	**–**	**–**	**99,400**	**99,400**

For the year ended 31 December 2022

	Mass market RMB'000	Athleisure RMB'000	Professional sports RMB'000	Total RMB'000
Other segment information:				
Depreciation of property, plant and equipment and investment properties	92,522	17,930	8,891	119,343
Depreciation of right-of-use assets	45,099	42,804	19,578	107,481
Impairment of right-of-use assets	–	599	–	599
Impairment of trade receivables, net	9,629	9,906	–	19,535
Provision for inventories, net	956	33,809	1,606	36,371
Capital expenditure	299,178	50,683	15,134	364,995
Investments in associates	102,689	–	87,698	190,387

Information about major customers

For the years ended 31 December 2023 and 2022, no revenue derived from a single customer of the Group accounted for over 10% of the Group's total revenue.

The Group's revenue, expenses, results, assets and liabilities are predominantly attributable to a single geographical region, which is Chinese Mainland. Therefore, no analysis by geographical regions is presented.

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5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

(i) Revenue

Revenue represents the net invoiced value of goods sold during the year, 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:

	2023 RMB'000	2022 RMB'000
Product categories		
Footwear	**8,171,956**	7,760,191
Apparel	**5,903,485**	4,896,939
Accessories	**270,067**	273,255
	14,345,508	12,930,385

(ii) Other income and gains, net

	2023 RMB'000	2022 RMB'000
Subsidy income [1]	**284,202**	178,235
Rental income	**13,440**	9,976
Royalty income	**46,092**	36,284
Income derived from financial assets at fair value through profit or loss ("FVPL"), term deposits and structured bank deposits	**58,026**	64,223
Dividend income derived from an equity investment designated at fair value through other comprehensive income ("FVOCI")	**11,438**	–
Fair value gain/(loss) on the derivative component of Xtep Convertible Bonds	**7,169**	(24,815)
Fair value gain/(loss) on K-Swiss Convertible Bonds	**(34,182)**	33,437
Gain on disposal of investment properties	**20,001**	–
Others	**32,584**	19,328
	438,770	316,668

[1] There are no unfulfilled conditions or contingencies relating to these subsidies.

6. PROFIT BEFORE TAX

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

	Notes	2023 RMB'000	2022 RMB'000
Cost of inventories sold [1]		**8,295,833**	7,638,676
Depreciation of property, plant and equipment and investment properties [2]	13, 14	**146,877**	119,343
Depreciation of right-of-use assets [2]	15(a)	**142,184**	107,481
Amortisation of intangible assets [2]	17	**15,983**	14,400
Advertising and promotional costs		**1,961,451**	1,537,337
Employee benefit expenses (including directors' remuneration — note 8):			
Wages and salaries		**1,319,630**	1,304,619
Other allowances and benefits		**60,724**	72,609
Pension scheme contributions [3]		**27,165**	29,394
Equity-settled share awards expense [2]	34	**47,149**	53,355
		1,454,668	1,459,977
Auditor's remuneration		**6,042**	6,309
Loss on write-off of items of property, plant and equipment	13	**20,592**	7,360
Lease payments not included in the measurement of lease liabilities	15(c)	**26,380**	12,455
Gain on termination of lease	15(c)	**(592)**	(1,307)
Impairment of trade receivables, net [2]	21	**22,163**	19,535
Provision/(write-back of provision) for inventories [2]		**(12,274)**	36,371
Impairment/(write-back of impairment) of right-of-use assets	15(a)	**(510)**	599
Research and development costs [4]		**398,011**	298,970
Foreign exchange differences, net [2]		**20,413**	(920)
Fair value loss/(gain), net:			
Derivative financial instruments — transactions not qualified as hedges	7, 26	**5,492**	(14,426)

[1] The cost of inventories sold for the year includes RMB406,280,000 (2022: RMB426,581,000) relating to staff costs, depreciation of manufacturing facilities, depreciation of right-of-use assets and lease payments not included in the measurement of lease liabilities, which are also included in the respective total amounts disclosed above for each of these types of expenses.

[2] The depreciation of investment properties and right-of-use assets, amortisation of intangible assets, equity-settled share awards expense, impairment of trade receivables, net, provision/(write back of provision) for inventories and foreign exchange differences, net for the year are included in "General and administrative expenses" in the consolidated income statement.

[3] As at 31 December 2023, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2022: Nil).

[4] The research and development costs for the year include RMB155,227,000 (2022: RMB160,755,000) relating to depreciation of research and development centres and staff costs for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses.

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7. NET FINANCE COSTS

An analysis of net finance costs is as follows:

	2023 RMB'000	2022 RMB'000
Interest expense on bank loans	**(121,833)**	(61,120)
Interest expense on discounted bills receivable	**(23,380)**	(31,548)
Interest expense on Xtep Convertible Bonds (note 28)	**(20,670)**	(18,571)
Interest on lease liabilities (note 15)	**(13,065)**	(11,328)
Amortisation of bank charges on syndicated loans	**(2,362)**	(8,544)
Bank interest income	**41,352**	25,493
Fair value gain/(loss), net:		
Derivative instruments — transactions not qualified as hedges	**(5,492)**	14,426
	(145,450)	(91,192)

8. DIRECTORS' REMUNERATION

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

	2023 RMB'000	2022 RMB'000
Fees:		
Executive directors	**–**	–
Non-executive director	**298**	340
Independent non-executive directors	**651**	586
	949	926
Other emoluments of executive directors:		
Salaries, other allowances and benefits in kind	**9,384**	9,331
Performance-related bonuses	**2,160**	2,160
Pension scheme contributions	**139**	79
	11,683	11,570
Other emoluments of a non-executive director:		
Salaries, other allowances and benefits in kind	**–**	–
	12,632	12,496

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

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8. DIRECTORS' REMUNERATION (Continued)

	Fees RMB'000	Salaries, other allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2023					
a) *Executive directors*					
Ding Shui Po[1]	–	4,332	960	27	5,319
Ding Mei Qing	–	2,886	720	71	3,677
Ding Ming Zhong	–	2,166	480	41	2,687
	–	9,384	2,160	139	11,683
b) *Non-executive director*					
Tan Wee Seng[2]	298	–	–	–	298
c) *Independent non-executive directors*					
Bao Ming Xiao	240	–	–	–	240
Wu Ka Chee, Davy	195	–	–	–	195
Chan Yee Wah[3]	216	–	–	–	216
	651	–	–	–	651
	949	9,384	2,160	139	12,632
2022					
a) *Executive directors*					
Ding Shui Po[1]	–	4,305	960	19	5,284
Ding Mei Qing	–	2,873	720	28	3,621
Ding Ming Zhong	–	2,153	480	32	2,665
	–	9,331	2,160	79	11,570
b) *Non-executive director*					
Tan Wee Seng[2]	340	–	–	–	340
c) *Independent non-executive directors*					
Bao Ming Xiao	240	–	–	–	240
Wu Ka Chee, Davy	184	–	–	–	184
Chan Yee Wah[3]	162	–	–	–	162
	586	–	–	–	586
	926	9,331	2,160	79	12,496

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

2 Mr. Tan Wee Seng was redesignated as non-executive director on 17 March 2022.

3 Dr. Chan Yee Wah had been appointed as an independent non-executive director on 17 March 2022.

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2022: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2022: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2023 RMB'000	2022 RMB'000
Salaries, other allowances and benefits in kind	7,492	6,623
Performance-related bonuses	2,508	3,207
Pension scheme contributions	152	54
Equity-settled shares award expense	228	792
	10,380	10,676

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

	Number of employees	
	2023	2022
HK$3,000,001–HK$3,500,000	2	–
HK$3,500,001–HK$4,000,000	–	1
HK$4,000,001–HK$4,500,000	–	2
HK$4,500,001–HK$5,000,000	–	–
HK$5,000,001–HK$5,500,000	1	–
	3	3

Share awards were granted to three (2022: three) non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 34 to the financial statements. The fair value of such awards, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2022: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2023 RMB'000	2022 RMB'000
Current tax — Overseas		
Charge for the year	406,482	405,674
Overprovision in prior years	(3,570)	(15,109)
	402,912	390,565
Deferred tax (note 30)	13,233	58,145
	416,145	448,710

Xtep China, a wholly-owned subsidiary of the Company, was taxed at a preferential 15% tax rate for the years ended 31 December 2023 and 2022 as Xtep China was qualified as a High-New Technology Enterprise (the "HNTE") in the PRC.

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10. INCOME TAX (Continued)

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

	2023 RMB'000	2022 RMB'000
Profit before tax	**1,449,194**	1,360,987
Tax at the applicable tax rates	**395,240**	353,105
Effect of tax concessions	**(25,786)**	(26,427)
Adjustments in respect of current tax of previous years	**(3,570)**	(15,109)
Income not subject to tax	**(97,649)**	(75,993)
Expenses not deductible for tax	**85,207**	93,057
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**16,381**	61,117
Tax losses not recognised	**46,322**	58,960
Tax charge at the Group's effective rate	**416,145**	448,710

As stated in note 2.2(d), the Group has applied the mandatory exception to recognising and disclosing information about deferred tax assets and liabilities arising from Pillar Two income taxes, and will account for the Pillar Two income taxes as current tax when incurred. Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions in which the Group operates, and the legislation will be effective for the Group's financial year beginning 1 January 2024.

The Group has assessed its potential exposure based on the information available regarding the financial performance of the Group in the current year. As such, it may not be entirely representative of future circumstances. Based on the assessment, the Pillar Two effective tax rates in most of the jurisdictions in which the Group operates are above 15%. As the tax rate of which the Group's major operation was above 15%, the Group does not expect a material exposure to Pillar Two income taxes.

11. DIVIDENDS

	2023 RMB'000	2022 RMB'000
Dividends paid during the year:		
Final — HK7.1 cents (2022: HK13.5 cents)* per ordinary share	**165,263(ii)**	288,516(i)
Interim — HK13.7 cents (2022: HK13 cents)* per ordinary share	**317,608(iii)**	296,253(ii)
	482,871	584,769
Proposed final dividend:		
HK8.0 cents (2022: HK7.1 cents) per ordinary share	**191,960(iii)**	164,555(ii)

(i) In respect of the financial year ended 31 December 2021

(ii) In respect of the financial year ended 31 December 2022

(iii) In respect of the financial year ended 31 December 2023

Scrip dividend election was offered to shareholders a final dividend for the years ended 31 December 2021 and 2022 and an interim dividend for the years ended 31 December 2022 and 2023 (note 32(i)).

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

* Dividends paid during the years ended 31 December 2023 and 2022 represented the dividends paid for the issued ordinary shares, excluding treasury shares held by the trustee under the share award scheme.

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

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company of RMB1,030,009,000 (2022: RMB921,694,000) and the weighted average number of 2,527,114,648 (2022: 2,517,521,603) ordinary shares in issue during the year as adjusted to reflect the number of treasury shares held under the share award scheme of the Company.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company, adjusted to reflect the interest and other related profit or loss effect on the convertible bonds, where applicable. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The K-Swiss Convertible Bonds (2022: Xtep Convertible Bonds and K-Swiss Convertible Bonds) had an anti-dilutive effect on the basic earnings per share amounts presented during the years ended 31 December 2023 because the diluted earnings per share increased when convertible bonds were taken into considerations.

The calculation of diluted earnings per share are based on:

	2023 RMB'000	2022 RMB'000
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**1,030,009**	921,694
Interest on Xtep Convertible Bonds	**20,670**	–
Less: Fair value gain on Xtep Convertible Bonds early redemption option	**(7,169)**	–
Profit attributable to ordinary equity holders of the Company before profit or loss effect on Xtep Convertible Bonds	**1,043,510**	921,694

	Number of shares	
	2023	2022
Weighted average number of ordinary shares as used in the basic earnings per share calculation	**2,527,114,648**	2,517,521,603
Effect of dilution — weighted average number of ordinary shares		
— Share award	**56,816,084**	63,248,037
— Xtep Convertible Bonds	**52,217,616**	–
Weighted average number of ordinary shares	**2,636,148,348**	2,580,769,640

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Moulds, plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2023							
Cost:							
At beginning of year	**1,296,686**	**130,449**	**170,414**	**71,384**	**286,126**	**100,319**	**2,055,378**
Additions	**165,589**	**79,350**	**19,777**	**2,722**	**30,619**	**90,465**	**388,522**
Transfer	**74,945**	**–**	**–**	**–**	**–**	**(74,945)**	**–**
Write-off	**–**	**(8,209)**	**(38,804)**	**(2,445)**	**(35,753)**	**(3,091)**	**(88,302)**
Exchange realignment	**1,271**	**261**	**16**	**7**	**321**	**–**	**1,876**
At 31 December 2023	**1,538,491**	**201,851**	**151,403**	**71,668**	**281,313**	**112,748**	**2,357,474**
Accumulated depreciation:							
At beginning of year	**264,918**	**60,114**	**107,879**	**61,111**	**193,836**	**–**	**687,858**
Provided during the year	**69,215**	**37,210**	**10,424**	**1,663**	**26,015**	**–**	**144,527**
Write-off	**–**	**(2,161)**	**(31,415)**	**(2,257)**	**(31,877)**	**–**	**(67,710)**
Exchange realignment	**320**	**153**	**11**	**1**	**157**	**–**	**642**
At 31 December 2023	**334,453**	**95,316**	**86,899**	**60,518**	**188,131**	**–**	**765,317**
Net carrying amount:							
At 31 December 2023	**1,204,038**	**106,535**	**64,504**	**11,150**	**93,182**	**112,748**	**1,592,157**
31 December 2022							
Cost:							
At beginning of year	982,072	70,301	168,375	71,898	271,692	169,378	1,733,716
Additions	47,842	65,522	21,936	1,914	36,480	191,301	364,995
Transfer	259,257	–	–	–	–	(259,257)	–
Write-off	–	(6,915)	(19,953)	(2,468)	(24,099)	(1,103)	(54,538)
Exchange realignment	7,515	1,541	56	40	2,053	–	11,205
At 31 December 2022	1,296,686	130,449	170,414	71,384	286,126	100,319	2,055,378
Accumulated depreciation:							
At beginning of year	199,802	45,320	115,090	62,334	192,393	–	614,939
Provided during the year	63,521	19,976	9,717	990	22,324	–	116,528
Write-off	–	(6,057)	(16,938)	(2,221)	(21,962)	–	(47,178)
Exchange realignment	1,595	875	10	8	1,081	–	3,569
At 31 December 2022	264,918	60,114	107,879	61,111	193,836	–	687,858
Net carrying amount:							
At 31 December 2022	1,031,768	70,335	62,535	10,273	92,290	100,319	1,367,520

The Group has not obtained the building ownership certificates for certain buildings with a net carrying amount of approximately RMB3,834,000 at 31 December 2023 (2022: RMB4,243,000).

As at 31 December 2023, certain buildings and the respective leasehold land under right-of-use assets were pledged to banks to secure banking facilities granted to the Group (note 27).

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14. INVESTMENT PROPERTIES

	2023 RMB'000	2022 RMB'000
Carrying amount at 1 January	25,540	28,355
Depreciation provided during the year	(2,350)	(2,815)
Disposal during the year	(6,544)	–
Carrying amount at 31 December	16,646	25,540

The Group's investment properties are commercial properties situated at certain floors of a building located at No. 168, Tabu East Road, Siming District, Xiamen City, Fujian Province, the PRC. These investment properties are stated at cost less accumulated depreciation and less any impairment losses.

As at 31 December 2023, the fair value of the Group's investment properties was RMB78,732,000 for three properties (2022: RMB102,000,000 for four properties), based on a valuation performed by Knight Frank Petty Limited, a firm of independent and professionally qualified valuers and recent transaction.

The investment properties were valued by the sales comparison approach with reference to comparable market transactions. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors. The fair value of these properties falls into the category of fair value measurements using significant unobservable inputs (Level 3) including adjusted comparable prices in the market.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 15 to the financial statements.

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15. LEASES

The Group as a lessee

The Group has lease contracts for various items of plant and buildings used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 40 to 51 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 22 and 120 months, while plant generally have lease terms between 2 and 10 years.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Plant RMB'000	Buildings RMB'000	Leasehold land RMB'000	Total RMB'000
As at 1 January 2022	10,042	162,930	495,053	668,025
Additions	1,480	144,478	–	145,958
Termination of lease	–	(21,749)	–	(21,749)
Impairment charge	–	(599)	–	(599)
Release of subsidy (note 31)	–	–	(577)	(577)
Depreciation charge	(5,271)	(83,573)	(18,637)	(107,481)
Exchange realignment	–	1,939	–	1,939
As at 31 December 2022 and 1 January 2023	**6,251**	**203,426**	**475,839**	**685,516**
Additions	**–**	**184,997**	**100,925**	**285,922**
Termination of lease	**–**	**(11,476)**	**–**	**(11,476)**
Write-back of impairment	**–**	**510**	**–**	**510**
Release of subsidy (note 31)	**–**	**–**	**(158)**	**(158)**
Depreciation charge	**(4,989)**	**(125,650)**	**(11,545)**	**(142,184)**
Exchange realignment	**–**	**(589)**	**–**	**(589)**
As at 31 December 2023	**1,262**	**251,218**	**565,061**	**817,541**

As at 31 December 2023, the Group's management identified certain loss making stores which indicated that impairment of their right-of-use assets may exist and estimated the corresponding recoverable amounts of their right-of-use assets. Each of these stores is a separate cash-generating unit. Based on the assessment performed by the Group's management, a net write-back of impairment of RMB510,000 (2022: impairment loss of RMB599,000) was recognised to adjust the carrying amounts of these right-of-use assets to their recoverable amounts as at 31 December 2023. The estimates of the recoverable amounts of these right-of-use assets were determined based on a value in use calculation by using a pre-tax discount rate of 18.0% (2022: 17.7%).

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15. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	Notes	2023 RMB'000	2022 RMB'000
As at 1 January		**230,093**	200,367
New leases		**184,997**	145,958
Termination of lease		**(12,068)**	(23,056)
Accretion of interest recognised during the year	7	**13,065**	11,328
Payments		**(140,489)**	(102,290)
Exchange realignment		**2,505**	(2,214)
As at 31 December		**278,103**	230,093
Analysed into:			
Current portion		**144,359**	107,871
Non-current portion		**133,744**	122,222

The maturity analysis of lease liabilities is disclosed in note 43 to the financial statements.

(c) The amounts charged/(credited) in income statement in relation to leases are as follow:

	2023 RMB'000	2022 RMB'000
Interest on lease liabilities	**13,065**	11,328
Depreciation charge of right-of-use assets	**142,184**	107,481
Expenses relating to short-term leases	**26,380**	12,455
Gain on termination of lease	**(592)**	(1,307)
Impairment/(write-back of impairment) of right-of-use assets	**(510)**	599
	180,527	130,556

The Group as a lessor

The Group leases its investment properties (note 14) representing commercial properties situated at certain floors of a building located at No. 168, Tabu East Road, Siming District, Xiamen City, Fujian Province, the PRC under operating lease arrangements. Rental income recognised by the Group during the year was RMB13,440,000 (2022: RMB9,976,000), details of which are included in note 5 to the financial statements.

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

	2023 RMB'000	2022 RMB'000
Within one year	**3,544**	4,307
After one year but within two years	**3,339**	4,309
After two years but within three years	**2,814**	3,368
Over three years	**6,429**	9,868
	16,126	21,852

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16. GOODWILL

	2023 RMB'000	2022 RMB'000
Cost at 1 January	**830,217**	756,275
Exchange realignment	**11,947**	73,942
Cost at 31 December	**842,164**	830,217
As at 31 December		
Cost	**842,164**	830,217
Accumulated impairment	**–**	–
Net carrying amount	**842,164**	830,217

Impairment testing of goodwill and intangible assets with indefinite useful lives

Goodwill and brand names have been allocated to the cash-generating unit of K-Swiss Group (the "K-Swiss CGU") for impairment testing.

	2023 RMB'000	2022 RMB'000
Carrying amount of goodwill	**842,164**	830,217
Carrying amount of brand names with indefinite useful lives (note 17)	**660,432**	650,865

The recoverable amount of the K-Swiss CGU has been determined based on fair value less cost of disposal calculation under income approach by using cash flow projections based on financial budgets covering a five-year period approved by management. The financial budget was based on expectations of future outcomes taking into account past experiences, market conditions, adjusted for anticipated revenue growth of compound annual growth rate of 30.0% (2022: 26.8%) for the next five years with reference to the sportswear market development. The pre-tax discount rate applied to the cash flow projections is 18.0% (2022: 17.7%). The growth rate used to extrapolate the cash flow of K-Swiss CGU beyond the five-year period is 2% (2022: 2%) which did not exceed the long-term growth rate for the footwear business in which it operates. The fair value less cost of disposal is categorised under Level 3 of fair value measurement hierarchy.

No impairment loss is recognised at the end of reporting period based on the impairment assessment performed.

If the discount rate rose to 23.8% (2022: 21.0%), the recoverable amount of the CGU would be approximately equal to its carrying amount. Except this, any reasonably possible changes in the other key assumptions used in the value in use calculation would not affect management's view on impairment test result as at 31 December 2023.

17. INTANGIBLE ASSETS

	Brand names RMB'000	Business relationship RMB'000	Patents and trademarks RMB'000	Total RMB'000
31 December 2023				
Cost at 1 January 2023, net of accumulated amortisation	**650,865**	**58,837**	**13,001**	**722,703**
Additions	**–**	**–**	**6,274**	**6,274**
Amortisation provided during the year	**–**	**(12,576)**	**(3,407)**	**(15,983)**
Exchange realignment	**9,567**	**784**	**–**	**10,351**
As at 31 December 2023	**660,432**	**47,045**	**15,868**	**723,345**
As at 31 December 2023:				
Cost	**660,432**	**102,853**	**32,818**	**796,103**
Accumulated amortisation	**–**	**(55,808)**	**(16,950)**	**(72,758)**
Net carrying amount	**660,432**	**47,045**	**15,868**	**723,345**
31 December 2022				
Cost at 1 January 2022, net of accumulated amortisation	595,282	65,203	10,863	671,348
Additions	–	–	4,650	4,650
Amortisation provided during the year	–	(11,888)	(2,512)	(14,400)
Exchange realignment	55,583	5,522	–	61,105
As at 31 December 2022	650,865	58,837	13,001	722,703
As at 31 December 2022:				
Cost	650,865	101,395	26,544	778,804
Accumulated amortisation	–	(42,558)	(13,543)	(56,101)
Net carrying amount	650,865	58,837	13,001	722,703

Brand names acquired in the business combinations are identified and recognised as intangible assets with indefinite useful lives and carried at historical cost without amortisation for the following reasons:

— they are capable of being renewed indefinitely at insignificant cost; and

— there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows based on the brand names widely used by the K-Swiss CGU.

Brand names and goodwill have been allocated to the K-Swiss CGU for impairment testing as disclosed in note 16 to the financial statements.

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18. INVESTMENTS IN ASSOCIATES

	2023 RMB'000	2022 RMB'000
Share of net assets	**494,806**	190,387

Particulars of associates are as follows:

Name	Place of incorporation or establishment/ business	Percentage of ownership interest attributable to the Group	Principal activities
Saucony Brand Operations Limited ((“Saucony Brand”), note 36)	BVI	49	Investment holding
Merrell Brand Operations Limited ((“Merrell Brand”), note 36)	BVI	49	Investment holding
Saucony Brand Operations (HK) Limited	Hong Kong	49	Sale and distribution of sportswear
Merrell Brand Operations (HK) Limited	Hong Kong	49	Sale and distribution of sportswear
廈門聖康尼品牌運營有限公司	PRC/Chinese Mainland	49	Sale and distribution of sportswear
廈門邁侖品牌運營有限公司	PRC/Chinese Mainland	49	Sale and distribution of sportswear
四川省唯品富邦消費金融有限公司	PRC/Chinese Mainland	25.1	Consumer loan service
Gemini Asia Saucony, LLC (note 36)	United States of America	40	Managing intellectual property rights

The Group's other receivables and trade and other payables balances with these associates are disclosed in notes 22, 24 and 25 to the financial statements, respectively.

The Group's shareholdings in the associates are held through subsidiaries of the Company.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2023 RMB'000	2022 RMB'000
Share of the associates' profits/(losses) and total comprehensive income/(expense) for the year	**14,742**	(12,105)
Net carrying amount of the Group's investments in associates	**494,806**	190,387

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

	2023 **RMB'000**	2022 RMB'000
At 1 January	**248,665**	220,965
Changes in fair values	**7,900**	27,700
At 31 December	**256,565**	248,665

As at 31 December 2023, the Group held three (2022: three) unlisted investments with fair values of RMB221,400,000 (2022: RMB211,400,000), RMB15,200,000 (2022: RMB17,300,000) and RMB19,965,000 (2022: RMB19,965,000), representing 5%, 11% and 0.3% (2022: 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 1998.

The above unlisted equity investments were irrevocably designated at FVOCI as the Group considers these investments to be strategic in nature.

During the year ended 31 December 2023, fair value gains of RMB7,900,000 (2022: RMB27,700,000) in respect of the Group's equity investments designated at FVOCI were recognised in the consolidated statement of comprehensive income.

20. INVENTORIES

	2023 **RMB'000**	2022 RMB'000
Raw materials	**49,152**	46,139
Work in progress	**133,416**	115,685
Finished goods	**1,693,820**	2,220,265
	1,876,388	2,382,089
Less: Provision for inventories	**(82,614)**	(94,888)
	1,793,774	2,287,201

21. TRADE AND BILLS RECEIVABLES

	Notes	**2023** **RMB'000**	2022 RMB'000
Trade receivables		**4,938,121**	4,214,135
Less: Impairment of trade receivables	(a)	**(419,720)**	(404,697)
	(b)	**4,518,401**	3,809,438
Bills receivable	(c)	**457,000**	403,175

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.

21. TRADE AND BILLS RECEIVABLES (Continued)

Notes:

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

	2023 RMB'000	2022 RMB'000
At 1 January	**404,697**	383,927
Impairment of trade receivables, net	**22,163**	19,535
Amounts written off	**(7,523)**	–
Exchange realignment	**383**	1,235
At 31 December	**419,720**	404,697

The increase in the loss allowance was mainly due to increase in trade receivables which were less than 3 months past due (2022: past due over 3 to 6 months).

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by product type and customer type), adjusted for factors that are specific to debtors. The calculation reflects the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2023

	Expected credit loss rate	**Gross carrying amount excluding specific trade receivables RMB'000**	**Loss allowance excluding specific trade receivables RMB'000**	**Gross carrying amount of specific trade receivables RMB'000**	**Loss allowance of specific trade receivables RMB'000**	**Total loss allowance RMB'000**
Current	**2.2%**	**3,220,165**	**(71,448)**	**–**	**–**	**(71,448)**
Less than 3 months past due	**6.1%**	**1,075,881**	**(65,192)**	**–**	**–**	**(65,192)**
Past due over 3 to 6 months	**18.9%**	**242,692**	**(45,952)**	**–**	**–**	**(45,952)**
Past due over 6 to 9 months	**33.7%**	**122,193**	**(41,126)**	**–**	**–**	**(41,126)**
Past due over 9 months	**54.3%**	**177,621**	**(96,433)**	**99,569**	**(99,569)**	**(196,002)**
		4,838,552	**(320,151)**	**99,569**	**(99,569)**	**(419,720)**

As at 31 December 2022

	Expected credit loss rate	Gross carrying amount excluding specific trade receivables RMB'000	Loss allowance excluding specific trade receivables RMB'000	Gross carrying amount of specific trade receivables RMB'000	Loss allowance of specific trade receivables RMB'000	Total loss allowance RMB'000
Current	2.8%	2,623,751	(74,352)	–	–	(74,352)
Less than 3 months past due	5.9%	949,598	(55,720)	–	–	(55,720)
Past due over 3 to 6 months	17.5%	256,102	(44,727)	–	–	(44,727)
Past due over 6 to 9 months	27.3%	97,334	(26,535)	–	–	(26,535)
Past due over 9 months	55.3%	187,844	(103,857)	99,506	(99,506)	(203,363)
		4,114,629	(305,191)	99,506	(99,506)	(404,697)

The impairment included the amount of specific trade receivables which were considered in default due to indicators which showed that the Group was unlikely to receive the outstanding contractual amount in full.

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21. TRADE AND BILLS RECEIVABLES (Continued)

Notes: (Continued)

(b) 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:

	2023 RMB'000	2022 RMB'000
Within 3 months	**3,213,558**	2,574,337
3 to 6 months	**947,903**	870,554
6 to 9 months	**156,568**	212,791
Over 9 months	**200,372**	151,756
	4,518,401	3,809,438

(c) The maturity of the Group's bills receivable as at the end of the reporting period is as follows:

	2023 RMB'000	2022 RMB'000
Within 3 months	**200,000**	153,175
3 to 6 months	**257,000**	250,000
	457,000	403,175

22. PREPAYMENTS, DEPOSITS, OTHER RECEIVABLES AND OTHER ASSET

	Notes	2023 RMB'000	2022 RMB'000
Prepayments to contracted manufacturers		**185,385**	129,315
Prepayments for acquisition of Merrell Brand and Saucony Brand	36(b)	**99,400**	–
Prepayments for acquisition of non-controlling interests	36(c)	**56,319**	–
Deposits and advance payments to suppliers		**344,839**	520,997
Deposits and advance payments to subcontractors		**205,299**	104,774
Right-of-return assets		**6,898**	6,653
Other Asset	(a)	**65,010**	65,010
Other deposits		**83,734**	69,471
Value added tax ("VAT") recoverable		**236,381**	415,958
Other receivables	(b)	**66,379**	143,203
Total		**1,349,644**	1,455,381
Less: Non-current portion prepayments, deposits and other asset		**(237,799)**	(84,875)
Current portion		**1,111,845**	1,370,506

Notes:

(a) On 6 June 2019, the Group entered into an agreement (the "Disposal Agreement") with an independent third party (the "Buyer") to dispose of its entire interests in a wholly-owned subsidiary, which mainly held a parcel of land in Fujian, the PRC. According to the Disposal Agreement, the total consideration would be settled by: (i) a cash consideration of RMB59,665,000; and (ii) certain areas of the building and car parks to be constructed on the land of this disposed subsidiary (the "New Properties"). To the best of the knowledge, information and belief of the Company's directors, having made all reasonable enquiry, the Group does not expect any obstacles to receive the New Properties from the Buyer upon the completion of the construction. The fair value of the New Properties on the disposal date was estimated by management at RMB65,010,000 and was recognised by the Group as the right to receive the New Properties ("Other Asset"). To the best estimation of the directors, the construction of the New Properties is expected to be completed in 2024.

As at 31 December 2023, the recoverable amount of the Other Asset has been determined based on fair value according to the valuation performed by Knight Frank Petty Limited, a firm of independent and professionally qualified valuers and best estimated from management. The valuation was dependent on certain significant inputs including gross unit rate per square meter.

(b) Included in the Group's other receivables are amounts due from the Group's associates of RMB2,600,000 (2022: RMB11,992,000), 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. As at 31 December 2023 and 2022, the loss allowance was assessed to be minimal.

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

	Note	2023 RMB'000	2022 RMB'000
Term deposits		**300,000**	500,349
Cash and bank balances		**4,156,349**	3,961,074
Total		**4,456,349**	4,461,423
Less: Pledged deposits for short-term bank loans	27	**(861,722)**	(546,918)
Non-current (2022: Current) term deposits		**(300,000)**	(500,349)
Cash and cash equivalents		**3,294,627**	3,414,156

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB4,321,062,000 (2022: RMB3,658,599,000). RMB is not freely convertible into other currencies, however, under Chinese Mainland's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Except for the term deposits of RMB300,000,000 (2022: RMB500,349,000) which are made for 1,080 days and earn interest at a rate of 3.2% per annum, the remaining time deposits are made for one day (2022: one day) depending on the immediate cash requirements of the Group, and earn interest at the respective deposit rates. The bank balances, term deposits and pledged deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE PAYABLES

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

	2023 RMB'000	2022 RMB'000
Within 3 months	**2,107,287**	2,261,452
3 to 6 months	**183,989**	345,933
Over 6 months	**139,225**	114,424
Total	**2,430,501**	2,721,809

Notes:

(a) The trade payables are non-interest-bearing and are normally settled within 60 to 120 days.

(b) Included in trade payables are amounts due to associates of RMB69,774,000 (2022: RMB72,462,000) which were repayable on demand.

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25. OTHER PAYABLES AND ACCRUALS

	Notes	2023 RMB'000	2022 RMB'000
Contract liabilities	(a)	**179,558**	157,889
Refund liabilities		**13,419**	13,536
Other payables	(b)	**399,245**	329,450
VAT payables		**16,799**	2,634
Accruals		**1,056,036**	922,354
		1,665,057	1,425,863

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

Notes:

(a) Contract liabilities represented advances received before delivery of sportswear goods to customers. Revenue that was included in the contract liabilities at the beginning of the reporting period amounting to RMB157,889,000 (2022: RMB91,414,000) was recognised during the year ended 31 December 2023. The increase in contract liabilities in 2023 and 2022 was mainly due to the increase in advances received from customers in relation to the sales orders of sportswear goods at the end of the reporting periods.

(b) Included in the other payables are amounts due to associates of RMB3,291,000 (2022: RMB2,863,000) which were repayable on demand.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	2023 RMB'000	2022 RMB'000
Derivative financial assets/(liabilities):			
— Interest rate swap	(i)	**–**	5,440
— Xtep Convertible Bond early redemption options	28	**(74,805)**	(80,841)
— Call option	36(a)	**7,078**	–
		(67,727)	(75,401)
Analysed into:			
Current (2022: Non-current) liabilities		**(74,805)**	(80,841)
Current assets		**7,078**	5,440

Note:

(i) In 2020, the Group entered into various interest rate swap ("IRS") contracts with one creditworthy financial institution with an aggregate notional amount of HK$1,440,000,000 (equivalent to RMB1,324,800,000) for certain of 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. Changes in the fair value of the IRS contracts amounting to RMB5,492,000 were debited (2022: RMB14,426,000 were credited) to the consolidated income statement during the year (note 7).

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27. INTEREST-BEARING BANK BORROWINGS

	Notes	2023 Effective interest rate per annum	2023 Maturity	2023 RMB'000	2022 Effective interest rate per annum	2022 Maturity	2022 RMB'000
Current:							
Syndicated loans	(b)	–	–	–	Hong Kong Inter-bank Offered Rate ("HIBOR") +1.52%	2023	1,286,252
Revolving loans	(a)	Secured Overnight Financing Rate+1.2%, HIBOR+1.1% to HIBOR+1.2%	2024	903,923	HIBOR+1.1% to HIBOR+1.2%	2023	924,566
Mortgage loans	(c)	4.05% to 5 year Loan Prime Rate ("LPR")-0.9%	2024	34,661	4.05%	2023	20,106
Other bank loans	(d)	1 year LPR-0.45% to 1 year LPR-0.55%	2024	15,000	–	–	–
Total current				953,584			2,230,924
Non-current:							
Syndicated loans	(b)	HIBOR+1.45%	2027	898,927	–	–	–
Mortgage loans	(c)	4.05% to 5 year LPR-0.9%	2025 to 2033	292,439	4.05%	2024 to 2031	192,940
Other bank loans	(d)	1 year LPR-0.45% to 1 year LPR-1.15%	2025 to 2026	500,000	–	–	–
Total non-current				1,691,366			192,940
Total				2,644,950			2,423,864

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27. INTEREST-BEARING BANK BORROWINGS (Continued)

	2023 RMB'000	2022 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year and on demand	**953,584**	2,230,924
In the second year	**53,808**	20,928
In the third to fifth years	**1,488,310**	68,063
More than five years	**149,248**	103,949
	2,644,950	2,423,864

Notes:

(a) The revolving loans are supported by:

(i) the pledge of certain Group's bank deposits amounting to RMB861,722,000 (2022: RMB546,918,000) in aggregate;

(ii) corporate guarantees provided by wholly-owned subsidiaries of the Company to the extent of HK$1,275,000,000 and RMB85,000,000 (equivalent to approximately RMB1,070,405,000 and RMB85,000,000 respectively) (2022: HK$1,275,000,000 and RMB85,000,000 (equivalent to approximately RMB1,138,958,000 and RMB85,000,000 respectively)) at the end of the reporting period.

(b) The syndicated loans are supported by corporate guarantees provided by certain wholly-owned subsidiaries of the Company, to the extent of HK$1,000,000,000 (equivalent to approximately RMB906,200,000) (2022: HK$1,800,000,000 (equivalent to approximately RMB1,607,940,000)) as at the end of the reporting period.

(c) The mortgage loans were supported by mortgages over buildings and respective leasehold land under right-of-use assets of the Group with an aggregate carrying amount of RMB662,826,000 (2022: RMB419,922,000).

(d) Other bank loans were supported by corporate guarantees provided by a wholly-owned subsidiary of the Company to the extent of RMB1,150,000,000 (2022: nil) as at the end of the reporting period.

As at 31 December 2023, except for the bank loans amounting to RMB898,725,000 which were denominated in RMB and US$ (2022: RMB213,046,000 which were denominated in RMB), all bank borrowings were denominated in Hong Kong dollars.

28. XTEP CONVERTIBLE BONDS

Pursuant to a subscription agreement entered into between GSUM IV Holdings Limited (an independent third party, "GSUM IV") and the Company, among others, the Company conditionally agreed to issue, and GSUM IV conditionally agreed to subscribe for the 6-year convertible bonds with interest at 1.8% per annum in an aggregate principal amount of HK$500,000,000 (the "Xtep Convertible Bonds"), which are convertible at the option of the holder into the Company's ordinary shares at any time on or after the date falling on the secondary anniversary up to the close of business on the maturity date, which is the sixth anniversary of the issue date. The interest and the default interest shall be accrued quarterly and payable in kind and accumulated as additional principal amount. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each convertible bond at an amount equal to the principal amount, or such other amount in accordance with the terms of the bond instrument, together with accrued interest and all other amounts accrued or outstanding under the convertible bond which remain unpaid on the maturity date.

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28. XTEP CONVERTIBLE BONDS (Continued)

The Xtep Convertible Bonds were issued on 9 September 2021. As at 31 December 2023, the principal amount was adjusted to HK$520,618,354 while the conversion price had been adjusted to HK$9.6625 per conversion share.

In connection with the issuance of the Xtep Convertible Bonds, early redemption options were also given to the bondholder.

Subject to the redemption on a major event or certain event of default under the terms of the Xtep Convertible Bonds, the bondholder may request the Company to redeem the Xtep Convertible Bonds at any time on or after the date falling on the secondary anniversary of the issuance date, in whole or in part, the bond at an amount as follows:

(a) at an amount equal to 100% if the redemption date is between the date falling on the issue date and the date before the third anniversary of the issue date, of the principal amount together with accrued interest and all other amounts accrued or outstanding under the bond which remain unpaid on the date fixed for redemption;

(b) at an amount equal to 103% if the redemption date is between the date falling on the third anniversary of the issue date and the date before the fourth anniversary of the issue date, of the principal amount together with accrued interest and all other amounts accrued or outstanding under the bond which remain unpaid on the date fixed for redemption;

(c) at an amount equal to 104% if the redemption date is between the date falling on the fourth anniversary of the issue date and the date before the fifth anniversary of the issue date, of the principal amount together with accrued interest and all other amounts accrued or outstanding under the bond which remain unpaid on the date fixed for redemption;

(d) at an amount equal to 105% if the redemption date is between the date falling on the fifth anniversary of the issue date and the date before the maturity date, of the principal amount together with accrued interest and all other amounts accrued or outstanding under the bond which remain unpaid on the date fixed for redemption.

For details of Xtep Convertible Bonds, please refer to the Company's announcement dated 15 June 2021, 13 August 2021, 9 September 2021, 30 June 2022, 31 October 2022 and 30 October 2023.

The component of the Xtep Convertible Bonds that exhibits characteristics of a liability is recognised as a liability. On issuance of the Xtep Convertible Bonds, the fair value of the liability component is determined using a market interest rate for a similar loan without derivatives; and this amount is carried as a financial liability on the amortised cost basis until extinguished on conversion or redemption. The liability also included the embedded non-equity derivative features that is the holder's right to receive early redemption of the bonds. The fair value of the early redemption options is determined by an external valuer using Binomial model.

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28. XTEP CONVERTIBLE BONDS (Continued)

The movements of the liability component, embedded derivative and equity component of the Xtep Convertible Bonds are as follows:

	Liability component RMB'000	Embedded derivative RMB'000	Equity component RMB'000	Total RMB'000
At 1 January 2022	341,048	50,158	26,460	417,666
Interest expense (note 7)	18,571	–	–	18,571
Fair value loss	–	24,815	–	24,815
Exchange difference	32,737	5,868	–	38,605
At 31 December 2022 and 1 January 2023	**392,356**	**80,841**	**26,460**	**499,657**
Interest expense (note 7)	**20,670**	**–**	**–**	**20,670**
Fair value gain	**–**	**(7,169)**	**–**	**(7,169)**
Exchange difference	**5,765**	**1,133**	**–**	**6,898**
At 31 December 2023	**418,791**	**74,805**	**26,460**	**520,056**

29. K-SWISS CONVERTIBLE BONDS

Pursuant to a subscription agreement entered into between GSUM VII and Xtep Global Investment Limited ("Xtep Global"), a wholly owned subsidiary of the Company, among others, Xtep Global conditionally agreed to issue, and GSUM VII conditionally agreed to subscribe for the convertible bonds in an aggregate principal amount of US$65,000,000 with zero coupon (the "K-Swiss Convertible Bonds"), which are convertible at the option of the holder into Xtep Global's ordinary shares at any time on or after the issuance date. There is no fixed redemption date. Xtep Global may, at any time and from time to time, by notice to GSUM VII make an offer to redeem the K-Swiss Convertible Bonds. GSUM VII may accept such offer in whole or in part. Xtep Global shall have the right to call and redeem all the outstanding K-Swiss Convertible Bonds as at the tenth year anniversary of the issue date.

The K-Swiss Convertible Bonds were issued on 9 September 2021. The K-Swiss Convertible Bonds carry the conversion right entitling GSUM VII to subscribe for a total of 15,000 shares of US$1 each in Xtep Global at a conversion price of US$4,333.33 per share which are subject to changes under different situations pursuant to the subscription agreement. If any of the redemption trigger events as stated in the terms and conditions of the subscription agreement has occurred, GSUM VII at its discretion may at any time thereafter give notice to Xtep Global that the convertible bonds are, and they shall immediately become, due and repayable, at a corresponding redemption price under the terms and conditions of the subscription agreement. For details of the terms of K-Swiss Convertible Bonds, please refer to the Company's announcement dated 15 June 2021, 13 August 2021 and 9 September 2021.

Upon initial recognition on issue date, the K-Swiss Convertible Bonds is designated as financial liability at fair value through profit or loss.

29. K-SWISS CONVERTIBLE BONDS (Continued)

The movements of the K-Swiss Convertible Bonds are as follows:

	2023 RMB'000	2022 RMB'000
At 1 January	**419,537**	416,499
Fair value loss/(gain) (note 5)	**34,182**	(33,437)
Exchange difference	**6,705**	36,475
At 31 December	**460,424**	419,537

30. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the year were as follows:

	Fair value changes on equity investments designated at fair value through other comprehensive income RMB'000	**Withholding tax levied on dividend** RMB'000	**Fair value adjustments arising from acquisition of subsidiaries** RMB'000	**Total** RMB'000
Deferred tax liabilities at 1 January 2022	10,470	103,826	139,124	253,420
Withholding tax paid on repatriation of earnings from PRC subsidiaries	–	(25,648)	–	(25,648)
Deferred tax charged/(credited) to the consolidated income statement during the year	–	61,117	(2,972)	58,145
Deferred tax charged to the fair value reserve during the year	4,155	–	–	4,155
Exchange realignment	–	–	19,958	19,958
Deferred tax liabilities at 31 December 2022 and 1 January 2023	**14,625**	**139,295**	**156,110**	**310,030**
Withholding tax paid on repatriation of earnings from PRC subsidiaries	**–**	**(83,810)**	**–**	**(83,810)**
Deferred tax charged/(credited) to the consolidated income statement during the year	**–**	**16,381**	**(3,148)**	**13,233**
Deferred tax charged to the fair value reserve during the year	**1,185**	**–**	**–**	**1,185**
Exchange realignment	**–**	**–**	**2,240**	**2,240**
Deferred tax liabilities at 31 December 2023	**15,810**	**71,866**	**155,202**	**242,878**

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30. DEFERRED TAX LIABILITIES (Continued)

The Group has tax losses arising in Hong Kong of RMB273,636,000 (2022: RMB198,711,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Group also has tax losses arising in Chinese Mainland of RMB389,855,000 (2022: RMB385,638,000) that will expire in one to five years for offsetting against future taxable profits.

Deferred tax assets are recognised for the tax losses carried forward to the extent that realisation of the related tax benefits through taxable profit is probable. The Group did not recognise deferred tax assets in respect of these losses.

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

In the opinion of the directors, it is not probable that those subsidiaries will distribute all earnings after 31 December 2007 in the foreseeable future. The aggregate withholding tax amount arising from temporary differences associated with investments in subsidiaries in Chinese Mainland for which deferred tax liabilities have not been recognised totalled approximately RMB247,344,000 as at 31 December 2023 (31 December 2022: RMB206,105,000).

The Company has no significant unprovided deferred tax in respect of the reporting period and at the end of the reporting period. There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

31. DEFERRED SUBSIDIES

	2023 **RMB'000**	2022 RMB'000
Carrying amount at 1 January	**19,918**	20,495
Released to/resumed as prepaid land lease payments (note 15)	**(158)**	(577)
Carrying amount at 31 December	**19,760**	19,918
Less: Current portion	**(577)**	(577)
Non-current portion	**19,183**	19,341

A subsidy of RMB22,805,000 was received by the Group in 2018 from the local government for the acquisition of a parcel of land in Jinjiang, Fujian, the PRC. The deferred subsidy is offset with prepaid land lease payments over the life of the land use rights of this parcel of land.

32. SHARE CAPITAL

At 31 December 2023

	HK$'000	RMB'000
Authorised:		
100,000,000,000 ordinary shares of HK$0.01 each	**1,000,000**	**935,629**
Issued and fully paid:		
2,641,457,207 ordinary shares of HK$0.01 each	**26,415**	**23,191**

At 31 December 2022

	HK$'000	RMB'000
Authorised:		
100,000,000,000 ordinary shares of HK$0.01 each	1,000,000	935,629
Issued and fully paid:		
2,636,716,923 ordinary shares of HK$0.01 each	26,367	23,147

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

	Note	Number of ordinary shares of HK$0.01 each	Share capital HK$'000	Share capital RMB'000
1 January 2022		2,630,318,746	26,304	23,092
Shares issued in lieu of cash dividend	(i)	6,398,177	63	55
At 31 December 2022 and 1 January 2023		**2,636,716,923**	**26,367**	**23,147**
Shares issued in lieu of cash dividend	(i)	**4,740,284**	**48**	**44**
At 31 December 2023		**2,641,457,207**	**26,415**	**23,191**

Note:

(i) On 22 March 2023, the board of directors proposed a final dividend of HK7.1 cents (equivalent to approximately RMB6.2 cents) (year ended 31 December 2021: HK13.5 cents (equivalent to approximately RMB11.0 cents)) per ordinary share for the year ended 31 December 2022. The shareholders were provided with an option to receive the final dividend in form of scrip dividend. The proposed final dividend was approved by shareholders during the annual general meeting held on 2 June 2023. On 21 July 2023, 1,775,228 (year ended 31 December 2021: 4,523,997) shares were issued at HK$8.307 (year ended 31 December 2021: HK$10.447) per share in respect of the final dividend for the year ended 31 December 2022.

On 23 August 2023, the board of directors declared an interim dividend of HK13.7 cents (equivalent to approximately RMB12.6 cents) (year ended 31 December 2022: HK13.0 cents (equivalent to approximately RMB11.3 cents)) per ordinary share for the year ended 31 December 2023. The shareholders were provided with an option to receive the interim dividend in form of scrip dividend. On 30 October 2023, 2,965,056 (year ended 31 December 2022: 1,874,180) shares were issued at HK$7.833 (year ended 31 December 2022: HK$10.187) per share in respect of the interim dividend for the year ended 31 December 2023.

An amount of HK$28,000 (equivalent to approximately RMB26,000) (2022: RMB26,000) and an amount of HK$22,571,000 (equivalent to approximately RMB20,718,000) (2022: RMB26,637,000) were transferred from the share capital and share premium reserve to treasury share reserve upon the issuance of scrip shares.

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33. TREASURY SHARES AND OTHER RESERVES

(a) Treasury shares

Treasury shares reacquired and held by the Company are recognised directly in equity at cost. During the year ended 31 December 2023, 2,829,340 (2022: 2,948,121) treasury shares amounting to RMB20,744,000 (2022: RMB26,663,000) in form of scrip dividend were received by the Company. As at 31 December 2023, the Group had 110,874,722 (2022: 117,001,382) treasury shares, out of which 66,324,000 (2022: 75,280,000) treasury shares were granted to certain participants of the Share Award Scheme as Awarded Shares but remained unvested. Movements in the number of Awarded Shares are disclosed in note 34 to the financial statements. Treasury shares reserve represented the acquisition cost of treasury shares less accumulated expense of unvested share awards.

(b) Other reserves

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

(i) Capital reserve

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

(ii) Statutory surplus fund

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

(iii) Exchange fluctuation reserve

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

(iv) Fair value reserve

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

(v) Share award reserve

The share award reserve represents the remaining differences between the cost of repurchase of shares and fair value of awarded shares granted on 10 January 2017.

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34. SHARE AWARD SCHEME

On 1 August 2014, the board of directors of the Company (the "Board") has 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").

There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these share award. The Group accounts for the Share Award Scheme as equity-settled plan.

At 31 December 2023, details of the outstanding Awarded Shares under the Share Award Scheme are as follows:

Grant date	Number of Awarded Shares to vest	Vesting period	Fair value at grant date HK$ per share
19 March 2021	10,074,000	19 March 2021 to 31 March 2024	3.55
19 March 2021	15,000,000	19 March 2021 to 31 March 2025	3.39
19 March 2021	15,000,000	19 March 2021 to 31 March 2026	3.23
19 March 2021	26,250,000	19 March 2021 to 31 March 2027	3.06

The Group measured the fair value of the Awarded Shares at grant date during the year ended 31 December 2021 with reference to the binomial model carried out by an independent professional valuer with input of Share's spot price of HK$4 per share, dividend yield of 4%, expected volatility of 42.6% to 51.8%. The market price of the Share of the Company at grant date during the year ended 31 December 2021 is HK$4.

Movements in the number of Awarded Shares were as follows:

	Number of Awarded Shares	
	2023	2022
Outstanding at 1 January	**75,280,000**	89,790,000
Awarded Shares vested	**(8,956,000)**	(14,510,000)
Outstanding at 31 December	**66,324,000**	75,280,000

During the year ended 31 December 2023, share award scheme expense of RMB47,149,000 (2022: RMB53,355,000) was charged to the consolidated income statement and an amount of HK$2,660,000 (equivalent to approximately RMB2,455,000) (2022: HK$2,293,000 (equivalent to approximately RMB1,802,000)) was transferred from share award reserve to retained profits in respect of vesting of 8,956,000 (2022: 14,510,000) Awarded Shares. The weight average closing price of Awarded Share immediately before the date on which the Awarded Shares were vested was HK$9.81 (2022: HK$11.3).

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35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions:

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB184,997,000 (2022: RMB145,958,000) and RMB184,997,000 (2022: RMB145,958,000), respectively, in respect of lease arrangements for plant and buildings.

(b) Changes in liabilities arising from financing activities

2023

	Bank borrowings RMB'000	Lease liabilities RMB'000
At 1 January 2023	**2,423,864**	**230,093**
Changes from financing cash flows	**188,885**	**(140,489)**
Amortisation of bank charges on syndicated loans	**2,362**	**–**
Termination of lease	**–**	**(12,068)**
New leases	**–**	**184,997**
Interest expenses	**–**	**13,065**
Foreign exchange movement	**29,839**	**2,505**
At 31 December 2023	**2,644,950**	**278,103**

2022

	Bank borrowings RMB'000	Lease liabilities RMB'000
At 1 January 2022	1,780,162	200,367
Changes from financing cash flows	466,439	(102,290)
Amortisation of bank charges on syndicated loans	8,544	–
Termination of lease	–	(23,056)
New leases	–	145,958
Interest expenses	–	11,328
Foreign exchange movement	168,719	(2,214)
At 31 December 2022	2,423,864	230,093

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2023 RMB'000	2022 RMB'000
Within operating activities	**39,445**	23,783
Within financing activities	**140,489**	102,290
	179,934	126,073

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36. ACQUISITION OF INTEREST IN GEMINI ASIA SAUCONY, LLC AND THE MERRELL AND SAUCONY GROUP

On 17 December 2023, the Group entered into agreements with Wolverine World Wide, Inc. ("Wolverine") and certain of its subsidiaries, pursuant to the agreements:

(a) Acquisition of interest in Saucony Asia IP Holdco and formation of a new joint venture

The Group acquired 40% of ownership interest in Gemini Asia Saucony, LLC , a limited liability company incorporated under the laws of the State of Delaware of the United States of America which has been established for the purpose of holding, licensing and managing the intellectual property rights associated with the Saucony brand in the Chinese Mainland, Hong Kong and Macau at a cash consideration of US$38,000,000 (equivalent to RMB268,970,000). A joint venture agreement was entered into in relation to the management and operation of Saucony Asia IP Holdco. The Group acquired the options to, in the event of global sale of the intellectual property of the Saucony brand or a change in control of Wolverine, purchase a further 35% or 60% ownership interest in Saucony Asia IP Holdco at a consideration of US$1,000,000 (equivalent to RMB7,078,000). These acquisitions were completed during the year.

(b) Acquisition of 51% equity interests in Merrell Brand and Saucony Brand and their subsidiaries

The Group acquired 51% equity interests in Merrell Brand and Saucony Brand at cash consideration of US$3,000,000 (equivalent to RMB21,300,000) and US$11,000,000 (equivalent to RMB78,100,000), respectively. As a result, the aforesaid associates have become wholly owned subsidiaries of the Group. The acquisition was completed on 1 January 2024. The considerations of RMB99,400,000 in aggregate were paid during the year.

The provisional fair value of the identifiable assets and liabilities of Merrell Brand and its subsidiaries at the date of acquisition were as follows:

	RMB'000
Property, plant and equipment	30
Right-of-use assets	595
Inventories	44,401
Prepayments, deposits and other receivables	21,750
Cash and cash equivalents	9,512
Trade payables	(30,678)
Lease liabilities	(626)
Other payables and accruals	(4,235)
Total identifiable net assets	40,749
Less: 49% equity interests in Merrell Brand before the acquisition	(19,967)
Goodwill	518
Cash consideration	21,300

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36. ACQUISITION OF INTEREST IN GEMINI ASIA SAUCONY, LLC AND THE MERRELL AND SAUCONY GROUP (Continued)

(b) Acquisition of 51% equity interests in Merrell Brand and Saucony Brand and their subsidiaries (Continued)

The provisional fair value of the identifiable assets and liabilities of Saucony Brand and its subsidiaries at the date of acquisition were as follows:

	RMB'000
Property, plant and equipment	7,485
Right-of-use assets	712
Inventories	156,065
Prepayments, deposits and other receivables	51,535
Cash and cash equivalents	75,035
Trade payables	(80,560)
Lease liabilities	(750)
Other payables and accruals	(46,634)
Total identifiable net assets	162,888
Less: 49% equity interests in Saucony Brand before the acquisition	(79,815)
Bargain purchase gain on acquisition	(4,973)
Cash consideration	78,100

(c) Acquisition of 49% equity interests in Merrell Distribution and Saucony Distribution and their subsidiaries

The Group acquired 49% equity interests in Merrell Distribution and Saucony Distribution at cash consideration of US$2,000,000 (equivalent to RMB14,080,000) and US$6,000,000 (equivalent to RMB42,239,000), respectively. As a result, the aforesaid subsidiaries became wholly owned subsidiaries of the Group. The acquisition was completed on 1 January 2024. The considerations of RMB56,319,000 in aggregate were paid during the year.

37. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities (2022: Nil).

38. COMMITMENTS

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

	2023 RMB'000	2022 RMB'000
In respect of:		
— construction of new buildings	**476,668**	519,583
— construction of new manufacturing facilities	**477**	1,079
— advertising and promotional expenses	**104,902**	231,083
— capital contribution of an associate	**49,534**	–
	631,581	751,745

39. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

(i) The Group entered into several lease agreements 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:

	Year ended 31 December 2023 RMB'000	Year ended 31 December 2022 RMB'000
Rental payment	**11,398**	11,230
Depreciation of right-of-use assets	**10,524**	10,144
Interest expense on lease liabilities	**776**	1,006

	As at 31 December 2023 RMB'000	As at 31 December 2022 RMB'000
Right-of-use assets	**11,856**	17,655
Lease liabilities	**12,695**	19,186

These lease arrangements also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(ii) During the year ended 31 December 2023, purchases of finished goods amounting to RMB488,334,000 (2022: RMB244,658,000) were made by the Group from associates of the Group according to the published prices and conditions offered by the associates to their major customers.

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 receivables and trade and other payables balances with the associates are disclosed in notes 22, 24 and 25 to the financial statements, respectively.

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39. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel of the Group, including directors' remuneration as detailed in note 8 to the financial statements, is as follows:

	2023 RMB'000	2022 RMB'000
Short-term employee benefits	**11,544**	11,491
Post-employment benefits	**139**	79
Total compensation paid to key management personnel	**11,683**	11,570

40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	2023 RMB'000	2022 RMB'000
Financial assets at FVOCI:		
Equity investments designated at FVOCI	**256,565**	248,665
Bills receivable	**457,000**	403,175
	713,565	651,840
Financial assets at FVPL:		
Derivative financial instruments, mandatorily designated as such	**7,078**	5,440
Financial assets at amortised cost:		
Trade receivables	**4,518,401**	3,809,438
Other receivables	**66,379**	143,203
Pledged bank deposits	**861,722**	546,918
Term deposits	**300,000**	500,349
Cash and cash equivalents	**3,294,627**	3,414,156
	9,041,129	8,414,064
Total	**9,761,772**	9,071,344

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40. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

	2023 RMB'000	2022 RMB'000
Financial liabilities at amortised cost:		
Trade payables	**2,430,501**	2,721,809
Bills payable	**100,000**	50,000
Financial liabilities included in other payables and accruals	**747,767**	654,375
Interest-bearing bank borrowings	**2,644,950**	2,423,864
Xtep Convertible Bonds	**418,791**	392,356
	6,342,009	6,242,404
Financial liabilities at FVPL:		
Derivative financial instruments, held for trading	**74,805**	80,841
K-Swiss Convertible Bonds designated as such upon initial recognition	**460,424**	419,537
	535,229	500,378
Total	**6,877,238**	6,742,782

41. FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY

At 31 December 2023, the Group discounted certain commercial bills receivable with a carrying amount in aggregate of approximately RMB914,000,000 (2022: RMB1,142,000,000) to a bank in the PRC (the "Derecognised Bills") for cash. The Derecognised Bills had a remaining maturity from 12 days to 158 days (2022: 20 days to 180 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"). According to the bank discounting agreements, the bank has waived the right of recourse against the Group and such that Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair value of the Group's Continuing Involvement in the Derecognised Bills is not significant.

During the year ended 31 December 2023, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills (2022: Nil). No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The amount of bills receivable of RMB1,314,000,000 (31 December 2022: RMB1,876,000,000) has been discounted during the year ended 31 December 2023.

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42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

The fair values of 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 31 December 2023 were assessed to be insignificant. The fair values of 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.

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

The fair value of bills receivable 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 key observable inputs in the valuation are time to expiration and risk free rate. The fair values of bills receivable approximate to their carrying amounts as at the end of the reporting period.

In respect of the interest rate swap, the Group relied 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 Xtep Convertible Bonds early redemption options and K-Swiss Convertible Bonds have been estimated using Binomial models of which key observable inputs is risk free rate. The valuation required the directors to determine the equity value based on discounted cash flow and the discount rate. The fair value of the call option is based on the recent transaction price.

The fair value of the unlisted equity investments designated at fair value through other comprehensive income have been estimated using the quoted price of the latest transactions or 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 to 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.

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

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 consolidated statement of financial position, and the related changes in fair values, which are recorded in other 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 the unlisted equity instruments, K-Swiss Convertible Bonds and Xtep Convertible Bonds early redemption options together with a quantitative sensitivity analysis as at 31 December 2023 and 2022:

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	0.19x to 1.25x (2022: 0.16x to 1.11x)	5% (2022: 5%) increase/decrease in multiple would result in increase/decrease in fair value by RMB11.8 million (2022: RMB11.4 million)
		Discount for lack of marketability ("DLOM")	20% (2022: 20%)	2.5% (2022: 2.5%) increase/decrease in DLOM would result in decrease/increase in fair value by RMB7.4 million (2022: RMB7.1 million)
K-Swiss Convertible Bonds	Binomial model	Weighted average cost of capital	14.5% (2022: 14.5%)	0.5% increase/decrease in multiple would result in decrease in fair value by RMB14.9 million (2022: RMB12.2 million)/increase in fair value by RMB21.4 million (2022: RMB13.4 million)
		Volatility	41.5% (2022: 41.0%)	0.5% increase/decrease in multiple would result in increase/decrease in fair value by RMB0.8 million (2022: RMB0.8 million)
		Discount rate	11.8% (2022: 12.2%)	0.5% increase/decrease in multiple would result in decrease in fair value by RMB4.8 million 2022: RMB5.1 million)/increase in fair value by RMB5.2 million (2022: RMB5.2 million)
Xtep Convertible Bonds early redemption option	Binomial model	Discount rate	6.6% (2022: 7.0%)	0.5% increase/decrease in multiple would result in increase in fair value by RMB7.0 million 2022: RMB6.6 million)/decrease in fair value by RMB6.5 million (2022: RMB6.8 million)

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42. 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 31 December 2023

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	7,078	–	7,078
Equity investments designated at FVOCI	–	–	256,565	256,565
Bills receivable	–	457,000	–	457,000
	–	464,078	256,565	720,643

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	5,440	–	5,440
Equity investments designated at FVOCI	–	–	248,665	248,665
Bills receivable	–	403,175	–	403,175
	–	408,615	248,665	657,280

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

Fair value hierarchy (Continued)

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

Liabilities measured fair value:

As at 31 December 2023

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	–	74,805	74,805
K-Swiss Convertible Bonds	–	–	460,424	460,424
	–	–	535,229	535,229

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	–	80,841	80,841
K-Swiss Convertible Bonds	–	–	419,537	419,537
	–	–	500,378	500,378

During the year ended 31 December 2023, 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 (2022: Nil).

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43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise equity investments designated at fair value through other comprehensive income, interest-bearing bank borrowings and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as trade and bills receivables, other receivables, trade and bills payables and financial liabilities included in other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, interest rate risk, liquidity risk and commodity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

Foreign currency risk

The Group mainly operates in Chinese Mainland with most of the transactions settled in RMB. Most of the Group's financial instruments such as trade and bills receivables and cash and bank balances are denominated in the same currency or a currency that is pegged to the functional currency of the operations to which the transactions relate. In addition, the Group has currency exposures from its interest-bearing bank borrowings.

Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and at the end of each reporting period, the Group reviews the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk.

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
31 December 2023					
Trade receivables*	**–**	**–**	**–**	**4,938,121**	**4,938,121**
Other receivables**	**66,379**	**–**	**–**	**–**	**66,379**
Term deposits**	**300,000**	**–**	**–**	**–**	**300,000**
Pledged bank deposits**	**861,722**	**–**	**–**	**–**	**861,722**
Cash and cash equivalents**	**3,294,627**	**–**	**–**	**–**	**3,294,627**
Total	**4,522,728**	**–**	**–**	**4,938,121**	**9,460,849**
31 December 2022					
Trade receivables*	–	–	–	4,214,135	4,214,135
Other receivables**	143,203	–	–	–	143,203
Term deposits**	500,349	–	–	–	500,349
Pledged bank deposits**	546,918	–	–	–	546,918
Cash and cash equivalents**	3,414,156	–	–	–	3,414,156
Total	4,604,626	–	–	4,214,135	8,818,761

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 21 to the financial statements.

** The expected credit losses of the financial assets included in other receivables, pledged bank deposits and cash and cash equivalents are considered to be minimal because the balances are not yet past due.

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43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2023		
Hong Kong dollar	**100**	**(18,029)**
Hong Kong dollar	**(100)**	**18,029**
RMB	**100**	**(8,421)**
RMB	**(100)**	**8,421**
2022		
Hong Kong dollar	100	(24,239)
Hong Kong dollar	(100)	24,239

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43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group monitors its risk to a shortage of funds by considering the maturity of both its financial assets and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through use of bank borrowings and other borrowings to meet its working capital requirements.

The tables below summarise the maturity profile of the financial liabilities of the Group as at the end of the reporting period, based on the contractual undiscounted payments:

	2023		
	On demand and within 1 year RMB'000	**Over 1 year RMB'000**	**Total RMB'000**
Trade payables	**2,430,501**	**–**	**2,430,501**
Bills payable	**100,000**	**–**	**100,000**
Lease liabilities	**151,130**	**144,060**	**295,190**
Financial liabilities included in other payables and accruals	**747,767**	**–**	**747,767**
Interest-bearing bank borrowings	**1,038,325**	**1,913,192**	**2,951,517**
Xtep Convertible Bonds	**491,840**	**–**	**491,840**
K-Swiss Convertible Bonds	**–**	**460,424**	**460,424**
	4,959,563	**2,517,676**	**7,477,239**

	2022		
	On demand and within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade payables	2,271,809	–	2,271,809
Bills payable	50,000	–	50,000
Lease liabilities	111,205	142,474	253,679
Financial liabilities included in other payables and accruals	654,375	–	654,375
Interest-bearing bank borrowings	2,256,949	228,430	2,485,379
Xtep Convertible Bonds	–	484,839	484,839
K-Swiss Convertible Bonds	–	419,537	419,537
	5,344,338	1,275,280	6,619,618

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43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Commodity price risk

The major raw materials used in the production of the Group's products include cotton, rubber and plastics. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratio in order to support its business and maximise shareholders' value. The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2023 and 31 December 2022.

The Group monitors capital on the basis of the net cash-to-equity ratio, which is calculated as the net cash divided by total equity. The net cash-to-equity ratios as at the end of the reporting periods were as follows:

	2023 **RMB'000**	2022 RMB'000
Cash and cash equivalents	**3,294,627**	3,414,156
Term deposits	**300,000**	500,349
Pledged bank deposits	**861,722**	546,918
Less: Interest-bearing bank borrowings	**(2,644,950)**	(2,423,864)
Xtep Convertible Bonds	**(418,791)**	(392,356)
K-Swiss Convertible Bonds	**(460,424)**	(419,537)
Net cash	**932,184**	1,225,666
Total equity	**8,923,286**	8,306,702
Net cash-to-equity ratio	**0.104**	0.148

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44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	3,705,251	3,533,161
CURRENT ASSETS		
Due from subsidiaries	843,615	764,540
Prepayments	5,879	8,303
Derivative financial instruments	–	5,440
Cash and cash equivalents	8,626	9,974
Total current assets	858,120	788,257
CURRENT LIABILITIES		
Due to subsidiaries	100,082	98,675
Other payables and accruals	53,190	50,694
Interest-bearing bank borrowings	903,922	2,210,818
Xtep Convertible Bonds	418,791	–
Derivative financial instruments	74,805	–
Total current liabilities	1,550,790	2,360,187
NET CURRENT LIABILITIES	(692,670)	(1,571,930)
TOTAL ASSETS LESS CURRENT LIABILITIES	3,012,581	1,961,231
NON-CURRENT LIABILITIES		
Xtep Convertible Bonds	–	392,356
Derivative financial instruments	–	80,841
Interest-bearing bank borrowings	898,927	–
Total non-current liabilities	898,927	473,197
NET ASSETS	2,113,654	1,488,034
EQUITY		
Share capital	23,164	23,147
Treasury shares	(282,991)	(311,889)
Equity component of convertible bonds	26,460	26,460
Other reserves (note)	2,347,021	1,750,316
Total equity	2,113,654	1,488,034

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44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's other reserves is as follows:

	Share premium account RMB'000	Capital reserve RMB'000	Share award reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated loss) RMB'000	Total RMB'000
At 1 January 2022	1,958,798	15	1,840	(186,033)	45,861	1,820,481
Profit for the year	–	–	–	–	303,259*	303,259
Other comprehensive income:						
Exchange realignment	–	–	–	150,322	–	150,322
Total comprehensive income for the year	–	–	–	150,322	303,259	453,581
Awarded shares vested	–	–	(1,802)	–	1,802	–
2021 final dividend declared and paid	–	–	–	–	(288,516)	(288,516)
2022 interim dividend declared and paid	–	–	–	–	(296,253)	(296,253)
Shares issued in lieu of cash dividend	57,360	–	–	–	–	57,360
Dividends for treasury shares	–	–	–	–	3,663	3,663
At 31 December 2022 and 1 January 2023	**2,016,158**	**15**	**38**	**(35,711)**	**(230,184)**	**1,750,316**
Profit for the year	**–**	**–**	**–**	**–**	**1,013,533***	**1,013,533**
Other comprehensive income:						
Exchange realignment	**–**	**–**	**–**	**32,306**	**–**	**32,306**
Total comprehensive income for the year	**–**	**–**	**–**	**32,306**	**1,013,533***	**1,045,839**
Awarded shares vested	**–**	**–**	**(38)**	**–**	**(2,455)**	**(2,493)**
2022 final dividend declared and paid	**–**	**–**	**–**	**–**	**(165,263)**	**(165,263)**
2023 interim dividend declared and paid	**–**	**–**	**–**	**–**	**(317,608)**	**(317,608)**
Shares issued in lieu of cash dividend	**34,818**	**–**	**–**	**–**	**–**	**34,818**
Dividends for treasury shares	**–**	**–**	**–**	**–**	**1,412**	**1,412**
At 31 December 2023	**2,050,976**	**15**	**–**	**(3,405)**	**299,435**	**2,347,021**

* The balance as at 31 December 2023 included a dividend from a subsidiary of RMB1,208,827,000 (2022: RMB487,309,000).

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44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Any excess of the appropriation over the retained profits of the Company was replenished by dividends declared by its subsidiaries to the Company when they were approved subsequent to the end of the reporting period.

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

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 March 2024.

GLOSSARY

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

"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 C1 to the Listing Rules
"Director(s)"	The director(s) of the Company
"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
"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 C3 to the Listing Rules
"PRC" or "China" or "Chinese Mainland" or "Mainland China"	The People's Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan
"R&D"	Research and development
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	Ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	Shareholder(s) of the Company
"U.S."	United States of America
"US$"	U.S. dollars, the lawful currency of the U.S.
"Xtep"	Xtep brand
"Xtep Kids"	The children's sportswear business of the Group

REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the consolidated financial statements for the year ended 31 December 2023.

DIVIDENDS

An interim dividend of HK13.7 cents (equivalent to approximately RMB12.6 cents) per Share was declared and paid to our Shareholders during the year, with an option to receive new fully paid shares of the Company.

The Board recommended a final dividend of HK8.0 cents (equivalent to approximately RMB7.3 cents) per Share for the year ended 31 December 2023, subject to approval by the Shareholders at the annual general meeting ("**AGM**") to be held on Friday, 3 May 2024. The proposed final 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 total dividends for the year ended 31 December 2023, which include the interim and final dividends, amounted to HK21.7 cents (equivalent to approximately RMB19.9 cents) per Share, and represented an annual payout ratio of approximately 50.0%.

BOOK CLOSURE

In order to determine the entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Friday, 26 April 2024 to Friday, 3 May 2024, both days inclusive, during which period no transfer of Shares in the Company will be effected. The record date for entitlement to attend and vote at the AGM is Friday, 3 May 2024. In order to be eligible to attend and vote at the forthcoming AGM of the Company to be held on Friday, 3 May 2024, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 25 April 2024.

The proposed final dividend is subject to the passing of ordinary resolutions by the shareholders at the AGM. In order to determine the entitlement to the proposed final dividend, the transfer books and register of members of the Company will be closed from Thursday, 9 May 2024 to Monday, 13 May 2024, both days inclusive, during which period no transfer of Shares in the Company will be effected. The record date for entitlement to the proposed final dividend is Monday, 13 May 2024. In order to be eligible to receive the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 8 May 2024. The payment date of the proposed final dividend is expected to be on Friday, 28 June 2024.

AGM

The AGM of the Company will be held in Hong Kong on Friday, 3 May 2024. Notice of the annual general meeting will be issued and disseminated to Shareholders in due course.

PUBLICATION OF RESULTS ANNOUNCEMENT

This annual results announcement is available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company's website at www.xtep.com.hk.

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

Hong Kong, 18 March 2024

As at the date of this announcement, the executive Directors of the Company are Mr. Ding Shui Po, Ms. Ding Mei Qing and Mr. Ding Ming Zhong; the non-executive Director is Mr. Tan Wee Seng and the independent non-executive Directors are Dr. Bao Ming Xiao, Dr. Wu Ka Chee, Davy and Dr. Chan Yee Wah.