



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

(Incorporated in the Cayman Islands with limited liability)
Stock code: 1368

2012 INTERIM REPORT



X-ceptional /
DECADE

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非一般十年

上升的力量

X-ceptional Decade

X-ceptional Decade

2002



XTEP INVITED NICHOLAS TSE AS ITS BRAND REPRESENTATIVE

Being a pioneer in entertainment marketing, Xtep invited Nicholas Tse, a Hong Kong singer, actor and TV superstar to be its brand representative, boosting awareness for the Xtep brand.

2003



EXPANDED BRAND REPRESENTATIVE TEAM

With a view to enhancing its brand profile, Xtep invited a popular music group, Twins, to be members of its brand representative team, bringing more youthful, vigorous and energetic elements to the Xtep brand.

2004



PRODUCT DIVERSIFICATION

Xtep began to fully diversify its fashion sportswear products to a wide range of footwear, apparel and accessory products.

2005



BECAME A PARTNER OF THE 10TH CHINESE NATIONAL GAMES

Xtep became the partner of the 10th National Games of the People's Republic of China. The agreement with the preparatory committee of the games signified Xtep as the sole partner of the games from the sports products industry.

2006



XTEP RECOGNIZED WITH A NUMBER OF AWARDS

Leveraging on its business model and unique strategy of entertainment marketing which received wide recognition from the government and the public, Xtep won a number of awards during the year, including the "China's Famous Brand Products", "Product Exemption from Quality Surveillance Inspection" and the "China's Well-known Trademark", among others.

2007



BRAND DEVELOPMENT STRATEGY FEATURING "RUNNING" SERIES

Xtep continuously invested in running projects in a move to make "running" the core direction for its brand development. With product quality widely recognised from the public, Xtep became the designated sole sports apparel sponsor for a number of international marathon events.

2008



LISTED ON THE MAIN BOARD IN HONG KONG

Xtep was listed on the main board of The Stock Exchange of Hong Kong Limited on 3 June 2008 (stock code: 1368.HK). The proceeds from the listing were approximately HK\$2,230 million.

2009



BECAME A PARTNER OF THE 11TH CHINESE NATIONAL GAMES

Following the success of the 10th Chinese National Games in 2005, Xtep took another big step and became the sole sports apparel partner for the 11th Chinese National Games as well as the apparel partner for a number of delegates.

2010



BECAME THE PARTNER OF THE VOLUNTEERS OF THE WORLD EXPO SHANGHAI

Xtep became the "Principal Partner for the Volunteers of the World Expo 2010 Shanghai". Xtep provided designated outfits for 80,000 volunteers within the Shanghai Expo arena.

2011



STARTED TO COOPERATE WITH VILLARREAL CLUB DE FÚTBOL, S.A.D. IN SPAIN

Xtep became the sole apparel sponsor and official technical sponsor for Villarreal Club de Fútbol, S.A.D. in Spain, bringing the Xtep brand under the spotlight to football fans around the world.

10th Anniversary Celebration Events

 Rising Power





XTEP – “X”CEPTIONAL DECADE

In celebration of the 10th anniversary of Xtep’s inception, a sensational celebration dubbed “X”ceptional Decade was held in Xiamen, PRC on 10 April 2012. VIP officials and honorable guests including Zhong Xingguo, deputy secretary of the Xiamen Municipal Committee of the Communist Party of China, Fu Chaoyang, deputy mayor of Quanzhou Municipal People’s government, and Gerhard Heiberg, chairman of the International Olympic Committee (Marketing Commission) were invited and kicked off the grand celebration event. Xtep’s brand spokespersons, namely Nicholas Tse, Wilber Pan, Han Geng and Jolin Tsai together with two newly appointed brand representatives Gwei Lun-mei and Justin Gatlin joined the



activity and performed on stage, celebrating the 10th anniversary of Xtep’s inception with about 6,000 guests. In addition, Xtep’s celebrity spokesperson and Mr. Ding Shui Po, Chairman of the Group attended the Xtep’s 10th Anniversary Special on Hunan Satellite TV’s “Progressing Everyday《天天向上》”, which is solely title-sponsored by Xtep.

“The Success achieved by Xtep over the past decade is not a miracle, instead it is the result of joint efforts and devotion of Xtep’s staff towards the common goal – making Xtep the No. 1 brand in the fashion sportswear industry across the globe. Despite more challenging market conditions for 2012, I believe that Xtep has built a solid foundation for long term success.”

– **Ding Shui Po**
Chairman





Marathons

SPORTING PARTNER OF INTERNATIONAL MARATHONS

Running has been Xtep's core sport category, and marathons are the best way to demonstrate the dynamic of running. With the market position of "Love Running, Love Xtep" in mind, Xtep managed to broaden its brand awareness and gained market recognition along with the development of marathon sports by sponsoring marathon events in the PRC, Hong Kong and Taiwan.





Apart from raising its brand awareness by sponsoring marathons, Xtep also incorporated promotional elements of the marathon events it sponsored into its advertisements placed in various media including CCTV-5 and the decorations in its retail outlets with a view to boosting the publicity of the events and driving the growth of the Xtep brand.



Life is a marathon. Keep it up!

Xtep Stars



Wilber Pan

Gwei Lun-mei

Jolin Tsai





— Han Geng

— Nicholas Tse



Xtep Stars





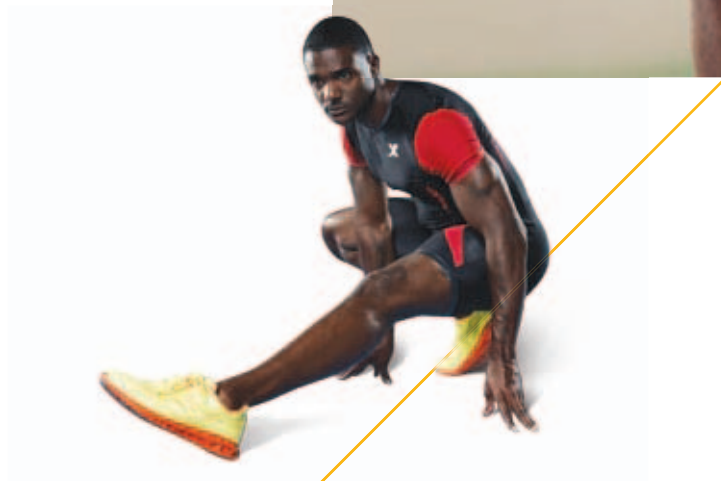


New Brand Representative: Justin Gatlin

GREAT FIELD SPRINTER JOINS XTEP

In addition to the sponsorship of marathons, Xtep stepped up promotional campaigns in track events. Xtep signed up Justin Gatlin, the world's new indoor sprint champion, as its spokesperson in the period under review. Xtep's provision of the training and competition outfits for Gatlin has demonstrated the recognition of Xtep's running products from world class professional runners.

Gatlin gave excellent performances in the major track and field competitions. He won the men's 60-meter dash in the 2012 IAAF World Indoor Championships at his season's personal best of 6.46 seconds, making him the world's new indoor sprint champion. Gatlin represented the U.S. at the London 2012 Olympic Games in August and won the bronze medal in the men's 100 metres, bringing Xtep under spotlight in the international arena.





**Xtep brand: aim to become the “runner’s choice”
in the future.**

New Brand Representative: Gwei Lun-mei



Love Running, Love Xtep

ENJOYING THE FREEDOM OF RUNNING

The popular marketing slogan “Love Running, Love Xtep” is not only the promotional slogan for the marathon sponsored by Xtep, but also reflects Xtep’s commitment to the research and technology side of running shoes. Xtep has a research laboratory with a team of designers from various countries who meticulously develop for its customers, the lightest and the most comfortable running shoes which can fully unleash runners’ potential and enable them to enjoy the freedom of running.

Over the past decade, Xtep launched various styles of footwear featuring eye-catching appearance and classified them carefully according to respective functions so as to cater for different running needs, among which the marathon running shoes are renowned for its lightness, technically supported by the ultra-thin cutting technology to produce a lightweight upper shoe surface. The pattern structure of soles is designed in accordance with exercise physiology, fitted with anti-skid front palms and anti-twist material in the middle.







Going to win





Spring





Summer





Fall





Winter



Five-Year Financial Summary

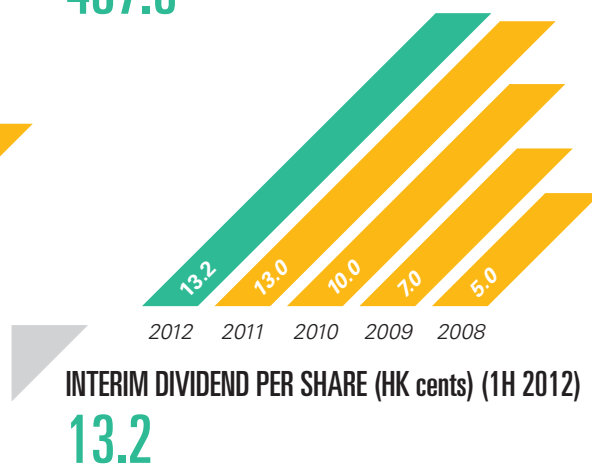
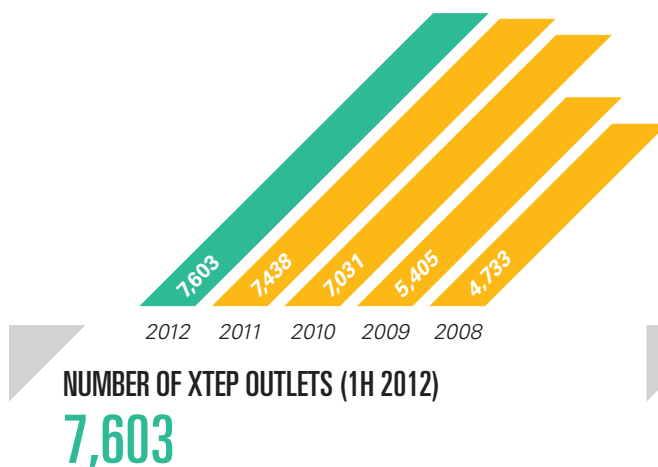
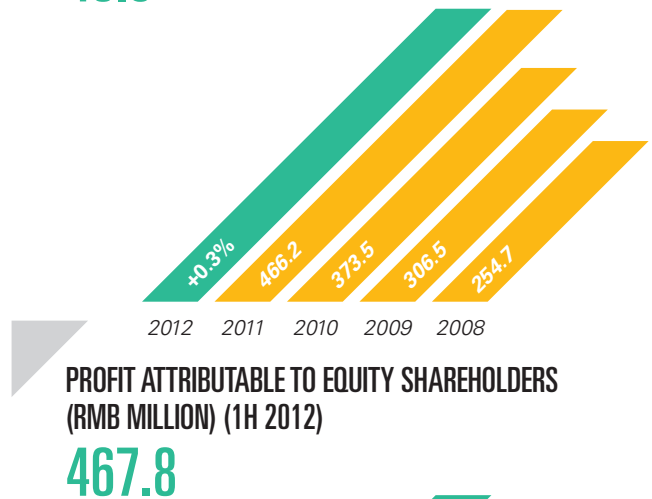
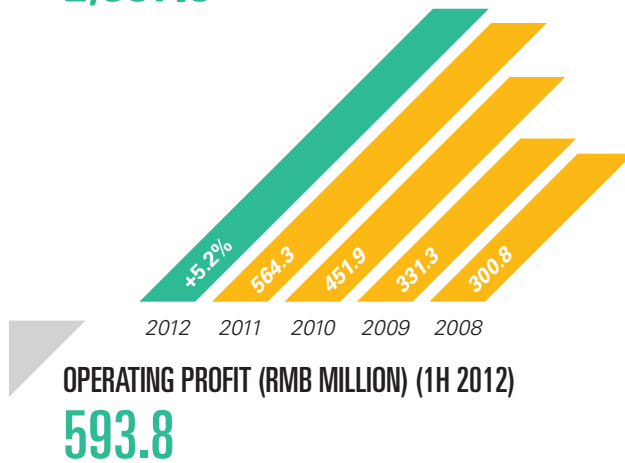
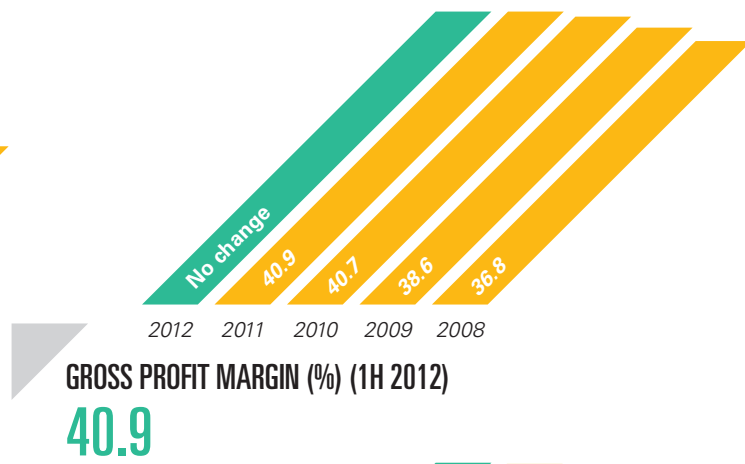
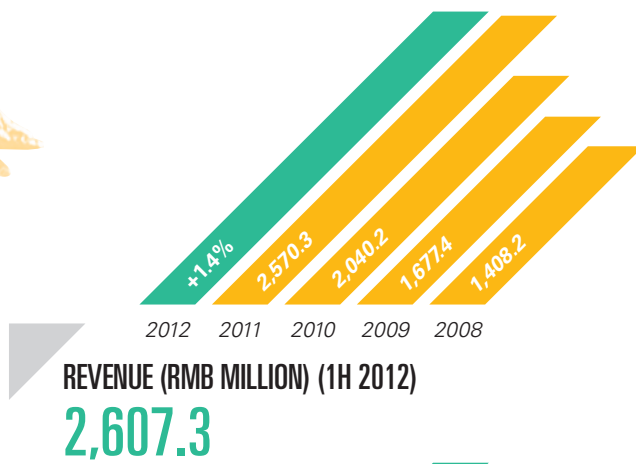
For the six months ended 30 June

	2012	2011	2010	2009	2008
Profitability data (RMB million)					
Revenue	2,607.3	2,570.3	2,040.2	1,677.4	1,408.2
Gross profit	1,067.6	1,051.5	830.8	647.8	517.8
Operating profit	593.8	564.3	451.9	331.3	300.8
Profit attributable to equity shareholders for the period	467.8	466.2	373.5	306.5	254.7
Basic earnings per Share (RMB cents) (Note 1)	21.50	21.43	17.18	14.10	16.01
Profitability ratios (%)					
Gross profit margin	40.9	40.9	40.7	38.6	36.8
Operating profit margin	22.8	22.0	22.2	19.8	21.4
Net profit margin	17.9	18.1	18.3	18.3	18.1
Effective tax rate	22.7	18.1	17.9	7.4	14.2
Return on average total equity holders' equity (annualised) (Note 2)	23.2	26.7	24.6	22.8	35.4
Operating ratios (as a percentage of revenue) (%)					
Advertising and promotion costs	11.4	11.8	11.7	11.6	8.0
Staff costs	6.7	5.3	4.7	4.8	5.3
Research and development costs	1.6	1.4	1.3	1.7	1.6

As of 30 June

	2012	2011	2010	2009	2008
Assets and liabilities data (RMB million)					
Non-current assets	549.9	594.3	279.6	224.7	124.8
Current assets	5,382.9	4,130.7	3,644.1	3,047.0	3,206.5
Current liabilities	1,298.1	1,050.8	814.0	521.7	733.4
Non-current liabilities	496.4	52.3	35.3	7.2	–
Shareholders' equity	4,138.3	3,621.9	3,074.4	2,742.8	2,597.9
Asset and Working Capital data					
Current asset ratios	4.1	3.9	4.5	5.8	4.4
Gearing ratios (%) (Note 3)	18.7	6.0	0.0	0.0	9.4
Net asset value per Share (RMB) (Note 4)	1.90	1.66	1.41	1.26	1.18





Notes:

- 1) The calculation of basic earnings per Share is based on the profit attributable to ordinary equity holders of the Company divided by the weighted average number of ordinary shares in issue during the relevant period.
- 2) Return on average total equity holders' equity is equal to the profit for the period divided by the average of opening and closing total equity holders' equity.
- 3) The calculation of gearing ratio is based on the total borrowings divided by the sum of share capital and reserves of the Company at the end of the period.
- 4) The calculation of net asset value per Share is based on the total number of Shares in issue after the Company's listing on the main board of the Hong Kong Stock Exchange and at the period.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Tan Wee Seng (陳偉成)

Independent non-executive Directors

Sin Ka Man (冼家敏)
Xu Peng Xiang (許鵬翔)
Gao Xian Feng (高賢峰)

BOARD COMMITTEES

Audit Committee

Sin Ka Man (冼家敏) (Chairman)
Xu Peng Xiang (許鵬翔)
Gao Xian Feng (高賢峰)

Remuneration Committee

Xu Peng Xiang (許鵬翔) (Chairman)
Gao Xian Feng (高賢峰)
Ding Mei Qing (丁美清)

Nomination Committee

Ding Shui Po (丁水波) (Chairman)
Xu Peng Xiang (許鵬翔)
Gao Xian Feng (高賢峰)

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISER AS TO HONG KONG LAWS

Orrick, Herrington & Sutcliffe

AUDITORS

Ernst & Young

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of Communications
China Construction Bank
China Merchants Bank
China Minsheng Bank
Hang Seng Bank
Industrial Bank

INVESTOR RELATIONS CONSULTANTS

Porda Havas International Finance
Communications Group
Aries Consulting Limited

COMPANY WEBSITE

www.xtep.com.hk



Financial Highlights

Total Revenue **+1.4%**
to approximately **RMB2,607.3 million**

Gross Profit Margin maintained
at approximately **40.9%**

Operating Profit **+5.2%**
to approximately **RMB593.8 million**

Profit attributable to Shareholders **+0.3%**
to approximately **RMB467.8 million**

Proposed interim dividend per Share **+1.5%** to **HK13.2 cents**

Payout ratio : **50.3%**



Cautionary Statement Regarding Forward-looking Statements

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



**Cash Inflow From
Operating Activities
increased to approximately
RMB733.8 million**



Financial Highlights

XTEP BRAND - REVENUE BREAKDOWN BY PRODUCT CATEGORY

For the six months ended 30 June

	Revenue (RMB' Million)			As a Percentage of Revenue (%)	
	2012	2011	Change (%)	2012	2011
Footwear	1,188.9	1,052.2	+13.0	46.0	42.9
Apparel	1,350.4	1,357.6	-0.5	52.2	55.4
Accessories	45.8	42.4	+8.0	1.8	1.7
Total	2,585.1	2,452.2	+5.4	100.0	100.0

Xtep Brand
Gross Profit Margin (1H 2012)
41.1% +0.2 percentage point



 Xtep Brand Revenue (1H 2012)
RMB2,585.1 million +5.4%





— Ding Shui Po
Chairman



Chairman's Statement

Dear Shareholders,

On behalf of the Board, I am pleased to present the unaudited interim results of the Group for the six months ended 30 June 2012 which were reviewed by our independent auditors and our audit committee.

FOREWORD

X-Ceptional Decade

2012 marks the 10th anniversary of the Xtep brand. In the past decade, we have successfully established the Xtep brand as a creator of distinctive and innovative fashion sportswear products which are stylish, trendy and functional. Our unique marketing strategy of combining sports and entertainment sponsorships has proven to be a great success and the Xtep brand is clearly positioned and differentiated from its competitors. We have developed a highly diversified portfolio of both footwear and apparel products in order to satisfy the different needs and changing tastes of consumers. Furthermore, we have established extensive nation-wide distribution channels covering the mass market of 2nd to 4th-tier cities.

Despite our successes, we are still a relatively young brand, and we are well aware of many challenges that lie ahead. However, I believe that we are well prepared and have built a solid foundation that will allow us to overcome future obstacles in order to make us stronger over the next decade and beyond.

We built our strength through sustainable strategies

STRATEGY OVERVIEW

The continued weakness of the US economy, the debt crises of several European nations, and the dampened growth of the PRC economy have all contributed to a harsh operating environment.

The PRC's sporting goods industry and the general retail market sentiment have also been depressed. Faced with issues such as fierce competition, a slowing consumption growth rate, increasing operating costs and the high level of excessive inventory in the retail channels, we have meticulously reviewed our processes and strategies, and determined that under such conditions, we must deploy resources in order to bolster and further enhance three key areas, namely: (i) Branding; (ii) Products; and (iii) Channels.

Chairman's Statement

Further Brand Strengthening

The Xtep brand is built upon its unique dual marketing strategy of combining entertainment and sports sponsorships, which fully targets a group of young and energetic customers. As sports and exercise are being increasingly advocated in the PRC, the perception of sports for the general public has turned from being professional and competitive towards being a healthy lifestyle choice. Therefore, we believe that there is a high potential market for casual sports and healthy lifestyle products.

Our popular marketing slogan of "Love Running, Love Xtep" and sponsorships of numerous international marathons have firmly established Xtep as a popular runner's choice for customers when choosing running related products. During the London 2012 Olympic Games, we were proud to sponsor our new sports spokesperson Mr. Justin Gatlin, who triumphantly won the bronze medal in the final of the men's 100 metre track event wearing a pair of specially designed Xtep competition shoes. We also sponsored the China National Women's Synchronized Swimming Team, who for the first time in Olympic history, won medals for their country, claiming a silver medal in the team event and a bronze medal in the duet event.

Meanwhile, to establish a unique trendy sportswear brand image to our customers, we adopted an entertainment marketing approach such as title sponsorship on one of the most popular PRC entertainment programmes "Progressive Daily (天天向上)" on the Hunan satellite channel, airing various TV commercials and arranging concert tours for our famous Xtep brand's celebrity spokespersons.

These sponsorships and marketing activities continued with Xtep's branding strategy, which successfully enhanced brand positioning and further captured the imaginations of our target customers.

Clear Product Focus

Xtep's products are focused on the quality of comfort and style. We are based on this principle to develop a highly diversified portfolio of performance sports apparel and footwear products, which cater to the different needs of consumers. Our range is centred on the two major categories of "Running" and "Trendy lifestyle sport." During the period, we increased the proportion of our running footwear products to complement our marketing efforts in order to reinforce Xtep as the runner's choice.

Furthermore, we believe that customers are increasingly infusing sports into their daily lives as they pursue healthy lifestyles. They are looking for comfortable materials and stylish designs, and Xtep's products are created to fulfil these desires. Hence, we are providing lifestyle sportswear and look to extend that into casual related products such as the "X-TOP" series. Our strategy is to provide more flexibility in product ranges, which is not only for sports related products.

Design plays an integral part in the success of Xtep products. While we constantly strive to develop products that are fashionable and stylish, coupled with the quality of comfort and functionality, we believe that we should never rest on our laurels. During the period, we proactively recruited a number of talented designers from England and South Korea to further improve our competitiveness in this area.



Stringent Distribution Channel Management

We recognize the importance of tight control and management of our distribution channels, and thus, we have committed significant resources to closely monitor the operational and financial performances of our distributors and retail outlets through the extensive coverage by our DRP system. At the same time, our strategy is to work closely with the retail channels and adjust the ordering level to minimise excess inventory and maintain a stable and manageable inventory level at the retail end. We also carry out regular retail channel inspections to ensure that the management, decoration and services of the retail stores are at a high level of customer satisfaction.

RESULTS OVERVIEW

As a result of the aforementioned measures we have taken, I am pleased to announce that we maintained a steady financial performance during the period, in spite of the challenging operating environment. The total revenue of the Group increased approximately 1.4% over the same period last year to RMB2,607.3 million (2011: RMB2,570.3 million). Revenue from the Xtep brand products increased by approximately 5.4% to RMB2,585.1 million (2011: RMB2,452.2 million). Profit attributable to equity shareholders was approximately RMB467.8 million (2011: RMB466.2 million), an increase of approximately 0.3% over the same period last year.

The Board recommended an interim dividend of HK13.2 cents per Share (2011: HK13.0 cents per Share), representing an increase of 1.5% over the same period last year. The total interim dividend payout ratio for the period amounted to 50.3% (2011: 49.8%).

OUTLOOK

Looking ahead to the second half of 2012, I believe that we will still face numerous challenges. The state of the global economy, slowdown of domestic consumption, increased competition and excessive inventory within the retail channels will continue to pose as risks for us. However, the Board and management team are fully committed in their efforts to overcome such obstacles. The sporting goods industry in the PRC is undergoing a transformation, and I firmly believe that where there are challenges, lie opportunities. The past ten years have been a learning journey, and it is only by enduring through the ups and downs that we can gain experience and be mature enough to become an even stronger enterprise. By leveraging on our competitive strengths and our seasoned and stable management, we are well positioned to continue the Group's long-term steady development.

ACKNOWLEDGEMENTS

We built our team with talent and greatly value it. We believe our performance is delivered by our stable management team, who have extensive knowledge of our industry. I would like to take this opportunity to thank them all for their dedication and commitment. I would like to express my deep gratitude to our customers, suppliers, business partners and shareholders for their unwavering support of, and faith in Xtep. We trust that the Xtep brand will continue to strengthen its brand equity and enhance its competitive advantages in the industry so as to create satisfactory returns to shareholders in the future.

Ding Shui Po
Chairman

Hong Kong, 21 August 2012

Management Discussion and Analysis





MARKET REVIEW

Challenging Operating Environment

The first half of 2012 was marked by a struggling global economy as a result of the continued weakness of the US economy as well as the debt crises of several European nations. In an era of globalization and closely linked economies, even the fast paced growth of developing markets showed signs of slowing under the strain of weakening export demand.

Affected by the pessimistic global sentiment, Chinese economic growth also experienced a slowdown. According to the National Bureau of Statistics of China, China's GDP increased by approximately 7.8% in the first half of 2012 to approximately RMB 22,709.8 billion. Such growth rate was down by 2 percentage points as compared with the same period last year, while the full year GDP target for 2012 has been revised to an eight year low of 7.5%. Accumulated total retail sales of consumer goods was approximately RMB 9,822.2 billion, an increase of 14.4%, which the growth rate was 2.4 percentage points lower than that in the same period of 2011.

Apart from macroeconomic related issues, industry specific issues also plagued the sporting goods market in the PRC. Intensified competition, increasing operating costs, as well as excessive inventory levels within the retail channels also posed as hazards for us during the period under review.

Business Review

Despite the various challenges that we faced, the Group managed to deliver a stable financial performance during the period under review. This was a result of our extensive marketing and promotional efforts, the clear focus on our core products, and the experience of our management team which demonstrated an apt control of our supply and retail chains with pre-emptive planning that helped to overcome difficulties and mitigate risk-factors.



Prominent Events



X-CEPTIONAL DECADE

In April, we organized an “X-ceptional Decade” event in Xiamen to celebrate Xtep’s 10th anniversary. Various important officials such as Zhong Xingguo, deputy secretary of the Xiamen Municipal Committee of the Communist Party of China, Fu Chaoyang, deputy mayor of Quanzhou Municipal People’s government and Gerhard Heiberg, chairman of the International Olympic Committee (Marketing Commission) attended our X-ceptional Decade event together with 6,000 honorable guests. Representatives of our exclusive distributors and franchisees, together with nation-wide media were also present to witness this remarkable moment for Xtep.

Xtep named Taiwan celebrity Gwei Lun-mei and London 2012 Olympic Games bronze medalist sprinter Justin Gatlin as new brand representatives during the celebration event. Other Xtep celebrity spokespersons, including Nicholas Tse, Wilber Pan, Han Geng and Jolin Tsai also joined the event to celebrate Xtep’s accomplishments over the past decade.

Life is a marathon, running towards goals continuously.

STANDARD CHARTERED HONG KONG MARATHON 2012 EXPO

Xtep was the first Chinese fashion sportswear brand being appointed as the exclusive apparel partner for the Standard Chartered Hong Kong Marathon 2012. We featured our specially selected products at booths in the Marathon Expo in Hong Kong’s Victoria Park from January 28 through 29.

During the Marathon Expo, Xtep displayed various types and series of running footwear and apparel, boosting Xtep’s brand awareness and spirit among the Hong Kong public with the “Love Running, Love Xtep” campaign. In order to arouse more public attention, Xtep also launched the “Xtep Angels” competition. Our Xtep Angels, wearing the latest Xtep products, garnered thousands of photo opportunities with onlookers who were able to play games for prizes. In addition, Xtep’s mascot “Xtep Baby” made its debut to take photos with the public in an enthusiastic atmosphere.



Running Events



INTERNATIONAL MARATHONS

During the first half of 2012, Xtep sponsored 6 major international marathons and in aggregate approximately 238,000 participants and millions of viewers were involved in these significant events.

- **Xiamen International Marathon**
(Xiamen, 72,000 participants)
- **Standard Chartered Hong Kong International Marathon** (Hong Kong, 70,000 participants)
- **China Zheng-Kai International Marathon**
(Zhengzhou, 35,000 participants)
- **Dalian International Marathon**
(Dalian, 16,000 participants)
- **China Yangzhou Jianzhen International Half Marathon**
(Yangzhou, 35,000 participants)
- **Tianjin International Marathon**
(Tianjin, 10,000 participants)

IAAF SHANGHAI DIAMOND LEAGUE

The 2012 International Association of Athletics Federations Diamond League Shanghai was held at Shanghai Stadium on 19 May 2012. Xtep continued to be the sole sportswear sponsor for the event. The IAAF Diamond League is recognized as a top annual series of track and field meetings, and with the London 2012 Olympic Games in August, this event served as an important warm up race for international and national top track and field athletes.

As one of the top track and field events, IAAF Diamond League Shanghai follows the highest requirement of the IAAF and many standards of the event are equivalent to the Olympic Games. The Shanghai showdown featured numerous star athletes, including China's hurdling icon Liu Xiang, Jamaican star sprinter Asafa Powell, 2008 Olympic Champion Veronica Campbell-Brown and Norwegian javelin thrower Andreas Thorkildsen. As the sole sportswear sponsor of the IAAF Shanghai Diamond League, Xtep provided exclusive sportswear for all referees, organizing committee staff, security guards, volunteers, hostesses, athletes and coaching staff.

Other Sports Events



XTEP CHINESE COLLEGE FUTSAL LEAGUE (CCFL)

The 2012 Xtep China College Futsal League successfully held a grand opening ceremony on 2 April 2012, attracting students from all over China to participate. Xtep was the sole title sponsor for the event and supplied uniforms for the players. The CCFL is a football competition for college students, and “Give Me Five, Give Me Dream” was the league’s slogan this year.

The tournament started in October 2011 and lasted six months, encompassing 15 provinces and cities with a total of 228 college teams and the participation of over 2,000 college students. The impact and extensive media coverage of the event set off a football craze on college campuses around the country and among tens of millions of college students.

As a major college sporting tournament, the CCFL has undertaken the responsibility of combining sports and education to help the development of campus football in China, and improve the level of youth football by exploring a new generation of reserves.





FOOTBALL

As part of the Group's ongoing commitment to football, the Group continued its sponsorship of La Liga's Villarreal C.F. This sponsorship agreement helped raise the Xtep brand's profile in Europe and further exposed the brand to millions of football enthusiasts.

As an official technical sponsor and exclusive provider of sportswear and accessories for Villarreal C.F., the Group continued to provide the team with sportswear and accessories during the five-year period from 1 July 2011 to 30 June 2016. Players of the Villarreal C.F. team participated in national and international tournaments, training sessions, pre-game preparation and other club activities in sportswear adorned with the Xtep brand's logo. Under the five-year agreement, the Xtep logo will appear in television broadcasts of Villarreal C.F. games and the venues for all matches played by the team in La Liga as well as Copa del Rey. Apart from air-time, the Xtep brand logo was also shown on screens and score boards at the stadiums. There were also a full-page advertisements in each of the club's monthly magazines to further promote the Xtep brand.



ALL STAR SPORTS ASSOCIATION

The Group continued to give support to the Hong Kong All Star Sports Association (ASSA) by sponsoring apparel products for its members. During the period under review, members of ASSA participated in a number of charity football games in Hong Kong and the PRC in outfits designed and sponsored by the Group. ASSA is a renowned sports and charity organization founded by a group of famous artistes and celebrities in the Hong Kong entertainment industry to promote sporting activities and to raise funds for those in need by bringing together the power of popular artistes for charity contests and performances. The Group has been providing team members with customized sportswear, casual wear and accessories since August 2009. This sponsorship not only reinforces the Xtep brand's fashionable and trendy sportswear image, but also highlights the Group's social responsibility through the support of charitable events.



Entertainment and Sports Marketing

In the 10 years since its establishment, Xtep has adhered to its differentiated dual sports and entertainment marketing strategy as well as its unique fashion sportswear concept. For this strategy, we adopted an entertainment marketing approach such as title sponsorship on popular PRC entertainment programmes, airing various TV commercials and arranging concert tours. For our sports marketing approach, we chose to sponsor highly talented athletes covering various disciplines, supplying them with specially designed Xtep performance products. These marketing activities have effectively grasped the attention of our target customers, developing Xtep into a desirable brand in the industry.

CRITICALLY ACCLAIMED ACTRESS

Renowned Taiwanese artiste Gwei Lun-mei is one of Xtep's new brand representatives. She is well-known for her role in many idol movies, including "Blue Gate Crossing", "Secret" and "Sound of Colors". "The Flying

Swords of Dragon Gate", in which Gwei Lun-mei has a leading role, gained nominations of Best Supporting Actress in both the Hong Kong Film Awards 2012 and the 6th Asian Film Awards. Gwei Lun-mei participated in various promotional activities for Xtep during the period under review.

WORLD CLASS ATHLETES

On 5 August 2012, Xtep's new brand representative, renowned U.S. track and field sprinter Justin Gatlin, geared up in his specially designed Xtep competition shoes and lined up in the men's final of the 100-metre track event at the London 2012 Olympic Games. He triumphantly claimed a bronze medal with a personal best ever time of 9.79 seconds. During the period under review, Justin also participated in multiple world-class track and field events, showing top form and repeatedly winning championships. Gatlin won the men's 100-metre sprint championship at the 2012 IAAF Diamond





League in Doha, Qatar, the IAAF World Challenge event in Daegu, South Korea, and the International Mohammed VI athletics carnival in Rabat, Morocco. We have also sponsored the China National Women's Synchronized Swimming Team for the London 2012 Olympic Games, where the team triumphantly claimed a silver medal in the team event and a bronze medal in the duet event, showing the affirmation of Xtep product quality by world class athletes. These sponsorships continued with Xtep's branding strategy which aims to bring customers the experience of "Sports like no other".

MEDIA EXPOSURE

The Group works with several mainstream networks in the PRC to promote its brand as follows, among others:

CCTV-5 – A national sports channel that provides comprehensive coverage of national and international sporting events. The Group is CCTV-5's official broadcast partner for football games and advertises broadly on the network. Optimizing on the congruence of the sports network with Xtep's brand, the Group strengthened its sports image while driving broader brand recognition among sports enthusiasts.

Hunan Satellite TV – A popular entertainment and information channel. As the sole title sponsor of the highly acclaimed program "Progressing Everyday", the Group heightened its brand visibility significantly.

Anhui Satellite TV – Anhui Satellite TV is a sporting goods strategic partner of Xtep.

TVS Satellite Channel – A popular Cantonese satellite TV channel of mainland China covering Guangdong province. The Group airs commercials which drive the brand's growth in Southern China.

Internet: The Group also established partnerships with Tencent and Sohu to leverage the emerging internet opportunity and further bolster Xtep's affinity among young consumers. By promoting its visibility on the most popular Chinese social media sites, the Group ensures it remains trendy, fashionable and relevant while also taking advantage of new communication channels to reach a wider consumer base.

Innovative Products

FOOTWEAR

Running is our core sports category. We place strong emphasis on comfort and lightness when developing our footwear products. Since Xtep has over ten years of experience and know-how in designing and producing footwear, we lead in detailing techniques, design and materials and our products are uniquely fashionable and stylish. Xtep continuously invests in technology, research and development to improve the quality of our footwear products. As a result of the Group's dedication, the revenue of Xtep brand footwear products increased by 13.0% to approximately RMB1,188.9 million in the first half of 2012 (1H 2011: RMB1,052.2 million).

APPAREL

We understand that consumers are placing more emphasis on the design, quality and comfort of the products. Our in-house laboratory continuously tests our materials to ensure qualities in relation to coloring, dyeing, flexibility, coolness and warmth retention, reaction to ultra-violet light, durability and heat resistance, among

other quality control measures. These rigorous quality assurance processes ensure that all of our products adhere to the highest possible standards and as a result, the revenue of Xtep brand apparel products amounted to approximately RMB1,350.4 million in the first half of 2012 (1H 2011: RMB1,357.6 million).

RUNNING SERIES

It is the Group's target to ultimately become the "runner's choice". We will be producing high quality running footwear with attractive styling and design. We will invest in more advanced international equipment to design better running footwear. New test equipment will provide advanced technologies and information that helps us enhance protection and shock absorption. Our research team will improve the softness, lightness and comfort of our footwear products. Additionally, we will also introduce better quality apparel products with advanced materials that cater to distance runners.

FASHION SPORTS SERIES

Our creative design directors from South Korea and England will continue to lead our research and design team to deliver a wider range in trendy designs and casual lifestyle sports products. Consumers are aspiring towards healthier lifestyles and prefer products with distinctive designs, comfortable materials and a sporty outlook. We believe that our fashionable sports products suit healthy lifestyle customers who seek quality casual and sports products with reasonable and affordable prices.



URBAN SERIES

We broadened our Urban Series product range and expanded the "X-TOP" category, which offers higher-quality lifestyle products and evokes a sense of urban trendiness and youth. We have also leveraged on the popularity of Han Geng, our celebrity spokesperson, to promote this series and developed a special "Han Geng" series. Han Geng, who is one of the most popular PRC male singers, has a charming character that drew great attention in the PRC when promoting the new "Han Geng" product series.

KIDS SERIES

As part of the Group's ongoing commitment to diversifying its product range, we have set up a separate team to manage sales, marketing, research and design for "Xtep Kids", a special series designed to capture the high potential kids wear market.



RESEARCH AND DESIGN ENHANCEMENT

During the period under review, we proactively recruited a number of talented designers to further enhance our research and design capabilities. As at 30 June 2012, the research and design team was composed of nearly 600 creative designers from not only the PRC, but also Hong Kong, England and South Korea. Our international product design and technology advisors include consultants from England, France, Spain, South Korea and the United States. With such a highly talented pool of domestic and international designers, the Group will look to maintain its reputation for industry-leading, differentiated and stylish products.

Nationwide Distribution Network

THE XTEP BRAND

As of 30 June 2012, the total number of retail outlets, gross saleable area and average saleable area per retail outlet are as follows:

	As of 30 June 2012	As of 31 December 2011	Change
Total number of retail outlets	7,603	7,596	+7
Gross saleable area (square meters)	710,000	700,000	+1.4%
Average saleable area per retail outlet (square meters)	93	92	+1.3%



XTEP BRAND - MARKET PRESENCE

As of 30 June 2012, the number of Xtep brand retail outlets was 7,603. The Xtep brand retail outlets which are located in the second- to fourth-tier cities accounted for approximately 80% of the total number of Xtep brand retail outlets.

As the overall retail market and consumer demand showed signs of slowing, we have taken a prudent and cautious approach towards our network strategy. We plan to maintain a stable number of retail outlets so as to ensure that our distribution network is provided with a sustainable exposure to the mass market to attain a reasonable operational performance. A significant portion of our retail stores are located on pedestrian streets in premium commercial areas, and we are determined to maintain our presence in such prime spaces in order to uphold our brand image. We are taking the advantage of moving upstream to prime locations when other competitors are closing down their retail outlets. We closely monitor the appearance and display of our retail stores to ensure consistency with the brand's positioning and to strengthen our brand's desirability. Most of the retail outlets are upgraded and refurbished with a new interior design every two years. We apply a standard design theme to all our retail outlets and are now already in the 6th generation store of the design campaign.

RETAIL CHAIN MANAGEMENT

In keeping with our positioning for the mass market, the Xtep brand has over the years built a nationwide distribution network with a leading presence in second- to fourth-tier cities. The Group sees its distributors as long-term business partners, offering strong support to them and helping improve their operational efficiency and profitability. During the period under review, the Group had a total of 28 exclusive Xtep brand distributors. As these exclusive distributors have been with the Group for over ten years, each of them has very in-depth and regional retail knowledge and experience. The Group believes that this system works perfectly well as both parties can be very focused on building the network with mutual long-term benefits.

A stringent retail chain management system has been one of the crucial factors to the Group's success. As of 30 June 2012, 72% of the total number of Xtep brand retail outlets, had adopted the real-time monitoring DRP system. The system enables the Group to accurately and quickly monitor the inventory level at the retail end so that the Group can plan and closely monitor the market situation as well as optimize inventory control. Through the DRP system, we closely monitor and review seasonal sales orders placed by the distributors and franchisees. We have the flexibility to adjust the sales orders accordingly, so as to keep the inventory at retail end at a manageable level.

Controlling the retail discount rate in the sales channel is an important factor in protecting the image of our brand. As a result, the Group sets and controls the overall retail discount rate within the channel, using data from retail operations as a basis for determining whether or not a retail discount is authorized.

We have a standardized code of operations to which distributors and franchisees must adhere. The Group strictly enforces its guidelines and ensures compliance in such areas as pricing policy, retail display and customer service by carrying out routine inspections in all retail outlets. In addition, the Group continues to offer regular training in the areas of marketing, visual merchandising and inventory management in order to foster the expertise, product knowledge, and technical skills of its retail team.

VERTICALLY INTEGRATED BUSINESS MODEL

The Group has adopted a vertically integrated business model from design and production to sales and distribution management. The Group is able to implement better cost controls, as well as deliver products and respond to market demand in a timely manner. As of 30 June 2012, the Group's own facilities in Quanzhou, Fujian included 12 footwear production lines and 20 apparel production lines with a total annual production capacity of approximately 12 million pairs of footwear products and approximately 5 million pieces of apparel products. The production facilities continue to operate at full utilization. In terms of sales volume, approximately 50% of footwear products and 10% of apparel products were produced by the Group during the period under review.

OTHER BRANDS

In order to redirect more resources towards the Xtep brand, the Group ceased the operation of Disney Sports brand.

CHANNEL DIVERSIFICATION

Although the Group's focus is firmly on the PRC market, we believe that overseas brand exposure will be beneficial to Xtep. We continued to work with several overseas distributors to establish and expand overseas sales channels which are mainly in the Middle East and Europe.

The trend of online shopping within the PRC continues to become increasingly popular and we are co-operating with a number of leading online shopping platforms such as taobao.com and paipai.com, as well as operating our own official website xtep.com.cn.



Future Prospects

MARKET OUTLOOK

We expect that the second half of 2012 will continue to pose great challenges for us. In the macro aspect, the various global economic uncertainties have yet to show signs of abating, while domestically, we expect that risk factors such as the intensely competitive environment as well as excessive inventory levels within the retail channels will remain. However, we are fully committed in our efforts to mitigate these risks by leveraging on the Xtep brand's unique and differentiated positioning, highly diversified portfolio of trendy lifestyle sports apparel and footwear products, as well as stringent channel management capabilities. We will also closely monitor the ever-changing market conditions and proactively implement strategies to further enhance Xtep's competitiveness in this dynamic environment.

INTEGRATED MARKETING AND PROMOTIONS

To strengthen the image of the Xtep brand and align it with its marketing slogans of "Xtep is Fashion Sports" and "Sports Like No Other," the Group will continue to enhance its unique sports and entertainment marketing strategy by introducing new sponsorship campaigns in 2012. Running and football will remain as integral elements of the Xtep brand's long-term brand building strategy.

RUNNING

As a leading player in the fashion sportswear industry, the Xtep brand will continue to strengthen the functionality of its products and establish running as a key direction of our marketing campaign. The Group plans to enhance its core marketing campaign, "Love Running, Love Xtep", by continuously sponsoring important international marathons in major cities around China in the second half of 2012 as follows:

- **Hong Kong Olympic Day Run**
- **2012 Amway Nutrilite Health Run** (Shanghai)
- **2012 Amway Nutrilite Health Run** (Hangzhou)
- **2012 Amway Nutrilite Health Run** (Nanjing)
- **Hangzhou International Marathon**
- **Xi'an City Wall International Marathon**

These sponsorship campaigns will enable the Xtep brand to further establish its outstanding status among the running events in the Greater China region, sharing its love and passion for running with its targeted consumers.

2013 PRC NATIONAL GAMES

Xtep has always been a leading player with a healthy and fashionable image that stands out clearly from other traditional sportswear brands. Following two consecutive sponsorships of the PRC National Games in 2005 and 2009 that are held once every four years, the Group is honored to again become the sole apparel sponsor of the PRC National Games in 2013. This sponsorship will put the Xtep brand in the national spotlight as the PRC National Games is the most important sporting event attended by all of the PRC's top athletes. The PRC National Games will be viewed by most of the nation, which will be an exceptional chance for Xtep to further raise its brand profile.

ENTERTAINMENT MARKETING

Entertainment marketing remains one of the key strategies through which the Group reaches out to the younger generation.

Xtep will continue to strengthen its strategic partnerships with major television channels such as CCTV-5, Hunan Satellite TV, Anhui Satellite TV and TVS Satellite Channel by launching more new TV commercials featuring Xtep superstar celebrities and increasing product placement in these channels. The Group is also tapping into the Internet, placing sponsored links and advertisements into entertainment channels such as Tencent and Sohu.

PRODUCT INNOVATION, DISTINGUISHED RESEARCH AND DESIGN CAPABILITIES

Product innovation is a core element in the Group's success. The Group identifies innovation and technology as the key elements and emphasized product quality from the product development stage. To increase our responsiveness to market changes, the Group is dedicated to optimizing its research and design team to enhance the appearance and functionality of its sportswear products.





URBAN SERIES

In the second half of 2012, we will roll out a wider range of the X-Top urban series, which offer higher quality lifestyle products. We will continue to leverage on the popularity of Han Geng, our celebrity spokesperson, to promote this series, which will combine urban fashions and trends.

RUNNING SERIES

In the second half of 2012, the Group will continue to focus on expanding its core running series, as evidenced by the Group's persistent sponsorship of multiple marathons throughout this year. We will further increase the proportion of running related footwear products with enhanced styling and design. Lightness and comfort will remain as key features of this series, with shock absorption and protection technology to be further refined.

RETAIL NETWORK CONSOLIDATION

The Group will continue to carefully plan its distribution network strategy. As slowing consumption growth rate and excess inventory within the retail channels remain as risks for the sporting goods industry in the PRC, our strategy is to maintain our current level of retail outlets to ensure higher efficiency and to sustain a reasonable operating performance.

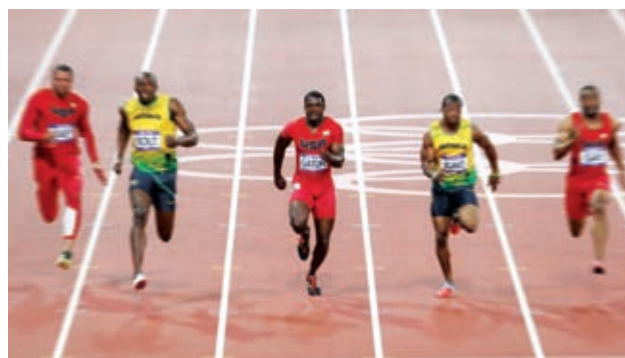
However, we are determined to uphold our presence in the high-traffic commercial areas of which most of our outlets are located in order to support our brand image and positioning.

NEW PRODUCTION FACILITIES

In order to improve production quality and efficiency, and to further consolidate our vertically integrated business model, the Group plans to expand its production capacity. In addition to the production facilities located in Quanzhou, Fujian, which is currently at full utilization, the Group has purchased land in Anhui province to establish a new production base, which is expected to start production in 2013. We believe that this facility expansion will bring benefits of economies of scale and reduce production costs over the long run, a crucial competitive advantage in an intensively competitive environment.

CONCLUSION

Looking ahead, we expect that the operating environment of the sporting goods industry in the PRC will continue to be difficult in the second half of 2012. Furthermore, macroeconomic and industry-specific sentiments may cause impacts that linger into 2013. However, the management has implemented numerous detailed control measures in an effort to mitigate these underlying risks. The Xtep brand has been successfully positioned with a distinctive character and image that is clearly differentiated from its competitors. We will continue to implement our unique branding strategy of combining sports and entertainment marketing, as well as further reinforcing our branding goal of becoming the "runner's choice", and will remain committed to ensuring the healthy development of our business.



Financial Review

REVENUE AND GROSS PROFIT MARGIN BREAKDOWN BY BRANDED PRODUCT SALES

The following table sets out the contribution to the Group's revenue by brands for the period:

For the six months ended 30 June

	Revenue (RMB'000)			As a percentage of revenue (%)		Gross profit margin (%)		
	2012	2011	Change (%)	2012	2011	2012	2011	Change (pts)
Xtep brand	2,585,115	2,452,200	+5.4	99.1	95.4	41.1	40.9	+0.2
Other brands	22,203	118,074	-81.2	0.9	4.6	27.7	41.8	-14.1
Total	2,607,318	2,570,274	+1.4	100.0	100.0	40.9	40.9	No change

Under the unstable economy and amid an environment of fierce competition, due to the Group's unique brand positioning, the total revenue of the Group remained steady for the six months ended 30 June 2012 and amounted to approximately RMB2.61 billion (2011: RMB2.57 billion) representing an increase of approximately 1.4% compared to the same period last year. Xtep brand products remained as the Group's major revenue contributor, which accounted for approximately 99.1% of the Group's total revenue. The increase in the Group's revenue was due to the increase of revenue from Xtep brand products of approximately 5.4% to approximately RMB2.59 billion (2011: RMB2.45 billion) as a result of successful brand building through the unique trendy sports positioning and effective running related promotions. On the other hand, the Group ceased the Disney Sports brand operation which caused the decline of revenue in Other brands.

The Group's overall gross profit margin remained steady at 40.9% (2011: 40.9%). The result was due to the increase in gross profit margin of Xtep products to 41.1% (2011: 40.9%) but offset by the decline in gross profit margin of Other brands products to 27.7% (2011: 41.8%).

XTEP BRAND

Revenue Breakdown Of Xtep Brand By Product Category

For the six months ended 30 June

	Revenue (RMB'000)			As a percentage of revenue (%)	
	2012	2011	Change (%)	2012	2011
Footwear	1,188,970	1,052,200	+13.0	46.0	42.9
Apparel	1,350,366	1,357,600	-0.5	52.2	55.4
Accessories	45,779	42,400	+8.0	1.8	1.7
Total	2,585,115	2,452,200	+5.4	100.0	100.0
Gross profit margin	41.1%	40.9%	+0.2pt		

For the six months ended 30 June 2012, revenue from the Xtep brand products increased by approximately 5.4% to RMB2,585.1 million (2011: RMB2,452.2 million) compared to the same period last year. The increase in revenue was mainly due to a significant improvement in footwear products revenue but offset by a slight decline of apparel products revenue. The discount given to distributors remained at 60% of the suggested retail price in the first half of 2012. The Group has taken necessary measures for cost control such as fully utilizing its own production facilities, centralizing procurement procedures and streamlining the supply chain. As such, the Group has successfully lowered the cost of sales and improved the gross profit margin of Xtep brand products by 0.2 percentage point to 41.1% (2011: 40.9%).

Revenue And Gross Profit Margin Of Xtep Brand Footwear Products

For the six months ended 30 June

	2012	2011	Change (%)
Revenue (RMB million)	1,188.9	1,052.2	+13.0
Gross profit margin	41.8%	41.1%	+0.7 pt

During the period, the Group continued with effective marketing efforts through various running related promotions such as being the largest sponsor among the PRC international marathon events and sponsoring various international track and field events. Also, the Group enhanced its status in running by appointing the famous world-class sprinter Mr. Justin Gatlin (the new London 2012 Olympic Games men's 100m bronze medal winner) as a Xtep brand sports spokesperson for running series products. Furthermore, the successful "Love Running, Love Xtep" campaign continued to attract customers to Xtep running products. As a result, revenue from Xtep brand footwear products rose significantly by 13.0% to approximately RMB1.19 billion (2011: RMB1.05 billion) which was mainly driven by volume increase. The Group carried out detailed cost control and increased slightly the average selling price of footwear products, as a result of which, the gross profit margin of footwear products increased by 0.7 percentage point to 41.8% (2011: 41.1%).

Revenue And Gross Profit Margin Of Xtep Brand Apparel Products

For the six months ended 30 June

	2012	2011	Change (%)
Revenue (RMB million)	1,350.4	1,357.6	-0.5
Gross profit margin	40.6%	40.9%	-0.3 pt

During the period, the Group continued to promote the Xtep brand as a leading trendy sportswear brand. Nowadays, young customers are demanding trendier and more stylish sportswear apparel products and the Xtep brand fully fits in with their desires. Xtep brand apparel products also provided the mass market with attractive value for quality products. The appointment of celebrated Taiwanese actress Gwei Lun-mei as a new Xtep brand spokesperson, together with our four other superstar celebrities, has drawn the attention of young customers. During the period, revenue from Xtep brand apparel products decreased slightly by 0.5% to approximately RMB1.35 billion (2011: RMB1.36 billion) because of market competition. Due to the slight costing pressure in outsourcing suppliers, the gross profit margin of apparel products decreased slightly by 0.3 percentage point to 40.6% (2011: 40.9%).

Management Discussion and Analysis

OTHER BRANDS

Revenue Breakdown Of Other Brands By Product Category

For the six months ended 30 June

	Revenue (RMB'000)			As a percentage of revenue (%)	
	2012	2011	Change (%)	2012	2011
Footwear	5,929	58,578	-89.9	26.7	49.6
Apparel	15,564	49,602	-68.6	70.1	42.0
Accessories	710	9,894	-92.8	3.2	8.4
Total	22,203	118,074	-81.2	100.0	100.0
Gross profit margin	27.7%	41.8%	-14.1 pts		

Revenue from Other brands was derived mainly from products, the brands of which are licensed to the Group. For the six months ended 30 June 2012, revenue from Other brands was approximately RMB22.2 million (2011: RMB118.1 million), representing a decrease of 81.2% over last period. The gross profit margin was 27.7% (2011: 41.8%). The decrease in Other brands was mainly due to the cessation of the Disney Sports operation, a line which targets the higher end sector, a market which the Group considers difficult to penetrate and unprofitable.

Revenue Breakdown By Product Category

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

For the six months ended 30 June

	Revenue (RMB'000)			As a percentage of revenue (%)	
	2012	2011	Change (%)	2012	2011
Footwear	1,194,899	1,110,778	+7.6	45.8	43.2
Apparel	1,365,931	1,407,202	-2.9	52.4	54.7
Accessories	46,488	52,294	-11.1	1.8	2.1
Total	2,607,318	2,570,274	+1.4	100.0	100.0
Gross profit margin	40.9%	40.9%	No change		

Total revenue of the Group from footwear products rose by 7.6% to approximately RMB1.19 billion (2011: RMB1.11 billion). Revenue from apparel products decreased by 2.9% to approximately RMB1.37 billion (2011: RMB1.41 billion), and also the revenue from accessories decreased by 11.1% to approximately RMB46.5 million (2011: RMB52.3 million).

Revenue from footwear products increased mainly due to the improvement of Xtep branding among running products. Revenue from apparel products decreased mainly due to the slight decrease in Xtep brand apparel products sales and the cessation of Other brands (mainly from Disney Sports products).

COST OF SALES BREAKDOWN

The following table sets out the breakdown of the Group's cost of sales by different categories:

For the six months ended 30 June

	Cost of sales (RMB'000)		Change (%)	As a percentage of cost of sales (%)	
	2012	2011		2012	2011
Raw materials	696,640	725,317	-4.0	45.2	47.8
Outsourced production costs	748,662	715,554	+4.6	48.6	47.1
Direct staff costs	72,102	61,792	+16.7	4.7	4.1
Others	22,280	16,095	+38.4	1.5	1.0
Total	1,539,684	1,518,758	+1.4	100.0	100.0

COST OF SALES

During the period under review, cost of sales of the Group increased by 1.4% when compared to the same period last year, mainly because of the increase in outsourced production costs. This change was due to the full utilization of internal production capacity and therefore increases in the production leverage on outsource suppliers. As the extent of increases of the Group's total cost of sales remained as to the increase of the Group's total revenue, the Group's gross profit margin maintained at 40.9% in the period under review.

OTHER INCOME AND GAINS

During the period under review, other income and gains of the Group was approximately RMB22.8 million (2011: RMB5.3 million). The increase was primarily due to the increase in subsidy income received from the local Chinese government.

SELLING AND DISTRIBUTION COSTS

For the six months ended 30 June 2012, the Group's selling and distribution costs amounted to approximately RMB346.3 million (2011: RMB360.1 million), which represented approximately 13.3% (2011: 14.0%) of the Group's total revenue. The Group adopted a flexible marketing strategy in selecting the most cost-effective sponsorship methods and events. We have allocated our resources carefully, selectively sponsoring the right athlete to give maximum exposure, such as Mr Justin Gatlin, who became the London 2012 Olympic Games Men's 100m track sprint bronze medal winner. Hence, advertising and promotion costs amounted to approximately RMB297.9 million (2011: RMB303.1 million), which represented approximately 11.4% (2011: 11.8%) of the Group's total revenue.

GENERAL AND ADMINISTRATIVE EXPENSES

For the six months ended 30 June 2012, the Group's general and administrative expenses amounted to approximately RMB150.3 million (2011: RMB132.4 million), which represented approximately 5.8% (2011: 5.2%) of the Group's total revenue. The increase of general and administrative expenses was mainly due to the increase of staff costs and research and development costs. The Group's research and development costs amounted to approximately RMB41.0 million (2011: RMB36.0 million), representing approximately 1.6% (2011: 1.4%) of the Group's total revenue. The research and development costs were mainly related to the improvement of footwear design and functions as well as the enhancement of apparel quality in terms of appearance, function and durability.

Management Discussion and Analysis

NET FINANCE INCOME

The total net finance income of the Group for the period under review amounted to approximately RMB11.3 million (2011: RMB5.2 million). The significant increase was mainly due to the increase of interest income to RMB35.9 million (2011: RMB14.8 million) which was due to improvement on treasury management. On the other hand, it was offset by the increase of interest expenses to RMB22.2 million (2011: RMB10.5 million) which was due to increase of bank loans.

TAX EXPENSES

The total tax expenses of the Group for the period under review amounted to approximately RMB137.7 million (2011: RMB103.3 million), representing an effective tax rate of 22.7% (2011: 18.1%). The increase of effective tax rate during the period was mainly due to the expiry of preferential tax exemption of Group's certain subsidiary companies in the PRC.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS AND NET PROFIT MARGIN

For the six months ended 30 June 2012, the profit attributable to shareholders was approximately RMB467.8 million (2011: RMB466.2 million), representing an increase of approximately 0.3% over the same period last year. The Group's gross profit margin maintained at 40.9% (2011: 40.9%). As a percentage to the Group's revenue, the reduction in selling and distribution costs was offset by the increase in general and administrative expenses and the increase in effective tax rate. As such, the net profit margin for the period was 17.9% (2011: 18.1%).

The basic earnings per Share for the six months period ended 30 June 2012 increased by about 0.3% to RMB21.50 cents (2011: RMB21.43 cents). The annualised return on average shareholders' equity for the six months period ended 30 June 2012 was 23.2% (2011: 26.7%).

DIVIDEND

The Board recommended an interim dividend which amounted to HK13.2 cents per Share (2011: HK13.0 cents per Share), representing an increase of 1.5% over the same period last year. The total interim dividend payout ratio for the period amounted to 50.3% (2011: 49.8%).

WORKING CAPITAL CYCLE

Inventories

INVENTORIES	2012 RMB'million	2011 RMB'million	Changes RMB'million
Balance at 1 January	671.5	462.6	
Balance at 30 June	700.9	887.0	-186.1
Average balance (note 1)	686.2	674.8	
Cost of sales for the period ended 30 June	1,539.7	1,518.8	
Average turnover days (note 2)	82 days	81 days	

As at 30 June 2012, the Group's balance of inventory was RMB700.9 million, representing a decrease of approximately RMB186.1 million as compared to the same period ended last year (30 June 2011: RMB887.0 million) which indicated the improvement of inventory control. The average inventory turnover days was 82 days (2011: 81 days) as the average inventory balance during the period under review was approximately the same level as last year's average inventory balance.

Trade and Bills Receivables

TRADE AND BILLS RECEIVABLE	2012 RMB'million	2011 RMB'million	Changes RMB'million
Balance at 1 January	1,205.4	727.1	
Balance at 30 June	909.9	913.4	-3.5
<hr/>			
Average balance (note 1)	1,057.6	820.2	
Revenue for the period ended 30 June	2,607.3	2,570.3	
Average turnover days (note 2)	74 days	58 days	

As at 30 June 2012, the Group's balance of trade and bills receivables was RMB909.9 million, representing a decrease of approximately RMB3.5 million as compared to the same period ended last year (30 June 2011: RMB913.4 million), and a significant decrease of approximately RMB295.5 million as compared to the balance as at 1 January 2012, which indicated an improvement in trade receivables control. The average trade and bills receivables turnover days was 74 days (2011: 58 days) as the average trade and bills receivables balance during the period under review was higher than the same period last year's average trade and bills receivables balance caused by a higher opening balance in the period.

Trade and Bills Payable

TRADE AND BILLS PAYABLE	2012 RMB'million	2011 RMB'million	Changes RMB'million
Balance at 1 January	498.9	639.1	
Balance at 30 June	505.5	577.8	-72.3
<hr/>			
Average balance (note 1)	502.2	608.5	
Cost of sales for the period ended 30 June	1,539.7	1,518.8	
Average turnover days (note 2)	60 days	73 days	

As at 30 June 2012, the Group's balance of trade and bills payables was RMB505.5 million, representing a decrease of approximately RMB72.3 million as compared to the same period ended last year (30 June 2011: RMB577.8 million). The Group's strategy of making early payments to outsource suppliers has improved costing and therefore led to an improvement in gross profit margin. The average trade and bills payables turnover days was 60 days (2011: 73 days) as the Group utilized its bank balance position to control costs and enhance the gross profit margin.

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

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

LIQUIDITY AND CAPITAL RESOURCES

Improvement on current asset ratio

As of 30 June 2012, the Group's current assets was approximately RMB5,382.9 million (31 December 2011: RMB5,000.1 million), representing an increase of 7.7% where the Group's current liabilities was approximately RMB1,298.1 million (31 December 2011: RMB1,400.2 million), representing a decrease of 7.3%. As a result, the Group's current ratio was 4.1 (31 December 2011: 3.6) which indicated that the Group's current asset ratio was improving with high quality assets.

Management Discussion and Analysis

Significant improvement on cash flow from operating activities

The Group's primary sources of operating funds are cash flows from operating activities, and cash and bank balance. The Group implemented careful and effective working capital management to utilize the cash and bank balance. For the six months period ended 30 June 2012, the net cash inflow from operating activities was RMB733.8 million, representing a significant turnaround improvement of more than approximately RMB1,068.7 million as compared to the same period last year which recorded a net cash outflow of approximately RMB334.9 million. The significant improvement was mainly due to substantial decrease in trade receivables as compared to the balances as at 30 June 2012 and 31 December 2011.

Significant improvement on net cash and bank balances

As of 30 June 2012, the Group's total cash and bank balances amounted to approximately RMB3,282.1 million (31 December 2011: RMB2,589.8 million), while the Group's bank borrowing amounted to RMB774.2 million (31 December 2011: RMB492.0 million). Hence, the total net cash and bank balances as at 30 June 2012 amounted to approximately RMB2,507.9 million, representing an increase of 19.6% compared to 31 December 2011 net balance of approximately RMB2,097.8 million, mainly due to improvement on net cash inflow from operating activities. As of 30 June 2012, the Group has pledged RMB489.1 million to secure banking facilities granted to the Group (31 December 2011: RMB489.1 million). As of 30 June 2012, the Group's gearing ratio was 18.7% (31 December 2011: 12.6%), which is defined as total borrowings divided by the sum of share capital and reserves of the Group. The Group remained in a net cash position, reflecting its healthy financial condition, paving the way for future development.

INVENTORY PROVISION

For the six months ended 30 June 2012, the Group did not have any inventory provision.

DOUBTFUL DEBT PROVISION

For the six months ended 30 June 2012, the Group did not have any doubtful debt provision.

COMMITMENTS

Details of the Group's commitments are stated in the note 23 to the financial statements.

CONTINGENT LIABILITIES

As of 30 June 2012, the Group did not have any material contingent liabilities.

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 which will affect the Group's operation. The Group has not used any forward contract or currency borrowing to hedge its interest rate risks. However, the management will continue to monitor foreign currency risks and adopt prudent measures as appropriate.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the period under review, the Group did not have any significant investments or acquisitions or sales of subsidiaries. The Group will continue to seek opportunities to acquire and work with international brands in order to generate more returns to its Shareholders.

HUMAN RESOURCES

As at 30 June 2012, the Group had 7,965 employees (31 December 2011: 7,658 employees). The Group provides introductory orientation programs and continuous training to its employees. Topics covered include industry knowledge, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and standard of its staff. The Group will strive to strengthen human resources management to provide strong support for the development of the Group's business through staff recruitment initiatives and the optimization of the organizational structure and corporate culture to ensure that the Group will be able to maintain sustainable development in the future.

Corporate Governance And Other Information

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions contained in the code of corporate governance practice (“**Old Corporate Governance Code**”) set out in Appendix 14 to the Listing Rules effective since its adoption by the Company until 21 March 2012. For the purpose of complying with the new code of corporate governance practice as set out in the Appendix 14 of the Listing Rules, which took effect from 1 April 2012, the Company has adopted a revised Old Corporate Governance Code (“**New Corporate Governance Code**”) on 21 March 2012.

For the purpose of complying with the New Corporate Governance Code adopted by the Company on 21 March 2012, the Board has adopted revised terms of reference for the audit committee, nomination committee and remuneration committee on 21 March 2012.

Except for the deviation from code provision A.2.1 as disclosed below, the Company has complied with (i) the code provisions contained in the Old Corporate Governance Code since 1 January 2012 until 20 March 2012; and (ii) the code provisions contained in the New Corporate Code since 21 March 2012 until 30 June 2012.

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

MODEL CODE

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors’ securities transactions during the six months ended 30 June 2012.

REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules. The audit committee of the Company has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of the interim results and the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2012.

The external auditor has reviewed the interim financial information for the six months ended 30 June 2012 in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2012.

DISCLOSURE OF INTERESTS

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

As at 30 June 2012, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Long Positions in the Company

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company ⁽¹⁾
Mr. Ding Shui Po ⁽²⁾	Interests of controlled corporation/ Beneficial interests	1,321,375,000	60.72%
Ms. Ding Mei Qing ⁽³⁾	Interests of controlled corporation	1,310,059,500	60.20%
Mr. Lin Zhang Li ⁽⁴⁾	Interests of spouse	1,310,059,500	60.20%
Mr. Ye Qi ⁽⁵⁾	Beneficial interests	5,500,000	0.25%
Mr. Ho Yui Pok, Eleutherius ⁽⁶⁾	Beneficial interests	10,000,000	0.46%
Mr. Tan Wee Seng ⁽⁷⁾	Beneficial interests	1,380,000	0.06%

Notes:

- (1) It was based on 2,176,240,000 issued Shares of the Company as at 30 June 2012.
- (2) Mr. Ding Shui Po is deemed to be interested in 1,310,059,500 Shares of the Company held by Group Success by virtue of it being controlled by Mr. Ding Shui Po. Mr. Ding Shui Po is also beneficially interested in 11,315,500 Shares of the Company.
- (3) Ms. Ding Mei Qing is deemed to be interested in the Shares of the Company held by Group Success by virtue of Group Success being controlled by Ms. Ding Mei Qing.
- (4) Mr. Lin Zhang Li, the husband of Ms. Ding Mei Qing and an executive Director, is deemed to be interested in his wife's interests in Group Success.
- (5) 1,500,000 of these shares are subject to the exercise of options granted on 7 May 2008 under the Pre-IPO Share Option Scheme. Another 1,000,000 of these shares are subject to the exercise of options granted on 28 May 2010 under the Share Option Scheme. The remaining 3,000,000 of these shares are subject to the exercise of options granted on 14 January 2011 under the Share Option Scheme.
- (6) 1,000,000 of these shares are subject to the exercise of options granted on 7 May 2008 under the Pre-IPO Share Option Scheme. Another 1,500,000 of these shares are subject to the exercise of options granted on 29 July 2009 under the Share Option Scheme. Another 1,000,000 of these shares are subject to the exercise of options granted on 28 May 2010 under the Post-IPO Share Option Scheme. The remaining 6,500,000 of these shares are subject to the exercise of options granted on 14 January 2011 under the Share Option Scheme.
- (7) 600,000 of these shares are subject to the exercise of options granted on 30 March 2010 under the Share Option Scheme. Another 600,000 of these shares are subject to the exercise of options granted on 14 January 2011 under the Share Option Scheme. The remaining 180,000 of these shares were acquired by Mr. Tan Wee Seng on the Stock Exchange.

Save as disclosed above, as at 30 June 2012, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

So far as is known to any Director or chief executive of the Company, as at 30 June 2012, the persons or corporations (other than the Directors or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company ⁽¹⁾
Group Success	Beneficial interests	1,310,059,500	60.20%
Carlyle Asia Growth Partners III, L.P.	Beneficial interests	200,769,294	9.23%
CAGP III Co-investment, L.P.	Beneficial interests	8,931,206	0.41%
CAGP General Partner, L.P. ⁽²⁾	Interests of controlled corporation	209,700,500	9.64%
CAGP Ltd ⁽²⁾	Interests of controlled corporation	209,700,500	9.64%
Value Partners Limited ⁽³⁾	Investment manager	116,157,500	5.34%
Value Partners Group Limited ⁽³⁾	Interests of controlled corporation	116,157,500	5.34%
Cheah Capital Management Limited ⁽³⁾	Interests of controlled corporation	116,157,500	5.34%
Cheah Company Limited ⁽³⁾	Interests of controlled corporation	116,157,500	5.34%
Hang Seng Bank Trustee International Limited ⁽³⁾	Trustee	116,157,500	5.34%
Cheah Cheng Hye ⁽³⁾	Founder of a discretionary trust	116,157,500	5.34%
To Hau Yin ⁽⁴⁾	Interests of spouse	116,157,500	5.34%

Notes:

- (1) It was based on 2,176,240,000 issued Shares of the Company as at 30 June 2012.
- (2) CAGP General Partner, L.P. is the general partner of Carlyle Asia Growth Partners III, L.P. and CAGP III Co-investment, L.P., both limited partnerships. CAGP Ltd is the general partner of CAGP General Partner, L.P.
- (3) Value Partners Limited holds shares of the Company as an investment manager. Value Partners Limited is 100% controlled by Value Partners Group Limited, which in turn is 28.47% controlled by Cheah Capital Management Limited, which in turn is 100% controlled by Cheah Company Limited, which in turn is 100% controlled by Hang Seng Bank Trustee International Limited. Hang Seng Bank Trustee International Limited is trustee for a discretionary trust which is interested in the Shares of the Company. Mr. Cheah Cheng Hye is the founder of the discretionary trust. Mr. Cheah Cheng Hye is also a director of Value Partners Limited and Value Partners Group Limited.
- (4) To Hau Yin, the spouse of Cheah Cheng Hye, is deemed to be interested in Cheah Cheng Hye's interests in the Company.

Save as disclosed above, as at 30 June 2012, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

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

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

Details of the share options granted under the Pre-IPO Share Option Scheme as at 30 June 2012 are as follows:

Name	Outstanding as at 1 January 2012	Outstanding as at 30 June 2012
Directors		
Mr. Ye Qi	1,500,000	1,500,000
Mr. Ho Yui Pok, Eleutherius	1,000,000	1,000,000
Employees		
In aggregate	14,265,000	14,265,000
Total	16,765,000	16,765,000

No options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the six months ended 30 June 2012.

Share Option Scheme

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

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

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

- (a) the nominal value of a Share;

Corporate Governance and Other Information

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

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

Details of the share options granted under the Share Option Scheme as at 30 June 2012 are as follows:

Name	Date of Grant	Exercise price per Share	Exercise Period ⁽¹⁾⁽²⁾⁽³⁾	Outstanding as at 1 January 2012	Granted during the six months ended 30 June 2012	Cancelled during the six months ended 30 June 2012	Exercised during the six months ended 30 June 2012	Outstanding as at 30 June 2012
Directors								
Mr. Ye Qi	28 May 2010	HK\$6.00	28 May 2012 – 27 May 2020	1,000,000	-	-	-	1,000,000
Mr. Ye Qi	7 December 2011	HK\$2.35	14 January 2012 – 13 January 2021	3,000,000	-	-	-	3,000,000
Mr. Ho Yui Pok, Eleutherius	29 July 2009	HK\$4.11	29 July 2010 – 28 July 2019	1,500,000	-	-	-	1,500,000
Mr. Ho Yui Pok, Eleutherius	28 May 2010	HK\$6.00	28 May 2012 – 27 May 2020	1,000,000	-	-	-	1,000,000
Mr. Ho Yui Pok, Eleutherius	7 December 2011	HK\$2.35	14 January 2012 – 13 January 2021	6,500,000	-	-	-	6,500,000
Mr. Tan Wee Seng	30 March 2010	HK\$6.13	30 March 2011 – 29 March 2020	600,000	-	-	-	600,000
Mr. Tan Wee Seng	7 December 2011	HK\$2.35	14 January 2012 – 13 January 2021	600,000	-	-	-	600,000
Employees								
In aggregate	29 July 2009	HK\$4.11	29 July 2010 – 28 July 2019	8,140,000	-	-	-	8,140,000
In aggregate	28 January 2010	HK\$5.01	28 January 2011 – 27 January 2020	500,000	-	-	-	500,000
In aggregate	28 May 2010	HK\$6.00	28 May 2012 – 27 May 2020	8,000,000	-	-	-	8,000,000
In aggregate	7 December 2011	HK\$2.35	14 January 2012 – 13 January 2021	49,900,000	-	-	-	49,900,000
Total				80,740,000	-	-	-	80,740,000

During the six months ended 30 June 2012, no share options were granted, exercised, lapsed or cancelled under the Share Option Scheme.

Notes:

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

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

Corporate Governance and Other Information

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

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

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

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

Further details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 21 to the financial statements.

Specific Performance Obligations on Certain Controlling Shareholders

On 25 April 2012, the Company as borrower entered into a facility agreement (the “**Facility Agreement**”) with a syndicate of eight banks which is arranged by Hang Seng Bank Limited (“**HASE**”) as mandated co-ordinating arranger and facility agent, pursuant to which a 3-year dual currency term loan facility in the principal amount of HK\$140,400,000 and US\$82,000,000 (equivalent to approximately HK\$780,000,000 in aggregate) (the “**Facility**”) was made available to the Company on the terms and conditions stated therein. The Facility is guaranteed by certain subsidiaries of the Company.

It is provided in the Facility Agreement, among other things, that an event of default will occur if:

- Mr. Ding Shui Po is not or ceases to be the chairman of the Board.
- Mr. Ding Shui Po does not or ceases to maintain control over the management and business of the Group.
- Mr. Ding Shui Po and Ms. Ding Mei Qing (the “**Majority Shareholders**”) collectively do not or cease to own, directly or indirectly, at least 40% of the beneficial shareholding, carrying at least 40% of the voting rights in the Company, free from any security.
- The Majority Shareholders collectively are not or cease to be the single largest shareholder of the Company.

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

As at 30 June 2012, Mr. Ding Shui Po was an executive director, the chairman and a controlling shareholder of the Company. Ms. Ding Mei Qing was an executive director and a controlling shareholder of the Company. Mr. Ding Shui Po and Ms. Ding Mei Qing owned Group Success Investments Limited as to 63.2% and 36.8%, respectively, and Group Success Investments Limited in turn held representing approximately 60.2% of the issued share capital of the Company. Mr. Ding Shui Po also had personal beneficial interests in approximately 0.52% of the issued share capital of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2012

	Notes	Six months ended 30 June 2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
REVENUE	5	2,607,318	2,570,274
Cost of sales		(1,539,684)	(1,518,758)
Gross profit		1,067,634	1,051,516
Other income and gains	5	22,780	5,252
Selling and distribution costs		(346,321)	(360,071)
General and administrative expenses		(150,250)	(132,440)
Operating profit	6	593,843	564,257
Net finance income	7	11,297	5,230
PROFIT BEFORE TAX		605,140	569,487
Income tax expense	8	(137,652)	(103,275)
PROFIT FOR THE PERIOD		467,488	466,212
Attributable to:			
Ordinary equity holders of the Company		467,783	466,212
Non-controlling interests		(295)	–
		467,488	466,212
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10		
Basic (RMB cents)		21.50	21.43
Diluted (RMB cents)		21.45	21.33

Details of the dividends are disclosed in note 9 to the financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	467,488	466,212
OTHER COMPREHENSIVE LOSS		
Exchange differences on translation of financial statements of overseas subsidiaries	(1,579)	(2,134)
Other comprehensive loss for the period, net of tax	(1,579)	(2,134)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	465,909	464,078
Attributable to:		
Ordinary equity holders of the Company	466,204	464,078
Non-controlling interests	(295)	–
	465,909	464,078

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2012

	Notes	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		314,955	257,463
Prepaid land lease payments		227,902	230,376
Deposits for acquisition of land use rights		6,261	6,261
Intangible assets		785	944
Total non-current assets		549,903	495,044
CURRENT ASSETS			
Inventories	11	700,923	671,523
Trade and bills receivables	12	909,851	1,205,389
Prepayments, deposits and other receivables	13	489,970	533,380
Pledged bank deposits	14	516,658	521,669
Cash and cash equivalents	14	2,765,470	2,068,163
Total current assets		5,382,872	5,000,124
CURRENT LIABILITIES			
Trade and bills payables	15	505,490	498,874
Deposits received, other payables and accruals	16	207,408	227,472
Bank borrowings	17	475,364	492,027
Tax payable		109,788	181,831
Total current liabilities		1,298,050	1,400,204
NET CURRENT ASSETS		4,084,822	3,599,920
TOTAL ASSETS LESS CURRENT LIABILITIES		4,634,725	4,094,964
NON-CURRENT LIABILITIES			
Bank borrowings	17	298,809	–
Deferred tax liabilities	18	82,751	68,751
Deferred subsidy		114,833	114,833
Total non-current liabilities		496,393	183,584
NET ASSETS		4,138,332	3,911,380
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	19	19,199	19,199
Reserves	20	4,111,114	3,888,237
Non-controlling interests		4,130,313	3,907,436
		8,019	3,944
Total equity		4,138,332	3,911,380

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2012

SIX MONTHS ENDED 30 JUNE 2012 (UNAUDITED)

	Note	Attributable to ordinary equity holders of the Company										
		Reserves									Non-controlling interests	Total equity
		Issued capital	Share premium account	Capital reserve	Statutory surplus fund	Share option reserve	Exchange fluctuation reserve	Retained profits	Total reserves	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012		19,199	617,683	118,600	343,520	58,653	718	2,749,063	3,888,237	3,907,436	3,944	3,911,380
Total comprehensive income for the period		-	-	-	-	-	(1,579)	467,783	466,204	466,204	(295)	465,909
Equity-settled share option transactions		-	-	-	-	11,580	-	-	11,580	11,580	-	11,580
Capital contribution from a non-controlling interest of a subsidiary		-	-	-	-	-	-	-	-	-	4,370	4,370
2011 final dividend declared and paid	9(b)	-	(254,907)	-	-	-	-	-	(254,907)	(254,907)	-	(254,907)
At 30 June 2012		19,199	362,776	118,600	343,520	70,233	(861)	3,216,846	4,111,114	4,130,313	8,019	4,138,332

SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

	Note	Attributable to ordinary equity holders of the Company										
		Reserves									Non-controlling interests	Total equity
		Issued capital	Share premium account	Capital reserve	Statutory surplus fund	Share option reserve	Exchange fluctuation reserve	Retained profits	Total reserves	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011		19,197	1,066,696	118,600	279,708	20,623	1,043	1,846,466	3,333,136	3,352,333	-	3,352,333
Total comprehensive income for the period		-	-	-	-	-	(2,134)	466,212	464,078	464,078	-	464,078
Equity-settled share option transactions		-	-	-	-	18,611	-	-	18,611	18,611	-	18,611
Capital contribution from a non-controlling interest of a subsidiary		-	-	-	-	-	-	-	-	-	5,000	5,000
2010 final dividend declared and paid	9(b)	-	(218,104)	-	-	-	-	-	(218,104)	(218,104)	-	(218,104)
At 30 June 2011		19,197	848,592	118,600	279,708	39,234	(1,091)	2,312,678	3,597,721	3,616,918	5,000	3,621,918

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	733,810	(334,864)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES*	(66,908)	(775,599)
NET CASH INFLOWS FROM FINANCING ACTIVITIES	31,379	18,057
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	698,281	(1,092,406)
Cash and cash equivalents at beginning of period	2,068,163	2,443,702
Effect of foreign exchange rate changes, net	(974)	(2,108)
Cash and cash equivalents at end of period	2,765,470	1,349,188
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	2,565,470	1,312,120
Non-pledged time deposits with original maturity of less than three months when acquired	200,000	37,068
	2,765,470	1,349,188

* Net cash outflow from investing activities for the period ended 30 June 2011 included the placement of pledged bank deposit of RMB475,000,000. The placement of bank deposits decreased by RMB5,011,000 during the period ended 30 June 2012.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2012

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The Company's principal place of business in Hong Kong is located at Suite 2401-02, 24th floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.

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

In the opinion of the directors, the ultimate holding company of the Company is Group Success Investments Limited, which was incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The condensed consolidated interim financial statements do not include all the information and disclosures required in the financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2011.

The condensed consolidated interim financial statements have been prepared under the historical cost convention. The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011 except as described below. In the current period, the Group has applied, for the first time, the following amendments ("new HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2012.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adoptors</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2012

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

In preparing the condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those used by management in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

4. SEGMENT INFORMATION

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

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

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold during the period, after allowances for returns and trade discounts.

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Manufacture and sale of sportswear:		
Footwear	1,194,899	1,110,778
Apparel	1,365,931	1,407,202
Accessories	46,488	52,294
	2,607,318	2,570,274
Other income and gains		
Subsidy income from the PRC government*	13,930	3,062
Rental income	842	843
Others	8,008	1,347
	22,780	5,252
	2,630,098	2,575,526

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2012

6. OPERATING PROFIT

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Advertising and promotion costs	297,885	303,121
Research and development costs	41,013	35,974
Staff costs	173,393	135,824
Equity-settled share option expense	11,580	18,611
Depreciation	14,417	11,523
Amortisation of intangible assets	159	157
Amortisation of prepaid land lease payments	2,423	450

7. NET FINANCE INCOME

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expense on bank loans wholly repayable within five years	(6,333)	(739)
Interest expense on discounted bills receivables	(15,855)	(9,804)
Amortisation of bank charges on a syndicated loan	(1,058)	–
Foreign exchange differences, net	(184)	952
Bank interest income	35,878	14,821
Unrealised loss on interest rate swaps*	(1,151)	–
	11,297	5,230

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2012

8. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the six months ended 30 June 2012. No provision for Hong Kong profits tax was made for the six months ended 30 June 2011 as the Group utilised tax losses to offset assessable profits arising in Hong Kong during that period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax – Overseas		
Charge for the period	123,963	90,595
Underprovision/(overprovision) in prior periods	(311)	180
Deferred tax	123,652	90,775
	14,000	12,500
	137,652	103,275

Xtep (China) Co., Ltd. ("Xtep China"), a wholly-owned subsidiary of the Company, was taxed at a preferential 15% tax rate for the years ended 31 December 2010 and 2011, and the year ending 31 December 2012 as Xtep China was qualified as a High-New Technology Enterprise (the "HNTE") in PRC and obtained the HNTE certificate in 2010.

Koling (Fujian) Garment Co., Ltd. ("Koling (Fujian)") and Xtep Sports Goods Co., Ltd. Jinjiang ("Xtep Jinjiang"), wholly-owned subsidiaries of the Company, were entitled to a 50% reduction in the PRC corporate income tax of the tax rate of 25% for the years ended 31 December 2010 and 2011, and the year ending 31 December 2012.

廈門特步投資股份有限公司 ("Xtep Xiamen"), a wholly-owned subsidiary of the Company, was granted certain tax relief whereby the profit of Xtep Xiamen was taxed at the prevailing tax rate set by the local tax authority at 24% for the year ended 31 December 2011 and 25% for the year ending 31 December 2012.

9. DIVIDENDS

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interim dividend – HK13.2 cents (six months ended 30 June 2011: HK13.0 cents per ordinary share)	235,010	231,962

At the board meeting held on 21 August 2012, the board of directors declared and approved an interim dividend of HK13.2 cents (equivalent to approximately RMB10.8 cents) per ordinary share, totalling approximately HK\$287,264,000 (equivalent to approximately RMB235,010,000), for the six months ended 30 June 2012. This interim dividend has not been recognised as a liability in the condensed consolidated financial statements.

At the board meeting held on 16 August 2011, the board of directors declared and approved an interim dividend of HK13.0 cents (equivalent to approximately RMB10.7 cents) per ordinary share, totalling HK\$282,880,000 (equivalent to approximately RMB231,962,000), for the six months ended 30 June 2011.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2012

9. DIVIDENDS (continued)

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends paid during the period:		
Final dividends in respect of the financial year ended:		
31 December 2011 – HK14.5 cents per ordinary share	254,907	–
31 December 2010 – HK12.0 cents per ordinary share	–	218,104
	254,907	218,104

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

(a) Basic earnings per share

The calculation of basic earnings per share amount for the six months ended 30 June 2012 was based on the profit for the period attributable to ordinary equity holders of the Company of RMB467,783,000 (six months ended 30 June 2011: RMB466,212,000) and 2,176,240,000 ordinary shares in issue during the six months ended 30 June 2012 (six months ended 30 June 2011: 2,176,000,000).

(b) Diluted earnings per share

The calculation of the diluted earnings per share amount for the six months ended 30 June 2012 is based on the profit for the period attributable to ordinary equity holders of the Company of RMB467,783,000 (six months ended 30 June 2011: RMB466,212,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during that period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options into ordinary shares during that period of 5,041,000 (six months ended 30 June 2011: 9,230,675).

11. INVENTORIES

	30 June	31 December
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Raw materials	293,638	418,521
Work in progress	48,835	68,317
Finished goods	358,450	184,685
	700,923	671,523

12. TRADE AND BILLS RECEIVABLES

	30 June	31 December
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables	907,820	1,091,094
Bills receivables	2,031	114,295
	909,851	1,205,389

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2012

12. TRADE AND BILLS RECEIVABLES (continued)

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three months. Trade receivables are non-interest-bearing.

An aged analysis of the Group's trade receivables that are not considered to be impaired as at 30 June 2012 is as follows:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Neither past due nor impaired	460,005	781,193
Less than 3 months past due	413,279	289,969
Past due over 3 months	34,536	19,932
	907,820	1,091,094

Included in the Group's bills receivables balance as at 31 December 2011 were bills of RMB67,500,000 which were pledged for the bills payables, and amounts totaling RMB45,750,000, which were discounted to banks in exchange for cash and included as "Bank advances for discounted bills" in note 17 of financial statements.

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Prepayments	152,447	163,549
Deposits and advance payments to suppliers	309,127	338,958
Other deposits	2,669	2,866
Value added tax ("VAT") recoverable	19,083	21,180
Other receivables	6,644	6,827
	489,970	533,380

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2012

14. CASH AND CASH EQUIVALENTS

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Time deposits	516,658	521,669
Cash and bank balances	2,765,470	2,068,163
	3,282,128	2,589,832
Less: Pledged time deposits:		
for short term bank loans	(489,100)	(489,100)
for bank guarantees*	(27,558)	(27,558)
for bills payables	–	(5,011)
Cash and cash equivalents	2,765,470	2,068,163

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

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB2,729,872,000 (31 December 2011: RMB2,058,941,000) and RMB516,658,000 (31 December 2011: RMB521,669,000), respectively. RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one month to three months depending on the immediate cash requirement of the Group, and earn interest at the respective short term deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

15. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade and bills payables as at 30 June 2012, based on the invoice date, is as follows:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Within 3 months	444,221	397,343
3 to 6 months	29,437	14,740
Over 6 months	31,832	14,291
Trade payables	505,490	426,374
Bills payables	–	72,500
Trade and bills payables	505,490	498,874

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

As at 31 December 2011, bills payables are secured by pledge of time deposits of RMB5,011,000 and bills receivables of RMB67,500,000.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2012

16. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Deposits and advances from customers	20,805	70,480
Accruals	133,038	104,918
VAT payables	18,452	29,541
Derivative financial instruments	5,657	4,528
Other payables	29,456	18,005
	207,408	227,472

17. BANK BORROWINGS

	Notes	30 June 2012 (Unaudited)			31 December 2011 (Audited)		
		Effective interest rate per annum %	Maturity	RMB'000	Effective interest rate per annum %	Maturity	RMB'000
Current							
Bank loans – secured	(a)	HIBOR+1.5% to 2.375%	2012 to 2013	410,124	HIBOR+1.5% to 2.375%	2012	446,277
Bank loan – unsecured	(b)	HIBOR+2.2%	2012	65,240	–	–	–
Bank advances for discounted bills (note 12)		–	–	–	N/A	2012	45,750
				475,364			492,027
Non-current							
Bank loans – unsecured	(c)	HIBOR/LIBOR +3%	2013 to 2015	298,809	–	–	–
				774,173			492,027

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2012

17. BANK BORROWINGS (continued)

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Analysed into:		
Bank loan repayable:		
Within one year and on demand	475,364	492,027
In the second to fifth years, inclusive	298,809	–
	774,173	492,027

Notes:

- (a) The bank loans are secured by the pledge of certain of the Group's time deposits amounting to RMB489,100,000 (31 December 2011: RMB489,100,000) and corporate guarantee provided by certain of the Company's wholly-owned subsidiaries, to the extent of HK\$600,000,000 (equivalent to approximately RMB489,300,000) (31 December 2011: HK\$600,000,000, equivalent to approximately RMB492,180,000) as at the end of the reporting period.
- (b) The bank loan is supported by corporate guarantee provided by one of the Company's wholly-owned subsidiaries, to the extent of RMB81,550,000 (31 December 2011: Nil) as at the end of the reporting period.
- (c) The bank loans are supported by corporate guarantee provided by certain of the Company's wholly-owned subsidiaries, to the extent of RMB633,582,000 (31 December 2011: Nil) as at the end of the reporting period.

As at 30 June 2012, except for the bank loan of RMB244,785,000 (31 December 2011: Nil) which was denominated in US dollars, all bank borrowings are denominated in Hong Kong dollars.

18. DEFERRED TAX LIABILITIES

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

At 30 June 2012, there were no significant unrecognised deferred tax liabilities (31 December 2011: Nil) for withholding taxes that would be payable on the unremitted earnings of the Company's subsidiaries expected to be distributed, after considering the abovementioned factors, in the foreseeable future.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2012

19. SHARE CAPITAL

The share capital as at 30 June 2012 and 31 December 2011 represented the issued capital of the Company and a summary of the authorised and issued share capital of the Company is as follows:

At 30 June 2012

	HK'000 (Unaudited)	RMB'000 (Unaudited)
Authorised:		
100,000,000,000 ordinary shares of HK\$0.01 each	1,000,000	935,629
Issued and fully paid:		
2,176,240,000 ordinary shares of HK\$0.01 each	21,762	19,199

At 31 December 2011

	HK'000 (Audited)	RMB'000 (Audited)
Authorised:		
100,000,000,000 ordinary shares of HK\$0.01 each	1,000,000	935,629
Issued and fully paid:		
2,176,240,000 ordinary shares of HK\$0.01 each	21,762	19,199

20. RESERVES

The amounts of the Group's reserves and movement therein for the six months ended 30 June 2012 are presented in the condensed consolidated statement of changes in equity.

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

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

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

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

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2012

21. SHARE OPTION SCHEMES

(a) Pre-IPO share option scheme

The Company has adopted a Pre-IPO Share Option scheme on 7 May 2008 (the "Pre-IPO Scheme"). Further details of the Pre-IPO Scheme were disclosed in the Company's annual report for the year ended 31 December 2011.

At 30 June 2012, a total of 16,765,000 (31 December 2011: 16,765,000) share options (the "Pre-IPO Share Options") under the Pre-IPO Scheme remained outstanding. During the six months ended 30 June 2012, no Pre-IPO Share Options were exercised (six months ended 30 June 2011: Nil).

At the date of approval of the condensed consolidated interim financial statements, the Company had 16,765,000 Pre-IPO Share Options outstanding under the Pre-IPO Scheme, which represented approximately 0.8% of the issued share capital of the Company as at that date.

(b) Share option scheme

The Company has also adopted a share option scheme (the "Share Option Scheme") pursuant to the shareholders' written resolution passed on 7 May 2008. Further details of the Share Option Scheme were disclosed in the Company's annual report for the year ended 31 December 2011.

As at 30 June 2012, a total of 80,740,000 (31 December 2011: 80,740,000) share options (the "Share Options") under the Share Option Scheme remained outstanding.

There being no exercise or lapse of any Share Options during the period ended 30 June 2012 (six months ended 30 June 2011: Nil).

At the date of approval of the condensed consolidated interim financial statements, the Company had 80,740,000 Share Options outstanding under the Share Option Scheme, which represented approximately 3.7% of the issued share capital of the Company as at that date.

22. OPERATING LEASE ARRANGEMENTS

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

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Within one year	8,018	9,564
In the second to fifth years, inclusive	13,293	16,081
After five years	4,531	5,178
	<hr/> 25,842	<hr/> 30,823

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2012

23. COMMITMENTS

(a) In addition to the operating lease commitments detailed in note 22 above, the Group had the following commitments at the end of the reporting period:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Contracted for commitment in respect of:		
– construction of new buildings	138,990	2,985
– construction of new manufacturing facilities	2,317	–
– advertising and promotional expenses	291,894	300,268
– consultancy service	2,531	–
– software	500	500
	436,232	303,753
Authorised, but not contracted for:		
– construction of new buildings	7,199	85,754
– construction of new manufacturing facilities – note (c)	412,246	450,000
	419,445	535,754
	855,677	839,507

(b) For the period from 1 January 2011 to 31 December 2012, the Group is obliged to pay a minimum guaranteed royalty to a licensor, however, such amount will be adjusted based on the actual sales amount of the relevant product for these periods.

(c) It represented the Group's minimum commitment to construct manufacturing facilities on a parcel of land in Bengbu, Anhui Province, the PRC. As at 30 June 2012, the Group has entered into construction contracts of RMB37,754,000 (31 December 2011: Nil)

24. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 21 August 2012.

REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS



To the board of directors of Xtep International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial statements of Xtep International Holdings Limited set out on pages 61 to 77 which comprises the condensed consolidated statement of financial position as at 30 June 2012, and the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months period then ended and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young

Certified Public Accountants

22/F, CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

21 August 2012

GLOSSARY

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

“Board”	The Board of Directors of the Company
“Business Day”	Any day on which the Hong Kong Stock Exchange is open for the business of dealing in securities
“Company”	Xtep International Holdings Limited
“Director(s)”	The director(s) of the Company
“DRP System”	Distribution Resource Planning System
“GDP”	Gross domestic product
“Group”	The Company and its subsidiaries
“Group Success”	Group Success Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 23 February 2007, the entire issued share capital of which is directly owned as to 63.2% by Mr. Ding Shui Po and 36.8% by Ms. Ding Mei Qing
“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”	The Stock Exchange of Hong Kong Limited
“IAAF Shanghai Diamond League”	International Association of Athletics Federations Diamond League Shanghai
“IT”	Information Technology
“Listing Date”	3 June 2008, on which dealing in the Shares first commence on the Hong Kong Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, as amended from time to time
“Model Code”	Model code for securities transactions by directors of listed issuers, as amended from time to time
“Other brands”	Brands other than Xtep brand
“PRC”	The People’s Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan
“Pre-IPO Share Option Scheme”	The share option scheme for employees of the Group approved and adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed “Pre-IPO Share Option Scheme” in Appendix VI to the prospectus of the Company dated 21 May 2008
“RMB”	Renminbi, the lawful currency of the PRC



GLOSSARY

“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended from time to time
“Share(s)”	Ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Share Option Scheme”	The share option scheme adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed “Share Option Scheme” in Appendix VI to the prospectus of the Company dated 21 May 2008
“Shareholder(s)”	Shareholder(s) of the Company
“US”	United States of America
“Xtep (China)”	Xtep (China) Co., Ltd., an indirect wholly-owned subsidiary of the Company



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