Belle International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Interim Report 2012

(Stock code: 1880)


ROBINSON ELECTRIC
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CORPORATE INFORMATION

Board of Directors

Chairman

Mr. Tang Yiu
(Non-executive Director)

Executive Directors

Mr. Sheng Baijiao
(Chief Executive Officer)
Mr. Tang King Loy
Mr. Sheng Fang

Non-executive Directors

Mr. Gao Yu
Ms. Hu Xiaoling

Independent Non-executive Directors

Mr. Ho Kwok Wah, George
Mr. Chan Yu Ling, Abraham
Dr. Xue Qiuzhi

Authorized Representatives

Mr. Tang King Loy
Mr. Leung Kam Kwan

Audit Committee

Mr. Ho Kwok Wah, George
(Chairman)
Mr. Chan Yu Ling, Abraham
Dr. Xue Qiuzhi

Remuneration Committee

Mr. Chan Yu Ling, Abraham
(Chairman)
Mr. Sheng Baijiao
Dr. Xue Qiuzhi

Nomination Committee

Dr. Xue Qiuzhi *(Chairman)*
Mr. Sheng Baijiao
Mr. Chan Yu Ling, Abraham

Company Secretary

Mr. Leung Kam Kwan, FCPA

Registered Office

Offshore Incorporation
(Cayman) Limited
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Cayman Islands

Head Office and Principal Place of Business in Hong Kong

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Website

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Auditor

PricewaterhouseCoopers
Certified Public Accountants
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Principal Share Registrar

Butterfield Fund Services
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Cayman Islands

Hong Kong Branch Share Registrar

Computershare Hong Kong
Investor Services Limited
17M Floor
Hopewell Centre
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Wanchai
Hong Kong

Principal Bankers

The Hongkong and Shanghai
Banking Corporation Limited
Hang Seng Bank Limited
DBS Bank (HK) Limited
China Merchants Bank Co., Ltd.
Bank of Communications Co., Ltd.

FINANCIAL HIGHLIGHTS

		Six months ended 30 June	
		2012	2011
Revenue	RMB'000	**16,024,079**	13,890,854
Operating profit	RMB'000	**2,809,479**	2,526,720
Income tax expense	RMB'000	**694,132**	605,570
Profit attributable to the Company's equity holders	RMB'000	**2,242,411**	2,007,169
Gross profit margin	%	**56.6**	57.0
Operating profit margin	%	**17.5**	18.2
Profit margin attributable to the Company's equity holders	%	**14.0**	14.4
Earnings per share			
– basic	RMB cents	**26.59**	23.80
– diluted	RMB cents	**26.59**	23.80
Interim dividend per share	RMB cents	**8.00**	7.00

		As at	
		30 June 2012	31 December 2011
Gearing ratio	%	**8.9**	7.4
Current ratio	times	**3.1**	3.1
Average trade receivables turnover period	days	**31.6**	30.7
Average trade payables turnover period	days	**32.7**	34.7
Average inventory turnover period	days	**170.5**	167.6

STATEMENT FROM CHAIRMAN

Dear Shareholders,

After a high growth period of over 30 years the Chinese economy is facing significant challenges in its effort to make structural transitions. Short term pain is unavoidable. At the same time, due to the recurring debt crisis in Europe and continued turmoil in the global economy, China is experiencing a slowdown in growth with weak export and low confidence in investment and consumption. Year to date there has been signs of lower manufacturing activity, underutilization of capacity and erosion to corporate profitability. The consumer retail market is also showing signs of weakness. In such a difficult economy and challenging environment, all my colleagues continued to work hard and achieved satisfactory results.

For the six months ended 30 June 2012 the Group recorded 15.4% growth in revenue, 11.2% growth in operating profit, and 11.7% growth in profit attributable to equity holders of the Company as compared with the same period of last year. While achieving steady top-line growth, the Group also managed to maintain healthy business metrics, laying a solid foundation for further growth.

The Group continued to actively and prudently expand the retail store network. There were 752 net additions to company-managed footwear retail outlets and 262 net additions to company-managed sportswear retail outlets during the first half of this year in Mainland China. As at 30 June 2012 the total number of company-managed retail outlets reached 16,127, of which 15,964 outlets are located in Mainland China and 163 in Hong Kong and Macau.

Apart from all the negative signs of an economic slowdown the Group also identified a number of positives signs that are gradually emerging. First, the macroeconomic policy is expected to moderate and relax, gradually turning to the direction of stabilizing growth, promoting consumption, and structurally cutting taxes. Second, with the continuously rising wages and disposable income for ordinary workers, the mainstream consumer group is going to further consolidate its base, which is expected to promote continued expansion of demand for quality branded products. Third, a slowdown in CPI growth together with the continued impact of regulation on the real estate market would effectively lower inflation expectations, which generally is positive for consumer confidence.

As such, while fully aware of the short term market pressure and ready to adjust operational tactics, the Group is not pessimistic toward the overall market environment. Our confidence in the sustainable growth of the Chinese economy and in the long term potential of the China consumer retail market has never wavered. I believe the Group with its approximate 110,000 employees will continue to carry on the passion as well as the practical, learning and proactive culture created and polished over the past twenty years, to continue to improve our capabilities and market competitiveness. We are also determined to continue to acquire new skills and expand our skill sets to ensure long term sustainable growth of the Group.

Tang Yiu
Chairman

21 August 2012

STATEMENT FROM CEO

Dear Shareholders,

On behalf of the board of directors (the "Board") and all employees of the Group, I am pleased to report the results for the first half year of 2012 as follows:

RESULTS OF THE FIRST HALF YEAR OF 2012

The Group's overall revenue increased by 15.4% to RMB16,024.1 million in the first half of 2012 compared with the same period of last year. Revenue of the footwear business increased by 17.2% to RMB10,248.4 million. The sportswear business recorded revenue of RMB5,775.7 million, up by 12.3% compared with the same period of last year. The footwear business contributed 64.0% of the revenue of the Group, slightly higher from the 63.0% level in the first half of last year.

While achieving a steady growth in sales, the margin of segment result of the footwear business is largely consistent with the same period of last year. The margin of segment result of the sportswear business declined from the same period of last year, mainly because of the overall weakness in the sportswear market. Same-store-sales growth was sluggish, while staff cost and other operational expenses went up, resulting in a lower profit margin.

Operating profit was RMB2,809.5 million, an increase of 11.2% from the same period of last year. The growth in operating profit was slightly lower than revenue growth, and operating profit margin was down by 0.7 percentage points. The major reasons are as follow. First, the gross profit margin of both the footwear business and the sportswear business slightly declined from the same period of last year, resulting in a composite gross profit margin that is lower by 0.4 percentage points. Second, selling and distribution expenses went up by 0.6 percentage points, mainly due to the pressure on expenses in the sportswear business. Third, compared with the same period of last year general and administrative expenses were largely unchanged and other income was slightly higher, with a combined positive impact of 0.3 percentage points on operating profit margin.

Profit attributable to the equity holders of the Company amounted to RMB2,242.4 million, an increase of 11.7%.

Earnings per share amounted to RMB26.59 cents, an increase of 11.7% from the RMB23.80 cents in the same period of last year. The Board has resolved to declare an interim dividend of RMB8.0 cents per share (2011 interim dividend: RMB7.0 cents).

STATEMENT FROM CEO

SUMMARY OF THE OVERALL BUSINESS DEVELOPMENT STRATEGY OF THE GROUP

The Group's business is broadly divided into two main segments – the footwear business and the sportswear business.

Footwear business

Company-owned brands of the footwear business include Belle, Teenmix, Tata, Staccato, Senda, Basto, Jipi Japa, Millie's, Joy & Peace, Mirabell, etc. Distribution brands include Bata, Clarks, Mephisto, BCBG, Merrell, Caterpillar, etc.

For company-owned brands, the Group mainly adopts a vertically integrated business model which covers product research and development, procurement, manufacturing, distribution and retailing. For distribution brands, the Group operates the business mainly in brand licensing and retail distribution.

The table below sets out the revenue from our company-owned brands, distribution brands and international trade, and their respective percentage of total revenue and comparative growth rates for the periods indicated.

	Six months ended 30 June				
	2012		2011		
	Revenue	**% of total**	Revenue	% of total	Growth rate
Company-owned brands	**9,165.1**	**89.4%**	7,961.0	91.0%	15.1%
Distribution brands	**879.9**	**8.6%**	643.3	7.4%	36.8%
Sub-total	**10,045.0**	**98.0%**	8,604.3	98.4%	16.7%
International trade	**203.4**	**2.0%**	143.1	1.6%	42.1%
Total	**10,248.4**	**100.0%**	8,747.4	100.0%	17.2%

Unit: RMB million

Sportswear business

The majority of our sportswear business is in the form of distribution business, including first-tier sportswear brands Nike and Adidas, and second-tier sportswear brands Kappa, PUMA, Converse, Mizuno, etc. The distinction between first-tier brands and second-tier brands is based on two major factors. First, their relative importance – Nike and Adidas account for more than 85% of the sales of the sportswear business; Second, their operational, managerial and performance characteristics – Nike and Adidas have much better brand recognition among Chinese consumers and more extensive product offerings, as a result their store productivity is much higher than second-tier brands and thus profitability is also stronger.

The table below sets out the revenue from our first-tier sportswear brands, second-tier sportswear brands as well as other sportswear business (including the apparel business) and their respective percentages of total revenue and comparative growth rates for the periods indicated.

	Six months ended 30 June				
	2012		2011		
	Revenue	**% of total**	Revenue	% of total	Growth Rate
First-tier sportswear brands	**5,117.8**	**88.6%**	4,477.3	87.0%	14.3%
Second-tier sportswear brands	**632.1**	**11.0%**	611.5	11.9%	3.4%
Other sportswear business	**25.8**	**0.4%**	54.7	1.1%	(52.8%)
Total	**5,775.7**	**100.0%**	5,143.5	100.0%	12.3%

Unit: RMB million

STATEMENT FROM CEO

Expansion of company-managed retail network

The following map shows the geographical distribution of the company-managed retail outlets of the Group in Mainland China as at 30 June 2012.

STATEMENT FROM CEO

The following table sets out the distribution of our company-managed retail outlets by region and by business segment in Mainland China as at 30 June 2012.

	Number of Company-managed Retail Outlets							
	Footwear			Sportswear				
Region	Company-owned brands	Distribution brands	Sub-total	First-tier brands	Second-tier brands	Apparel	Sub-total	Total
Eastern China	1,577	257	1,834	664	105	—	769	2,603
Shandong and Henan	1,257	49	1,306	856	431	—	1,287	2,593
Northern China	1,547	179	1,726	522	164	4	690	2,416
Southern China	1,580	126	1,706	428	128	—	556	2,262
North-eastern China	917	98	1,015	364	89	—	453	1,468
Central China	713	77	790	268	100	—	368	1,158
North-western China	788	90	878	193	41	—	234	1,112
South-western China	724	67	791	282	23	—	305	1,096
Yunnan and Guizhou	572	29	601	195	85	—	280	881
Guangzhou	362	13	375	—	—	—	—	375
Total	10,037	985	11,022	3,772	1,166	4	4,942	15,964

Note: In addition, the Group operates 163 company-managed outlets in Hong Kong and Macau.

OVERVIEW OF THE MARKET AND MANAGEMENT DISCUSSIONS

Impact of the macroeconomic environment on the Group's business

The global economy continued to be weak and unstable in the first half of 2012, with many of the major economies experiencing sluggish demand and struggling with debt. The Chinese economy continued to experience slower growth that started from the second half of last year. In the first half of 2012 China's GDP grew by only 7.8%, significantly lower than the average annual growth of over 9% in the past ten years.

The weakness in the macroeconomic environment no doubt had a negative impact on consumer confidence. The nominal growth of aggregate retail value of consumer products slowed down to 14.4% in the first half of 2012, also significantly lower than the levels over the past few years. The consumer retail market in China as represented by the department store channel continued to digest the slowdown that started in the fourth quarter of 2011, with significantly lower levels of same-store-sales growth in the first half of this year. The retail business of the Group, especially our footwear business, is conducted mainly through the department store channel. As a result, in the first half, especially the first quarter, we noted a same-store-sales growth that is significantly lower than the relatively high levels in the past two years.

STATEMENT FROM CEO

Despite all the uncertainties and pessimism in the macro economy we also observed a certain level of resilience in the retail market of footwear and apparel products, in which the Group operates our business. In January and February the market digested and adjusted before gradually bottoming out. Since March there has been a steady recovery. The same-store-sales growth of both our footwear and sportswear businesses picked up in the second quarter from the low points in the first quarter. This resilience marked a separation from the general trend in the macro economy, supporting our long-term view that the consumer retail market would primarily benefit from the continued rise in spending power and consumption demand of the Chinese consumers. The strength of the consumer retail market would not be as negatively affected by cyclical factors as other market segments. Any disruption from weak economic environment and negative market sentiment is likely to be short term and temporary.

During the initial thirty-year period of the economic development in China, the accumulated productivity gains mostly accrued to entrepreneurs as well as investors. A trend that started over the past years clearly indicates that going forward more and more of the gains from economic development will be shared by workers and employees as a group. To a consumer retail company like us, there are mixed implications. On the one hand, we need to be fully aware of the challenges in the business environment arising from these changes, which likely would result in higher cost and squeezed profit margin. We need to get prepared and take responsive action. On the other hand, we also recognize the implicit opportunities coming with this transition. With further consumption upgrade as well as an increasingly larger consumer base we also have the opportunity to gradually continue market penetration and business expansion in the long run.

Review of the footwear business

In the first half of 2012 the footwear business of the Group continued to grow at a steady pace. Revenue increased by 17.2% as compared with the same period of last year. Same-store-sales growth, albeit lower than the high levels in the previous two years, still stood at a healthy level in the mid-single-digit. Within the same-store-sales growth, the increase in average selling price was only low-single-digit, a slowdown from last year's relatively high levels. A reasonable moderation of price increase reflects a moderating cost environment. This normalization process would be a positive factor in building our consumer base and ensuring the healthy development of the footwear market in the long run.

Another main growth driver of the footwear business was continued store network expansion. In the first half of 2012 we added 752 footwear stores, net. Company-managed footwear stores reached 11,022 as at 30 June 2012, representing a 20.4% increase from the 9,153 stores as at 30 June 2011. Continued momentum in new store opening should be attributed to the increased penetration of retail channels as well as the advantages of the Group in terms of industry resources. The market coverage of modern retail channels, as represented by the department stores, is still fairly skewed toward large and medium sized cities, reflecting the current stage of development in China. With continued equalization of economic development in China and a higher level of urbanization, there is increased demand for high quality branded products as well as the retail channels for these products in a large number of small and medium sized cities, which provided continued pull for new points of sales of the Group. At the same time, a portfolio of strong brands provided the Group with a differentiated approach in entering underserved markets. A vertically integrated supply chain model enabled the Group to expand and operate in new markets with strong product assortment. And a retail platform in over 300 cities also provided the Group with the necessary business relationships as well as operations teams. The footwear business of the Group is a high return business. As such it is a strategic priority for the Group to maintain reasonably fast store expansion and top-line growth in an effort to maximize business value.

STATEMENT FROM CEO

The gross profit margin of the footwear business was slightly lower than the same period of last year. The main reasons are as follows. First, there was a high base last year. In the first three quarters of 2011 market sentiment was strong, pushing unit price higher for footwear products, which in turn resulted in a higher-than-usual gross profit margin for the Group. Second, in January and February of this year there was excess inventory in the market and thus more discounting and promotional activities than the same period of last year, which to a certain extent pressured gross profit margin for the first half of 2012. The promotional environment returned to normal levels since March 2012 as inventory clearance was largely completed, which helped gross profit margin normalize. Third, the e-commerce business controlled by the Group was growing steadily as planned. Due to its specific business model the e-commerce business had significantly lower gross profit margin than the existing footwear retail business in the offline channel, negatively impacting the overall gross profit margin of the footwear business. The scale of the e-commerce business is still relatively small. The negative impact on the Group's overall business metrics is expected to be limited in the foreseeable future.

Although the gross profit margin of the footwear business was lower, various expenses as a percentage of sales were also slightly lower. As a result the profit margin of segment results for the footwear business only inched down slightly. In our view this level of profitability is already industry-leading and we do not have plans to continually push for a higher profit margin in the footwear business. As discussed earlier, at the current stage the business priority of the Group is still more inclined toward growth and market penetration, which in our view would help maximize business value of the Group. That being said, the industry-leading profit margin we currently enjoy is largely due to the built-in flexibilities in our supply chain as well as our leading retail capabilities. We are confident that, without material changes in the industry landscape or cost structure, the Group will be in a position to maintain a relatively steady profit margin.

The core footwear brands continued to grow at a steady and healthy pace, penetrating into new markets. Take the Belle brand for example. As at 30 June 2012 the total number of stores for the Belle brand reached approximately 2,000, an increase of close to 20% from the same period of the prior year. The continued pace of network expansion indicates strong demand for well-known brands from channel operators and consumers, as the department store channel continues to penetrate underserved markets in lower tier cities and emerging neighborhoods in metropolitan cities. Although the core brands of the Group already achieved relatively large scale, there are robust growth dynamics and considerable potential for future expansion. From an operational point of view, during a period of fast penetration into lower tier markets there will be short term pressure on productivity metrics. The Group will take a practical approach and try to achieve a reasonable balance between growth and efficiency, and to ensure the long term health and development of relevant brands and businesses.

Emerging footwear brands continued to show healthy signs of growth and improvement. In the first half of 2012 the same-store-sales growth as well as revenue growth of the emerging brands was both significantly higher than respective averages of the footwear business. The emerging brands have become one of the major growth drivers in the footwear business of the Group. New brands such as Millie's and Basto achieved outstanding results in which per-store sales productivity improved while at the same time maintaining a fast pace of new store opening, which was not an easy task. We believe the portfolio of emerging brands, on the back of successful revamp and integration, will be in a position to achieve fast expansion of retail footprint and at the same time continue to improve operational efficiencies and various productivity metrics in the foreseeable future.

Our retail business in Hong Kong and Macau experienced a slowdown in growth in the first half of 2012, mainly due to a high base in the same period last year, as well as the negative impact from external economic environment. Furthermore due to persistent increases in rent and wages the total profit was slightly down. Such a result was well within our expectations. In last year's annual report we clearly noted that in 2011 the retail business in Hong Kong and Macau achieved results far exceeding our original budgets and expectations. As such the current challenges and adjustments are fully expected, representing a normalization process. At the same time we also observed that the Hong Kong and Macau retail business still managed to achieve a healthy same-store-sales growth in the first half, even in such a difficult environment. The continued pickup in efficiencies from comparable businesses clearly results from the never-wavering effort by the Hong Kong and Macau retail team to continually improve quality of operations and implement detail-oriented total quality management of the business. The endless pursuit of excellence by our Hong Kong and Macau retail teams has raised the bar and set a great example for our Mainland China business, along with the valuable guidance and support in managing brands and retail operations.

Review of the sportswear business

In the first half of 2012 the sportswear business recorded revenue growth of 12.3%, mostly driven by store network expansion. In the first half the sportswear business added 262 stores, net. As at 30 June 2012 the store count reached 4,942 in the sportswear business, an increase of 23.4% from the 4,004 stores as at 30 June 2011. Same-store-sales growth was only low-single-digit, reflecting the relative weakness in the overall sportswear market environment, which created short-term pressure on retailers in terms of inventory turnover and profitability.

In 2011 because of a slower-than-expected market recovery sell-through was slower than sell-in in China for most major international sportswear brands, resulting in a gradual accumulation of excess inventory. The Group quickly became aware of the changes in the marketplace and started to take action since the second half of last year with more retail markdown to move inventory faster, which resulted in a lower gross profit margin in the second half of last year. Into the first quarter of this year there was continued weakness in the market, which combined with an unfavorable shift of the Chinese New Year to an earlier date, resulted in a slightly negative same-store-sales growth for our sportswear business. In the second quarter same-store-sales recovered to a positive mid-single-digit growth, due to continued effort by the Group to make adjustments, as well as a gradual recovery in market sentiment.

The overall market sentiment was still weak in the first half of this year, with excess inventory in the channels, which resulted in more discounting and pressure on gross profit margin. But at the same time the brand companies also took decisive action on a timely basis, providing distributor including ourselves with more support. Consequently the gross profit margin of our sportswear business was only slightly lower than the same period of last year, and a recovery from the low point in the second half of last year. Meanwhile, per-store sales productivity experienced a small decline due to very low same-store-sales growth. Expenses, wages in particular, continued to climb. As a result, on the operating level, the profit margin of segment results for the sportswear business experienced a further decline. This result, while below our earlier expectations, still stood out among industry peers when there was general weakness in the overall sportswear market and many distributors started to incur a loss. The sportswear team of the Group continued to leverage the detail-oriented retail management culture that is at our core competence, and with hard work day in, day out achieved clear separation from competition in this difficult market environment.

STATEMENT FROM CEO

The Group still remains positively optimistic on the outlook of the sportswear market. First, inventory pressure is gradually getting lifted from the channels, as distributors including ourselves continuously take action and make necessary adjustments. Currently our sportswear inventory is only slightly above the optimal level, with a gradual normalization on the horizon. Second, brand companies have been more cognizant of the importance of distributors in growing their brands in China, as well as the current difficulties faced by distributors. Consequently they have been more willing and proactive in providing more support to help out distributors. Third, with the gradual adjustment efforts put in by local sportswear brands, their inventory problem is expected to be alleviated gradually, which would result in less inventory clearance and provide support for the recovery of the overall market sentiment.

We believe that with rising disposable income, more participation in sports and fitness, and continued sophistication of Chinese consumers, there will be a sustainable long term expansion of the demand for sportswear products, especially the more athletic and functional products. Strong international sportswear brands such as Nike and Adidas are well positioned to strengthen their competitive advantage and capture the sustainable growth in the under-penetrated China market, on the back of unique brand equity, leading research and development, and an extensive product line.

While fully appreciating the long term market potential we as a distributor also have to continue to hone our skills, strengthen our teams, and continuously improve the efficiencies of our retail platform, before we can envision and achieve healthy development of our business. Meanwhile we also need to be proactive in the consolidation process within the industry, in an effort to achieve scale economy and effectively alleviate the pressure of rising expenses at the retail level. We also expect more support and understanding from the brand companies. It is imperative for the brand companies to take a long term view and devise reasonable plans to ensure the inventory level stays healthy in the channels and there is a reasonable distribution of retail points of sales. It is also important for the brand companies to further improve the sharing mechanism between the upstream and the downstream, which not only will help distributors survive the short term difficulties, but also will foster long term win-win growth through the mutual sharing of both risks and benefits.

Changes in the Group's business mix

Because of the significant differences in business model and profitability between the footwear segment and the sportswear segment, changes in the business mix i.e. the proportional weighting of the two business segments would impact the blended financial metrics and operational metrics of the Group. In the first half of 2012 the sportswear segment contributed 36.0% of the total revenue of the Group, slightly lower than the 37.0% level in the same period of the prior year.

In our sportswear business we are only involved in distribution and retailing, while in the footwear business we operate along the whole value chain. Accordingly the sportswear business segment has significantly lower profitability, including gross profit margin and operating margin. Meanwhile without involvement in manufacturing the sportswear business has faster inventory turnover than the footwear business. The store format and location is also different in the sportswear business as compared with the footwear business. Generally speaking the sportswear stores are located on higher floors in department stores, with a larger size and higher sales volume on a per store basis. As a result the concessionaire rate is usually lower for sportswear stores and expenses such as staff costs are also lower as a percentage of sales. In the first half of 2012, a slightly larger share of the revenue from the footwear business would have a positive impact on the overall profitability metrics of the Group, but at the same time a negative impact on certain operational metrics such as selling expenses as a percentage of sales and inventory turnover days.

In the long term, we expect the footwear business and the sportswear business to maintain relatively balanced growth, due to shared characteristics in sales channels, market penetration, and the customer base.

Changes in corporate income tax rate

The effective income tax rate was 23.8% in the first half of 2012, higher from the same period of last year by 0.6 percentage points. The main reasons are as follows. First, the applicable income tax rate for New Belle Footwear (Shenzhen) Limited ("New Belle"), a major operating unit for our footwear business in Mainland China, was 24% in 2011. From 2012 onward New Belle will be subject to an income tax rate of 25%. Second, He Zhong Apparel (Shenzhen) Limited ("He Zhong"), another important operating unit of the Group in the footwear business, was subject to 50% reduction in the prevailing tax rate in the region in both 2011 and 2012, at 12% and 12.5%, respectively. From 2013 He Zhong will be subject to the full income tax rate of 25%.

In Mainland China, the income tax rate for other footwear businesses such as Senda as well as the sportswear business will remain at the current level of about 25%. The income tax rate for our Hong Kong business is expected to be steady at about 16.5%. The withholding tax rate applicable to the Company's subsidiaries in Mainland China on remittance of dividends to foreign holding companies is 5%.

Since the implementation of the new enterprise income tax act in 2008, various preferential tax treatments and tax holidays enjoyed by certain business entities of the Group in China gradually expired, resulting in higher effective income tax rate for the Group year after year. This normalization process is expected to be largely complete in 2013, when the effective income tax rate will eventually stabilize at 25% or slightly above.

While actively growing our business and creating shareholder value, the Group is also making a positive contribution to the society in promoting employment and developing local economies, which received warm welcome and recognition from various local governments. As a result we expect to receive a certain amount of government subsidies over the next 3 to 5 years. Government subsidies are usually recorded as other income, and will not directly offset income taxes.

Inventory turnover

The average inventory turnover days were 170.5 days in the first half of 2012, slightly higher than the 167.6 days in 2011. The inventory turnover days for the footwear business were slightly lower, from 202.0 days for 2011 to 200.4 days for the first half of 2012. For the sportswear business inventory turnover days were up from 137.4 days for 2011 to 143.3 days for the first half of 2012.

The inventory balance as at 30 June 2012 was RMB6,518.0 million, almost the same as the balance at the end of 2011, while the overall revenue base was higher with a net addition of 1,014 stores in the first half of 2012 in Mainland China. This is clear indication that on a relative basis the inventory position was lower and improved from the end of last year.

Conceptually inventory turnover days rely on historical numbers and thus tend to be backward-looking. From time to time there is also disruption from certain unusual point-of-time numbers. In retail operations we need to be more forward-looking in our analysis to assess whether the current inventory level is in line with expected sales within a given time frame, and also whether the current product mix is healthy. In our judgment, as at 30 June 2012, the footwear inventory level of the Group was healthy, while in the sportswear business inventory level was only slightly above our target zone. We do not expect significant pressure on retail sales in the second half coming from the current inventory position.

In the past two years the inventory turnover days for our footwear business have been ranging between 180 and 200 days, slightly higher than the 160-180 days range we used to have three to four years ago. This change does not mean that the operational efficiencies are lower for the footwear business of the Group. Rather, it is mainly due to the gradual changes in our business mix. On the one hand, men's footwear, mid-to-high-end women's footwear and casual footwear have been growing faster on a relative basis. These categories have very different operational requirements from the core middle-end fashion footwear brands, usually with slower inventory turnover. On the other hand, the footwear business of the Group has been penetrating into lower tier markets at a relatively fast pace, with a fair percentage of new stores in our portfolio. New stores in third-tier cities typically have lower sales productivity on a per store basis. However for these stores we still need a certain level of inventory to ensure completeness of the necessary SKUs as well as sizes. As a result inventory turnover days are longer for these stores. These changes in business mix are in line with our strategy to actively add category coverage and increase market penetration. As such a slightly longer inventory turnover period is within our expectations and also an acceptable cost.

Acquisition and consolidation in the sportswear business

In the first half of 2012 the Group announced an acquisition in the sportswear business. The target group is principally engaged in the sales and distribution of sportswear products, as well as the management of sports complexes, in certain cities of various provinces of the PRC. The brands being distributed by the target group are generally in line with the existing sportswear business of the Group.

The decision to acquire the target group is primarily based on the following business considerations. First, the target group has a relative market leadership in certain areas in the PRC and the Company considers that the acquisition could strategically strengthen the Group's geographical presence in certain areas in the PRC. Second, the target group has a limited scale preventing itself from enjoying favourable commercial terms including wholesale discount. Once consolidated into the Group the target company has the potential to improve commercial terms and strengthen profitability. Third, the target group is constrained by its managerial platform and does not have an efficient operation. The Group is in a position to improve the operational efficiencies of the target group by leveraging our existing managerial systems. Fourth, the nature and the mix of the business of the target group are in line with that of the Group, which potentially would enable economies of scale and synergy based on the existing platform maintained by the Group.

In the longer term it will be an irreversible trend for the sportswear distribution market to further consolidate. With reasonable consolidation of retail resources, high-quality retailers will be in a better position to utilize professional buyer teams, efficient retail systems, and adequate funding to better serve consumers while at the same time help brand companies to expand market space and raise brand profile. This in turn would enable the distributors and retailers to gradually recover profitability and obtain a reasonable return on investment. With regard to the sportswear business segment which currently has lower profitability and lower returns, the Group always strategically focuses on the improvement in return on investment, which, unfortunately, cannot be achieved by passively waiting and can only be done through proactively growing and consolidating the business.

The proposed acquisition is still in the process of going through certain prescribed procedures and approvals. Final closing is expected to take place by the end of this year.

Strategic positioning and development plans

The Group is always positioned as a retailer, aspiring to be a leading fashion footwear and apparel retailer in China and globally. The development strategy implicit in a retailer positioning would generally entail the following objectives: Streamlining of the supply chain and efficient management of retail operations with a clear focus on products and merchandising; Continued market penetration on the back of strong brands and quality products.

In the footwear market at the core of the Group's business our objective is to maximize both the presence and the depth of our footwear business, to best serve the effective demand for footwear products from various customer groups.

STATEMENT FROM CEO

- Middle-end ladies' fashion footwear. The Group already operates a portfolio of strong brands that are leaders in the fashion department store channel. Next step the focus is to continue to grow with the department store channel into lower tier cities and underdeveloped and underserved markets. Take the Belle brand for example. Currently the total number of stores just reached 2,000 covering fewer than 300 cities in China. Compared with the potential market consisting of more than 300 cities at prefectural level or above plus more than 2,000 county-level cities and towns in China, there is potential for long term sustainable growth even for a brand as successful as Belle.

- Mid-to-high-end ladies' fashion footwear. This particular market segment enjoyed strong growth in the past two years, mostly benefiting from the consumption upgrade in tier-1 and tier-2 cities. For brands such as Staccato, Joy & Peace, and Millie's, we will focus on continued differentiation of these brands, further improvement of product quality, strengthening of the brand profile, and paced addition of new points of sales. Meanwhile the Group also has opportunities to continue to introduce quality brands to the China market, in an effort to strengthen our brand offering in an increasingly differentiated marketplace in the mid-to-high-end segment.

- Mass market women's footwear. This particular market segment is of a very large size and thus it is easier for a brand to reach scale. This market segment is also featured by having many dispersed points of sales, skewing toward the stand-alone store format and lower tier cities, which is quite different from the existing core footwear business of the Group. In the early days of the Group's development process we had limited retail footprint therefore more suited to focus on the core footwear business in middle-end brands and mid-to-high-end brands. For example even up to the time when we went public 5 years ago, the Group only managed approximately 3,000 stores in just 150 cities in the footwear business. At the time being, however, the footwear retail platform of the Group covers more than 300 cities in China, with more than 10,000 directly managed stores. We are much better positioned to enter the mass market, with the support of strong retail teams and back office systems across the country. In the first half of 2012 we launched a fast fashion footwear brand ':15 MINS' on a test basis. Within the next two year we plan to gradually enter selected regions to build the brand name and accumulate experience. This incremental approach will provide us with time to strengthen product development, and streamline the supply chain before we are in a position to quickly ramp up the store network.

- Casual and outdoors footwear. Currently the penetration is still low in China for casual and outdoors footwear products, which typically is a larger category than fashion footwear in developed countries. On the one hand, this is due to the limited spending power of average Chinese consumers and the lack of sophistication in consumer behavior. On the other hand, it is also due to the fact that international brands dominate this market segment, with relatively high price points, which to a certain extent limited the effective expansion of demand in this market. The Group believes in the significant growth potential of this market segment in the long run. Currently we are going to focus on the following areas and take concrete steps to actively grow the casual & outdoors business. First with the optimization of the brand portfolio and the introduction of high-quality brands we will actively expand store coverage to grow the customer base. Second we are going to get more involved in the supply chain and try to design and manufacture a higher portion of the products internally in order to lower overall cost. Third, we plan to work with brand owners closely to build a more strategic partnership, in order to facilitate long term sustainable growth of the China business on a mutually beneficial basis.

- Children's footwear. The children's footwear market is still underdeveloped at the current stage in China, without coherent brand proposition or well-defined distribution model. Children's footwear is not getting enough attention from department stores and on the consumer side the shopping habit is yet to be defined. Therefore we plan to take an incremental approach and focus on building skills and accumulating experience during the initial stage of development. Starting with licensed international cartoon character brands, we are now working to introduce international children's footwear brands with strong designing capabilities and superior technology. We are also in the process of developing children's footwear products under existing proprietary brands. We believe these efforts will help build a solid foundation for the long term development of the children's footwear business of the Group.

- Men's footwear. This market segment enjoyed faster-than-average growth in the past few years, mainly due to a low base, as well as the continuously rising spending power and the gradual establishment of shopping habits of the male consumer group. The overall size of this market segment is smaller than women's footwear, but the growth potential is promising. In our view the current brand portfolio is strong enough to address the target market segment thus we do not have plans to make further additions. The business focus of the Group is to allocate more resources to the research and development of men's footwear, increase the number of SKUs for men's shoes within existing middle-end women's footwear stores, and open men's-only footwear stores under the Belle brand in certain regions and department stores where the risk/reward profile is favourable.

The entry into the sportswear market was a natural extension for the Group based on the retailer positioning. During the initial stage of the sportswear business we were able to leverage the existing channel development capabilities as well as the back office support of the footwear business, and achieved exponential growth. Our partnership with international sportswear brands started later than most large and medium sized sportswear distributors. But within a short ten years' time we quickly became the largest retail partner for Nike and Adidas in China, and one of their largest distributors globally as well. In the meantime, we were also able to leverage the retail management experience accumulated in the footwear business to help promote operational efficiencies in the sportswear business and quickly became a leading sportswear distributor in terms of quality, efficiency and productivity. The strategic focus in the sportswear business, as discussed above, is to take a dynamic view and aim to improve efficiencies and achieve scale economy with an active growth and business integration strategy, which in turn would help improve return on investment and create higher business value.

As a leading retailer in China the Group understands the critical importance of the sales channels in the long term sustainable development of our business and has always been proactive in exploring emerging trends, mainly along two major lines of development. First, we have been actively experimenting with the multi-brand store format, combining multiple brands and multiple categories organically into one store. This retail store format not only serves customers better with one-stop shopping convenience but also helps to share expenses and improve efficiencies. Second, we have been closely tracking subtle changes in consumer shopping behavior and made a decision to actively develop the e-commerce ("B2C") channel. Yougou.com, a B2C platform sponsored and controlled by the Group, came online last year. Within a year yougou.com made significant progress in the building of a professional team, improvement to the IT infrastructure, establishment of warehousing facilities, and optimization of operational processes, quickly becoming a leading B2C platform specialized in footwear in the China market. Experimentation and exploration along these two major directions are aimed at providing strategic flexibility for the Group to achieve long term growth objectives, and not because the existing channel, the department store channel, is losing competitiveness. Generally speaking the overall Chinese economy is still underdeveloped, with significant disparity among various regions. There is still a very strong demand for quality products and modern retail channels from numerous developing regions, lower tier cities and emerging neighborhoods that is yet to be met. In our view, the physical retail channel as represented by the department stores still has enormous long term growth potential.

STATEMENT FROM CEO

As an industry leader, with an ambition to be a leading retailer, the Group has to persistently strengthen channel development capabilities as well as adaptive retail skills. We also need to continuously develop new customer groups, explore new product categories, and experiment with new channel formats in order to support and prepare ourselves for long term sustainable growth.

Prospects

In the fourth quarter of 2011 there was a sudden slowdown in market sentiment, which continued into this year. Our managerial teams at all levels and all our frontline employees responded to the changes on a timely basis and took decisive action. Within a reasonably short period of time we managed to clear off excess inventory and restore health in the product assortment, which helped support a gradual recovery of our retail business since March. These results are reflective of the key competitive advantages of the Group, including a market-oriented retail acumen accumulated from years' of experience, efficient execution by operational teams, as well as the learning ability at the core of our culture.

In the near future there are still a lot of uncertainties in the economy and the market environment. We are fully aware of the various potential challenges in our business, and actively making preparations on multiple fronts. We are in the process of making reasonable adjustments to the business objectives according to the respective characteristics of different lines of business, in order to maintain healthy growth, smoothen operations, and to incrementally facilitate the long term development of the Group.

In the meantime the Group also firmly believes that, as long as we stay true to the hardworking and learning culture, maintain our passion and team spirit, we will be able to overcome short term difficulties and seize long term opportunities to continue to strengthen our leadership role in a competitive market.

Sheng Baijiao
CEO and Executive Director

21 August 2012

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group continued to benefit from steady growth. During the six months ended 30 June 2012, the Group recorded revenue and operating profit of RMB16,024.1 million and RMB2,809.5 million respectively, achieving growth rate of 15.4% and 11.2% respectively. The profit attributable to the Company's equity holders during the period under review amounted to RMB2,242.4 million, an increase of 11.7% when compared with that of the same period of last year.

REVENUE

The Group's revenue increased by 15.4% to RMB16,024.1 million for the six months ended 30 June 2012 from RMB13,890.9 million for the six months ended 30 June 2011. This was mainly attributable to the continuously steady growth of sales generated from both the footwear business and the sportswear business as compared with those of the corresponding period of last year. Sales from the footwear business and the sportswear business increased by RMB1,501.0 million and RMB632.2 million respectively, from RMB8,747.4 million and RMB5,143.5 million for the six months ended 30 June 2011 to RMB10,248.4 million and RMB5,775.7 million for the six months ended 30 June 2012.

	Six months ended 30 June				
	2012		2011		
	Revenue	**% of total**	Revenue	% of total	Growth rate
Footwear					
Company-owned brands	**9,165.1**	**57.2%**	7,961.0	57.4%	15.1%
Distribution brands	**879.9**	**5.5%**	643.3	4.6%	36.8%
International trade	**203.4**	**1.3%**	143.1	1.0%	42.1%
Sub-total	**10,248.4**	**64.0%**	8,747.4	63.0%	17.2%
Sportswear					
First-tier sportswear brands*	**5,117.8**	**31.9%**	4,477.3	32.2%	14.3%
Second-tier sportswear brands*	**632.1**	**3.9%**	611.5	4.4%	3.4%
Other sportswear business	**25.8**	**0.2%**	54.7	0.4%	(52.8%)
Sub-total	**5,775.7**	**36.0%**	5,143.5	37.0%	12.3%
Total	**16,024.1**	**100.0%**	13,890.9	100.0%	15.4%

Unit: RMB million

* *The first-tier sportswear brands include Nike and Adidas. The second-tier sportswear brands include Kappa, PUMA, Converse, Mizuno, etc. The first-tier sportswear brands and second-tier sportswear brands are classified according to the Group's relative sales amounts.*

MANAGEMENT DISCUSSION AND ANALYSIS

PROFITABILITY

On account of the continuous growth of the Group's businesses, operating profit increased by 11.2% to RMB2,809.5 million. The profit attributable to the Company's equity holders increased by 11.7% to RMB2,242.4 million in the first half of 2012.

	Six months ended 30 June					
	2012		2011		Growth rate	
	Footwear	**Sportswear**	Footwear	Sportswear	Footwear	Sportswear
	RMB million	***RMB million***	*RMB million*	*RMB million*	%	%
Revenue	**10,248.4**	**5,775.7**	8,747.4	5,143.5	17.2	12.3
Costs of sales	**(3,320.5)**	**(3,634.5)**	(2,749.4)	(3,220.3)	20.8	12.9
Gross profit	**6,927.9**	**2,141.2**	5,998.0	1,923.2	15.5	11.3
Gross profit margin (%)	**67.6**	**37.1**	68.6	37.4		

Costs of sales increased by 16.5% from RMB5,969.7 million for the six months ended 30 June 2011 to RMB6,955.0 million for the six months ended 30 June 2012. Gross profit of the Group's footwear segment increased by 15.5% to RMB6,927.9 million for the six months ended 30 June 2012 from RMB5,998.0 million for the six months ended 30 June 2011. Gross profit of the sportswear segment increased by 11.3% to RMB2,141.2 million for the six months ended 30 June 2012 from RMB1,923.2 million for the six months ended 30 June 2011.

Owing to differences in the respective business models, sportswear products generally have lower gross profit margin than footwear products. Although there was a slight increase in the proportion of footwear's sales to the Group's sales, the Group's gross profit margin as a whole decreased slightly to 56.6% for the six months ended 30 June 2012 from 57.0% for the six months ended 30 June 2011, as a result of the slight decrease in the gross profit margin of the footwear business.

During the period under review, the gross profit margins of the footwear business and the sportswear business were 67.6% and 37.1% respectively. The gross profit margin of the footwear business was slightly lower than that of the same period of last year. The main reasons are as follows. First, there was a high base last year. In the first three quarters of 2011, market sentiment was strong, pushing unit price higher for footwear products, which in turn resulted in a higher-than-usual gross profit margin for the Group. Second, in January and February of this year, there was excess inventory in the market and thus more discounting and promotional activities than those of the same period of last year, which to a certain extent pressured gross profit margin for the first half of 2012. The promotional environment returned to normal levels since March 2012 as inventory clearance was largely completed, which helped gross profit margin normalize. Third, the e-commerce business controlled by the Group was growing steadily as planned. Due to its specific business model, the e-commerce business had significantly lower gross profit margin than the existing footwear retail business in the offline channel, negatively impacting the overall gross profit margin of the footwear business. The scale of the e-commerce business is still relatively small. The negative impact on the Group's overall business metrics is expected to be limited in the foreseeable future. While no material change was observed in the gross profit margin of the sportswear business when compared with that of the same period of last year.

Selling and distribution expenses for the six months ended 30 June 2012 amounted to RMB5,211.3 million (2011: RMB4,425.2 million), primarily consisting of concessionaire fees and rental expenses, sales personnel salaries and commissions, depreciation charges on retails outlet decorations, and advertising and promotional expenses. General and administrative expenses for the six months ended 30 June 2012 amounted to RMB1,131.8 million (2011: RMB996.1 million), primarily consisting of management and administrative personnel salaries, depreciation charges on office premises and office equipment, and business surtaxes. In terms of percentage, the ratios of selling and distribution expenses, and general and administrative expenses to revenue were 32.5% (2011: 31.9%) and 7.1% (2011: 7.2%) respectively.

Interest income increased to RMB129.8 million for the six months ended 30 June 2012 from RMB82.4 million for the six months ended 30 June 2011. It is mainly due to the increase in both the proportion of structured bank deposits with higher interest rate earned and the corresponding deposit interest rates for the six months ended 30 June 2012.

Interest expense increased to RMB18.1 million for the six months ended 30 June 2012 from RMB4.8 million in the same period of last year, as a result of the increase in the Group's bank borrowings and bank borrowing interest rates. During the six months ended 30 June 2012, Renminbi depreciated against Hong Kong dollars by 0.55%, together with the fact that the Group's bank borrowings are denominated in Hong Kong dollar, the Group recorded net foreign exchange losses of RMB5.8 million (2011: net foreign exchange gains of RMB8.4 million) as a result.

Income tax expense for the six months ended 30 June 2012 amounted to RMB694.1 million (2011: RMB605.6 million). The effective income tax rate increased by 0.6 percentage points to 23.8% in the first half of 2012 from 23.2% in the same period of last year. The main reasons are as follows. First, the applicable income tax rate for New Belle Footwear (Shenzhen) Limited ("New Belle"), a major operating unit for the footwear business in Mainland China, was 24% in 2011. From 2012 onward, New Belle will be subject to an income tax rate of 25%. Second, He Zhong Apparel (Shenzhen) Limited ("He Zhong"), another important operating unit of the Group in the footwear business, was subject to 50% reduction in the prevailing tax rate in the region in both 2011 and 2012, at 12% and 12.5%, respectively. From 2013, He Zhong will be subject to the full income tax rate of 25%. On the other hand, the corporate income tax rate for the other operating units of the footwear business and the sportswear business is approximately 25%.

OTHER INCOME

Other income consists mainly of government incentives and rental income amounting to RMB83.5 million for the six months ended 30 June 2012 (2011: RMB26.9 million).

CAPITAL EXPENDITURE

The Group's capital expenditures primarily comprised of payments and deposits for purchase of property, plant and equipment, land use rights and intangible assets. During the six months ended 30 June 2012, the total capital expenditure was RMB579.8 million (2011: RMB675.2 million).

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintains a strong and healthy balance sheet. As at 30 June 2012, the net working capital of the Group was RMB12,551.0 million, representing an increase of 4.7% or RMB564.5 million as compared to that as at 31 December 2011. As at 30 June 2012, the Group's gearing ratio was 8.9% (31 December 2011: 7.4%) (Gearing ratio is calculated by using the following formula: Total Borrowings / Total Assets). As at 30 June 2012, the Group's current ratio was 3.1 times (31 December 2011: 3.1 times) (Current ratio is calculated by using the following formula: Current Assets / Current Liabilities).

During the period under review, net cash generated from operations increased by RMB723.4 million to RMB3,119.3 million from RMB2,395.9 million of the same period of last year.

Net cash used in investing activities for the six months ended 30 June 2012 was RMB2,451.2 million (2011: RMB1,859.4 million). During the period, the Group invested RMB1,706.0 million, RMB516.8 million and RMB145.1 million on net deposit in structured bank deposits, payments and deposits for purchases of property, plant and equipment (including retail outlets' decorations) and net deposit in term deposit with initial terms of over three months respectively.

During the period under review, net cash used in financing activities was RMB20.1 million (2011: RMB227.7 million), mainly attributable to the 2011 final dividend payment of RMB674.7 million, and partly offset by net proceeds from borrowings of RMB530.8 million.

As at 30 June 2012, the Group held cash and cash equivalents, structured bank deposits and term deposits with initial terms of over three months totaling RMB8,272.5 million (31 December 2011: RMB6,750.8 million), and was in a net cash position of RMB5,836.6 million (31 December 2011: RMB4,855.4 million) after netting off the short-term borrowings of RMB2,435.9 million (31 December 2011: RMB1,895.4 million).

PLEDGE OF ASSETS

As at 30 June 2012, no property, plant and equipment, land use rights and investment properties were pledged as security for banking facilities available to the Group (31 December 2011: nil).

CONTINGENT LIABILITIES

As at 30 June 2012, the Group had no material contingent liabilities.

HUMAN RESOURCES

As at 30 June 2012, the Group had a total of 108,795 employees (31 December 2011: 103,132 employees). During the six months ended 30 June 2012, total staff cost was RMB2,257.5 million (2011: RMB1,892.8 million), accounting for 14.1% (2011: 13.6%) of the revenue of the Group. The Group offers a competitive remuneration package to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus may be granted to eligible employees based on the Group's and individual's performance. The Group also allocated resources for providing continuing education and training for management and employees so as to improve their skills and knowledge.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of RMB8.0 cents per share (2011 interim dividend: RMB7.0 cents), totaling RMB674.7 million (2011 interim dividend: RMB590.4 million), for the year ending 31 December 2012. The interim dividend will be paid on or about 18 October 2012 to members whose names appear on the register of members of the Company on 28 September 2012.

The actual exchange rate for the purpose of dividend payment in Hong Kong dollars is the official exchange rate of RMB against Hong Kong dollars (HK$1.00=RMB0.81758) as quoted by the People's Bank of China on 21 August 2012, being the date on which the interim dividend is declared by the Board. Accordingly, the amount of the interim dividend is HK9.78 cents per share.

CLOSURE OF REGISTER OF MEMBERS

The interim dividend will be paid on or about Thursday, 18 October 2012 to the shareholders whose names appear on the register of members of the Company on Friday, 28 September 2012. The register of members of the Company will be closed from Wednesday, 26 September 2012, to Friday, 28 September 2012, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the above mentioned interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Tuesday, 25 September 2012.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

羅兵咸永道

TO THE BOARD OF DIRECTORS OF BELLE INTERNATIONAL HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 31 to 52, which comprises the condensed consolidated balance sheet of Belle International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2012 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies 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 International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion 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 International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 August 2012

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CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2012

		Unaudited Six months ended 30 June	
		2012	2011
	Note	***RMB'000***	*RMB'000*
Revenue	4	**16,024,079**	13,890,854
Costs of sales		**(6,954,952)**	(5,969,702)
Gross profit		**9,069,127**	7,921,152
Selling and distribution expenses		**(5,211,309)**	(4,425,200)
General and administrative expenses		**(1,131,812)**	(996,102)
Other income		**83,473**	26,870
Operating profit	5	**2,809,479**	2,526,720
Finance income		**129,779**	90,803
Finance costs		**(23,937)**	(4,784)
Finance income, net	6	**105,842**	86,019
Share of profits of associates		**2,711**	—
		108,553	86,019
Profit before income tax		**2,918,032**	2,612,739
Income tax expense	7	**(694,132)**	(605,570)
Profit for the period		**2,223,900**	2,007,169
Attributable to:			
Equity holders of the Company		**2,242,411**	2,007,169
Non-controlling interests		**(18,511)**	—
		2,223,900	2,007,169
Earnings per share attributable to equity holders of the Company during the period	8		
– basic		**RMB26.59 cents**	RMB23.80 cents
– diluted		**RMB26.59 cents**	RMB23.80 cents

The notes on pages 37 to 52 form an integral part of this condensed consolidated interim financial information.

Details of dividends payable to equity holders of the Company attributable to profit for the period are set out in Note 9.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Profit for the period	**2,223,900**	2,007,169
Other comprehensive loss		
Exchange differences	**(2,006)**	(9,000)
Other comprehensive loss for the period, net of tax	**(2,006)**	(9,000)
Total comprehensive income for the period	**2,221,894**	1,998,169
Attributable to:		
Equity holders of the Company	**2,240,405**	1,998,169
Non-controlling interests	**(18,511)**	—
	2,221,894	1,998,169

The notes on pages 37 to 52 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2012

	Note	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**3,005,602**	2,851,579
Land use rights	10	**818,867**	817,745
Investment properties	10	**10,615**	10,971
Intangible assets	10	**2,752,252**	2,790,322
Interests in associates		**90,882**	61,572
Long-term deposits and prepayments		**1,218,595**	962,823
Deferred income tax assets		**383,897**	370,051
Structured bank deposits	12	**508,255**	—
		8,788,965	7,865,063
Current assets			
Inventories		**6,517,970**	6,516,626
Trade receivables	11	**2,817,683**	2,745,918
Deposits, prepayments and other receivables		**1,415,582**	1,753,418
Structured bank deposits	12	**4,561,900**	3,369,112
Term deposits with initial terms of over three months	12	**632,842**	494,951
Cash and cash equivalents	13	**2,569,548**	2,886,759
		18,515,525	17,766,784
Non-current assets held for sale		**49,603**	49,328
		18,565,128	17,816,112
Total assets		**27,354,093**	25,681,175

The notes on pages 37 to 52 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2012

	Note	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	14	**83,056**	83,056
Share premium	14	**9,214,078**	9,214,078
Reserves		**11,692,215**	10,126,549
		20,989,349	19,423,683
Non-controlling interests		**151,582**	170,093
Total equity		**21,140,931**	19,593,776
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**126,953**	182,822
Deferred income		**72,099**	74,983
		199,052	257,805
Current liabilities			
Trade payables	15	**1,247,663**	1,248,261
Other payables, accruals and other current liabilities		**1,172,254**	1,324,851
Short-term borrowings	16	**2,435,877**	1,895,417
Current income tax liabilities		**1,158,316**	1,361,065
		6,014,110	5,829,594
Total liabilities		**6,213,162**	6,087,399
Total equity and liabilities		**27,354,093**	25,681,175
Net current assets		**12,551,018**	11,986,518
Total assets less current liabilities		**21,339,983**	19,851,581

The notes on pages 37 to 52 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Unaudited									
	Capital and reserves attributable to equity holders of the Company									
	Share capital RMB'000 (Note 14)	Share premium RMB'000 (Note 14)	Merger reserve RMB'000	Statutory reserves RMB'000	Capital redemption reserve RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
For the six months ended 30 June 2012										
As at 1 January 2012	**83,056**	**9,214,078**	**3,531**	**565,572**	**70**	**(61,073)**	**9,618,449**	**19,423,683**	**170,093**	**19,593,776**
Comprehensive income:										
Profit for the period	**—**	**—**	**—**	**—**	**—**	**—**	**2,242,411**	**2,242,411**	**(18,511)**	**2,223,900**
Other comprehensive loss:										
Exchange differences	**—**	**—**	**—**	**—**	**—**	**(2,006)**	**—**	**(2,006)**	**—**	**(2,006)**
Total comprehensive (loss)/ income for the period	**—**	**—**	**—**	**—**	**—**	**(2,006)**	**2,242,411**	**2,240,405**	**(18,511)**	**2,221,894**
Dividends	**—**	**—**	**—**	**—**	**—**	**—**	**(674,739)**	**(674,739)**	**—**	**(674,739)**
As at 30 June 2012	**83,056**	**9,214,078**	**3,531**	**565,572**	**70**	**(63,079)**	**11,186,121**	**20,989,349**	**151,582**	**21,140,931**
For the six months ended 30 June 2011										
As at 1 January 2011	83,056	9,214,078	3,531	407,895	70	(50,425)	7,456,596	17,114,801	—	17,114,801
Comprehensive income:										
Profit for the period	—	—	—	—	—	—	2,007,169	2,007,169	—	2,007,169
Other comprehensive loss:										
Exchange differences	—	—	—	—	—	(9,000)	—	(9,000)	—	(9,000)
Total comprehensive (loss)/ income for the period	—	—	—	—	—	(9,000)	2,007,169	1,998,169	—	1,998,169
Dividends	—	—	—	—	—	—	(1,349,477)	(1,349,477)	—	(1,349,477)
As at 30 June 2011	83,056	9,214,078	3,531	407,895	70	(59,425)	8,114,288	17,763,493	—	17,763,493

The notes on pages 37 to 52 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Unaudited Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Cash flows from operating activities		
Net cash generated from operations	**3,119,297**	2,395,905
Income tax paid	**(966,596)**	(517,071)
Net cash generated from operating activities	**2,152,701**	1,878,834
Cash flows from investing activities		
Capital contribution to an associate	**(26,599)**	—
Payments and deposits for purchase of property, plant and equipment	**(516,836)**	(661,636)
Payments and deposits for purchase of intangible assets and land use rights	**(62,933)**	(13,607)
Proceeds from sale of property, plant and equipment	**6,231**	1,091
Prepayments for equity investments	**—**	(45,000)
Placement of structured bank deposits	**(4,581,000)**	(2,620,240)
Uplift of structured bank deposits	**2,875,000**	1,400,000
(Increase)/decrease in term deposits with initial terms of over three months	**(145,051)**	80,000
Net cash used in investing activities	**(2,451,188)**	(1,859,392)
Cash flows from financing activities		
Dividends paid	**(674,739)**	(1,349,477)
Interest received	**141,896**	52,953
Interest paid	**(18,098)**	(4,784)
Proceeds from borrowings	**1,509,286**	1,243,812
Repayments of borrowings	**(978,483)**	(170,186)
Net cash used in financing activities	**(20,138)**	(227,682)
Net decrease in cash and cash equivalents	**(318,625)**	(208,240)
Cash and cash equivalents at beginning of the period	**2,886,759**	2,172,532
Effect on foreign exchange	**1,414**	(5,052)
Cash and cash equivalents at end of the period	**2,569,548**	1,959,240

The notes on pages 37 to 52 form an integral part of this condensed consolidated interim financial information.

NOTES TO THE CONDENSED CONSOLIDATION INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

Belle International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") are principally engaged in the manufacturing, distribution and retailing of shoes and footwear products, and the sales of sportswear products. The Group has manufacturing plants in the People's Republic of China (the "PRC") for the production of shoes and footwear products, and sells mainly in the PRC, Hong Kong and Macau.

The Company was incorporated in the Cayman Islands on 19 May 2004 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated.

This condensed consolidated interim financial information for the six months ended 30 June 2012 is unaudited and has been reviewed by the audit committee and the external auditor of the Company. This condensed consolidated interim financial information was approved for issue by the Board of Directors on 21 August 2012.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Company has a financial year end date of 31 December. This condensed consolidated interim financial information for the six months ended 30 June 2012 has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". This condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which was prepared in accordance with International Financial Reporting Standards ("IFRS").

The preparation of interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the annual financial statements for the year ended 31 December 2011.

The accounting policies used in the preparation of the condensed consolidated interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2011, except as mentioned below.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(a) Effect of adopting amendments to standards

The following amendments to standards are mandatory for accounting periods beginning on or after 1 January 2012. The adoption of these amendments to standards does not have any significant impact to the results and financial position of the Group.

IFRS 1 (amendment)	Severe hyperinflation and removal of fixed dates for first time adopters
IFRS 7 (amendment)	Disclosures – transfers of financial assets
IAS 12 (amendment)	Deferred tax – recovery of underlying assets

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

The following new standards, amendments and interpretation to standards have been issued but are not effective for 2012 and have not been early adopted by the Group:

IFRSs (amendment)	Improvements to IFRSs 2011 (1)
IFRS 7 (amendment)	Financial instruments: Disclosures – offsetting financial assets and financial liabilities (1)
IFRS 7 (amendment)	Mandatory effective date of IFRS 9 and transition disclosures (3)
IFRS 9	Financial instruments (3)
Additions to IFRS 9	Financial instruments – financial liabilities (3)
IFRS 10	Consolidated financial statements (1)
IFRS 11	Joint arrangements (1)
IFRS 12	Disclosures of interests in other entities (1)
IFRS 13	Fair value measurements (1)
IAS 1 (amendment)	Presentation of financial statements (1)
IAS 19 (2011)	Employee benefits (1)
IAS 27 (2011)	Separate financial statements (1)
IAS 28 (2011)	Investments in associates and joint ventures (1)
IAS 32 (amendment)	Financial instruments: Presentation – offsetting financial assets and financial liabilities (2)
IFRIC Int 20	Stripping costs in the production phase of a surface mine (1)

(1) Effective for the Group for annual period beginning on 1 January 2013.
(2) Effective for the Group for annual period beginning on 1 January 2014.
(3) Effective for the Group for annual period beginning on 1 January 2015.

The directors anticipate that the adoption of these new standards, amendments and interpretation to standards will not result in a significant impact on the results and financial position of the Group.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

This condensed consolidation interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2011.

There have been no changes in the risk management polices since 31 December 2011.

As at 30 June 2012 and 31 December 2011, the Group did not have any financial assets or financial liabilities in the balance sheet which is measured at fair value.

4 SEGMENT INFORMATION

The Group is principally engaged in the manufacturing, distribution and retail sales of shoes and footwear products, and the sales of sportswear products.

The chief operating decision-maker ("CODM") has been identified as the executive directors. CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

CODM assesses the performance of the business from a product perspective, i.e. by shoes and footwear products and sportswear products.

CODM assesses the performance of the operating segments based on a measure of the results of reportable segments. Finance income and costs, corporate income and expenses, and amortization of intangible assets are not included in the results for each operating segment that is reviewed by the CODM. Other information provided to the CODM is measured in a manner consistent with that in the financial statements.

Revenue from external customers is after elimination of inter-segment revenue. Sales between segments are carried out at mutually agreed terms. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the consolidated income statement.

Assets of reportable segments exclude deferred income tax assets, interests in associates, investment properties, non-current assets held for sale and corporate assets (including certain corporate property, plant and equipment, cash and bank balances, term deposits and structured bank deposits), all of which are managed on a central basis. Liabilities of reportable segments exclude current and deferred income tax liabilities, short-term borrowings and other corporate liabilities. These are part of the reconciliation to total balance sheet assets and liabilities.

4 SEGMENT INFORMATION (continued)

	Six months ended 30 June 2012				
	Shoes and footwear products *RMB'000*	Sportswear products *RMB'000*	Total reportable segments *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Revenue					
Sales of goods	10,248,349	5,753,048	16,001,397	—	16,001,397
Commissions from concessionaire sales	—	22,682	22,682	—	22,682
	10,248,349	5,775,730	16,024,079	—	16,024,079
Results of reportable segments	2,567,303	302,120	2,869,423	—	2,869,423
Reconciliation of results of reportable segments to profit for the period					
Results of reportable segments					2,869,423
Amortization of intangible assets					(43,897)
Unallocated income					1,816
Unallocated expenses					(17,863)
Operating profit					2,809,479
Finance income					129,779
Finance costs					(23,937)
Share of profits of associates					2,711
Profit before income tax					2,918,032
Income tax expense					(694,132)
Profit for the period					2,223,900
Other segment information					
Depreciation on property, plant and equipment	225,764	139,471	365,235	8,328	373,563
Amortization of land use rights	6,316	4,339	10,655	—	10,655
Depreciation on investment properties	—	—	—	356	356
Amortization of intangible assets	43,868	29	43,897	—	43,897
Write-off of property, plant and equipment	3,706	4,848	8,554	—	8,554
Loss on disposal of property, plant and equipment	3,672	267	3,939	—	3,939
Impairment losses on inventories	24,600	20,000	44,600	—	44,600
Additions to non-current assets	455,638	121,628	577,266	2,503	579,769

4 SEGMENT INFORMATION (continued)

	As at 30 June 2012				
	Shoes and footwear products *RMB'000*	Sportswear products *RMB'000*	Total reportable segments *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment assets	13,467,145	5,856,268	19,323,413	—	19,323,413
Goodwill	1,710,341	485,261	2,195,602	—	2,195,602
Other intangible assets	556,218	432	556,650	—	556,650
Inter-segment balances elimination	(2,645,598)	—	(2,645,598)	—	(2,645,598)
	13,088,106	6,341,961	19,430,067	—	19,430,067
Investment properties	—	—	—	10,615	10,615
Non-current assets held for sale	—	—	—	49,603	49,603
Terms deposits with initial terms of over three months	—	—	—	632,842	632,842
Structured bank deposits	—	—	—	5,070,155	5,070,155
Deferred income tax assets	—	—	—	383,897	383,897
Interests in associates	—	—	—	90,882	90,882
Other corporate assets	—	—	—	1,686,032	1,686,032
Total assets per condensed consolidated balance sheet	13,088,106	6,341,961	19,430,067	7,924,026	27,354,093
Segment liabilities	1,609,852	3,517,457	5,127,309	—	5,127,309
Inter-segment balances elimination	—	(2,645,598)	(2,645,598)	—	(2,645,598)
	1,609,852	871,859	2,481,711	—	2,481,711
Short-term borrowings	—	—	—	2,435,877	2,435,877
Current income tax liabilities	—	—	—	1,158,316	1,158,316
Deferred income tax liabilities	—	—	—	126,953	126,953
Other corporate liabilities	—	—	—	10,305	10,305
Total liabilities per condensed consolidated balance sheet	1,609,852	871,859	2,481,711	3,731,451	6,213,162

4 SEGMENT INFORMATION (continued)

	Six months ended 30 June 2011				
	Shoes and footwear products *RMB'000*	Sportswear products *RMB'000*	Total reportable segments *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Revenue					
Sales of goods	8,747,357	5,115,097	13,862,454	—	13,862,454
Commissions from concessionaire sales	—	28,400	28,400	—	28,400
	8,747,357	5,143,497	13,890,854	—	13,890,854
Results of reportable segments	2,196,864	375,981	2,572,845	—	2,572,845
Reconciliation of results of reportable segments to profit for the period					
Results of reportable segments					2,572,845
Amortization of intangible assets					(24,286)
Unallocated income					1,927
Unallocated expenses					(23,766)
Operating profit					2,526,720
Finance income					90,803
Finance costs					(4,784)
Profit before income tax					2,612,739
Income tax expense					(605,570)
Profit for the period					2,007,169
Other segment information					
Depreciation on property, plant and equipment	164,967	105,740	270,707	7,820	278,527
Amortization of land use rights	5,141	3,727	8,868	—	8,868
Depreciation on investment properties	—	—	—	356	356
Amortization of intangible assets	23,884	402	24,286	—	24,286
Write-off of property, plant and equipment	3,417	1,706	5,123	—	5,123
Loss on disposal of property, plant and equipment	2	37	39	—	39
Additions to non-current assets	378,756	119,560	498,316	176,927	675,243

4 SEGMENT INFORMATION (continued)

	As at 31 December 2011				
	Shoes and footwear products	Sportswear products	Total reportable segments	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	12,737,597	6,361,570	19,099,167	—	19,099,167
Goodwill	1,710,341	485,261	2,195,602	—	2,195,602
Other intangible assets	594,263	457	594,720	—	594,720
Inter-segment balances elimination	(2,168,329)	—	(2,168,329)	—	(2,168,329)
	12,873,872	6,847,288	19,721,160	—	19,721,160
Investment properties	—	—	—	10,971	10,971
Non-current assets held for sale	—	—	—	49,328	49,328
Terms deposits with initial terms of over three months	—	—	—	494,951	494,951
Structured bank deposits	—	—	—	3,369,112	3,369,112
Deferred income tax assets	—	—	—	370,051	370,051
Interests in associates	—	—	—	61,572	61,572
Other corporate assets	—	—	—	1,604,030	1,604,030
Total assets per condensed consolidated balance sheet	12,873,872	6,847,288	19,721,160	5,960,015	25,681,175
Segment liabilities	1,576,766	3,226,458	4,803,224	—	4,803,224
Inter-segment balances elimination	—	(2,168,329)	(2,168,329)	—	(2,168,329)
	1,576,766	1,058,129	2,634,895	—	2,634,895
Short-term borrowings	—	—	—	1,895,417	1,895,417
Current income tax liabilities	—	—	—	1,361,065	1,361,065
Deferred income tax liabilities	—	—	—	182,822	182,822
Other corporate liabilities	—	—	—	13,200	13,200
Total liabilities per condensed consolidated balance sheet	1,576,766	1,058,129	2,634,895	3,452,504	6,087,399

4 SEGMENT INFORMATION (continued)

The Group's revenue is mainly derived from customers located in the PRC. An analysis of the Group's revenue by location of customers is as follows:

	Six months ended 30 June 2012 RMB'000	2011 RMB'000
Revenue		
The PRC	**15,211,449**	13,158,568
Hong Kong and Macau	**609,196**	589,149
Other locations	**203,434**	143,137
	16,024,079	13,890,854

An analysis of the Group's non-current assets (other than structured bank deposits and deferred income tax assets) by location of assets is as follows:

	As at 30 June 2012			As at 31 December 2011		
	The PRC	**Hong Kong and Macau**	**Total**	The PRC	Hong Kong and Macau	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets						
Property, plant and equipment	**2,648,740**	**356,862**	**3,005,602**	2,490,792	360,787	2,851,579
Land use rights	**818,867**	**—**	**818,867**	817,745	—	817,745
Investment properties	**10,615**	**—**	**10,615**	10,971	—	10,971
Intangible assets	**2,680,495**	**71,757**	**2,752,252**	2,718,565	71,757	2,790,322
Long-term deposits and prepayments	**1,175,412**	**43,183**	**1,218,595**	924,846	37,977	962,823
Interests in associates	**90,882**	**—**	**90,882**	61,572	—	61,572

5 OPERATING PROFIT

Operating profit is stated after charging the following:

	Six months ended 30 June 2012 RMB'000	2011 RMB'000
Costs of inventories recognized as expenses included in costs of sales	**6,953,377**	5,967,720
Depreciation on property, plant and equipment	**373,563**	278,527
Depreciation on investment properties	**356**	356
Amortization of intangible assets	**43,897**	24,286
Amortization of land use rights	**10,655**	8,868
Operating lease rentals (mainly including concessionaire fees) in respect of land and buildings	**3,203,597**	2,833,912
Staff costs (including directors' emoluments)	**2,257,540**	1,892,785
Write-off of property, plant and equipment	**8,554**	5,123
Loss on disposal of property, plant and equipment	**3,939**	39
Impairment losses on inventories	**44,600**	—

Costs of inventories recognized as expenses mainly include purchases, direct employee compensation costs, subcontracting costs and manufacturing overheads.

6 FINANCE INCOME, NET

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Interest income on bank deposits	**27,283**	16,492
Interest income from structured bank deposits	**102,496**	65,902
Net foreign exchange gains	**—**	8,409
	129,779	90,803
Interest expense on short-term bank borrowings, wholly repayable within 5 years	**(18,098)**	(4,784)
Net foreign exchange losses	**(5,839)**	—
	(23,937)	(4,784)
Finance income, net	**105,842**	86,019

7 INCOME TAX EXPENSE

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Current income tax		
– PRC corporate income tax	**712,787**	590,033
– Hong Kong profits tax	**11,328**	15,106
– Macau income tax	**5,500**	4,896
(Over)/under-provision in prior years		
– PRC corporate income tax	**(5,515)**	(332)
– Hong Kong profits tax	**800**	(573)
Deferred income tax	**(30,768)**	(3,560)
	694,132	605,570

Pursuant to the relevant PRC corporate income tax rules and regulations, special income tax rates have been granted to certain subsidiaries of the Company, as being wholly foreign-owned enterprises in Shenzhen, the PRC. These subsidiaries are also entitled to a two-year exemption for income taxes followed by 50% reduction in income taxes for the ensuing three years. During the period, except for one of these subsidiaries is subject to a reduced tax rate of 12.5% (its tax rate will be increased to 25% in year 2013), all others are subject to the PRC corporate income tax rate of 25% as the relevant tax reduction periods were expired (2011: certain of these companies were subject to reduced tax rates ranging from 12.5% to 24%, which would be gradually increased to 25% towards year 2013). Hong Kong profits tax and Macau income tax have been provided for at the rate of 16.5% (2011: 16.5%) and at the tax rates prevailing in Macau respectively on the estimated assessable profit for the period.

8 EARNINGS PER SHARE

Basic

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

	Six months ended 30 June	
	2012	2011
Profit for the period attributable to equity holders of the Company *(RMB'000)*	**2,242,411**	2,007,169
Weighted average number of ordinary shares for the purposes of basic earnings per share *(thousand of share)*	**8,434,233**	8,434,233
Basic earnings per share *(RMB cents per share)*	**26.59**	23.80

Diluted

Diluted earnings per share is the same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the periods.

9 DIVIDENDS

(a) At a meeting held on 21 August 2012, the directors declared an interim dividend of RMB8.0 cents per share (totaling RMB674,739,000) for the year ending 31 December 2012. This dividend is not reflected as dividend payable in the interim financial information, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2012.

(b) At a meeting held on 20 March 2012, the directors recommended a final dividend of RMB8.0 cents per share (totaling RMB674,739,000) for the year ended 31 December 2011, which was paid during the period and has been reflected as an appropriation of retained earnings for the six months ended 30 June 2012.

(c) At a meeting held on 25 August 2011, the directors declared an interim dividend of RMB7.0 cents per share (totaling RMB590,396,000) for the year ended 31 December 2011, which was paid and has been reflected as an appropriation of retained earnings during the year ended 31 December 2011.

10 PROPERTY, PLANT AND EQUIPMENT, LAND USE RIGHTS, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS

	Property, plant and equipment	Land use rights	Investment properties	Goodwill	Other intangible assets *(note)*	Total intangible assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Net book value as at 1 January 2012	**2,851,579**	**817,745**	**10,971**	**2,195,602**	**594,720**	**2,790,322**	**6,470,617**
Additions	**544,321**	**11,777**	**—**	**—**	**5,827**	**5,827**	**561,925**
Depreciation/amortization	**(373,563)**	**(10,655)**	**(356)**	**—**	**(43,897)**	**(43,897)**	**(428,471)**
Disposals/written off	**(18,724)**	**—**	**—**	**—**	**—**	**—**	**(18,724)**
Exchange differences	**1,989**	**—**	**—**	**—**	**—**	**—**	**1,989**
Net book value as at 30 June 2012	**3,005,602**	**818,867**	**10,615**	**2,195,602**	**556,650**	**2,752,252**	**6,587,336**
Net book value as at 1 January 2011	2,353,665	628,632	11,682	2,137,154	576,187	2,713,341	5,707,320
Additions	431,078	191,601	—	—	821	821	623,500
Depreciation/amortization	(278,527)	(8,868)	(356)	—	(24,286)	(24,286)	(312,037)
Disposals/written off	(6,253)	—	—	—	—	—	(6,253)
Exchange differences	(8,561)	—	—	—	—	—	(8,561)
Net book value as at 30 June 2011	2,491,402	811,365	11,326	2,137,154	552,722	2,689,876	6,003,969

Note:

Other intangible assets include trademarks, distribution and license contracts, and computer software.

11 TRADE RECEIVABLES

The Group's concessionaire sales through department stores are generally collectible within 30 days from the invoice date while the sales to corporate customers are generally on credit terms ranging from 0 to 30 days. As at 30 June 2012, the aging analysis of trade receivables, based on invoice date, is as follows:

	As at 30 June 2012	As at 31 December 2011
	RMB'000	*RMB'000*
0 to 30 days	**2,713,634**	2,688,565
31 to 60 days	**55,403**	27,072
61 to 90 days	**22,205**	14,809
Over 90 days	**26,441**	15,472
	2,817,683	2,745,918

The carrying amounts of trade receivables approximate their fair values.

12 STRUCTURED BANK DEPOSITS AND TERM DEPOSITS WITH INITIAL TERMS OF OVER THREE MONTHS

All of the Group's structured bank deposits are placed with major state-owned banks in the PRC with fixed maturities and interest rates. Structured bank deposits and term deposits with initial terms of over three months are denominated in RMB. The weighted average effective interest rate of the Group's structured bank deposits as at 30 June 2012 was 5.58% (as at 31 December 2011: 4.51%) per annum. The weighted average effective interest rate of the Group's term deposits with initial terms of over three months as at 30 June 2012 was 2.14% (as at 31 December 2011: 2.63%) per annum.

13 CASH AND CASH EQUIVALENTS

	As at	
	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
Cash and bank balances	**2,299,440**	2,881,759
Term deposits with initial terms of less than three months	**270,108**	5,000
	2,569,548	2,886,759
Denominated in:		
RMB	**2,398,395**	2,548,148
HK$	**141,901**	291,155
Other currencies	**29,252**	47,456
	2,569,548	2,886,759

The weighted average effective interest rate of the Group's term deposits with initial terms of less than three months as at 30 June 2012 was 1.94% (as at 31 December 2011: 1.49%) per annum.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The conversion of the RMB denominated balances into foreign currencies held by PRC subsidiaries are subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

14 SHARE CAPITAL AND SHARE PREMIUM

Share capital

	Ordinary shares of HK$0.01 each	**Nominal amount**
	Number of shares	***RMB'000***
Authorized:		
As at 1 January 2011, 31 December 2011 and 30 June 2012	30,000,000,000	296,038
Issued and fully paid:		
As at 1 January 2011, 31 December 2011 and 30 June 2012	8,434,233,000	83,056

14 SHARE CAPITAL AND SHARE PREMIUM (continued)

Share premium

Under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Share option scheme

Pursuant to a shareholders resolution passed on 27 April 2007, the Company has adopted a share option scheme (the "Share Option Scheme"). The purpose of the Share Option Scheme is to provide an incentive for Qualified Participants (defined below) to work with commitment towards enhancing the value of the Company and its shares for the benefit of the shareholders of the Company and to retain and attract high calibres and working partners whose contributions are or may be beneficial to the growth and development of the Group.

Pursuant to the Share Option Scheme, the Board may at its discretion grant options to (i) any executive director, or employee (whether full time or part time) of the Company, any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity"); (ii) any non-executive directors (including independent non-executive directors) of the Company, any member of the Group or any Invested Entity ((i) and (ii) collectively referred to as "Eligible Employees"); (iii) any supplier of goods or services to the Company, any member of the Group or any Invested Entity; (iv) any customer of the Company, any member of the Group or any Invested Entity; and (v) any such persons (including but not limited to consultant, adviser, contractor, business partner or service provider of the Company or any member of the Group or any Invested Entity) who in the absolute discretion of the Board has contributed or will contribute to the Group (collectively referred to as "Qualified Participants").

The Share Option Scheme shall be valid and effective for 10 years from the date on which the shares of the Company first commenced trading on the Stock Exchange (the "Listing Date"). The maximum number of shares of the Company in which options may be granted under the Share Option Scheme or any other share option schemes as may be adopted by the Company shall not in aggregate exceed the number of shares that shall represent 10% of the total number of shares in issue of the Listing Date, unless such scheme mandate limit is renewed by shareholders of the Company in a general meeting.

No options have been granted under the Share Option Scheme by the Group since its adoption and up to 30 June 2012.

15 TRADE PAYABLES

The normal credit period for trade payables generally ranges from 0 to 60 days. As at 30 June 2012, the aging analysis of trade payables is as follows:

	As at	
	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
0 to 30 days	**1,030,646**	1,090,950
31 to 60 days	**211,735**	146,510
Over 60 days	**5,282**	10,801
	1,247,663	1,248,261

The carrying amounts of trade payables approximate their fair values.

16 SHORT-TERM BORROWINGS

As at 30 June 2012, the Group's bank borrowings are unsecured and carry interest at floating rates. The weighted average effective interest rate is 2.05% (as at 31 December 2011: 1.95%) per annum. The carrying amounts of the Group's bank borrowings are denominated in HK$ and approximate their fair values. All of these bank borrowings are wholly repayable within 5 years.

17 CAPITAL COMMITMENTS

As at 30 June 2012, the Group had the following capital commitments not provided for:

	As at	
	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
Purchase of a property in the PRC:		
– Contracted but not provided for	**197,000**	197,000
Construction commitments:		
– Authorized but not contracted	**18,260**	18,260
– Contracted but not provided for	**480,631**	68,188
	498,891	86,448
Acquisition of subsidiaries:		
– Contracted but not provided for *(note)*	**616,000**	—

17 CAPITAL COMMITMENTS (continued)

Note:

On 20 March 2012, Synergy Eagle Limited (the "Buyer"), as the buyer, a wholly-owned subsidiary of the Company and, inter alia, an independent third party to the Company (the "Seller"), as the seller, entered into a share purchase agreement (the "Agreement") pursuant to which the Seller has agreed to sell to the Buyer the entire equity interest in Big Step Limited ("Big Step") at a consideration of RMB880,000,000 (subject to adjustments with a maximum cap of RMB920,000,000) (the "Consideration"), which will be satisfied by the Buyer in the following manner:

(1) RMB264,000,000, being 30% of the Consideration payable within 15 business days from the date of the Agreement;

(2) RMB528,000,000, being 60% of the Consideration payable at completion ("Completion"); and

(3) RMB88,000,000, being 10% of the Consideration payable after the last day of the period from the date of Completion (the "Completion Date") up to (and including) the end of the 18th month thereafter.

The Consideration may be adjusted with reference to the net assets of Big Step and its subsidiaries as at the Completion Date (the "Acquisition").

Big Step and its subsidiaries are principally engaged in the sales and distribution of sportswear products and operate approximately 600 self-managed retail outlets in certain cities of various provinces of the PRC. The products sold by Big Step and its subsidiaries are mainly under the brands of Nike and Adidas, which are generally in line with the existing business of the Group.

As at 30 June 2012, the Acquisition is still in the process of going through certain prescribed procedures and approvals, and is expected to be completed by the end of 2012. Deposit of RMB264,000,000 has been paid to the Seller pursuant to the Agreement and is included in the "Long-term deposits and prepayments".

18 RELATED PARTY TRANSACTIONS

The following is the significant related party transaction entered into in the ordinary course of business between the Group and its related parties and the balances arising from related party transactions in addition to the related party information shown elsewhere in the condensed consolidated interim financial information:

Transactions for the period

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Processing fee income received from an associate *(note a)*	**47,783**	—
Purchases of goods from an associate *(note a)*	**29,280**	—
Key management compensation		
– Salaries, bonuses and other welfare *(note b)*	**8,846**	9,824

Period/year-end balances

	As at	
	30 June	31 December
	2012	2011
	RMB'000	*RMB'000*
Receivables from/(payables to) an associate		
– Trade receivables *(note c)*	**36,590**	31,825
– Other receivables *(note d)*	**57,408**	51,415
– Trade payables *(note c)*	**(6,446)**	(1,491)

Notes:

(a) Processing fee income and purchases of goods from an associate are on normal commercial terms and conditions.

(b) Key management includes directors and certain executives who have important roles in making operational and financial decisions.

(c) The receivables from/payables to an associate arise mainly from transactions as described above which are due for settlement one month after the date of invoice. The balances are unsecured, interest free and denominated in RMB.

(d) The balance represents advance made to an associate which is unsecured, interest free, repayable on demand and denominated in RMB.

19 SUBSEQUENT EVENTS

There have been no significant events taken place subsequent to 30 June 2012 until the date of this condensed consolidated interim financial information.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2012, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

(i) Interests in issued shares of the Company

Name of Director	Capacity/ Nature of interest	Number of Shares *(Note 1)*	Approximate percentage of interest in the Company
Mr. Tang Yiu	Interest in controlled corporation *(Note 2)*	2,627,500,000 (L)	31.15%
Mr. Sheng Baijiao	Founder of a discretionary trust *(Note 3)*	580,877,000 (L)	6.89%
	Beneficial Interest	75,000,000 (L)	0.89%

Notes:

(1) The letter "L" denotes a long position in shares.

(2) These ordinary shares of HK$0.01 each in the share capital of Company ("Shares") were held by Profit Leader Holdings Limited ("Profit Leader"). Mr. Tang Yiu was beneficially interested in the entire issued share capital of Merry Century Investments Limited ("Merry Century") and Merrylink Resources Limited, which were together interested in 66.64% of the issued share capital of Profit Leader.

(3) Mr. Sheng Baijiao is interested in the Shares through a trust, of which he is a founder and a beneficiary.

(ii) Interests in underlying shares of the Company

None of the Directors of the Company has been granted options under the Company's share option scheme, details of which are set out in the section "Share option scheme" of Note 14 to the Condensed Consolidated Interim Financial Information.

Apart from the foregoing, none of the Directors or chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company, or any of its holding company, subsidiaries or other associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

GENERAL INFORMATION

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

As at 30 June 2012, the interests or short positions of the persons, other than Directors and chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name of shareholders	**Capacity/ Nature of interest**	**Number of Shares *(Note 1)***	**Approximate percentage of interest in the Company**
Credit Suisse Trust Limited	Trustee	3,781,750,000 (L)	44.84%
Handy Limited	Beneficial Interest	580,877,000 (L)	6.89%
Essen Worldwide Limited	Beneficial Interest	573,373,000 (L)	6.80%
Profit Leader	Beneficial Interest	2,627,500,000 (L)	31.15%
Best Contact Holdings Limited	Interest in controlled corporation *(Note 2)*	580,877,000 (L)	6.89%
Merry Century	Interest in controlled corporation *(Note 3)*	2,627,500,000 (L)	31.15%
Golden Coral Holdings Limited	Interest in controlled corporation *(Note 3)*	2,627,500,000 (L)	31.15%
JPMorgan Chase & Co.	Interest in controlled corporation *(Note 4)*	593,180,490 (L)	7.03%
		6,978,001 (S)	0.08%
		375,397,959 (P)	4.45%

Notes:

(1) The letter "L" denotes a long position in the Shares; the letter "S" denotes a short position in the Shares; the letter "P" denotes a lending pool in the Shares.

(2) These Shares were held by Handy Limited. Best Contact Holdings Limited was interested in 59.43% of the issued share capital of Handy Limited.

(3) These Shares were held by Profit Leader. Merry Century was interested in 55.73% of the issued share capital of Profit Leader. Golden Coral Holdings Limited was interested in 33.35% of the issued share capital of Profit Leader.

(4) JPMorgan Chase & Co. had long position of 23,823,531 Shares, 193,959,000 Shares and 375,397,959 Shares in its capacity as beneficial owner, investment manager and custodian corporation/approved lending agent, respectively. JPMorgan Chase & Co. was interested in such Shares through its interests in controlled corporations. Of these Shares, 387,578,959 Shares were directly held by JPMorgan Chase Bank, N.A., 76,139,000 Shares were directly held by JF Asset Management Limited, 8,555,531 Shares were directly held by J.P. Morgan Securities Ltd., 15,268,000 Shares were directly held by J.P. Morgan Whitefriars Inc., 4,745,000 Shares were directly held by JPMorgan Asset Management (Singapore) Limited, 28,769,000 Shares were directly held by JPMorgan Asset Management (UK) Limited, 8,300,000 Shares were directly held by JPMorgan Asset Management (Taiwan) Limited, 47,527,000 Shares were directly held by J.P. Morgan Investment Management Inc., 10,786,000 Shares were directly held by China International Fund Management Co Ltd, 5,512,000 Shares were directly held by JF International Management Inc., all of which were controlled, directly or indirectly, by JPMorgan Chase & Co.. JPMorgan Chase & Co. also had short position of 6,978,001 Shares in the capacity as beneficial owner. Of these short position of Shares, 3,760,000 Shares were directly held by J.P. Morgan Securities Ltd. and 3,218,001 Shares were directly held by J.P. Morgan Whitefriars Inc., both of which were controlled indirectly by JPMorgan Chase & Co..

Save as disclosed above, no other parties (other than Directors and chief executive of the Company) has disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of SFO or were recorded in the register kept by the Company under section 336 of the SFO as having an interest or a short position in the shares of underlying shares of the Company as at 30 June 2012.

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

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the period under review.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules. Following specific enquiry, each of the Directors has confirmed compliance with the required standard set out in the Model Code throughout the period under review.

GENERAL INFORMATION

AUDIT COMMITTEE

The primary duties of the Audit Committee are to assist the Board to provide an independent view of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board of the Company.

The Audit Committee shall comprise at least three members with the majority being independent non-executive directors. Currently, it comprises three Independent Non-executive Directors of the Company, Mr. Ho Kwok Wah, George, Mr. Chan Yu Ling, Abraham and Dr. Xue Qiuzhi. The chairman of the Audit Committee is Mr. Ho Kwok Wah, George who has a professional qualification in accountancy.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the interim financial information for the six months ended 30 June 2012.

REMUNERATION COMMITTEE

The primary duties of the Remuneration Committee include (but without limitation) making recommendations to the Directors on the policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; determining the terms of the specific remuneration package of the Directors and senior management; reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time; and considering and approving the grant of share options to eligible participants pursuant to the share option scheme upon authorization by the Board.

The Remuneration Committee has three members comprising Mr. Chan Yu Ling, Abraham, Mr. Sheng Baijiao and Dr. Xue Qiuzhi, two of whom are Independent Non-executive Directors. The chairman of the Remuneration Committee is Mr. Chan Yu Ling, Abraham.

NOMINATION COMMITTEE

The Nomination Committee was established on 17 March 2012 with written terms of reference. The primary duties of the Nomination Committee include (but without limitation) considering and recommending to the Board suitably qualified persons to become members of the Board, and reviewing the structure, size and composition of the Board on a regular basis and as and when required.

The Nomination Committee has three members comprising Dr. Xue Qiuzhi, Mr. Sheng Baijiao and Mr. Chan Yu Ling, Abraham, two of whom are Independent Non-executive Directors. The chairman of the Nomination Committee is Dr. Xue Qiuzhi.

SUFFICIENCY OF PUBLIC FLOAT

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

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