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

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1368)**

**ANNOUNCEMENT OF INTERIM RESULTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2009**

**RESULTS HIGHLIGHTS**

- Revenue rose by 19% to RMB1,677.4 million
- Gross profit margin expanded by 1.8 percentage points to 38.6%
- Profit attributable to shareholders increased by 20% to RMB306.5 million
- Basic earnings per Share reached RMB14.10 cents
- Interim dividend per Share increased by 40% to HK7.0 cents, representing payout ratio of 44% of the profit for the period

**FINANCIAL HIGHLIGHTS**

- Total footwear revenue increased by 12.2% to RMB789.5 million
- Total apparel revenue increased by 26.2% to RMB866.9 million
- Xtep brand footwear products
  - Revenue increased by 10.7% to RMB733.7 million
  - Gross profit margin increased by 3.4 percentage points to 38.9%
  - Sales volume increased by 3.3% to 9.1 million pairs
  - Average selling price (wholesale) increased by 7.2% to RMB80.4
- Xtep brand apparel products
  - Revenue increased by 26.9% to RMB801.6 million
  - Gross profit margin increased by 1.0 percentage point to 38.2%
  - Sales volume surged by 23.5% to 17.4 million pieces
  - Average selling price (wholesale) increased by 2.7% to RMB46.1
- Working capital cycle reduced by 21 days to 41 days

**XTEP BRAND OPERATIONAL HIGHLIGHTS\***

- Total number of Xtep retail outlets increased by 349 to 5,405
- Total number of Xtep flagships stores increased by 10 to 22
- Total gross sales floor area increased by 12.8% to 425,624m<sup>2</sup>
- Average sales floor area per retail outlet increased by 5.5% to 78.7m<sup>2</sup>

\* *Compared to 31 December 2008*

## **CHAIRMAN'S STATEMENT**

On behalf of the Board of Directors, I am pleased to present the interim results of Xtep International Holdings Limited and its subsidiaries for the six months ended 30 June 2009.

### **Performance Highlights**

The 3rd of June 2009 marked the first anniversary of the Group's successful listing on the Main Board of the Hong Kong Stock Exchange. In such an exceptional year, despite the unprecedented global financial crisis and the world-wide economic recession, the Group achieved remarkable achievements in all aspects with record breaking results. Our relentless efforts have reinforced Xtep brand's position as China's leading domestic fashion sportswear brand.

During the period under review, the Group's revenue increased by 19% to approximately RMB1,677.4 million (2008: RMB1,408.2 million). Net profit attributable to Shareholders rose by 20% to approximately RMB306.5 million (2008: RMB254.7 million). Basic earnings per Share for the period was approximately RMB14.10 cents (2008: RMB16.01 cents). The decrease of basic earnings per Share was due to the fact that the Group was listed on 3 June 2008 and the weighted average number of shares for the same period last year was approximately 1,590,000,000 shares, whereas the number of shares for the period under review was approximately 2,174,000,000. In view of the Group's strong results performance and the solid financial position, the Board of Directors proposed to declare an interim dividend of HK7.0 cents (2008: HK5.0 cents) per Share to reward the Shareholders for their support, representing an increase of 40% over the same period last year. The payout ratio was approximately 44%.

### **Fruitful Returns**

The Group continued to stand out from its peers through its unique strategy of combining sports and entertainment marketing. This dual strategy effectively strengthens Xtep brand's position as the leader of fashion sportswear through sponsoring key sporting events and utilising the significant influence of top-notch entertainment celebrities' on youngsters. The Group successfully secured as the sole sports product partner for the 11th National Games of China, one of the most prominent national sporting events in the PRC held once every four years. Meanwhile, the Group also sponsored a number of major regional sporting events including running contests, basketball tournaments and CX Games to enhance its corporate brand recognition through these kinds of sponsorships.

To further strengthen Xtep brand's leading position in the fashion sportswear sector, the Group initiated a series of entertainment marketing activities and organized the "2009 Xtep Stars Nationwide Concert Tour" in the major cities in China where Xtep brand's major market focuses on provinces such as Hunan, Hubei, Anhui, Zhejiang and Jiangsu. These events will significantly increase Xtep's brand awareness among our target customer group.

The Group has always maintained high quality retail network including the selection of store location, outlet display and image, and provision of high quality customer services. At the beginning of the year, our annual target was to have a net increase of approximately 540 Xtep retail outlets to a total of 5,600 Xtep retail outlets by the end of year. As at 30 June 2009, we accomplished over 60% of the outlet expansion target with over 5,400 Xtep retail outlets nationwide. On the other hand, 10 new Xtep flagship stores were established in Hunan, Shandong, Shanghai, Zhejiang and Guizhou provinces during the period under review, bringing the total number of Xtep flagship stores to 22 as at 30 June 2009. These flagship stores play a crucial role in establishing Xtep brand's image.

The intrinsic value of the Xtep brand is equally well embodied in our product development and design. The Group co-operated closely with designers from South Korea, England and France to launch new trendsetting products. Furthermore, the Group has strengthened its efforts on the research and development of product functionality. Besides successful introduction of super warm, perspiration absorbent, anti-UV and figure appeal trimming apparel products, the Group has also designed and launched a series of light and shock-resistant footwear products. These have further strengthened the functional properties of the products in addition to the fashion elements.

### **Future Prospect**

The Beijing 2008 Olympic Games has greatly stimulated people's understanding and enthusiasm of sports in China. Following this grand event are various large-scale international sports events in the pipeline that will be held in the Asia-Pacific region. These sports events will provide tremendous opportunities in the sportswear industry in China. As a result, the Group has formulated a set of unique growth strategies to capture these valuable market opportunities and achieve growth momentum.

### **Expand Potential Markets**

We believe that the mass market in central and northeastern regions of China poses tremendous potential. Currently, Xtep brand has established a strong market presence in Hunan province. We will leverage our strong foothold in Hunan province as a springboard to expand to other surrounding provinces such as Sichuan and Anhui. In addition, the coming 11th National Games of China, the most important event in sports industry in China will take place in October 2009. Our Group's sponsorships in this grand event will provide a high-profile marketing platform for the Group. We can therefore leverage and enhance our Xtep brand's image and recognition in Shandong province and further extend the retail network in the northeastern region of the PRC.

In order to further enhance the market recognition of our Xtep brand, we plan to have a total of 30 Xtep flagship stores established by the end of the year. Besides, as the Xtep brand becomes increasingly popular in the market and with over 5,400 Xtep retail outlets being established, the Group will increase its outlet expansion target. We plan to reach a total of approximately 5,800 Xtep retail outlets by the end of 2009, representing approximately 15% increase from last year's 5,056 Xtep retail outlets.

## **Overseas Expansion**

One of the long-term growth objectives of the Group is to implement and globalize the multi-brand strategy. We have set up a team with international marketing experience in Hong Kong and we plan to expand our distribution network into the emerging markets which includes Middle East and South-east Asian countries. In the future, the Group's domestic and overseas businesses will run in parallel, which will present the Group with significant growth potentials.

## **Xtep's Remarkable Step**

While fashion sportswear will continue to be our primary business focus, improving the overall sports functionality will be another driver of the Group's growth. The Group will invest more resources in the development of sportswear products that integrate functionality with fashion. Additionally, the Group will focus on enhancing the Xtep running shoes series. Sports activities related to running are well practiced and adored by a mass consumer group. Furthermore, running is not bound by age, sex, time and place and this sport segment is growing rapidly. The Group will target this market and has scaled up its efforts to sponsor various races nationwide since last year, such as the sole sports product partner of Xiamen International Marathon for 5 consecutive years from 2009 to 2013, 2009 International Half-Marathon Challenge in Tibet, 2009 Olympics Day Run in Hong Kong, and Amway Nutrilite Healthy Run in Chengdu, Hangzhou, Hefei and Jinan. In the future, we will increase our investments in the research and development and endeavor to develop the Xtep brand running shoes, building our leading position in such product lines.

## **Appreciation**

The Group's rapid business growth is attributable to the loyalty and relentless efforts of its management and staff. On behalf of the Board, I would like to take this opportunity to express my gratitude to the contributions made by all of our staff during the period. Special thanks also go to our shareholders and business partners for their support and trust over the years. The Group will continue to strengthen its competitive advantages to achieve excellent results.

## **Ding Shui Po**

*Chairman*

## INTERIM RESULTS

The Board of Directors of Xtep International Holdings Limited is pleased to announce the interim results and the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2009, together with the comparative figures for the corresponding period in 2008. These results have been reviewed by the Company's audit committee, comprising solely the independent non-executive Directors, one of whom chairs the committee.

### CONDENSED CONSOLIDATED INCOME STATEMENT

*Six months ended 30 June 2009*

		Six months ended 30 June	
		2009	2008
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
<b>REVENUE</b>	5	<b>1,677,436</b>	1,408,197
Cost of sales		<u>(1,029,660)</u>	<u>(890,400)</u>
<b>Gross profit</b>		<b>647,776</b>	517,797
Other income and gains	5	<b>6,662</b>	3,105
Selling and distribution costs		<b>(242,378)</b>	(158,677)
General and administrative expenses		<u><b>(80,766)</b></u>	<u>(61,411)</u>
<b>Operating profit</b>	6	<b>331,294</b>	300,814
Finance costs, net	7	<u><b>(164)</b></u>	<u>(3,840)</u>
<b>PROFIT BEFORE TAX</b>		<b>331,130</b>	296,974
Tax	8	<u><b>(24,596)</b></u>	<u>(42,310)</u>
<b>PROFIT FOR THE PERIOD</b>		<u><b>306,534</b></u>	<u>254,664</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	10		
Basic (RMB cents)		<u><b>14.10</b></u>	<u>16.01</u>
Diluted (RMB cents)		<u><b>N/A</b></u>	<u>14.63</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

30 June 2009

		<b>30 June 2009</b>	31 December 2008
	<i>Notes</i>	<i>RMB'000</i> <b>(Unaudited)</b>	<i>RMB'000</i> <b>(Audited)</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>119,208</b>	115,333
Prepaid land lease payments		<b>21,731</b>	21,847
Deposit paid for acquisition of land use rights	<i>11</i>	<b>50,079</b>	50,079
Deposits paid for acquisition of items of property, plant and equipment		<b>33,000</b>	10,288
Intangible assets		<b>703</b>	791
		<b>224,721</b>	198,338
<b>CURRENT ASSETS</b>			
Inventories	<i>12</i>	<b>263,450</b>	288,287
Trade and bills receivables	<i>13</i>	<b>576,650</b>	526,912
Prepayments, deposits and other receivables	<i>14</i>	<b>81,082</b>	121,740
Pledged deposits	<i>15</i>	–	6,000
Cash and cash equivalents	<i>15</i>	<b>2,125,819</b>	2,136,938
		<b>3,047,001</b>	3,079,877
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	<i>16</i>	<b>384,370</b>	377,989
Deposits received, other payables and accruals	<i>17</i>	<b>119,418</b>	75,392
Interest-bearing bank borrowings	<i>18</i>	–	124,000
Tax payable		<b>17,943</b>	60,234
		<b>521,731</b>	637,615
<b>NET CURRENT ASSETS</b>		<b>2,525,270</b>	2,442,262
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,749,991</b>	2,640,600
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	<i>19</i>	<b>7,224</b>	2,824
		<b>7,224</b>	2,824
<b>NET ASSETS</b>		<b>2,742,767</b>	2,637,776
<b>EQUITY</b>			
Equity attributable to equity holders of the Company			
Issued capital	<i>20</i>	<b>19,177</b>	19,177
Reserves	<i>21</i>	<b>2,723,590</b>	2,618,599
<b>TOTAL EQUITY</b>		<b>2,742,767</b>	2,637,776

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
<b>Profit for the period</b>	<b>306,534</b>	254,664
<b>Other comprehensive income for the period:</b>		
Exchange differences on translation of financial statements of overseas subsidiaries	<u>43,317</u>	<u>3,454</u>
<b>Total comprehensive income for the period</b>	<b><u>349,851</u></b>	<b><u>258,118</u></b>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2009

## 1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands as an exempted company with limited liability under the Companies law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares have been listed on the Main Board of the Hong Kong Stock Exchange since 3 June 2008. The Company's principal place of business in Hong Kong is located at Suite 2401-02, 24th floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.

The Company and its subsidiaries (collectively referred to as the "Group") were engaged in the design, development, manufacture, marketing and sales of sportswear, including footwear, apparel and accessory products, sold under the Xtep brand, the Disney Sport brand and the Koling brand.

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The condensed consolidated interim financial statements does not include all the information and disclosures required in the financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2008.

The condensed consolidated interim financial statements have been prepared under the historical cost convention. The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008 except as described by below. In the current period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new HKFRSs") issued by HKICPA which are effective for the Group's financial year beginning on 1 January 2009.

HKFRSs (Amendments)	Improvements to HKFRSs May 2008
HKFRSs (Amendments)	Improvements to HKFRSs April 2009
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments



HK (IFRIC) – Int 9 and HKAS 39 (Amendments)	Reassessment of Embedded Derivatives
HK (IFRIC) – Int 13	Customer Loyalty Programmes
HK (IFRIC) – Int 15	Agreement for the Construction of Real Estate
HK (IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation

The adoption of the new HKFRSs, except for HKAS 1 (Revised) as described below, had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented.

HKAS 1 (Revised) introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

### **3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

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

In preparing the condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those used by management in the preparation of the Group's annual financial statements for the year ended 31 December 2008.

In the process of applying the Group's accounting policies, management has made the following significant judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

#### Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividend. The Group considered that if certain profits will not be distributed in the foreseeable future, then no withholding taxes should be provided.

### **4. SEGMENT INFORMATION**

The Group is principally engaged in the manufacture and sale of sportswear, including footwear, apparel and accessories. Accordingly, the Group's operating activities are attributable to a single business segment.

In addition, the Group's revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, which is the PRC. Therefore, no analysis in business or geographical segment is presented.

## 5. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
<b>Revenue</b>		
Manufacture and sale of sportswear:		
Footwear	789,470	703,567
Apparel	866,888	686,684
Accessories	21,078	17,946
	<u>1,677,436</u>	<u>1,408,197</u>
<b>Other income and gains</b>		
Subsidy income from the PRC government *	3,577	770
Rental income	282	288
Fair value gain on derivative component of preferred shares	–	1,156
Others	2,803	891
	<u>6,662</u>	<u>3,105</u>

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

## 6. OPERATING PROFIT

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

	Six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Advertising and promotion costs	193,874	113,110
Research and development costs	28,500	22,511
Staff costs	81,318	74,643
Depreciation	7,229	5,150
Amortisation of intangible assets	88	31
Amortisation of prepaid land lease payments	251	251

## 7. FINANCE COSTS, NET

	Six months ended 30 June	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest expense on bank loans repayable within five years	5,080	6,387
Interest expense on preferred shares	–	239
Foreign exchange differences, net	3,629	–
Bank interest income	(8,545)	(2,786)
	<u>164</u>	<u>3,840</u>

## 8. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2008: Nil). Taxes on profits assessable in the PRC have been calculated at the prevailing rates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax – PRC		
Charge for the period	19,702	42,310
Underprovision in prior year	494	–
Deferred tax – PRC ( <i>note 19</i> )	4,400	–
	<u>24,596</u>	<u>42,310</u>

According to the Enterprise Income Tax law of the PRC, Xtep (China) Co., Ltd. (“Xtep China”), a wholly-owned subsidiary of the Group, was entitled to a 50% reduction in the PRC enterprise income tax of the tax rate of 25% for the year ended 31 December 2008 and the year ending 31 December 2009.

Koling (Fujian) Garment Co., Ltd. (“Koling (Fujian)”) and Xtep Sports Goods Co., Ltd. Jinjiang (“Xtep Jinjiang”) enjoyed exemption from the PRC enterprise income tax for the year ended 31 December 2008 and the year ending 31 December 2009, and thereafter will be entitled to a 50% reduction in the PRC enterprise income tax for the subsequent three years.

廈門特步投資有限公司 (“Xtep Xiamen”), a wholly-owned subsidiary of the Company, has been granted certain tax relief whereby the profit of Xtep Xiamen was taxed at the prevailing tax rate set by the local tax authority for 18% for the year ended 31 December 2008 and 20% for the year ending 31 December 2009.

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

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Profit before tax	<u><b>331,130</b></u>	<u>296,974</u>
Tax at the applicable rates	<b>85,064</b>	75,253
Lower tax rate for specific province or tax holidays	<b>(87,293)</b>	(36,062)
Adjustments in respect of current tax of prior periods	<b>494</b>	–
Income not subject to tax	<b>(1,468)</b>	–
Expenses not deductible for tax	<b>20,026</b>	1,160
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	<b>4,400</b>	–
Tax losses not recognised	<u><b>3,373</b></u>	<u>1,959</u>
Tax charge at the Group's effective rate	<u><b>24,596</b></u>	<u>42,310</u>

## 9. DIVIDENDS

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

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Interim dividend – HK7.0 cents (six months ended 30 June 2008: HK5.0 cents) per ordinary share	<u><b>134,155</b></u>	<u>96,767</u>

*Note:*

At the board meeting held on 7 September 2009, the board of directors declared and approved an interim dividend of HK7.0 cents (equivalent to approximately RMB6.2 cents) per ordinary share, totalling HK\$152,155,150 (equivalent to approximately RMB134,155,000), for the six months ended 30 June 2009. This interim dividend has not been recognised as a liability in the condensed consolidated interim financial statements.

At the board meeting held on 1 September 2008, the board of directors declared and approved an interim dividend of HK5.0 cents (equivalent to approximately RMB4.4 cents) per ordinary share, totalling HK\$110,000,000 (equivalent to approximately RMB96,767,000), for the six months ended 30 June 2008.

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

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Pre-listing dividend	–	129,455
2008 final dividend – HK8.0 cents per ordinary share	<b>153,286</b>	–
2008 special dividend – HK5.0 cents per ordinary share	<b>95,803</b>	–
	<b><u>249,089</u></b>	<u>129,455</u>

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

- (a) Basic earnings per share

The calculation of basic earnings per share amount for the six months ended 30 June 2009 was based on the profit for the period attributable to equity holders of the Company of RMB306,534,000 (six months ended 30 June 2008: RMB254,664,000) and the number of ordinary shares in issue during the six months ended 30 June 2009 of 2,173,645,000 (six months ended 30 June 2008: weighted average number of 1,590,383,811 as adjusted to reflect the conversion of preferred shares, capitalisation issues and the share offering during the period).

- (b) Diluted earnings per share

A diluted earnings per share amount for the period ended 30 June 2009 has not been disclosed as the Pre-IPO Share Options (as defined in note 22) outstanding during the period had an anti-dilutive effect on the basic earnings per share amount for the period.

The calculation of diluted earnings per share amount for the six months ended 30 June 2008 is based on the profit for the period attributable to the equity holders of the Company of RMB254,664,000 adjusted to reflect the imputed interest expense on preferred shares of RMB239,000 and the fair value gain on derivative component of preferred shares of RMB1,156,000. The weighted average number of ordinary shares of 1,734,615,384 used in the calculation was the weighted average number of ordinary shares in issue at 30 June 2008, as used in the basic earnings per share amount calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of 12,359,550 preferred shares and the corresponding 169,140,443 ordinary shares to be issued pursuant to the capitalisation issue. The Pre-IPO Share Options outstanding during the period ended 30 June 2008 had anti-dilutive effect on the basic earnings per share amount for the period.

## 11. DEPOSIT PAID FOR ACQUISITION OF LAND USE RIGHTS

As at 30 June 2009, the Group paid a deposit of RMB50,079,000 (31 December 2008: RMB50,079,000) for the acquisition of a parcel of land in Xiamen, Fujian Province, the PRC. The acquisition has not been completed up to the date of these financial statements.

## 12. INVENTORIES

	<b>30 June 2009 RMB'000 (Unaudited)</b>	31 December 2008 RMB'000 (Audited)
Raw materials	141,060	117,528
Work in progress	21,715	43,318
Finished goods	<u>100,675</u>	<u>127,441</u>
	<b><u>263,450</u></b>	<b><u>288,287</u></b>

## 13. TRADE AND BILLS RECEIVABLES

The trading terms with its customers are mainly on credit. The credit period is generally for a period of three months. An aged analysis of the Group's trade receivables as at 30 June 2009, based on the invoice date, is as follows:

	<b>30 June 2009 RMB'000 (Unaudited)</b>	31 December 2008 RMB'000 (Audited)
Within 3 months	563,103	437,854
3 to 6 months	7,938	80,233
6 to 12 months	4,679	8,782
Over 1 year	<u>-</u>	<u>43</u>
Trade receivables	575,720	526,912
Bills receivables	<u>930</u>	<u>-</u>
Trade and bills receivables	<b><u>576,650</u></b>	<b><u>526,912</u></b>

## 14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>30 June 2009 RMB'000 (Unaudited)</b>	31 December 2008 RMB'000 (Audited)
Prepayments	17,249	47,488
Deposits	61,304	69,111
Other receivables	<u>2,529</u>	<u>5,141</u>
	<b><u>81,082</u></b>	<b><u>121,740</u></b>

## 15. CASH AND CASH EQUIVALENTS

	<b>30 June 2009</b>	31 December 2008
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
Time deposits	<b>670,008</b>	870,952
Cash and bank balances	<b>1,455,811</b>	1,271,986
	<b>2,125,819</b>	2,142,938
Less: Pledged deposits for bills payables	<b>–</b>	(6,000)
Cash and cash equivalents	<b>2,125,819</b>	2,136,938

The cash and bank balances of the Group denominated in RMB amounted to approximately RMB1,429,738,000 as at 30 June 2009 (31 December 2008: RMB1,220,342,000). The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

## 16. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade payables as at 30 June 2009, based on the invoice date, is as follows:

	<b>30 June 2009</b>	31 December 2008
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
Within 3 months	<b>383,724</b>	319,730
3 to 6 months	–	25,385
6 to 12 months	–	2,093
Over 1 year	–	781
Trade payables	<b>383,724</b>	347,989
Bills payables	<b>646</b>	30,000
Trade and bills payables	<b>384,370</b>	377,989

The trade payables are non-interest-bearing and are normally settled on within 60 to 90 days. The carrying amounts of trade and bills payables approximate to their fair values.

## 17. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	<b>30 June 2009 RMB'000 (Unaudited)</b>	31 December 2008 RMB'000 (Audited)
Deposits received	10,333	8,706
Accruals	65,406	41,537
VAT payables	37,000	23,594
Other payables	6,679	1,555
	<u>119,418</u>	<u>75,392</u>

## 18. INTEREST-BEARING BANK BORROWINGS

	<b>30 June 2009 RMB'000 (Unaudited)</b>	31 December 2008 RMB'000 (Audited)
Current:		
Bank loans -secured	-	108,000
Bank loans -unsecured	-	16,000
	<u>-</u>	<u>124,000</u>
Analysed into:		
Bank loans repayable within one year	<u>-</u>	<u>124,000</u>

Bank loans as at 31 December 2008 were all denominated in RMB. The bank loans bore fixed interest rates ranging from 6.32% to 7.47% per annum. Because of the short maturity, the carrying amounts of bank loans approximated to their fair values.

Certain of the Group's bank loan were secured by:

- (i) corporate guarantees from Xtep (China), Sanxing Sports Goods Co., Ltd. Quanzhou and Koling (Fujian); and
- (ii) mortgages over certain buildings and land use rights of the Group situated in the PRC.



## 19. DEFERRED TAX LIABILITIES

Pursuant to the income tax law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and jurisdiction of the foreign investors. For the Group, the applicable rate for the withholding tax is 5%. In estimating the withholding taxes on dividends expected to be distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008, the directors have made assessment based on the factors which included dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future.

At 30 June 2009, there were no significant unrecognised deferred tax liabilities (31 December 2008: Nil) for withholding taxes that would be payable on the unremitted earnings of the Company's subsidiaries expected to be distributed, after considering the abovementioned factors, in the foreseeable future.

## 20. SHARE CAPITAL

The share capital as at 30 June 2009 and 31 December 2008 represented the issued capital of the Company and a summary of the authorised and issued share capital of the Company is as follows:

At 30 June 2009

	<i>HK'000</i>	<i>RMB'000</i>
Authorised:		
100,000,000,000 ordinary shares of HK\$0.01 each	<u>1,000,000</u>	<u>935,629</u>
Issued and fully paid:		
2,173,645,000 ordinary shares of HK\$0.01 each	<u>21,736</u>	<u>19,177</u>

At 31 December 2008

	<i>HK'000</i>	<i>RMB'000</i>
Authorised:		
100,000,000,000 ordinary shares of HK\$0.01 each	<u>1,000,000</u>	<u>935,629</u>
Issued and fully paid:		
2,173,645,000 ordinary shares of HK\$0.01 each	<u>21,736</u>	<u>19,177</u>

## **21. RESERVES**

The amounts of the Group's reserves and movement therein for the six months ended 30 June 2009 are presented in the condensed consolidated statement of changes in equity.

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

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

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

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

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

## **22. SHARE OPTION SCHEMES**

### **(a) Pre-IPO share option scheme**

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

At 30 June 2009, a total of 19,000,000 share options (the "Pre-IPO Share Options") under the Pre-IPO Share Option Scheme remained outstanding. There being no exercise or lapse of any Pre-IPO Share Options during the period ended 30 June 2009.

At the date of approval of the condensed consolidated interim financial statements, the Company had 19,000,000 Pre-IPO Share Options outstanding under the Pre-IPO Share Option Scheme, which represented approximately 0.9% of the issued share capital of the Company as at that date.

### **(b) Share option scheme**

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

No share option has been granted under the Share Option Scheme up to the 30 June 2009. Subsequent to the end of the reporting period, on 29 July 2009, the Company granted 10,000,000 share options under the Share Option Scheme to certain grantees to subscribe for a total of 10,000,000 ordinary shares of HK\$0.01 each in the share capital of the Company at an exercise price of HK\$4.11 per share. Further details of the transaction were disclosed in the Company's announcement dated 30 July 2009.

## 23. COMMITMENTS

(a) The commitments as at 30 June 2009 are as follows:

	<b>30 June 2009 RMB'000 (Unaudited)</b>	31 December 2008 RMB'000 (Audited)
Contracted for capital commitment in respect of its wholly-foreign-owned investments in the PRC	<b>652,432</b>	652,284
Contracted for commitment in respect of:		
– construction of new buildings	<b>2,126</b>	5,248
– acquisition of items of property, plant and equipment	<b>29,199</b>	–
– advertising and promotion costs	<b>47,745</b>	59,570
	<b><u>731,502</u></b>	<b><u>717,102</u></b>

(b) For the period from 1 November 2006 to 31 December 2009, the Group is obliged to pay a minimum guaranteed royalty to a licensor, however, such amount will be adjusted based on the actual sales amount of the product for these periods.

## 24. OPERATING LEASE ARRANGEMENTS

As at 30 June 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 June 2009 RMB'000 (Unaudited)</b>	31 December 2008 RMB'000 (Audited)
Within one year	<b>4,327</b>	4,295
In the second to fifth years, inclusive	<b>10,510</b>	12,690
	<b><u>14,837</u></b>	<b><u>16,985</u></b>

## 25. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The unaudited interim financial statements were approved and authorised for issue by the Board of Directors on 7 September 2009.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Market Overview

#### *Green Leaves Sprout in the PRC Retail Market*

China's retail market underwent a degree of fluctuation during the first half of 2009. Still reeling from last year's global financial tsunami, consumer spending in the PRC showed signs of slowing down at the beginning of 2009. In order to maintain the growth of national economy, the Chinese government has implemented a series of actions including an approximately RMB4 trillion stimulus package. The national economy responded positively to this implementation. According to the National Bureau of Statistics, China's retail sales of consumer goods in the first half year of 2009 rose by 15.0% over the same period last year. China's urban households per capita disposable income also recorded an increase of 9.8% over the corresponding period last year. It is expected that the Chinese government will continue to promote domestic consumption as one of the economic drivers in the next five to ten years. The macro market environment presents a positive outlook for companies in the consumer and retail sector.

#### *New Greenland Market*

The second and third tier cities in China present significantly better business opportunities and economic growth since most of the first tier cities are still combating and minimizing the adverse effect of the economic crisis. Compared with major cities like Beijing, Shanghai, Guangzhou and Shenzhen, cities in the second and third tiers offer better retail markets as these cities are generating higher growth of consumer population following the affluence of these regions' residents. Data from recent market research for the first quarter of 2009 showed that provinces such as Hunan, Hubei, Zhejiang and Shandong recorded the strongest overall retail sales growth in the PRC.

#### *Rising Demand for Fashion Sportswear*

In the wake of last year's Beijing Olympics, a host of major sporting events, such as the 11th National Games of China in Shandong province in October 2009, the 2009 East Asian Games in Hong Kong in December 2009, the 16th Asian Games in Guangzhou in November 2010, and other major events will continue to drive the overall popularity of sports in China, which will bolster demand for sports-related products among PRC consumers. All these coupled with accelerating urbanisation and rising purchasing power, especially in the second and third tier cities across the PRC, will significantly enlarge the sportswear market. The increasing affluence of consumers in these cities has also built up stronger awareness of lifestyle and higher fashion consciousness. These are driving the demand for more fashionable and stylish sportswear, thus offering favourable conditions for our Group to seek rapid growth.

## **Business Review**

### ***Innovative Brand Building and Marketing***

“Exceptional Feeling” has always been the spirit behind the Xtep brand. This is reflected in our innovative brand building strategy that integrates sports and entertainment marketing. The Group strengthened its Xtep brand position by sponsoring major sporting events that were well received by youngsters to maximize exposure to its target customers. To multiply the effect, advertisements were placed in strategically selected highly-rated channels. In addition, the Group was a pioneer in engaging young entertainment celebrities as brand image representatives, as these celebrities are highly popular and have powerful influence on youngsters. These concerted efforts effectively bring out the unique strengths of the Group as the leading domestic fashion sportswear enterprise.

#### **1) Sports Marketing and Sponsorship**

Sponsorship of sporting events is an integral part of Xtep brand’s overall promotion campaign to ensure optimal levels of exposure. To this end, the Group sponsored three major types of events, namely prominent events that have high exposure to the mass market, popular sporting events such as running and basketball leagues that invite wide community participation, and exciting games that appeal to youngsters. During the period under review, the Group continued to identify the most cost-effective sports marketing and sponsorship opportunities and committed to the sponsorship of the following key events:

#### ***PROMINENT EVENTS***

- Sole Sports Product Partner for the 11th National Games of China

The Group won the sponsorship as the sole sports product partner for the 11th National Games of China which will be held in Shandong in October 2009. This is one of the most significant and influential sporting events in China held once every four years. The Group sponsored all the apparel products for the Shandong, Hunan, Fujian, Jiangsu, Liaoning, Guizhou, Hong Kong and the People’s Liberation Army delegations as well as the sole apparel products sponsor for the staff, referees, volunteers and the torch relay event. In addition, the Group served as sole title sponsor for the men’s and women’s basketball competitions. All of these key sponsorship opportunities highlight our concerted efforts to support China’s sports industry. It also demonstrates the strong and successful partnership forged between the nation’s top sporting events and the Group as the leading Chinese fashion sportswear enterprise.

## ***POPULAR SPORTING EVENTS***

- 2009 Xiamen International Marathon

The Group is the sole sports product partner of this event from 2009 to 2013. Xtep sponsored all the sports products for race participants. Co-organised by the Chinese Athletic Association and Xiamen Municipal Government, the Marathon this year attracted a record breaking number of over 36,000 participants across its eight race categories, including: men's and women's marathon, half marathon, 10km race, and the 5km race.

- Amway Nutrilite Healthy Run

A series of Healthy Run events sponsored by the Group were held in Chengdu, Hangzhou, Hefei and Jinan in the first half of 2009 and achieved great successes with over 20,000 athletes taking part. Since becoming the sportswear sponsor for the Amway Nutrilite Healthy Run in 2006, the Group positioned Xtep brand by promoting the slogan – “Sports Like No Other”.

- 2009 Olympic Day Run

Our Group was one of the sponsors of the “2009 Olympic Day Run”, organised by the Sports Federation & Olympic Committee of Hong Kong, China. Under the theme of “Move, Learn and Discover”, the event was held at the Hong Kong Disneyland Resort in June 2009 to promote the idea of “Sports for All” and to inspire people to learn and discover the delights of life through physical exercise.

- Sole Title Sponsor of National Basketball League (NBL) and Women's Chinese Basketball Association (WCBA)

Since 2007 the Group had been the sole title sponsor of the national men's basketball league NBL and women's basketball league WCBA. The Group has recently renewed the sole title sponsorship and we will consecutively sponsor NBL and WCBA for the next 5 years, from 2009 to 2013.

- Sole Title Sponsor of Zhejiang Secondary Student Basketball League

This is a high profile annual event among secondary school students in the Zhejiang province which was held in May 2009. The event attracted participation of approximately 1.4 million students from over 2,700 secondary schools in Zhejiang province. The Group has been the title sponsor for two consecutive years since the league started in 2008. This high profile event enabled the Group to strengthen Xtep brand status among youngsters in Zhejiang province.

## ***EXCITING GAMES***

- Sole Title Sponsor of CX National Games

To brand ourselves as an exciting game promoter and supporter, it has been the 3rd consecutive years for the Group to serve as the sole title sponsor of the CX National Games, the most prestigious CX Games competition in China. It also sponsored the preliminary “CX Campus Games” in Beijing, Chengdu, Guangzhou, Shanghai, Shenyang and Wuhan, all high profile events at many Chinese universities. CX Games competitive events included some of the world’s most popular emerging sports among youngsters, such as skateboarding, inline skating, bicycle motocross, and trail riding, and many others. Due to the grand-scale, and high performance standards of the participants, the Xtep CX National Games captured enormous media attention and was named – “The Best CX Games Competition in China”.

### **2) Strong TV Commercial Partnerships**

The Group has embarked on a multi-faceted advertising campaign that utilises a variety of media to maximise exposure. A series of strategic partnerships have been formed with some of the most influential broadcasting channels in the PRC. Through these channels with high viewer ratings, the Group’s thematic TV commercials were broadcast selectively during prime hours at channels which features programmes for young people. It has also fostered close partnership with major domestic channels in different regional markets. Some of these included:

- National: CCTV 1 – It is the most important all round national channel of the China Central Television (“CCTV”). It has a mixture of all kinds of TV programs and is available to both cable and non-cable television viewers. The Group’s TV commercials were placed on this channel to increase brand awareness.
- Sports: CCTV 5 – It is a dedicated national sports channel that features sports events of all types. The Group has entered into a 2-year agreement with CCTV 5 and became the official partner with CCTV 5 from 2009 to 2010 to broadcast Xtep’s commercial among all their live coverage of sporting events. The main purpose of advertising on this channel is to boost the Xtep brand profile in the sportswear sector.
- Southern China: Hunan Satellite TV – This channel has become one of the most popular primary TV channels that focuses on entertainment and information in China. The Group is the sole title sponsor of “Progressing Everyday 《天天向上》” which is a highly entertaining programme with overwhelming response from audience and has therefore increased the Xtep brand recognition.

- Eastern China: Anhui Satellite TV – The Group has entered into strategic sports product partnership with Anhui Satellite TV, one of the earliest TV channels in the Eastern part of China and has extensive coverage beyond this region. The Group has placed TV commercials featuring its brand image representatives in Xtep fashion sportswear to strengthen the Group’s brand promotion in the affluent region.

The TV commercials were further supplemented by an extensive print advertising campaign in major sports and fashion publications to further strengthen the Xtep brand’s position as a leading fashion sportswear brand. Given the changing media landscape, outdoor and online media are becoming increasingly more important to our advertising strategy.

### **3) Entertainment Marketing**

The Group has contracted a number of the hottest Asian entertainment celebrities, including Nicholas Tse, the TWINS, Jolin Tsai and Wilber Pan, as Xtep brand image representatives to endorse Xtep as a trendsetter in fashion sportswear. A series of advertising programmes and in-store displays featuring these celebrities with Xtep’s products were launched to develop an energetic and stylish image. In addition, the Group made use of a range of hip and vibrant entertainment driven events to bolster brand awareness and customer loyalty. Here are some of the key highlights of activities we initiated in the first half of 2009:

- Xtep Night – China Tour – This event was arranged by the Organising Committee of the 11th National Games of China in Jinan, Shandong Province, China as part of the promotion of the 11th National Games of China. The fabulous performances of the Xtep brand representatives in June 2009 drew and thrilled a record breaking number of over 50,000 spectators in Jinan. As the event was widely reported by the media, the Group, as the title sponsor, received extensive media coverage not just in Shandong but also nationwide.
- 2009 Xtep Stars Nationwide Concert Tour – Significant promotion programs has been arranged regarding the “2009 Xtep Stars Nationwide Concert Tour”. This concert tour was sponsored solely by the Group and performed by the Xtep brand image representatives and comprised five concerts in five major cities where the Xtep brand has further strengthened the brand status, namely Suzhou, Wuhan, Hangzhou, Changsha and Hefei and were held during July and August 2009. The opportunity to have close encounters with the superstars have created tremendous attentions and focus in the regions. The event became one of the major entertainment functions among the youthful crowd. These five concerts were concluded with great success, drawing over 30,000 participants to the events in aggregate. It further reached out to audience in adjacent regions through widespread coverage on the print before and after the concerts as well as electronic media via live TV broadcast by a number of TV channels such as Hunan Satellite TV.



## ***Retail Network Expansion***

While the Group continued its planned rapid expansion, we also remained committed to emphasize the quality and to optimise the productivity as well as enhancing its outlet image and service standards during the period under review.

## **Nationwide Network Coverage**

As of 30 June 2009, the Group had a total of 5,869 retail outlets through its network of distributors or third-party retailers. The following table details the number of retail outlets operated by our distributors and third-party retailers under Xtep brand and Other brands in the PRC, as of 30 June 2009:

### **Number of retail outlets**

Brands	As at 30 June 2009	As at 31 December 2008	Change
Xtep brand	5,405	5,056	+ 349
Other brands	<u>464</u>	<u>476</u>	<u>-12</u>
<b>Total</b>	<b><u><u>5,869</u></u></b>	<b><u><u>5,532</u></u></b>	<b><u><u>+337</u></u></b>

### ***Xtep Brand***

Xtep brand continued to expand the retail network profile, the total number of retail outlets, total number of flagship stores, total gross sales floor area and average sales floor area are summarized as follows:

	As at 30 June 2009	As at 31 December 2008	Change (%)
Total number of retail outlets	5,405	5,056	+6.9
Total number of flagship stores	22	12	+83.3
Total gross sales floor area (m <sup>2</sup> )	425,624	377,315	+12.8
Average sales floor area (m <sup>2</sup> )	78.7	74.6	+5.5

The following table sets out the number of retail outlets operated by our distributors and third-party retailers in the PRC as of 30 June 2009 by geographical location:

### Number of Retail Outlets of Xtep Brand by Regions

	As at 30 June 2009	As at 31 December 2008	Change
Eastern region	2,043	1,922	+121
Southern region	1,322	1,241	+81
Western region	930	891	+39
Northern region	1,110	1,002	+108
<b>Total</b>	<b>5,405</b>	<b>5,056</b>	<b>+349</b>

#### a) Geographical Areas

The eastern and southern regions were key developmental areas for Xtep brand during the period under review. In particular, Hunan and Hubei provinces in the southern region as well as Jiangsu, Zhejiang, Anhui and Shandong provinces in the eastern region represented the key areas of the Group's retail outlets network. According to the latest statistics released by the National Bureau of Statistics of China, during the first half of 2009, the GDP in most of these provinces grew by double digit figures and outpaced the 7.1% overall GDP growth in the PRC. The Group's strategy is to further expand its business network in these fast growing areas. As of 30 June 2009, the Group had a total of 2,262 retail outlets through its distributors or third-party retailers in these six provinces, accounting for approximately 42% of its nationwide retail network.

#### b) Flagship Stores

Flagship stores play an important role in brand building and enhancing customer loyalty. Xtep launched 10 new flagship stores since the start of 2009, bringing the total number of Xtep flagship stores to 22 by the end of June 2009. The new flagship stores are located in bustling commercial areas of Shanghai, Shandong, Zhejiang, Hunan, Jilin, Henan, Guangxi, Shanxi and Guizhou provinces. These prominent stores will strengthen our presence in the retail market and also impress our consumers to experience the vitality and dynamics of the Xtep brand ideology.

#### c) Outlet Image Upgrade

The Group continued to enhance its network quality through a progressive outlet image upgrade programme. We have actively marketed the 5th generation image store in all our flagship stores and retail outlets at prime locations that boost high consumption growth. These new image stores offer consumers a refreshing shopping experience, effectively enhance customer loyalty and, in turn, increase brand competitiveness and overall profitability.

## *Other Brands*

### **Number of Retail Outlets of Other Brands by Regions**

	<b>As at 30 June 2009</b>	As at 31 December 2008	<b>Change</b>
Eastern region	<b>130</b>	131	-1
Southern region	<b>123</b>	125	-2
Western region	<b>65</b>	68	-3
Northern region	<b>146</b>	152	-6
<b>Total</b>	<b><u>464</u></b>	<b><u>476</u></b>	<b><u>-12</u></b>

Other brands comprised of Disney Sport brand and Koling brand. These retail outlets are mainly located in the northern and eastern regions as recognition of these brands are higher in these regions. The number of retail outlets decreased was mainly due to reduced Koling brand retail outlets as its high end market profile was affected by the economy slowdown.

### *Management of Distributors*

#### a) Distributors and Franchisees

We regard our distributors as our important business partners and have appointed a total of 28 exclusive Xtep brand distributors and 50 Other brands distributors covering 31 provinces. To ensure that a consistent brand image is presented and upheld at all retail outlets, the Group provides a unified code of operations, detailing specifications on outlet design and layout settings, customer service standards, and pricing policies. Comprehensive training on marketing guidelines, visual merchandising and inventory management are regularly provided as well to ensure that the Group's brand image as a fashion sportswear leader is executed consistently.

#### b) Distribution Management

The strict distribution management system we follow has been one of the crucial factors to our overall success. As of 30 June 2009, approximately 70% of our Xtep brand distributors has adopted the real-time monitoring DRP system. The DRP system links directly to the distributors' inventory and financial systems, allowing us to record and track real-time inventory levels as well as the movement of products at warehouses and retail outlets. Hence, we can plan and monitor the market situation more efficiently and optimise inventory control.

## ***Product Design and Technical Development***

The Group had a total of 538 staff as of 30 June 2009 (30 June 2008: 484) from the design, research and development and quality control departments.

### **a) Strong Design Capability**

One of the keys to our success has been the unparalleled product design capability we have nurtured. The Group has its own distinct product design teams who co-operate with international design houses for their advance knowledge of fashion trends integrated them into the designs of our sportswear items.

In addition, the Group has cooperated closely with world renowned fashion trend research and design institutions from South Korea, England and France. These partnerships helped us stay at the forefront of international fashion trends and strengthen our ability to anticipate and effectively respond to changing consumer demand.

As a result of the above concerted efforts, the Group introduced more than 10 themes of designs and produced more than 1,700 new footwear designs and more than 1,800 new apparel designs to meet different consumer demands during the period under review.

### **b) Innovative Product Research and Development**

The Group has a very experienced technical team who has over 20 years experience in the footwear business. We always focus on developing more advanced footwear products that can produce functional performance and maximise comfortability. During the period under review, the Group launched the first ever line of Xtep brand's X-LIGHT shock resistant shoes specifically designed for running and it weights in average 20% less than the traditional running shoes. This light weight technology combined with "breathable" fabrics provides a brand new extraordinary sporting experience to customers.

The Group also continued to seek improvements in developing nano-silver, anti-bacterial chemicals, fragrance features, and shock-resistance enhancements to other series of footwear products. Combined with trendy and stylish trim figure designs, the Group offered quality heat-resistance and perspiration absorbent apparel products which attract a mass crowd of youthful customers.

## ***Supply Chain Management***

The Group has adopted a vertically integrated business model from design and production to sales and distribution management. We are able to respond quickly to ever changing market demands and fashion trends by utilising our own production facilities. During the period under review, the Group had 12 footwear production lines and 20 apparel production lines with a total annual production capacity of approximately 12 million pairs of footwear products and approximately 3 million pieces of apparel products, respectively. The utilisation rate of our production facilities was close to 100%. For the period under review, approximately 50% of footwear and 10% of apparel products by sales volume were manufactured by the Group.

## Financial Review

### Revenue Breakdown by Product Categories

For the six months ended 30 June

	Revenue (RMB'000)			As % of revenue	
	2009	2008	Change (%)	2009	2008
Footwear	<b>789,470</b>	703,567	+12.2	<b>47.1</b>	50.0
Apparel	<b>866,888</b>	686,684	+26.2	<b>51.7</b>	48.8
Accessories	<b>21,078</b>	17,946	+17.5	<b>1.2</b>	1.2
<b>Total</b>	<b><u>1,677,436</u></b>	<b><u>1,408,197</u></b>	<b><u>+19.1</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>
<b>Gross profit margin</b>	<b>38.6%</b>	36.8%	+1.8 pts		

For the six months ended 30 June 2009, the Group recorded remarkable results. Revenue increased by 19.1% to RMB1,677 million (2008: RMB1,408 million), while the Group's gross profit margin improved by 1.8 percentage points to 38.6% (2008: 36.8%).

The Group recorded revenue increases in all product segments, of which 12.2% in footwear, 26.2% in apparel and 17.5% in accessories. The remarkable result was due to successful and predominantly strong brand building in the market. Our products were well accepted by the mass market that has strong demand for stylish and trendy sportswear products to meet their needs in terms of lifestyle and appearance. The expansion of sales network channel has also given the Group a very strong sales volume driver. On the other hand, as the Group's branding status increases, we are able to increase the ASP as well.

Not only did we achieve remarkable results in revenue, the Group also improved the gross profit margin significantly by 1.8 percentage points to 38.6%. This was achieved mainly by raising Xtep brand's ASP and exercising very stringent cost control.

The Group's apparel products hit the right target customer group and resulted in a significant increase of 26.2% in apparel revenue to RMB867 million (2008: RMB687 million). Sales of apparel products took up an increased share and accounted for 51.7% of the Group's revenue. As a result, sales of footwear and accessories accounted for 47.1% and 1.2% of the Group's revenue, respectively.

## Footwear

### Revenue, Sales Volume and ASP Breakdown of Footwear Products by Branded Product Sales and OEM Sales

For the six months ended 30 June

Footwear	Revenue (RMB'000)			Sales Volume ('000)			ASP (RMB)		
	2009	2008	Change (%)	2009	2008	Change (%)	2009	2008	Change (%)
Xtep brand	733,689	662,487	+10.7	9,123	8,834	+3.3	80.4	75.0	+7.2
Other brands	55,781	36,079	+54.6	736	438	+68.0	75.8	82.4	-8.0
OEM	-	5,001	N/A	-	103	N/A	N/A	48.3	N/A
<b>Total</b>	<b>789,470</b>	<b>703,567</b>	<b>+12.2</b>	<b>9,859</b>	<b>9,375</b>	<b>+5.2</b>	<b>80.1</b>	<b>75.0</b>	<b>+6.8</b>
<b>Gross profit margin</b>	<b>39.4%</b>	<b>36.1%</b>	<b>+3.3 pts</b>						

The Group's footwear revenue increased by 12.2% to RMB789 million (2008: RMB704 million). This was mainly due to the increase in Xtep footwear revenue by 10.7% to RMB734 million (2008: RMB662 million) and significant increase in Other brands footwear revenue by 54.6% to RMB56 million (2008: RMB36 million). The Group has stopped OEM sales in this period (2008: RMB5 million).

The Group's total footwear sales volume increased by 5.2% to approximately 9.9 million pairs. This was mainly due to 3.3% sales volume increase in Xtep brand to approximately 9.1 million pairs as a result of sales network expansion. Significant increase in the sales volume of Other brands by 68.0% was mainly derived from Disney Sport branded footwear products due to its niche and unique market which have been well received by teenagers who are great fans of fun and stylish products.

As the Xtep brand status has increased steadily, the Group has increased the selling prices to the distributors, hence the ASP of Xtep footwear increased by 7.2%. In order to maintain the market penetration of Other brands, the ASP of Other brands footwear reduced by 8.0% as compared to the same period last year.

The gross profit margin of footwear increased significantly by 3.3 percentage points to 39.4% (2008: 36.1%). The significant increase was mainly due to the increase in Xtep footwear gross profit margin by 3.4 percentage points to 38.9% (2008: 35.5%), which was due to increase in ASP. The decrease in Other brands footwear gross profit margin by 3.9 percentage points to 45.3% (2008: 49.2%) was mainly due to the strategy to continue the market penetration of Other brands product and therefore the Group decided to absorb certain proportion increase in cost of sales while ASP reduced as compared to last period.

## *Apparel*

### Revenue, Sales Volume and ASP Breakdown of Apparel Products by Brand Product Sales

For the six months ended 30 June

	Revenue (RMB'000)			Sales Volume ('000)			ASP (RMB)		
	2009	2008	Change (%)	2009	2008	Change (%)	2009	2008	Change (%)
Apparel									
Xtep brand	801,616	631,586	+26.9	17,389	14,077	+23.5	46.1	44.9	+2.7
Other brands	65,272	55,098	+18.5	834	723	+15.4	78.3	76.2	+2.7
<b>Total</b>	<b>866,888</b>	<b>686,684</b>	<b>+26.2</b>	<b>18,223</b>	<b>14,800</b>	<b>+23.1</b>	<b>47.6</b>	<b>46.4</b>	<b>+2.6</b>
Gross profit margin	38.2%	37.4%	+0.8 pt						

The Group's apparel revenue increased significantly by 26.2% to RMB867 million (2008: RMB686 million) mainly because Xtep apparel revenue increased significantly by 26.9% to RMB802 million (2008: RMB632 million), while Other brands apparel revenue increased by 18.5% to RMB65 million (2008: RMB55 million).

The Group's total apparel sales volume increased remarkably by 23.1% to approximately 18.2 million pieces. This was mainly due to 23.5% sales volume increase in Xtep brand to approximately 17.4 million pieces. Such a remarkable increase was attributable to rising brand status recognition and successful product differentiation strategy amongst other sportswear brand products. Innovative and colourful sportswear apparel became a popular lifestyle appearance for customers and it gave a perfect fit for Xtep's core focus. The sales volume of Other brands increased by 15.4% mainly due to fun character products of Disney Sport branded apparel and niche and unique market that the Disney Sport brand addressed to.

The increase in the Group's overall apparel ASP was mainly related to increase in retail price of apparel products of the Xtep brand and Disney Sport brand as the branding status has increased steadily.

The gross profit margin of apparel increased by 0.8 percentage point to 38.2% (2008: 37.4%). The increase was mainly due to the increase in Xtep apparel gross profit margin by 1.0 percentage point to 38.2% (2008: 37.2%) primarily as a result of increase in ASP. The decrease in Other brands apparel gross profit margin by 2.3 percentage points to 37.8% (2008: 40.1%) was mainly due to the strategy to continue the market penetration of Other brands product and therefore the Group decided to absorb certain proportion increase in cost of sales while ASP increased moderately as compared to last period.

## Revenue and Gross Profit Margin Breakdown by Branded Product Sales and OEM Sales

For the six months ended 30 June

	Revenue (RMB'000)			As a % of revenue		Gross profit margin		
	2009	2008	Change (%)	2009	2008	2009	2008	Change
Xtep brand	1,548,780	1,308,149	+18.4	92.3	92.9	38.5%	36.3%	+2.2 pts
Other brands	128,656	95,047	+35.4	7.7	6.7	40.4%	43.6%	-3.2 pts
OEM	-	5,001	N/A	-	0.4	N/A	31.3%	N/A
<b>Total</b>	<b>1,677,436</b>	<b>1,408,197</b>	<b>+19.1</b>	<b>100.0</b>	<b>100.0</b>	<b>38.6%</b>	<b>36.8%</b>	<b>+1.8 pts</b>

Xtep branded products remained as the major revenue contributor which accounted for 92.3% of the Group's revenue. The consistent increase in Xtep retail network channels in the PRC and the strong brand building status resulted in an 18.4% increase in revenue of Xtep branded products. On the other hand, a strong increase of 35.4% of revenue of Other brands was mainly due to the successful marketing of Disney Sport brand which targeted the early teenagers who are looking for fun and stylish products. During the period under review, the Group has stopped the OEM sales.

### *Gross Profit Margin Expansion*

The Group's gross profit margin improved by 1.8 percentage points to 38.6% during the period under review (2008: 36.8%). Significant improvement was due to Xtep brand product margin improvement of 2.2 percentage points to 38.5% (2008: 36.3%) because the Xtep footwear products significantly improved by 3.4 percentage points to 38.9% (2008: 35.5%) and the gross profit margin of the Xtep apparel products improved by 1.0 percentage point to 38.2% (2008: 37.2%).

Such increase in gross profit margin was offset by the Other brands product margin being 3.2 percentage points less than the corresponding period last year to 40.4% (2008: 43.6%) primarily due to the Group's strategy to absorb certain proportion of cost increase for the future development of market penetration.



## Revenue Breakdown by Region Product Sales and OEM Sales

For the six months ended 30 June

	2009		2008	
	RMB('000)	% mix	RMB('000)	% mix
Xtep brand				
Eastern region	607,485	36.2	502,667	35.7
Southern region	462,205	27.6	389,733	27.7
Western region	206,824	12.3	187,873	13.3
Northern region	272,266	16.2	227,876	16.2
Sub-total	1,548,780	92.3	1,308,149	92.9
Other brands	128,656	7.7	95,047	6.7
OEM	–	–	5,001	0.4
<b>Total</b>	<b>1,677,436</b>	<b>100.0</b>	<b>1,408,197</b>	<b>100.0</b>

As shown from the above analysis of revenue by region, Xtep brand will continue its strength in the eastern and southern regions and it will also expand its profile in the other two regions.

### *Xtep Brand*

Xtep brand differentiates itself from other sportswear brands in the PRC and strengthens its foothold as the leading fashion sportswear player through innovative brand building strategy that integrates sport and entertainment marketing, extensive distribution network that penetrates into the second and third tier cities in the PRC, as well as its strong product design capabilities to offer trendy and fashionable products. These reaped fruitful results in the first half of 2009 and are described in the following sections.

## Revenue Breakdown of Xtep Brand by Product Categories

For the six months ended 30 June

	Revenue (RMB'000)			As % of revenue	
	2009	2008	Change (%)	2009	2008
Footwear	<b>733,689</b>	662,487	+10.7	<b>47.4</b>	50.6
Apparel	<b>801,616</b>	631,586	+26.9	<b>51.8</b>	48.3
Accessories	<b>13,475</b>	14,076	-4.3	<b>0.8</b>	1.1
<b>Total</b>	<b><u>1,548,780</u></b>	<b><u>1,308,149</u></b>	<b><u>+18.4</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>

Revenue of Xtep branded products increased by 18.4% to RMB1,549 million compared to the same period last year (2008: RMB1,308 million) mainly due to growth in Xtep footwear revenue of 10.7% and significant increase of Xtep apparel revenue of 26.9%. The increase of Xtep footwear and apparel revenue was mainly due to the strong and effective marketing promotion in both entertainment and sports event sponsorships. Also, the consistent expansion of the Xtep retail network from 5,056 retail outlets as at 31 December 2008 to 5,405 retail outlets as at 30 June 2009 provided a solid sales channel platform to the Xtep brand.

## Revenue, Sales Volume and ASP Breakdown of Xtep Brand Footwear

For the six months ended 30 June

	2009	2008	Change (%)
Revenue (RMB'000)	<b>733,689</b>	662,487	+10.7
Sales Volume ('000)	<b>9,123</b>	8,834	+3.3
ASP (RMB)	<b>80.4</b>	75.0	+7.2
Gross profit margin	<b>38.9%</b>	35.5%	+3.4 pts

The revenue of Xtep branded footwear increased by 10.7% to RMB734 million (2008: RMB662 million) primarily driven by sales volume increase of 3.3% to 9.1 million (2008: 8.8 million) pairs of footwear and ASP increase of 7.2% to RMB80.4 (2008: RMB75.0). The increase in ASP of footwear was mainly due to the strong Xtep brand status improvements and increased the selling prices to the distributors.

## Revenue, Sales Volume and ASP Breakdown of Xtep Brand Apparel

For the six months ended 30 June

	2009	2008	Change (%)
Revenue (RMB'000)	<b>801,616</b>	631,586	+26.9
Sales Volume ('000)	<b>17,389</b>	14,077	+23.5
ASP (RMB)	<b>46.1</b>	44.9	+2.7
Gross profit margin	<b>38.2%</b>	37.2%	+1.0 pt

The revenue of Xtep branded apparel increased by 26.9% to RMB802 million (2008: RMB632 million). The strong growth was driven by significant sales volume growth of 23.5% and ASP increase of 2.7%. The sales volume increase was due to the well received trend product designs and fashion related brand image that captured the high demand for fashionable sports apparel products.

### Other Brands

Other brands comprised of Disney Sport brand and Koling brand. Disney Sport brand is a brand which was licensed by the Walt Disney Company (Shanghai) Limited for a period from 1 November 2006 to 31 December 2012. It is positioned to target the teenagers and the product designs which mainly feature fun, stylish and colorful image of Disney's most popular characters. Koling brand is owned by the Group and mainly positioned as a high-end brand with a more daring, bold and alluring style.

### Revenue Breakdown of Other Brands by Product Categories

For the six months ended 30 June

	Revenue (RMB'000)			As % of revenue	
	2009	2008	Change (%)	2009	2008
Footwear	<b>55,781</b>	36,079	+54.6	<b>43.4</b>	38.0
Apparel	<b>65,272</b>	55,098	+18.5	<b>50.7</b>	57.9
Accessories	<b>7,603</b>	3,870	+96.5	<b>5.9</b>	4.1
<b>Total</b>	<b><u>128,656</u></b>	<b><u>95,047</u></b>	<b><u>+35.4</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>

The revenue of Other brands products increased by 35.4% to RMB129 million compared to the corresponding period last year (2008: RMB95 million). Such increase was mainly driven by the significant increase in footwear revenue of 54.6% and increase in apparel sales of 18.5%. As a result, footwear of Other brands accounted for 43.4%, representing a 5.4 percentage points increase as a percentage of total revenue of Other brands.

## Revenue, Sales Volume and ASP Breakdown of Other Brands Footwear

For the six months ended 30 June

	2009	2008	Change (%)
Revenue (RMB'000)	55,781	36,079	+54.6
Sales Volume ('000)	736	438	+68.0
ASP (RMB)	75.8	82.4	-8.0
Gross profit margin	45.3%	49.2%	-3.9 pts

The revenue of Other brands footwear increased significantly by 54.6% to approximately RMB56 million (2008: RMB36 million). The significant improvement was due to strong volume growth of 68.0% mainly attributable to the unique, fun and trendy design of Disney Sport branded footwear. The positioning of this product category provides the youth market an excellent market penetration.

In order to continue to gain the market penetration momentum, the ASP of footwear reduced by 8.0% as compared to the same period last year. As the Group decided to absorb certain increase in cost, the gross profit margin of Other brands footwear decreased by 3.9 percentage points when compared to the corresponding period last year.

## Revenue, Sales Volume and ASP Breakdown of Other Brands Apparel

For the six months ended 30 June

	2009	2008	Change (%)
Revenue (RMB'000)	65,272	55,098	+18.5
Sales Volume ('000)	834	723	+15.4
ASP (RMB)	78.3	76.2	+2.7
Gross profit margin	37.8%	40.1%	-2.3 pts

The revenue of Other brands apparel increased by 18.5% to approximately RMB65 million compared to the same period of last year (2008: RMB55 million). The growth was driven by sales volume growth of 15.4% and ASP growth of 2.7%. The strong sales volume growth was mainly due to successful marketing of Disney Sport branded apparel products and the youthful customers recognised these trendy and stylish apparel products. Moderate increase in ASP was set to continue the market penetration. As the Group decided to absorb certain proportion of cost increase, the gross profit margin of Other brands decreased by 2.3 percentage points compared to the same period last year.

## Summary of Major Growth Drivers

	Xtep brand	Other brands
Footwear	ASP +7.2%	Sales Volume +68.0%
Apparel	Sales Volume +23.5%	Sales Volume +15.3%

The above table summarised the Group's recent performance growth drivers. The Group believes that its consistent innovative marketing strategy to promote our trendy and fashionable stylish products will continue to deliver satisfactory results.

## Cost of Sales

During the period under review, the Group's cost of sales increased by 15.6% over the same period last year. Moreover, as sales volume grew significantly, the Group increased the proportion of outsourced production costs accordingly to effectively lower cost and control the capital expenditure of its production facilities.

## Cost of Sales Breakdown

### For the six months ended 30 June

	2009		2008	
	RMB('000)	% mix	RMB('000)	% mix
Raw materials	452,398	43.9	451,524	50.7
Outsourced production costs	517,535	50.3	383,519	43.1
Direct staff costs	47,776	4.6	45,651	5.1
Others	11,951	1.2	9,706	1.1
<b>Total</b>	<b>1,029,660</b>	<b>100.0</b>	<b>890,400</b>	<b>100.0</b>

## Income Tax Expense

Income tax of the Group for the period under review amounted to RMB24,596,000 (2008: RMB42,310,000).

Pursuant to the New Enterprise Income Tax Law of the PRC and its implementation rules (effective from 1 January 2008), both domestic enterprises and foreign-invested enterprises are subject to the unified PRC enterprise income tax rate of 25%. Xtep (China) enjoyed the 50% tax reduction at the unified tax rate of 25% for the year ended 31 December 2008 and the year ending 31 December 2009 with respect to the new PRC enterprise income tax. Koling (Fujian) Garment Co., Ltd. enjoys exemption from the PRC enterprise income tax for the year ended 31 December 2008 and the year ending 31 December 2009 and thereafter will be entitled to a 50% reduction in the PRC enterprise income tax for the subsequent three years. The effective tax rate for the period was 7.4% as compared to 14.2% in the same period last year.

### ***Profit Attributable to Equity Holders and Net Profit Margin***

For the six months ended 30 June 2009, the profit attributable to equity holders of the Company amounted to RMB306,534,000 (2008: RMB254,664,000), an increase of 20.4% over the same period last year. As the Group's branding grows stronger, the gross profit margin increased by 1.8 percentage points to 38.6%. Such increase was partially offset as it is the Group's strategy to continue to reinvest in brand building, therefore advertising and promotion expenses increased by 3.6 percentage points to account for 11.6% of the Group's revenue (2008: 8.0%). As the effective tax rate was reduced, the Group's net profit margin increased by 0.2 percentage point to 18.3% as compared to the same period last year (2008: 18.1%).

### ***Dividend***

In view of the strong business growth and the solid financial position of the Group, the Board declared an interim dividend of HK7.0 cents (equivalent to approximately RMB6.2 cents) per Share, which represented 40% increased as compared to last period (2008: HK5.0 cents, equivalent to approximately RMB4.4 cents). The dividend payout ratio for the period under review was approximately 44%.

### ***Other Income and Gains***

Other income and gains for the period was approximately RMB6,662,000 (2008: RMB3,105,000). The increase was primarily due to the increase in subsidy income received from PRC local government.

### ***Selling and Distribution Costs and Administrative Expenses***

For the six months ended 30 June 2009, the Group's selling and distribution costs amounted to RMB242,378,000 (2008: RMB158,677,000), which represented approximately 14.4% (2008: 11.3%) of the Group's total revenue. As it is the Group's strategy to enhance the brand status, advertising and promotion costs increased from RMB113,110,000 for the first half of 2008 (accounting for 8.0% of revenue) to RMB193,874,000 for the period under review (accounting for 11.6% of revenue).

General and administrative expenses increased from RMB61,411,000 for the first six months of 2008 to RMB80,766,000 for the period under review. This was primarily due to the increase in the Group's design and research and development expenses from RMB22,511,000 for the first half of 2008 (accounting for 1.6% of revenue) to RMB28,500,000 for the same period in 2009 (accounting for 1.7% of revenue), mainly as a result of the investment in the improvement of footwear and apparel products quality, as well as appearance, function and durability.

### ***Working Capital Cycle***

The Group's overall working capital cycle of the period under review were 41 days, which represented a significant reduction of 21 days compared to the same period last year (2008: 62 days).

The Group's average inventory turnover days improved by 9 days to 49 days (2008: 58 days) as compared to same period last year, primarily due to the increased use of contract manufacturers, and our improved production planning, procurement control and logistics management, thus reducing the inventory level of the Group.

In order to further improve the working capital cycle of the Group, the Group's average trade and bills payables turnover days was extended by 25 days to 68 days (2008: 43 days) as compared to same period last year. This extension also facilitated to support the expansion of Group's business and therefore supporting the distributors to increase the operation profile. Under tight financial monitoring and within the credit period given to customers, the Group's average trade and bills receivables turnover days was increased by 13 days to 60 days as compared to same period last year (2008: 47 days).

### ***Liquidity and Capital Resources***

The Group's primary sources of operating funds are cash flow from operating activities and bank balances. As at 30 June 2009, the Group's current ratio was 5.8 (31 December 2008: 4.8). The Group maintained a net cash position, reflecting its healthy financial condition, paving the way for future development. As the Group has sufficient cash, we have repaid all the bank loans, therefore as at 30 June 2009, the Group's gearing ratio was zero (31 December 2008: 4.7%), which is defined as bank borrowings divided by the total equity of the Group.

Due to significant improvement of working capital management, the net cash inflow from operating activities for the six months ended 30 June 2009 was approximately RMB338 million (2008: RMB200 million), representing an increase of 69% compared to the same period last year. Total cash and cash equivalents as at 30 June 2009 amounted to approximately RMB2,126 million (31 December 2008: RMB2,137 million).

### ***Inventory Provision***

For the six months ended 30 June 2009, the Group did not have any inventory provision.

### ***Doubtful Debt Provision***

For the six months ended 30 June 2009, the Group did not have any doubtful debt provision.

### ***Capital Commitments and Contingent Liabilities***

Details of capital commitments as at 30 June 2009 are set out in note 23 to the condensed consolidated interim financial statements. As at 30 June 2009, the Group did not have any material contingent liabilities.

### *Foreign Currency Risks*

The Group mainly operates in the PRC with most of its transactions settled in RMB. The Group's assets and liabilities, and transactions arising from its operations are mainly denominated in RMB. Accordingly, it is believed that the Group has minimal foreign currency risks. The Group has not used any forward contract or currency borrowing to hedge its interest rate risks. However, the management will continue to monitor foreign currency risks and adopt prudent measures as appropriate.

### *Significant Investments and Acquisitions*

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

### *Use of Net Proceeds from the Global Offering*

The shares of the Company were listed on the main board of the Hong Kong Stock Exchange on 3 June 2008 with net proceeds from the global offering of approximately HK\$2,088 million (after deducting underwriting commissions and related expenses).

#### **Net proceeds from the global offering (HK\$ million)**

	<b>Available to utilize</b>	<b>Utilized (as at 30 June 2009)</b>	<b>Unutilized (as at 30 June 2009)</b>
<b>Use of net proceeds</b>			
Media advertising and brand promotion activities	459	397	62
Expanding and improving distribution network	355	88	267
Expanding production and operating facilities	397	97	300
Acquiring brands	501	–	501
Enhancing research and development and design capabilities	146	76	70
Enhancing information technology management system	63	18	45
General working capital	167	98	69
<b>Total</b>	<b>2,088</b>	<b>774</b>	<b>1,314</b>



## ***Human Resources***

As at 30 June 2009, the Group had 6,838 employees (31 December 2008: 6,414 employees).

The Group provides introductory orientation programs and continuous training to its employees that cover industry overview, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and of its staff. The Group will strive to strengthen human resources management to provide strong support for the development of the Group's business. Through staff recruitment initiatives, optimization of the development of our organizational structure and corporate culture, the Group will be able to maintain sustainable and fast-growing development in the future.

## **Future Prospects**

### ***Market Outlook***

Today China is undoubtedly one of the fastest growing economies in the world and its retail market outlook for the second half of the year looks promising. Supported by a number of government economic stimulus plans, GDP growth in the PRC is expected to continue to grow at a steady pace.

The PRC sportswear market is set to see sustainable growth due to several factors, including growing affluence across the country, an increase in personal health concerns, a rise in the popularity of all types of sporting activities and relatively low spending on sports goods compared to developed countries. The market growth potential in second and third tier cities is particularly appealing to the Group due to the rise in consumption power and increasing awareness to fashion trends. Hence, as the leading domestic fashion sportswear brand in China, the Group is well positioned to capture these opportunities.

### ***Trio of Growth Engines***

Looking ahead, the Group will continue to invest in initiatives that will help drive consumer traffic, deliver appealing products and enhance the shopping experience of consumers. The Group's future growth will be propelled by the following factors:

#### **1. Market Penetration**

The Group will sponsor the 11th National Games of China which will be held in Shandong province in October this year, the Group expects to see an extensive media coverage which will highlight the Xtep brand status across the nationwide regions. This national event sponsorship will enhance the Xtep brand's positioning and set a firm footprint in the Shandong province to further expand our branding influence into other provinces in the eastern regions of the PRC.

On the other hand, Xtep brand has established its leading position in Hunan province, the southern region of the PRC. Extensive branding promotion such as through the strategic partnerships with top rating TV channels like CCTV channels, Hunan Satellite TV channels and Anhui Satellite TV channels will increase the mass market's attention on our brand.

Furthermore, through the close encounters with the superstars during the Xtep Stars concert in Jiangsu, Hubei, Zhejiang, Hunan and Anhui provinces during July to August this year, numerous youthful customers are attracted by the Xtep brand's differentiated position. As such, the Xtep brand will continue to expand its market position in these regions.

Flagship stores will continue to be opened in prime locations for the purpose of brand building and we planned to establish in total 30 Xtep flagship stores by the end of 2009. On the other hand, after reaching 5,405 Xtep retail outlets in the first half of 2009, the Group plans to increase its outlet expansion target to 5,800 Xtep retail outlets by the end of 2009.

## **2. International Expansion**

Extending our brands onto the global stage is the long-term development objective of the Group. We plan to establish an international distribution network and a team of staff with solid international experience has been set up in Hong Kong.

We aim to expand our brands' presence into the global emerging markets and the Southeast Asia region. Following the success of Disney Sport brand in the PRC, we have expanded the region into Hong Kong, Taiwan and Macau. Furthermore, we plan to set up Xtep retail outlets in the emerging markets such as Middle East region. Such international footprint will further enhance our branding image and profile.

## **3. Sporting Focus**

Trendy and stylish sportswear products remained as the Group's core focus point. Running has been identified as one of the most popular sports events which can address the mass market. Xtep's footwear products are already famous for its comfort and functionality. In order to establish Xtep brand to be one of the most trendy and popular brands for running shoes in the future, the Group plans to invest in the following sectors:

### ***a) Product Design and Technology Development***

We will expand and increase our team in the product design, research and development and quality control for running products. Our target is to set up a specific department of approximately 60-80 staff to produce more stylishly designed running shoes and other products that are equipped with professional qualities.

### ***b) Sponsorships***

In order to further promote the image of our Xtep brand and the functionality of the products at professional events, the Group is committed to sponsoring the following events:

1. Tibet Half Marathon in August 2009
2. Xian Great Wall Marathon in November 2009
3. Xiamen International Marathon in January 2010

## *Enhancing Brand Equity*

The Group will continue to capitalise on the benefits of its multi-faceted marketing strategies that combine sports and entertainment marketing, enabling more consumers to experience the unique fashion essence of the Xtep brand.

- a) For sports marketing, the Group will actively participate in and sponsor a variety of major sporting events and activities during the second half of the year. Some of them included:
  - 1. The 11th National Games of China
  - 2. The Men's National Basketball League (NBL)
  - 3. The National league of Women's Chinese Basketball Association (WCBA)
  - 4. Jiangsu Youth Sunshine Sports Competition
  - 5. Hong Kong Financial Sector Basketball League
  - 6. 2009 East Asian Games
  
- b) For entertainment marketing, the Group will continue to attract the attention of the youthful group through the following events:
  - 1. "The Common Song" concert to be held at Shandong Olympics Centre in July 2009
  - 2. 2009 Xtep Stars Concert Tour in five provinces in July and August 2009
  - 3. Exclusive apparel sponsor for the Hong Kong All Stars Association starting from August 2009
  - 4. Title sponsorship of the South Eastern Pop Music Billboard in November 2009
  
- c) For TV commercials, the Group will mainly leverage on the following co-operation with our strategic partners to broadcast our commercials through:
  - 1. National Channel – CCTV 1
  - 2. Sports Channel – CCTV 5
  - 3. Hunan Satellite TV
  - 4. Anhui Satellite TV

## ***Optimising Operating Efficiencies***

The Group will continue to increase its operating efficiency by strengthening internal management systems as well as through fostering closer ties with its distributors to increase sales efficiency at the retail level. Our refined management through our DRP system has been implemented among 70% of our Xtep brand distributors, allowing sales and logistics data to be made available to the Group for better sales planning. The coverage of the DRP system is expected to include about 90% of Xtep brand distributors by the end of 2009.

## ***Conclusion***

As we forge ahead, leveraging our leading trendy and fashion brand positioning, our stylish product offering, our innovative entertainment marketing strategy which also is combined with focused and international events sponsorships, the Group will continue to strengthen its own competitive advantages and work to generate excellent results in today's ever-changing market.

## **CORPORATE GOVERNANCE CODE**

The Company has adopted the code provisions contained in the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Company has complied with such code provisions throughout the six months ended 30 June 2009 except for the deviation from code provision A.2.1 as disclosed below.

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

Pursuant to rule 13.51B(1) of the Listing Rules, the Company advises that Mr. Ding Shui Po, the executive Director of the Company, has been appointed as director of Xtep International Trading Limited, Xtep Overseas Investment Pty Limited and Xtep Concept Limited.

## **MODEL CODE**

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions throughout the six months ended 30 June 2009.

## **REVIEW OF INTERIM FINANCIAL STATEMENTS**

Disclosure of financial information in this announcement complies with Appendix 16 of the Listing Rules. The audit committee of the Company has held meetings to discuss the auditing, internal controls and financial reporting matters of the Company, including the review of the interim results and the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2009.

The external auditor has reviewed the interim financial information for the six months ended 30 June 2009 in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2009.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this announcement, the Company has maintained the prescribed public float of not less than 25% of the Company’s issued shares as required under the Listing Rules for the period from the listing date to 30 June 2009.

## **PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT**

This interim results announcement is published on the websites of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company (<http://www.xtep.com.hk>). The interim report for the six months ended 30 June 2009 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and available on the same websites in due course.

## **DIVIDENDS**

The Board recommended an interim dividend of HK7.0 cents (equivalent to RMB6.2 cents) per Share for the period, representing an increase of 40% compared to same period last year (2008: HK5.0 cents, equivalent to RMB4.4 cents). The interim dividends amount to a total payout of HK\$152,155,150 (equivalent to approximately RMB134,155,000), representing a payout ratio of approximately 44% of the profit for the period.

## **CLOSURE OF REGISTER OF MEMBERS**

The transfer books and register of members of the Company will be closed from Tuesday, 22 September 2009 to Thursday, 24 September 2009, both days inclusive, for the purpose of determining Shareholders' entitlements to the proposed interim dividend. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 21 September 2009.

## **DEFINITIONS**

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

“ASP”	Average selling price
“Board” or “Board of Directors”	The board of Directors
“Company” or “Xtep”	Xtep International Holdings Limited
“Corporate Governance Code”	Code on corporate governance practices contained in Appendix 14 to the Listing Rules
“Directors(s)”	The director(s) of the Company
“DRP system”	Distribution resource planning system
“GDP”	Gross domestic product
“Group”	The Company and its subsidiaries
“HK\$” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Date”	3 June 2008, on which dealing in the Shares first commenced on the Hong Kong Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange

“Model Code”	Model code for securities transactions by directors of listed issuers contained in Appendix 10 to the Listing Rules
“OEM”	Acronym for original equipment manufacturer, a business that manufactures goods or equipment for branding and resale by others
“Other brands”	Disney Sport brand and Koling brand collectively
“PRC” or “China”	The People’s Republic of China
“Pre-IPO Share Option Scheme”	The share option scheme for employees of the Group approved and adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed “Pre-IPO Share Option Scheme” in Appendix VI to the Prospectus
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	Ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	Shareholder(s) of the Company

By Order of the Board  
**Xtep International Holdings Limited**  
**Ding Shui Po**  
*Chairman*

Hong Kong, 7 September 2009

*As at the date of this announcement, the executive Directors of the Company are Mr. Ding Shui Po, Ms. Ding Mei Qing, Mr. Lin Zhang Li, Mr. Ding Ming Zhong and Mr. Ye Qi; the non-executive Director of the Company is Mr. Xiao Feng and the independent non-executive Directors of the Company are Mr. Sin Ka Man, Mr. Xu Peng Xiang and Dr. Gao Xian Feng.*