

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

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



The 11th National Games of China Official Partner
中華人民共和國第十一屆運動會合作夥伴

INTERIM REPORT 2009



WE GO

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Sports Marketing and Sponsorship

Prominent Events



Sole sports product partner for the 11th National Games of China

Popular Sporting Events



Sole sports product partner of 2009 Xiamen International Marathon



Sole title sponsor of Zhejiang Secondary Student Basketball League

Exciting Games



Sole title sponsor of Xtep CX National Games



Amway Nutrilite Healthy Run



Strong TV Commercial Partnership



Sole title sponsorship of "Progressing Everyday" of Hunan Satellite TV



Advertising promotion



Entertainment Marketing



Xtep Night – China Tour



2009 Xtep Stars Nationwide Concert Tour



Corporate Information

Board of Directors

Executive Directors

Ding Shui Po (丁水波) (*Chairman*)
Ding Mei Qing (丁美清)
Lin Zhang Li (林章利)
Ding Ming Zhong (丁明忠)
Ye Qi (葉齊)

Non-executive Director

Xiao Feng (肖楓)

Independent non-executive Directors

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

Board Committees

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Company Secretary

Ho Yui Pok, Eleutherius (何睿博) *ACA, CPA*

Authorised Representatives

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

Registered Office

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

Head Office in The PRC

Economic and Technical Development Zone
Quanzhou City
Fujian Province
PRC 362000

Principal Place of Business in Hong Kong

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

Legal Adviser as to Hong Kong Laws

Orrick, Herrington & Sutcliffe

Auditors

Ernst & Young

Compliance Adviser

Shenyin Wanguo Capital (H.K.) Limited

Cayman Islands Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Bankers

China Construction Bank
Agricultural Bank of China
China Merchants Bank
Industrial Bank Co., Ltd.
Bank of Communications
Industrial Bank Co., Ltd.
Hang Seng Bank Limited

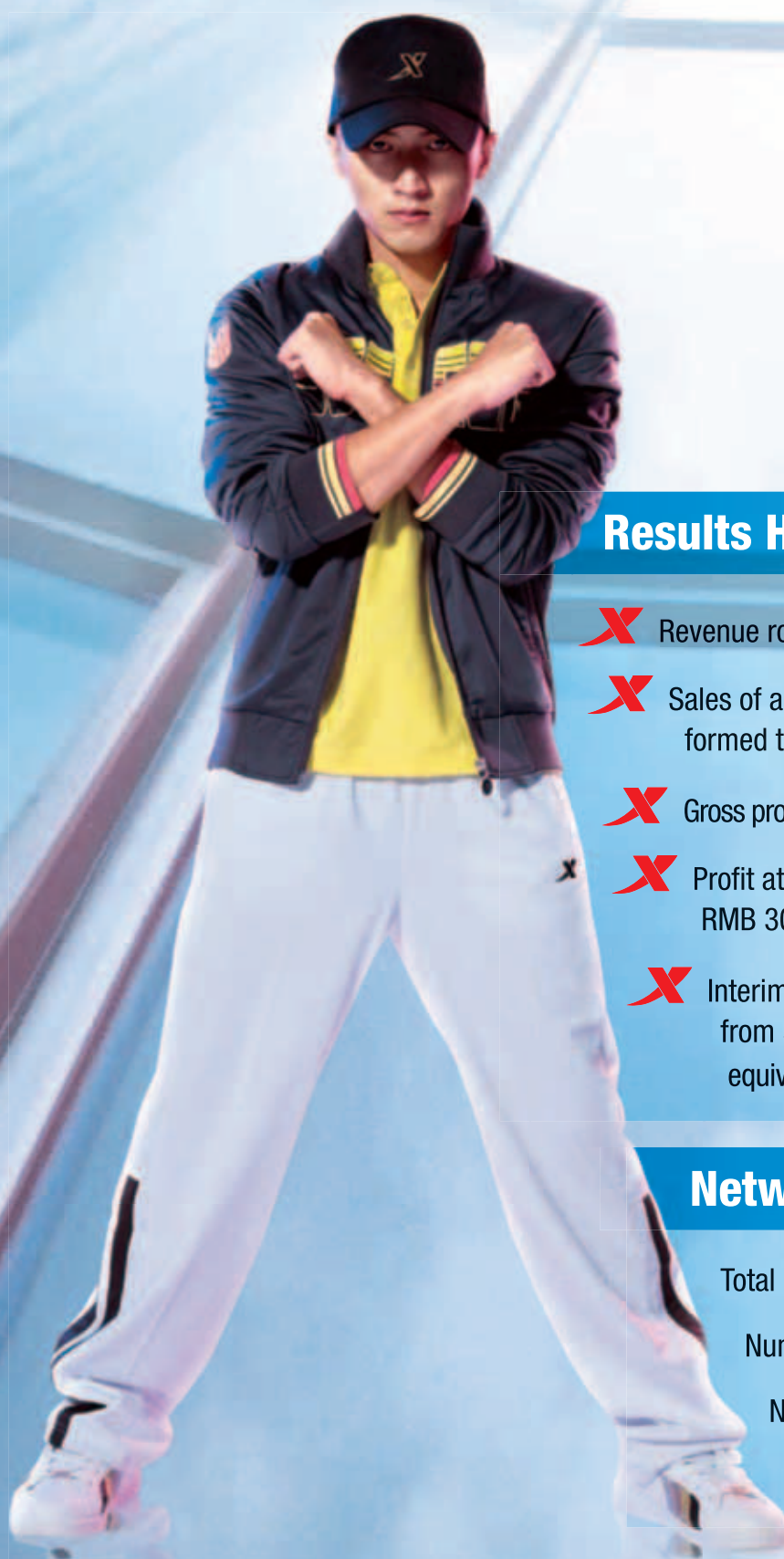
Investor Relations Consultants

Porda International (Finance) P.R. Group
Aries Consulting Limited

Company Website

www.xtep.com.hk

Financial Highlights



Results Highlights

- X** Revenue rose 19.1% to RMB 1,677.4 million
- X** Sales of apparel surged 26.2% to RMB 866.9 million and formed the main growth driver
- X** Gross profit margin expanded by 1.8 percentage points to 38.6%
- X** Profit attributable to shareholders grew 20.4% to RMB 306.5 million
- X** Interim dividend per share amounted to HK 7.0 cents, up from 5.0 cents in 1H2008, representing payout ratio equivalent to 44%

Network Expansion

Total number of retail outlets reached 5,869, included:

Number of Xtep retail outlets rose to 5,405

Number of Other brands retail outlets reached 464

Number of Xtep flagship stores reached 22

Cautionary Statement Regarding Forward-looking Statements

This Interim Report 2009 contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Company. These forward-looking statements represent the Company's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Certain statements, that include wordings like "potential", "estimated", "expects", "anticipates", "objective", "intends", "plans", "believes", "estimates", and similar expressions or variations on such expressions may be considered "forward-looking statements". Forward-looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ in some instances materially, from those anticipated or implied in any forward-looking statement. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been reviewed or updated in the light of new information or future events. Trends and factors that are expected to affect the Company's results of operations are described in the sections of "Business Review" and "Financial Review".

Financial Highlights (continued)

FOR THE SIX MONTHS ENDED 30 JUNE			
	2009	2008	Changes
Profitability Data			
Revenue (RMB million)	1,677.4	1,408.2	+19.1%
Gross profit (RMB million)	647.8	517.8	+25.1%
Profit for the period (RMB million)	306.5	254.7	+20.4%
Number of Shares (million)	2,173.6	1,590.4*	
Basic earnings per Share (Note 1) (RMB cents)	14.10	16.01	-11.9%
Interim dividend per Share (HK cents)	7.0	5.0	+40%
Key Financial Ratios			
Gross profit margin (%)	38.6	36.8	
Net profit margin (%)	18.3	18.1	
Effective tax rate (%)	7.4	14.2	
Operating Ratios (as a percentage of revenue)			
Advertising and promotion costs (%)	11.6	8.0	
Research and development costs (%)	1.7	1.6	
Staff costs (%)	4.8	5.3	
Working Capital Cycle			
Overall working capital turnover days	41	62	
Average inventory turnover days (Note 2)	49	58	
Average trade and bills receivables turnover days (Note 3)	60	47	
Average trade and bills payables turnover days (Note 4)	68	43	
	As at 30 June 2009	As at 31 December 2008	
Other Key Data			
Total shareholders' equity (RMB million)	2,742.8	2,637.8	
Shareholders' equity per Share (RMB)	1.26	1.21	
Current asset ratios	5.8	4.8	
Gearing ratios % (Note 5)	–%	4.7%	

Notes:

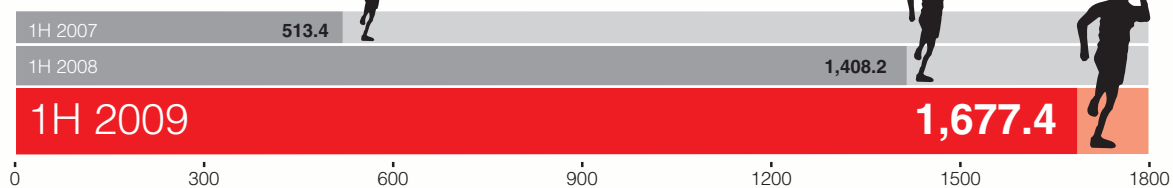
- 1) The calculation of basic earnings per Share is based on the profit attributable to equity Shareholders of the Company divided by the weighted average number of ordinary shares in issue during the relevant period.
- 2) Average inventory turnover days is equal to the average opening and closing inventory divided by costs of sales and multiplied by number of days in the relevant period.
- 3) Average trade and bills receivables turnover days is equal to the average opening and closing trade and bills receivables divided by revenue and multiplied by number of days in the relevant period.
- 4) Average trade and bills payables turnover days is equal to the average opening and closing trade and bills payables divided by cost of sales and multiplied by number of days in the relevant period.
- 5) The calculation of gearing ratio is based on the bank borrowings divided by the total equity of the Group at the end of the period.

* Weighted average

Financial Highlights (continued)

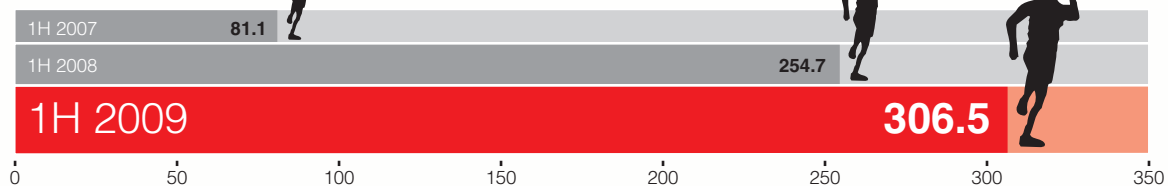
Revenue

RMB (million)



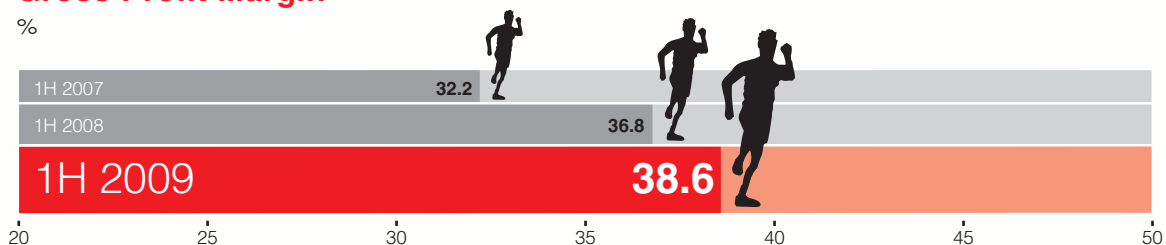
Profit for the Period

RMB (million)



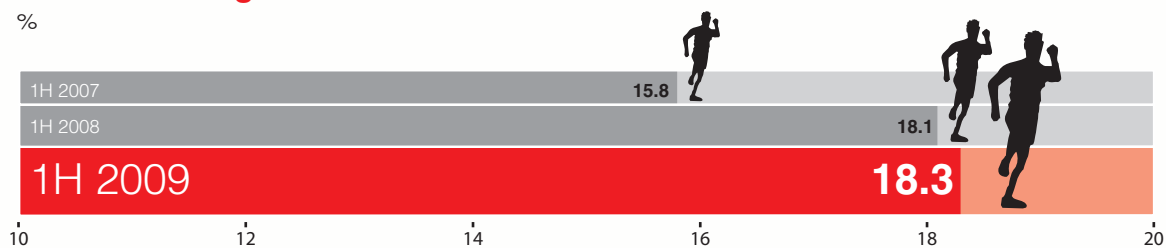
Gross Profit Margin

%



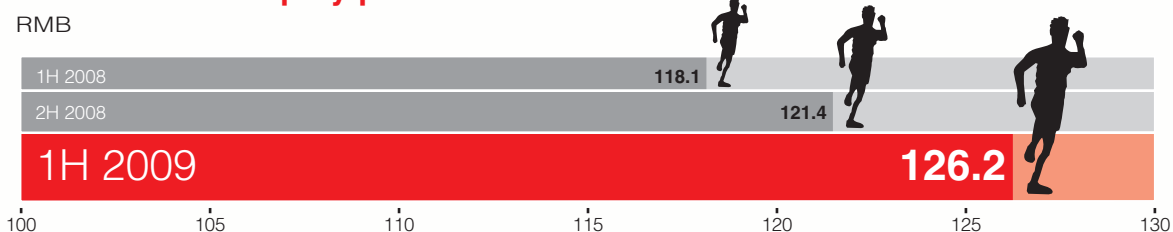
Net Profit Margin

%



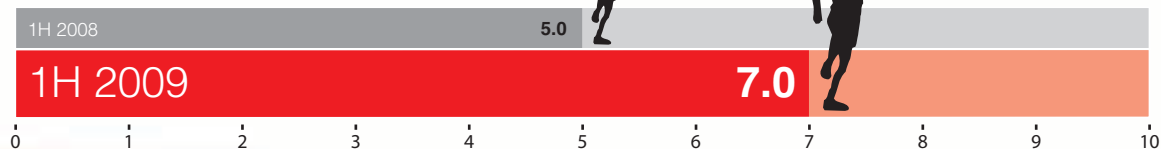
Shareholders' Equity per Share

RMB



Interim Dividend per Share

HK cents





CONFIDENCE

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Chairman's Statement

Dear Shareholders,

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%.



Mr. Ding Shui Po
Chairman

Chairman's Statement (continued)

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.

Chairman's Statement (continued)

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

Hong Kong, 7 September 2009





CONVICTION

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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.



Management Discussion and Analysis (continued)

- **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:

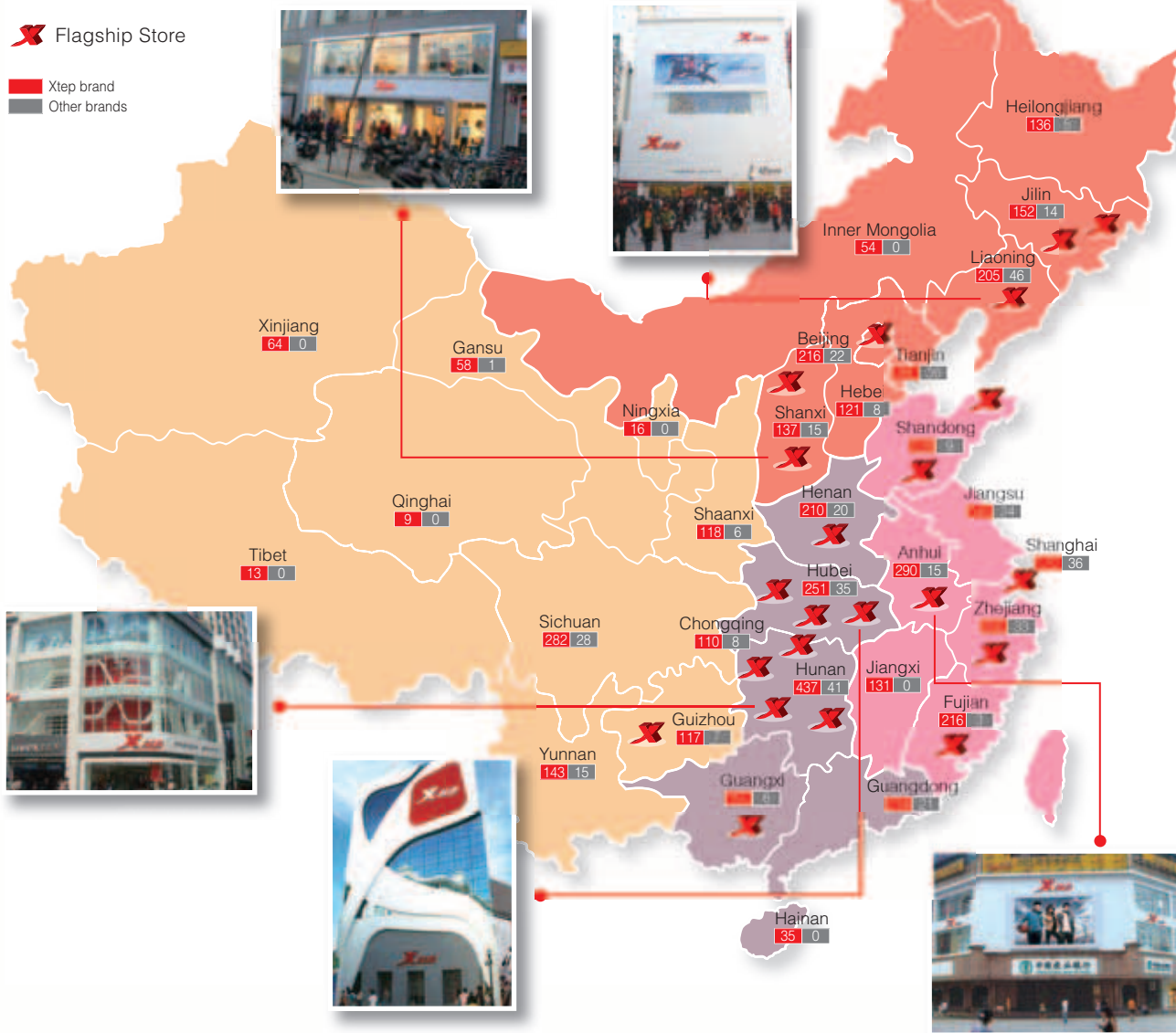
- **Xtep Night – China Tour** – This event was arranged by the Organising Committee of the 11th National Games of China in Jinan, Shandong Province, China as part of the promotion of the 11th National Games of China. The fabulous performances of the Xtep brand representatives in June 2009 drew and thrilled 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 Jun 2009	As at 31 Dec 2008	Change
Xtep brand	5,405	5,056	+349
Other brands	464	476	-12
Total	5,869	5,532	+337

Management Discussion and Analysis (continued)

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 of 30 Jun 2009	As of 31 Dec 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 ²)	425,624	377,315	+12.8
Average sales floor area (m ²)	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 of 30 Jun 2009	As of 31 Dec 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
Total	5,405	5,056	+349

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			
	As at 30 Jun 2009	As at 31 Dec 2008	Change
Eastern region	130	131	-1
Southern region	123	125	-2
Western region	65	68	-3
Northern region	146	152	-6
Total	464	476	-12

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	789,470	703,567	+12.2	47.1	50.0
Apparel	866,888	686,684	+26.2	51.7	48.8
Accessories	21,078	17,946	+17.5	1.2	1.2
Total	1,677,436	1,408,197	+19.1	100.0	100.0
Gross profit margin	38.6%	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

	Revenue (RMB'000)			Sales Volume ('000)			ASP (RMB)		
	2009	2008	Change (%)	2009	2008	Change (%)	2009	2008	Change (%)
Footwear									
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
Total	789,470	703,567	+12.2	9,859	9,375	+5.2	80.1	75.0	+6.8
Gross profit margin	39.4%	36.1%	+3.3 pts						

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).

Management Discussion and Analysis (continued)

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

Apparel	Revenue (RMB'000)			Sales Volume ('000)			ASP (RMB)		
	2009	2008	Change (%)	2009	2008	Change (%)	2009	2008	Change (%)
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
Total	866,888	686,684	+26.2	18,223	14,800	+23.1	47.6	46.4	+2.6
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.

Management Discussion and Analysis (continued)

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
Total	1,677,436	1,408,197	+19.1	100.0	100.0	38.6%	36.8%	+1.8 pts

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
Total	1,677,436	100.0	1,408,197	100.0

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.

Management Discussion and Analysis (continued)

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	733,689	662,487	+10.7	47.4	50.6
Apparel	801,616	631,586	+26.9	51.8	48.3
Accessories	13,475	14,076	-4.3	0.8	1.1
Total	1,548,780	1,308,149	+18.4	100.0	100.0

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)	733,689	662,487	+10.7
Sales Volume ('000)	9,123	8,834	+3.3
ASP (RMB)	80.4	75.0	+7.2
Gross profit margin	38.9%	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)	801,616	631,586	+26.9
Sales Volume ('000)	17,389	14,077	+23.5
ASP (RMB)	46.1	44.9	+2.7
Gross profit margin	38.2%	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.

Management Discussion and Analysis (continued)

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	55,781	36,079	+54.6	43.4	38.0
Apparel	65,272	55,098	+18.5	50.7	57.9
Accessories	7,603	3,870	+96.5	5.9	4.1
Total	128,656	95,047	+35.4	100.0	100.0

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.

Management Discussion and Analysis (continued)

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
Total	1,029,660	100.0	890,400	100.0

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%.

Management Discussion and Analysis (continued)

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.

Management Discussion and Analysis (continued)

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)			
Use of net proceeds	Available to utilize	Utilized (as at 30 June 2009)	Unutilized (as at 30 June 2009)
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
Total	2,088	774	1,314

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.

Management Discussion and Analysis (continued)

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.



VERTEX

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Corporate Governance and Other Information

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 report 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.

Disclosure of Interests

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

As at 30 June 2009, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Long Positions in the Company

Name Of Director	Nature of interest	Number of shares interested	Approximate percentage of interest in the issued share capital of the Company
Mr. Ding Shui Po ⁽¹⁾	Interests of controlled corporation/ Beneficial interests	1,421,559,500	65.40%
Ms. Ding Mei Qing ⁽²⁾	Interests of controlled corporation	1,418,059,500	65.24%
Mr. Lin Zhang Li ⁽³⁾	Interests of spouse	1,418,059,500	65.24%
Mr. Ye Qi ⁽⁴⁾	Beneficial interests	1,500,000	0.07%

Notes:

- ⁽¹⁾ Mr. Ding Shui Po is deemed to be interested in 1,418,059,500 Shares of the Company held by Group Success by virtue of it being controlled by Mr. Ding Shui Po. Mr. Ding Shui Po is also beneficially interested in 3,500,000 Shares of the Company.
- ⁽²⁾ Ms. Ding Mei Qing is deemed to be interested in the shares of the Company held by Group Success by virtue of Group Success being controlled by Ms. Ding Mei Qing.
- ⁽³⁾ Mr. Lin Zhang Li, the husband of Ms. Ding Mei Qing and an executive Director, is deemed to be interested in his wife's interests in Group Success.
- ⁽⁴⁾ These shares are subject to the exercise of options granted under a pre-IPO share option scheme of the Company adopted by the shareholders of the Company on 7 May 2008.

Save as disclosed above, as at 30 June 2009, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

So far as is known to any Directors or the chief executive of the Company, as at 30 June 2009, the persons or corporations (other than Director or the chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Nature of Interest	Number of shares interested	Approximate percentage of interest in the issued share capital of the Company
Group Success	Beneficial interests	1,418,059,500	65.24%
Carlyle Asia Growth Partners III, L.P.	Beneficial interests	201,655,919	9.28%
CAGP III Co-investment, L.P.	Beneficial interests	8,044,581	0.37%
CAGP General Partner, L.P.	Interests of controlled corporation ⁽¹⁾	209,700,500	9.65%
CAGP Ltd	Interests of controlled corporation ⁽¹⁾	209,700,500	9.65%

Note:

- ⁽¹⁾ CAGP General Partner, L.P. is the general partner of Carlyle Asia Growth Partners III, L.P. and CAGP III Co-investment, L.P., both limited partnerships. CAGP Ltd is the general partner of CAGP General Partner, L.P.

Save as disclosed above, as at 30 June 2009, the Directors and chief executive of the Company are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

The Company has adopted the Pre-IPO Share Option Scheme on 7 May 2008 for the purpose of giving its employees an opportunity to have a personal stake in the Company and helping motivate its employees to optimize their performance and efficiency, and retaining its employees whose contributions are important to the long-term growth and profitability of the Group. Options to subscribe for an aggregate of 19,000,000 Shares were granted to one executive Director, six members of the senior management of the Group and 52 employees on 7 May 2008. The exercise price per Share is HK\$3.24, being a discount of 20% to the global offering price. No further options would be granted under the Pre-IPO Share Option Scheme on or after the Listing Date. All options granted under the Pre-IPO Share Option Scheme may be exercised during the option period commencing from the end of twelve months after the Listing Date to the date falling 10 years from the offer date of the options and can only be exercised in the following manner:

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

Accordingly, there is no exercise of such options granted during the six months ended 30 June 2009.

Name	Number of Shares to be issued upon full exercise of the Pre-IPO Share Option	Approximate percentage of total issued share capital of the Company
Director		
Mr. Ye Qi	1,500,000	0.07%
Senior Management		
In aggregate	4,000,000	0.18%

Share Option Scheme

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

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

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

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

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

No options were granted under the Share Option Scheme during the six months ended 30 June 2009.



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Condensed Consolidated Income Statement

Six months ended 30 June 2009

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

Condensed Consolidated Statement of Financial Position

30 June 2009

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

Condensed Consolidated Statement of Comprehensive Income

Six months ended 30 June 2009

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

Condensed Consolidated Statement of Changes in Equity

Six months ended 30 June 2009

Six months ended 30 June 2009 (Unaudited)

	Attributable to equity holders of the Company									
	Issued capital	Share premium account	Capital reserve	Statutory surplus funds	Share option reserve	Exchange fluctuation reserve	Retained profits	Proposed dividends	Total reserves	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009 (Audited)	19,177	1,663,921	118,600	129,791	3,956	(81,936)	535,178	249,089	2,618,599	2,637,776
Equity-settled share option arrangements	-	-	-	-	4,229	-	-	-	4,229	4,229
2008 final dividend paid	-	-	-	-	-	-	-	(153,286)	(153,286)	(153,286)
2008 special dividend paid	-	-	-	-	-	-	-	(95,803)	(95,803)	(95,803)
Total comprehensive income for the period	-	-	-	-	-	43,317	306,534	-	349,851	349,851
At 30 June 2009 (Unaudited)	19,177	1,663,921	118,600	129,791	8,185	(38,619)	841,712	-	2,723,590	2,742,767

Six months ended 30 June 2008 (Unaudited)

	Attributable to equity holders of the Company									
	Issued capital	Share premium account	Capital reserve	Statutory surplus funds	Share option reserve	Exchange fluctuation reserve	Retained profits	Proposed dividends	Total reserves	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008 (Audited)	936	-	118,600	46,116	-	3,463	110,681	-	278,860	279,796
Conversion of preferred shares into ordinary shares	109	216,897	-	-	-	-	-	-	216,897	217,006
Capitalisation issue	13,526	(13,526)	-	-	-	-	-	-	(13,526)	-
Equity-settled share option arrangements	-	-	-	-	921	-	-	-	921	921
Issue of ordinary shares	4,838	1,954,693	-	-	-	-	-	-	1,954,693	1,959,531
Share issue expenses	-	(117,425)	-	-	-	-	-	-	(117,425)	(117,425)
Total comprehensive income for the period	-	-	-	-	-	3,454	254,664	-	258,118	258,118
At 30 June 2008 (Unaudited)	19,409	2,040,639	118,600	46,116	921	6,917	365,345	-	2,578,538	2,597,947

Condensed Consolidated Statement of Cash Flows

Six months ended 30 June 2009

	Six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
CASH INFLOW FROM OPERATING ACTIVITIES	337,924	199,744
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(10,816)	(10,986)
Additions to prepaid land lease payments	–	(579)
Decrease in deposit paid for acquisition of land use rights	–	10,000
Increase in deposits paid for acquisition of items of property, plant and equipment	(23,000)	–
Increase in financial assets at fair value through profit or loss	–	(175,912)
Decrease in pledged time deposits	6,000	–
Exchange realignment	1,012	3,880
Net cash outflow from investing activities	(26,804)	(173,597)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	–	127,000
Repayment of bank loans	(124,000)	–
Issue of ordinary shares, net	–	1,872,441
Dividends paid	(249,089)	(129,455)
Interest received	8,545	719
Net cash inflow/(outflow) from financing activities	(364,544)	1,870,705
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(53,424)	1,896,852
Cash and cash equivalents at beginning of period	2,136,938	215,018
Effect of foreign exchange rate changes, net	42,305	(427)
Cash and cash equivalents at end of period	2,125,819	2,111,443
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,455,811	743,842
Pledged bank balances	–	5,400
Non-pledged time deposits with original maturity of less than three months when acquired	670,008	1,362,201
	2,125,819	2,111,443

Notes to 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 Stock Exchange of Hong Kong Limited (the "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 Rules Governing the Listing of Securities on the Stock Exchange.

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

30 June 2009

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 People's Republic of China (the "PRC"). Therefore, no analysis in business or geographical segment is presented.

30 June 2009

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)
Revenue		
Manufacture and sale of sportswear:		
Footwear	789,470	703,567
Apparel	866,888	686,684
Accessories	21,078	17,946
	1,677,436	1,408,197
Other income and gains		
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
	6,662	3,105

* 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

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7. FINANCE COSTS, NET

	Six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (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)
	164	3,840

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 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Current tax - PRC		
Charge for the period	19,702	42,310
Underprovision in prior year	494	–
Deferred tax - PRC (note 19)	4,400	–
	24,596	42,310

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.

Notes to Condensed Consolidated Interim Financial Statements (continued)

30 June 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:

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

9. DIVIDENDS

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

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

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.

30 June 2009

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

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

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.

30 June 2009

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 interim financial statements.

12. INVENTORIES

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

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:

	30 June 2009 RMB'000 (Unaudited)	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	–	43
Trade receivables	575,720	526,912
Bills receivables	930	–
Trade and bills receivables	576,650	526,912

30 June 2009

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

15. CASH AND CASH EQUIVALENTS

	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
Time deposits	670,008	870,952
Cash and bank balances	1,455,811	1,271,986
	2,125,819	2,142,938
Less: Pledged deposits for bills payables	–	(6,000)
Cash and cash equivalents	2,125,819	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 Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

30 June 2009

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:

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

	30 June 2009 RMB'000 (Unaudited)	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
	119,418	75,392

30 June 2009

18. INTEREST-BEARING BANK BORROWINGS

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

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.

30 June 2009

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

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

At 31 December 2008

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

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.

30 June 2009

22. SHARE OPTION SCHEMES

(a) Pre-IPO share option scheme

The Company has adopted a pre-IPO share option scheme on 7 May 2008 (the "Pre-IPO Share Option Scheme"). 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:

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

(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.

30 June 2009

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:

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

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.

Report on Review of Interim Financial Statements



To the shareholders of Xtep International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial statements of Xtep International Holdings Limited set out on pages 37 to 54 which comprises the condensed consolidated statement of financial position as at 30 June 2009, and the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months period then ended and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

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

Scope of review

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

Conclusion

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

Ernst & Young

Certified Public Accountants

18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

7 September 2009

Glossary

In this interim report, 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 of the Company
“Business Day”	Any day on which the Hong Kong Stock Exchange is open for the business of dealing in securities
“Company” or “Xtep”	Xtep International Holdings Limited
“Corporate Governance Code”	Code on corporate governance practices contained in Appendix 14 to the Listing Rules
“Director(s)”	The director(s) of the Company
“DRP System”	Distribution resource planning system
“GDP”	Gross domestic product
“Group”	The Company and its subsidiaries
“Group Success”	Group Success Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 23 February 2007, the entire issued share capital of which is directly owned as to 63.2% by Mr. Ding Shui Po and 36.8% by Ms. Ding Mei Qing
“HK\$” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Date”	3 June 2008, on which dealing in the Shares first commence on the Hong Kong Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“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 manufacturers 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
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	Ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Share Option Scheme”	The share option scheme adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed “Share Option Scheme” in Appendix VI to the Prospectus
“Shareholder(s)”	Shareholder(s) of the Company
“Xtep (China)”	Xtep (China) Co., Ltd., an indirect wholly-owned subsidiary of the Group



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

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

www.xtep.com.hk