



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



TURN TO THE FUTURE

# Corporate Information

## BOARD OF DIRECTORS

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### Executive Directors

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

### Non-executive Director

Tan Wee Seng (陳偉成)

### Independent non-executive Directors

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

## BOARD COMMITTEES

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### 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

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

## AUTHORISED REPRESENTATIVES

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

## REGISTERED OFFICE

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

## HEAD OFFICE IN THE PRC

Economic and Technical Development Zone  
Quanzhou City  
Fujian Province PRC 362000

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## LEGAL ADVISER AS TO HONG KONG LAWS

Orrick, Herrington & Sutcliffe

## AUDITORS

Ernst & Young

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## PRINCIPAL BANKERS

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

## INVESTOR RELATIONS CONSULTANTS

Porda Havas International Finance  
Communications Group  
Aries Consulting Limited

## COMPANY WEBSITE

[www.xtep.com.hk](http://www.xtep.com.hk)





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# Financial Highlights

Revenue from Xtep brand increased to approximately **RMB2,452.2 million**



Total Revenue	<b>+26%</b> to approximately	<b>RMB2.57 billion</b>
Gross Profit Margin	<b>+0.2</b> percentage point to approximately	<b>40.9%</b>
Operating Profit	<b>+25%</b> to approximately	<b>RMB564.3 million</b>
Profit for the Year	<b>+25%</b> to approximately	<b>RMB466.2 million</b>

Proposed interim dividend per Share	<b>+30% to</b>	<b>HK13.0 cents</b>
Payout ratio	<b>:</b>	<b>50%</b>

#### Cautionary Statement Regarding Forward-looking Statements

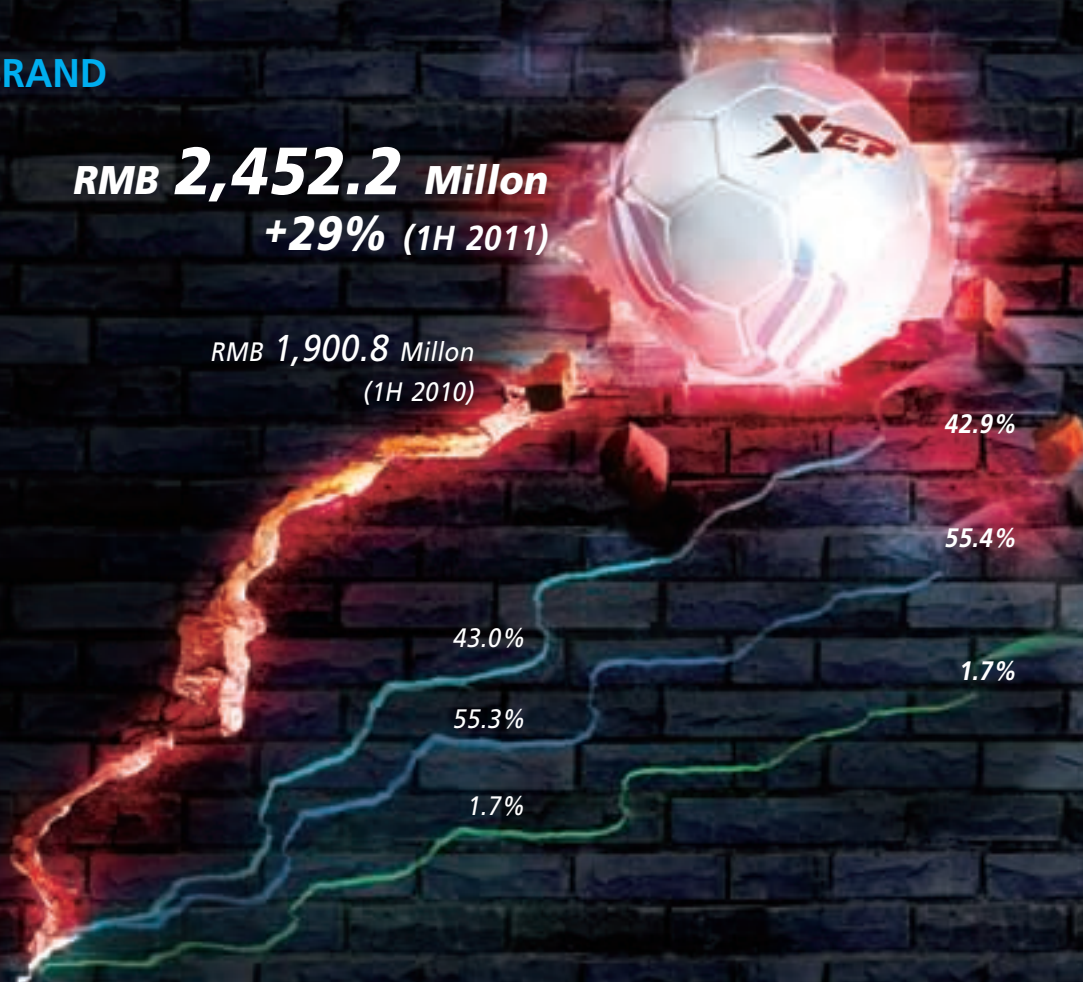
This Interim Report contains certain forward-looking statements with respect to the financial condition, results of operations and business of Xtep International Holdings Limited and its subsidiary (the "Group"). These forward-looking statements represent the Group's expectations or beliefs concerning 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 Group's results of operations are described in the sections of "Business Review" and "Financial Review".

# Financial Highlights

## XTEP BRAND

**RMB 2,452.2 Million**  
+29% (1H 2011)

RMB 1,900.8 Million  
(1H 2010)



### REVENUE BREAKDOWN OF XTEP BRAND BY PRODUCT CATEGORY

For the six months ended 30 June

	Revenue (RMB'000)			As a percentage of revenue (%)	
	2011	2010	Change (%)	2011	2010
Footwear	1,052,200	817,852	+28.7	42.9	43.0
Apparel	1,357,600	1,050,235	+29.3	55.4	55.3
Accessories	42,400	32,698	+29.7	1.7	1.7
Total	2,452,200	1,900,785	+29.0	100.0	100.0
Gross profit margin	40.9%	40.5%	+0.4 pt		



## REVENUE, SALES VOLUME AND AVERAGE WHOLESALE SELLING PRICE OF XTEP BRAND FOOTWEAR PRODUCTS

For the six months ended 30 June

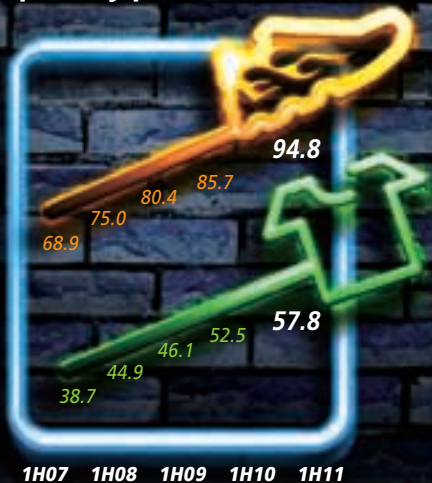
	2011	2010	Change (%)
Revenue (RMB million)	1,052.2	817.8	+28.7
Sales volume (million pairs)	11.1	9.5	+16.4
Average wholesale selling price (RMB)	94.8	85.7	+10.6
Gross profit margin	41.1%	40.3%	+0.8 pt

## REVENUE, SALES VOLUME AND AVERAGE WHOLESALE SELLING PRICE OF XTEP BRAND APPAREL PRODUCTS

For the six months ended 30 June

	2011	2010	Change (%)
Revenue (RMB million)	1,357.6	1,050.2	+29.3
Sales volume (million pieces)	23.5	20.0	+17.6
Average wholesale selling price (RMB)	57.8	52.5	+10.0
Gross profit margin	40.9%	40.7%	+0.2 pt

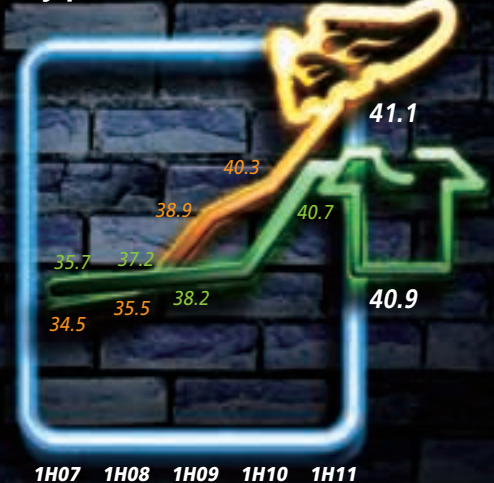
**Average wholesale selling price by product (RMB)**



**Sales volume by product (million)**



**Gross profit margin by product (%)**



# Five-Year Financial Summary

For the six months ended 30 June

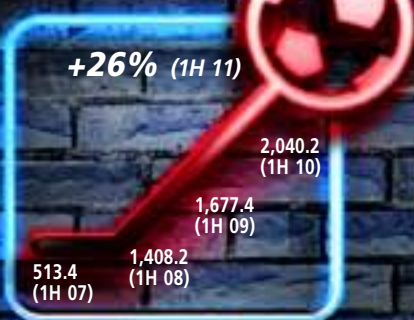
	2011	2010	2009	2008	2007
<b>Profitability data (RMB million)</b>					
Revenue	2,570.3	2,040.2	1,677.4	1,408.2	513.4
Gross profit	1,051.5	830.8	647.8	517.8	165.0
Operating profit	564.3	451.9	331.3	300.8	96.5
Profit for the period	466.2	373.5	306.5	254.7	81.1
Basic earnings per Share (RMB cents) (Note 1)	21.43	17.18	14.10	16.01	5.52
<b>Profitability ratios (%)</b>					
Gross profit margin	40.9	40.7	38.6	36.8	32.2
Operating profit margin	22.0	22.2	19.8	21.4	18.8
Net profit margin	18.1	18.3	18.3	18.1	15.8
Effective tax rate	18.1	17.9	7.4	14.2	11.3
Return on average total equity holders' equity (annualised) (Note 2)	26.7	24.6	22.8	35.4	66.0
<b>Operating ratios (as a percentage of revenue) (%)</b>					
Advertising and promotion costs	11.8	11.7	11.6	8.0	5.6
Staff costs	5.3	4.7	4.8	5.3	10.0
Research and development costs	1.4	1.3	1.7	1.6	1.3

As of 30 June

	2011	2010	2009	2008
<b>Assets and liabilities data (RMB million)</b>				
Non-current assets	594.3	279.6	224.7	124.8
Current assets	4,130.7	3,644.1	3,047.0	3,206.5
Current liabilities	1,050.8	814.0	521.7	733.4
Non-current liabilities	52.3	35.3	7.2	–
Shareholders' equity	3,621.9	3,074.4	2,742.8	2,597.9
<b>Asset and Working Capital data</b>				
Current asset ratios	3.9	4.5	5.8	4.4
Gearing ratios (%) (Note 3)	6.0	0.0	0.0	9.4
Net asset value per Share (RMB) (Note 4)	1.66	1.41	1.26	1.18
Average inventory turnover days (days) (Note 5)	81	46	49	58
Average trade and bills receivables turnover days (days) (Note 6)	58	57	60	47
Average trade and bills payables turnover days (days) (Note 7)	73	76	68	43
Overall working capital turnover days (days)	66	27	41	62

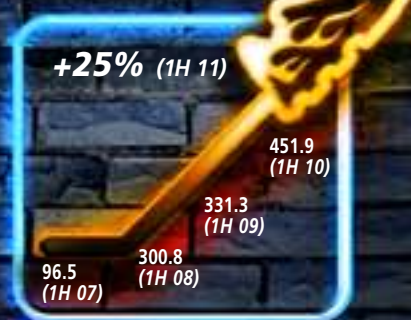
## Revenue (RMB million)

**2,570.3** (1H 2011)



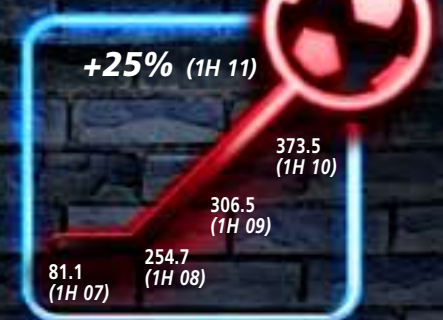
## Operating Profit (RMB million)

**564.3** (1H 2011)



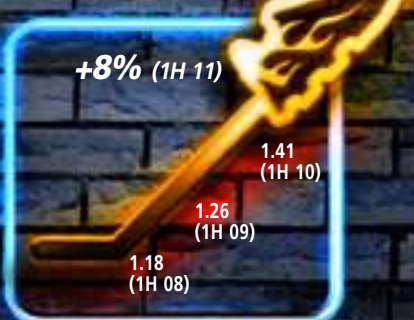
## Profit For The Period (RMB million)

**466.2** (1H 2011)



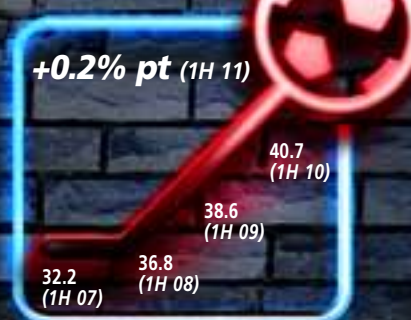
## Shareholders' Equity Per Share (RMB)

**1.66** (1H 2011)



## Gross Profit Margin (%)

**40.9** (1H 2011)



## Interim Dividend Per Share (HK cents)

**13.0** (1H 2011)



### Notes:

- 1) The calculation of basic earnings per Share is based on the profit attributable to ordinary equity holders of the Company divided by the weighted average number of ordinary shares in issue during the relevant period.
- 2) Return on average total equity holders' equity is equal to the profit for the period divided by the average of opening and closing total equity holders' equity.
- 3) The calculation of gearing ratio is based on the total borrowings divided by the sum of share capital and reserves of the Company at the end of the period.
- 4) The calculation of net asset value per Share is based on the total number of Shares in issue after the Company's listing and at the end of the period.
- 5) Average inventory turnover days is equal to the average of opening and closing inventory divided by costs of sales and multiplied by the number of days in the relevant period.
- 6) Average trade and bills receivables turnover days is equal to the average of opening and closing trade and bills receivables divided by revenue and multiplied by the number of days in the relevant period.
- 7) Average trade and bills payables turnover days is equal to the average of opening and closing trade and bills payables divided by cost of sales and multiplied by the number of days in the relevant period.

# Xtep Brand Distribution Network



**Eastern Region** : 2,637

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**Southern Region** : 1,794

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**Western and Northern Region** : 3,007

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**TOTAL** : 7,438

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# Major Marketing Promotion



Football Events



Running Events



Exciting Events





Entertainment and commercials

# Chairman's Statement

XTEP  
BRAND  
REVENUE  29%

Dear Shareholders,

On behalf of the Board of Xtep International Holdings Limited, I am pleased to present the unaudited interim results of the Group for the six months ended 30 June 2011 which were reviewed by our independent auditors and our audit committee.

The Group is firmly committed to leading Xtep brand into becoming a world-class fashion sportswear brand. We are pleased to deliver satisfactory operational and financial results to our shareholders for the period under review. The positioning of Xtep brand's unique, functional, fashionable and lifestyle sportswear products for the mass market in the PRC has continued to outpace other competing brands. Xtep brand continued to be well recognized by customers through our effective marketing strategies by focusing sports and entertainment together. Its innovative, functional and trendy sportswear products deliver excellent value for money and were well accepted by young and energetic customers. The Group expanded its strong foothold in second- and third-tier cities, keeping pace with increasing urbanization in the PRC. The Group also enforced close monitoring of the retail sales channel, so as to ensure that we are able to respond rapidly to ever changing market trend.

## GROWTH HIGHLIGHTS

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Under the continuous support of the PRC government's policy, the overall retail industry and the sportswear segment in the PRC are still expanding steadily. From January to June 2011, China's total retail sales of consumer goods increased by 16.8% when compared to the same period in 2010, indicating that the Chinese economy remains healthy and that consumer demand for quality goods is still growing at a steady pace. The Xtep brand continues to target second- and third-tier cities within the PRC with high growth potential. With the growing number of consumers and an increasing average salaries in these cities, consumers' average disposable income and purchasing power will also continue to rise.





**XTEP :**  
aim to become a  
world-class leading  
fashion sportswear brand

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**Ding Shui Po**  
*Chairman*

During the period under review, the total revenue of the Group was RMB2,570.3 million (2010: RMB2,040.2 million), which represents an increase of approximately 26.0% over the same period last year. Revenue from the Xtep brand increased significantly by 29.0%, reaching RMB2,452.2 million (2010: RMB1,900.8 million). The overall gross profit margin also increased to 40.9% (2010: 40.7%), a 0.2 percentage point increase over the same period last year. Profit attributable to shareholders was approximately RMB466.2 million (2010: RMB373.5 million), an increase of approximately 25% over the same period last year. Basic earnings per share for the six months ended 30 June 2011 increased by about 25% to RMB21.43 cents (2010: RMB17.18 cents). The annualised return on average shareholders' equity for the six months period was 26.7% (2010: 24.6%), a 2.1 percentage points increase from last period. The satisfactory results and the adequate surplus cash balances have resulted in the Board recommending payment of an interim dividend of HK13.0 cents per Share (2010: HK10.0 cents per Share), which is an increase of 30% from last year. The payout ratio is approximately 50% (2010: 51%).

## **DIFFERENTIATED MARKETING STRATEGIES**

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The Group's Xtep brand is focused on providing innovative, functional and trendy sportswear products. We establish our image as a creative and trendy brand primarily through our unique marketing strategies in key areas: prominent events, running events, football clubs and celebrity endorsements.

### **Prominent Events**

The Group fully supports China's major events and helps promoting the importance of sports. We are proud to become the official sponsor of China National Women's Synchronized Swimming Team ("NWSS"). The NWSS team achieved a remarkable result by winning 6 silver and 1 bronze medals at the Synchronized Swimming China Open in April 2011, creating a new record. Such sponsorship has highly raised Xtep brand's reputation among world-class sporting event.

Following last year's success in sponsoring all the volunteers' outfits at the Shanghai World Expo 2010, the Group is appointed the official sponsor of all the volunteers' outfits for the International Horticultural Exposition 2011, which is being held in Xi'an from April until October 2011. Such sponsorship shows the high reputation and confidence of the Xtep brand among the important international events organised by PRC government officials.

### **Love Running, Love Xtep**

A major part of the Xtep brand's core focus is running sportswear, as evidenced by our commitment to the "Love Running, Love Xtep" marketing slogan. We are fully dedicated to becoming the key running sportswear brand and therefore we have sponsored a number of international marathons in our key provincial markets. In 2011, we have already sponsored a total of 9 international marathons in the PRC and Taiwan; 5 of which were completed in the first half of 2011, including the Xiamen International Marathon which posted a record

number of approximately 70,000 participants. With solid commitments in sponsoring a variety of international marathon events, we believe that we have outpaced other competing brands, and made Xtep brand a key player in the marathon arena.

### **Football kick-starts**

Promotion through sponsoring world-class football clubs is a sustainable and effective marketing strategy. The Xtep brand will continue this successful marketing strategy and we have again made a kick-start to the promotion in Europe through our successful sign-up with Villarreal C.F. of La Liga to become the official technical sponsor of the club for 2011-2016. Villarreal C.F. successfully finished 4th in the 2010-11 top division of the Spanish professional football league, widely recognized as one of the most competitive in the world. The Xtep brand logo will be displayed to millions of football fans in Europe and other parts of the world.

### **Superstar sensations**

The Xtep brand is well-known for its creative marketing strategy with promotion by entertainment celebrities. We have identified the most popular celebrities in Asia and engaged them through sponsorship as Xtep brand's spokespersons. Customers can enjoy the celebrities' charming and unique character as they are portrayed through the products of Xtep brand. Adding to the superstar spokesperson team of Nicholas Tse, Jolin Tsai and Wilber Pan, we continued to enlarge the team by successfully signing up the most popular singer in the PRC, Han Geng in June 2011. Through TV commercials, posters and signboards, they have attracted the attention of millions of their fans and created an enormous awareness of our Xtep brand.

We also broadcast the Xtep brand spokespersons' commercials through various TV channels with high viewer ratings such as CCTV, Hunan satellite and Anhui satellite, among others. We have leveraged on the popularity of our spokespersons on the Internet as well since all of them maintain high traffic individual Internet channels such as their Sina micro-blogs. We believe such effective exposure through various marketing channels has made the Xtep brand more popular and more accepted than other players in the industry.

## **STEADY NETWORK EXPANSION**

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The Group has set a steady pace in increasing the number of retail outlets in line with the pace of urbanisation in the PRC. We have continued to execute our expansion plan and increased the number of Xtep brand retail outlets by 407 in the period under review, reaching a total of 7,438 of retail outlets as at 30 June 2011. The Xtep brand nationwide distribution network continued to expand in line with our strategy with a coverage of approximately 80% located in second- and third-tier cities in the PRC. This continues our early-mover benefit and strengthens our competitive advantage in these key growing markets.

At the same time, the Group also focuses on maintaining sustainable growth in average wholesale revenue per retail outlet. We executed the plan well above target. For the six months period ended 30 June 2011, the average wholesale revenue per retail outlet of Xtep brand products reached approximately 13%. This is the result of the status improvements of Xtep brand and the customers' high degree of acceptance towards our product offerings.

## **INNOVATIVE PRODUCTS**

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Xtep brand products stand out from the crowd by their innovative design and quality. We believe in providing customers with the best choice in both quality and variety.

In terms of technology, we are proud to have introduced super light and comfortable running shoes that only weigh 170 grams, which are approximately 30%-40% lighter than other running shoes, achieving one of the lightest standards among international marathon events. We have expanded our product range into 8 major series (including running, football, basketball, tennis, outdoor, casual, skateboard and trendy series) with 24 sub-series; and apparel products into 6 major series (including football, running, tennis, integrated urban, and denim series) with 11 sub-series as organised by design and functionality. New designs are introduced quarterly. For the first half of 2011, there were over 2,000 and 2,700 types of footwear and apparel products designs, respectively. Hence, we can provide a very diverse choice of products that can accommodate different customers with different needs.

## **HEADING FUTURE CHALLENGES**

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We believe that the steady pace of urbanization and the increase of consumption power of the PRC nationals can support a sustainable economic growth for the next few decades. Under such steady economic growth in the PRC, the overall retail consumption and sportswear industry is still expected to grow at a healthy pace. Hence, we are confident in the future prospect of the sportswear and retail industry.

We acknowledge that we still face fierce competition from both domestic and international brand players in this growing industry. We have delivered satisfactory results in the first half of 2011 and we are confident that we will continue to meet our strategic goals.

### **Brand enhancement through effective marketing**

We will continue to improve the Xtep brand equity through sponsoring powerful sporting events. We have secured numerous events such as being the sole sponsor of the U.S.A. Team and Great Britain Team in the 26th Universiade in Shenzhen, the most important international sporting event in 2011 in the PRC. We will continue with our commitment to sponsoring running events including 4 international marathons in the second half of 2011. We will also bring the world-class football club Villarreal C.F. to China to jointly promote the club and the Xtep brand. We will create another "Xtep Heatwave" by organising music concerts in the PRC for our Xtep brand celebrity spokespersons.

### Sales channel expansion

As the Xtep brand status keeps rising above other sportswear brands, and that the urbanisation in the PRC is rapidly increasing the spending powers of developing cities, there are more and more requests from the sales channel to open up new Xtep brand retail outlets in the PRC. We will carefully select the best locations and secure penetration in the provinces where the Xtep brand has a distinctive advantage. At the same time, we will execute our expansion plans carefully so that the twin targets of both increasing the number of retail outlets and the average wholesale revenue per retail outlet are together met. Hence, we plan to reach a total number of approximately 7,900 Xtep brand retail outlets by the end of 2011.

The internet is an integral part of our daily lives. We believe that our Xtep brand image can connect with the trendy Internet age group customers better than other brands. Hence we will leverage on the popularity of our Xtep brand spokespersons and expand our e-commerce sales network.

### Product range expansion

In addition to the increase in variety of designs and styles of products, we will introduce different product categories. We believe that nowadays there is more and more demand for lifestyle products. Hence, Xtep brand is ideally positioned to provide lifestyle products through our new "Urban series". More running and football related products will be introduced, both enhancing the functional product range and the designs and styles.

## APPRECIATION AND ACKNOWLEDGEMENTS

Our success would not have been possible without the relentless efforts of our management and staff. Their dedication and hard work has helped us weather challenging market conditions while providing top quality products and high level of services upon which the Company's reputation rests. On behalf of the Board, I would like to express my appreciation for the staunch and unwavering support of our shareholders, our business partners and our customers, all of whom have contributed to the Group's success to date.

**Ding Shui Po**  
*Chairman*

Hong Kong, 16 August 2011



# Management Discussion and Analysis

## MARKET REVIEW

### China's Rebounding Economy

In the first half of 2011, the global economy steadfastly continued on its path of recovery, despite the obstacles it has encountered. China's Central Party Committee and the State Council firmly carried out a pro-active fiscal policy and prudent monetary policy, continuously strengthening and improving macro controls. Under the influence of the integrated policies imposed by the Chinese government, China's economic growth has remained resilient and the economic outlook remains largely favorable. According to the National Bureau of Statistics of China, China's GDP reached approximately RMB20,445.9 billion in the first half of 2011, an increase of 9.6% as compared to the same period last year. The accumulated total retail sales of consumer goods rose by approximately 16.8% over the same period last year to approximately RMB8,583 billion, of which retail sales of consumer goods in urban areas increased by approximately 16.9% over the same period last year to approximately RMB7,445 billion. These figures indicate that both consumer purchasing power and domestic demand in China were still on the rise, benefiting the retail sector including the sportswear industry.

### Thriving Chinese Sportswear Industry

China's sports industry has been continuously supported and promoted by the Chinese government in recent years. Announced by the State Council of the People's Republic of China in February 2011, the "Nationwide Sports Training Plan (2011-2015)" (the "Plan") stated the government's aim to raise public participation in sports in the next five years and to encourage society as a whole to engage in sports-related businesses. The Plan includes expanding the



budget for nationwide sports activities in cities of every level. Such policies will effectively stimulate the domestic demand for sportswear, thus allowing China's sportswear industry to thrive.

### MASS MARKET POTENTIAL

According to the statistics released by the Chinese government, second- and third-tier cities in the provinces such as Fujian, Hubei, Hunan, Anhui and Jiangxi all recorded an increase of over 13% in GDP in the first half of 2011 as compared to the same period last year, which are above the country's average growth of 9.6%. This proves that the potential of growth in the second- and third-tier cities is higher than the more mature developed cities.

As the number of consumers and their average salaries in these cities continue to increase, the average consumer's disposable income and purchasing power will also continue to rise. Hence, the Xtep's brand positioning in the mass market segment can enjoy a sustainable long term growth under these favourable conditions.

### BUSINESS REVIEW

The Group's strong growth in the first half of 2011 was mainly attributable to four key competitive strengths of the Xtep brand, namely brand building, innovative products, channel establishment and management capability.

### BRAND BUILDING

As the leading fashion sportswear brand in China, Xtep has established a unique position in the industry with its long-held core business concepts such as "Sports Like No Other" and "Xtep is Fashion Sports". To strengthen its position in China and to extend its reach in the global sportswear arena, the Group continued to launch numerous innovative branding promotions coupling the marketing elements of sports and entertainment. The Group also sponsored various international and national prominent events. In addition, the Group actively pursued promotions of the Xtep brand across a variety of media channels.





# Prominent Events

## CHINA NATIONAL WOMEN'S SYNCHRONIZED SWIMMING TEAM

The Group is proud to become the official partner and sole sportswear sponsor for the China National Women's Synchronized Swimming Team which won 6 silver and 1 bronze medals at the Synchronized Swimming China Open in April 2011. The sponsorship and association with this high performance team is expected to enhance the sporty character of the Xtep brand and to represent a crucial part of brand endorsement, strengthening the Group's partnership with national and international premier games.

## INTERNATIONAL HORTICULTURAL EXPOSITION 2011 XI'AN CHINA

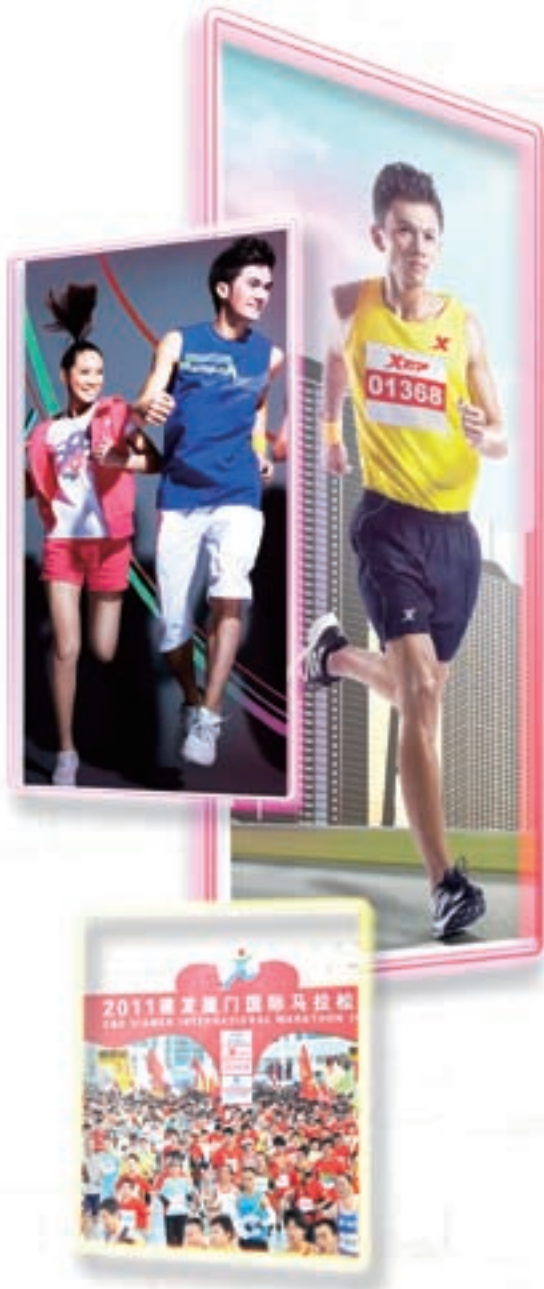
The International Horticultural Exposition 2011, that is being held in Xi'an from 28 April to 22 October 2011 and co-organized by the People's Government of Shaanxi Province, the State Forestry Administration, the China Council for the Promotion of International Trade and the China Flower Association, is another major international event in China following the Shanghai World Expo 2010. The event enjoys confirmed participation from 105 cities and organizations at home and abroad. The 178-day expo is attracting approximately 60,000 – 80,000 visitors daily. As the global partner of the exposition, all the volunteers at the event wear the specially designed trendy outfits which carry the Xtep brand logo. This sponsorship has enhanced the Xtep brand's recognition in the global market and demonstrated the Group's commitment to support major events in the PRC.







# Running Events



## “LOVE RUNNING, LOVE XTEP”

Running is one of the most important elements that forms Xtep brand. The Group continued to promote the Xtep brand as the key player in running through active involvement in the sponsorships of international marathons and other running events held in the Greater China region including the PRC, Taiwan and Hong Kong. During the period under review, the Group sponsored the following important events which have drawn significant attention from the participants and worldwide viewers to the power of Xtep brand.

## INTERNATIONAL MARATHONS

During the first half of 2011, the Group sponsored 5 major important international marathons and in aggregate approximately 150,000 participants and millions of viewers were involved in these significant events.

- Xiamen International Marathon (Fujian, PRC)  
January 2011 – about 70,000 participants
- Taipei Freeway Marathons (Taipei, Taiwan)  
March 2011 – about 10,000 participants
- China Zheng-Kai International Marathon (Henan, PRC)  
March 2011 – about 30,000 participants
- Jianzhen International Half Marathon (Yangzhou, PRC)  
April 2011 – about 30,000 participants
- Dalian International Marathon (Liaoning, PRC)  
April 2011 – about 15,000 participants



# Running Events

## Xiamen International Marathon

The 2011 Xiamen International Marathon, one of the major marathon competitions in the PRC, was co-organized by the Xiamen Municipal Government and the Chinese Athletic Association on 2 January 2011. It comprises full marathons, half marathons, 10 km races and 5 km races, attracting approximately 70,000 participants from 45 countries across the globe. As the event's sole sporting product partner from 2009 to 2013, the Group provides sporting apparels for all participants. The Group enjoys wide media exposure as the race is broadcasted live by over 40 TV stations worldwide.

## Taipei Freeway Marathon

The Taipei Freeway Marathon 2011 was held on 20 March 2011. The competition attracted thousands of long-distance runners as well as locally and internationally famous sportsmen from 31 countries. As the official partner and sole sportswear sponsor for the event, the Group led the way by providing Chinese sporting products in Taiwan for the first time. With its leading position in fashionable Chinese sporting products, the Group is committed to turning Xtep brand into an international sporting icon and promoting its spirit of "Love Running, Love Xtep" in different regions. Successfully promoting Xtep brand in Taiwan is expected to bring a similar effect to other Asian markets and surrounding areas, speeding up the brand promotion and recognition.

## China Zheng-Kai, Jianzhen and Dalian International Marathon

All of these marathons are important large-scale international marathon events in their respective provinces. Numerous professional athletes and passionate runners from all over the world enjoy participating in these kinds of unlimited boundary events. As a leading fashionable sports brand in China with its core focus on running, the Group has been

making every effort to support these events and the Xtep brand's concept of "Love Running, Love Xtep" was well-remembered by the participants and viewers.

## OTHER RUNNING EVENTS

### IAAF Shanghai Diamond League

The IAAF Diamond League is a world renowned annual series of track and field meets. The Shanghai league was held at the Shanghai Stadium on 15 May 2011 before an audience of over 50,000. With sixteen events held, this year's highlights included the 100-meter and 110-meter hurdles, in which Xiang Liu, the "Chinese Flying Man", gained a resounding victory over David Oliver of the USA with a time of 13.07 seconds. As an official partner and sole sportswear sponsor for the Diamond League from 2010 to 2012, the Group is determined to focus on building credibility for Xtep brand with the outstanding athletes in the races, in order to strengthen the Group's foundation and capitalize on important market opportunities in track and field sports in China.

The Xtep brand was showcased around the world as the event was widely broadcast by various TV stations worldwide. Recognition of Xtep brand as a key player in China's track and field markets was further advanced.

### 2011 Olympic Day Run

Organized by the Sports Federation & Olympic Committee of Hong Kong, China, the 2011 Olympic Day Run was successfully held on 26 June 2011 at Hong Kong Disneyland Resort. Similarly to last year, the Group once again strengthened its brand awareness by sponsoring this event which attracted over 4,600 participants and 26 corporate teams.



## Other Sports Events

### CHINA X-GAMES

The Group is the title sponsor for the Xtep 2011 CX-Games, a major international extreme sporting event, for the fifth consecutive year. The competition is touring 10 cities in the PRC and kicked off the first round in Beijing on 4 June 2011, attracting over 1,000 professional extreme sportsmen from around the globe. Later in the year, this event will continue to hold competitions in Shanghai, Guangzhou, Chengdu, Wuhan, Xiamen, Xi'an, Zhengzhou, Shenyang and Qingdao. These exciting games caught the significant attention of youngsters across Asia. The Group believes that such sponsorship fits well with Xtep brand's image of "Sports Like No Other" and strengthening its leading position in the fashion sportswear industry in the PRC.





# International Football Events



## VILLARREAL C.F.

Football is one of Xtep's core developments, bringing the brand firmly into the public eye and promoting it to the world. In 2011, the Group entered into a new five-year cooperation agreement with Spanish La Liga giant Villarreal C.F, allowing the Xtep brand logo to appear regularly in the international sporting arena. A team with great strength and impressive results, Villarreal C.F. will play in high-profile matches in Europe such as the upcoming UEFA Champions League, thus enhancing international exposure and recognition of the brand.

La Liga is one of the most influential football leagues and Villarreal C.F. is an excellent team in the top division. Villarreal C.F. has also earned several honours, including placement in the semi-finals of the Champions League and Europa League, and champion of the UEFA Intertoto Cup. The club is characterized by its team spirit, energy and determination, which is very much in line with the Xtep brand's image and pursuit of excellence. The sponsorship is expected to become a significant driver of the Xtep brand's promotion in Europe and worldwide, establishing its foothold as an important player among international football events.

## ALL STAR SPORTS ASSOCIATION

The Group continued to give support to the Hong Kong All Star Sports Association (ASSA) by sponsoring apparel products for its members. During the period under review, members of ASSA participated in a number of charity football games in Hong Kong and the PRC in outfits designed and sponsored by the Group. ASSA is a renowned sports and charity organization founded by a group of famous artistes and celebrities in the Hong Kong entertainment industry to promote sporting activities and to raise funds for those in need by bringing together the power of popular artistes for charity contests and performances. The Group has been providing team members with customized sportswear, casual wear and accessories products since August 2009. This win-win sponsorship features the Xtep brand as a fashionable and trendy sportswear brand while enhancing its brand awareness in domestic and overseas markets.





# Celebrity Spokespersons



The Xtep brand is viewed as the pioneer in using famous celebrities as the brand's spokespersons. The charming appearance and unique character of each of the Xtep brand spokespersons has captured great attention from hundreds of millions of their fans in Asia. All Xtep brand spokespersons project youthful and energetic images when making popular appearances in their music, movies and TV episodes. Hence, the image of Xtep brand can be easily connected with the audience. For each season, all of the Xtep brand spokespersons will pose with the most trendy and popular products. These superstars' pictures and TV commercials will be broadcasted through different advertising channels. As the use of microblogs and other social media platforms have become more common, it is believed that the popularity of celebrities on the Internet, together with online promotions, will help the Group reach a larger and younger customer base more effectively.

## NEW XTEP HEATWAVE – HAN GENG

Adding to our superstar celebrity team of Xtep brand spokespersons, which comprises of Nicholas Tse, Wilber Pan and Jolin Tsai, the Group is very pleased to have signed up another superstar, Han Geng. Han Geng was voted as the most popular singer in the PRC by CCTV in 2010. He was a member of a very popular singing group in South Korea before he came to fame in the PRC. Han Geng's name is always one of the most popular ones on Internet websites and blogs. Hence, his joining the Xtep brand spokesperson team will definitely create another huge "Xtep Heatwave".

In order to attract initial attention to the new sponsorship campaign, the Group organized an event for the selection of "Han's Girl". This successfully aroused public awareness and over 10,000 contestants quickly joined via the Internet. There was wide coverage by the media throughout the whole campaign and the results were successfully broadcasted in various media channels. This event demonstrated the effectiveness of promoting Xtep brand by leveraging the superstar's public exposure activities.



# Commercials

The Group captured the attention of its targeted consumers by utilizing strategic multimedia advertising campaigns. Innovative commercials with sports and entertainment influences were launched during prime time hours on leading TV channels and digital broadcast media across the Greater China region in the period under review.

Major advertising channels included:

## TV COMMERCIALS

### National:

CCTV-1 – China Central Television (“CCTV”) is one of China’s primary national channels providing all round TV programs. It features a variety of TV programs available to both cable and non-cable television viewers. To increase brand awareness, the Group’s TV commercials were aired during prime time on this channel.

### Sports:

CCTV-5 – This is a national sports channel featuring all types of national and international sporting events. The Group entered into agreement with the channel and became the official broadcast partner of football games. This collaboration is aimed to boost the profile of Xtep brand in the sportswear industry.

### Central China:

Hunan Satellite TV – This is a very popular TV channel offering entertainment and information programs in China. As the sole title sponsor of “Progressing Everyday” 《天天向上》, an entertainment program with one of the highest viewers’ rating in the PRC, the Xtep brand’s visibility is significantly heightened.

## DIGITAL COMMERCIALS

Sohu.com – The Group was the title sponsor for the entertainment channel on Sohu.com, the largest online search engine in China. Utilizing the extensive network of Sohu.com, the Group successfully promoted its fashionable brand to a wider consumer base through its entertaining and creative commercials.


Baidu.com – Baidu is a well-established Chinese search engine for websites, audio files and images. An Xtep brand zone was set up on the site to enhance brand awareness among the public.

Sina Microblog – Sina Microblog is a Chinese microblogging site and one of the most popular sites in China, in use by approximately 90% of the market. The site now has more than 14 million users. An Xtep brand fan page was set up on Sina Microblog to announce the latest updates of the brand and to reach out directly to the younger generation.

Taoxie.cn – In order to further effectively utilize the Internet, the Group also signed an agreement and formed a strategic partnership with Taoxie.cn to help develop its e-commerce platform. Taoxie.cn is one of the largest footwear sales platforms in the country, whose far-reaching influence in cyberspace will undoubtedly improve the promotion of the Xtep brand’s products and gain exposure through advertisements on the website.





# Innovative Products



Product innovation is important to Xtep's sustainable development and future business growth in the sportswear industry. Adhering to the brand philosophy of "Sports Like No Other", the Group has steadily focused on expanding its running and football series and other fashion oriented sportswear products series during the period under review.

The Group prides itself on its unparalleled product design and R&D capabilities. The Group continued to enlarge the R&D centre in Guangzhou as part of its commitment to strengthening innovation, building stronger connection with consumers and improving quality across its product lines. The Xtep brand's product design team, which comprises over 650 industry experts, entered into close cooperation with design teams in England, France, South Korea and the United States with their advanced industry knowledge and global exposure in order to offer a wide range of product designs to meet different consumer demands.



To understand the preferences of its customers, the Group installed the Distribution Resource Planning ("DRP") system with coverage of approximately 65% of its stores. The system records the purchasing behavior of its customers and the information is sent to the backend system for analysis. This has helped the Group launch better designs which catch customers' eyes. In addition, the Group implemented the Product Lifecycle Management ("PLM") application, a web-based solution managing the entire lifecycle of a product from its conception, through design and manufacturing, to product delivery, which has streamlined the product development process and improved product quality.





## FOOTWEAR PRODUCTS

The Group aims to establish the Xtep brand as the representative icon for running. Running shoes, as one of the core developments of the Xtep brand, form the largest proportion of footwear products. During the period under review, the Group launched 8 major series with 24 sub-series totaling over 2,000 types of footwear products designs, which mainly include running, football, basketball, tennis, outdoor, casual, skateboard and trendy products.

The Group continued to further enhance the following advanced technologies:

- super lightweight material to reduce the weight of performance-based long distance running shoes
- marathon running shoes which weigh only 170 grams, 30% – 40% lighter than average running shoes, achieving one of the lightest standards among international marathon events
- “X-Turbo” technology was adopted in new running shoes with elastic insoles professionally designed to provide a more comfortable fit and to enhance stability
- Double – Core for high shock absorption function in running which can save energy and reduce the possibility of ankle sprains
- Dual-Density – using 2 different densities of “Phylon” shock absorption material to reduce the impact force for sole protection
- X-Balance is a special mid-inward structure to improve the foot balance
- X-CJ Jelly is the exclusive Xtep research material for high shock absorption function
- X-Grip is the special rounded oval-shaped plastic material which imitates the strong grip of a jaguar’s pad
- nanosilver anti-bacterial chemicals to suppress the cultivation of bacteria.



# Innovative Products



## APPAREL PRODUCTS

The Group strives to enhance its position as a leader of fashion sportswear brands by continuously creating inspired product and brand experiences. During the period under review, the Group introduced 6 major series with 11 sub-series totaling over 2,700 types of apparel product designs including the football series, running series, tennis series, integrated training series, urban series and lifestyle series.

The Group continued to employ cutting-edge technology to enhance the functions of its apparel. Cool and comfortable fibres with nano-technology was introduced in its production processes, enabling its apparel products to offer maximum comfort by filtering thermal radiation in the light and reducing heat retention. Eco-friendly warm fibres were also adopted to provide warmth and enhance air diffusion. The Group also applied the professional football jersey products' material to enhance the quality of apparel products.

# Nationwide Distribution Network

## THE XTEP BRAND

As of 30 June 2011, the Group continued to expand its Xtep brand extensive nationwide network in the PRC. The total number of retail outlets, flagship stores, gross saleable area and average saleable area per retail outlet are as follows:

	As of 30 June 2011	As of 31 December 2010	Change
Total number of retail outlets	7,438	7,031	+407
Total number of flagship stores	40	38	+2
Gross saleable area (square meters)	645,000	600,000	+45,000
Average saleable area per retail outlet (square meters)	87	85	+2

Growth in revenue from the Xtep brand is summarized as follows:

For the six months ended 30 June

	2011	2010	Change (%)
Revenue (RMB million)	2,452.2	1,900.8	+29.0
Average number of retail outlets for the period	7,235	6,341	+14.1
Average wholesale revenue per retail outlet for the period (RMB)	338,959	299,761	+13.1

Note: The average wholesale revenue per retail outlet represented the revenue for the period divided by the average number of retail outlets during the period.

## **XTEP BRAND EXTENDING REACH THROUGH NETWORK PENETRATION**

### **China**

The Group endeavored to strengthen its leading position in the fashion sportswear market in China by expanding its sales network throughout the nation with careful planning. The Group expects to increase the total number of retail sales outlets in accordance with the pace of urbanisation in the PRC. As of 30 June 2011, the number of Xtep brand retail outlets increased by 407 and reached a total of 7,438. The average number of retail outlets for the period was 7,235 (2010: 6,341), representing an increase of 14.1% compared to the same period last year. The Group is focusing on the second- and third-tier cities and therefore most of the new stores are located in these areas. The Xtep brand retail outlets which are located in the second- and third-tier cities accounted for approximately 80% of the total number of Xtep brand retail outlets. The Group closely monitors the appearance and display of its retail stores to ensure consistency with the brand's image and to strengthen our brand's desirability. Most of the retail outlets are upgraded and refurbished with a new interior design every two years. Meanwhile, the Group is upgrading most of the Xtep brand retail outlets with the elegant 6<sup>th</sup> generation outlet design.

The Group also focused on monitoring the sustainable growth of average wholesale revenue per retail outlet. For the six months ended 30 June 2011, the average wholesale revenue per retail outlet of Xtep brand reached approximately RMB338,959 (2010: RMB299,761), representing an increase by 13.1% compared to the same period last year.

This satisfactory result was due to the rising Xtep brand status in the mass market and our huge variety of sportswear products available to the customers.

### **Overseas**

To extend the Group's reach to overseas emerging markets which have recorded growing popularity of fashionable sportswear, Xtep brand became the first Chinese sportswear brand to venture into the Taiwan market and launched its first retail outlets in Taipei. It is expected that the entry into the Taiwan market will bring a radiating effect to other Asian markets and surrounding areas, accelerating the growth of the Group.

### **E-Commerce Platform**

With the increasing popularity of online shopping among the younger generation, the Group has utilized the massive power of e-commerce to reach this market and expand its sales network. Along with the partnership with Sohu.com and Taobao.com, the Group has striven to seek business opportunities in cyberspace. The Group signed an agreement in April 2011 to form a strategic partnership with www.taoxie.cn, one of the largest footwear sales platforms in the country. The Group interacts with consumers in the development, launch and testing of its products through the website. With the internet platform partnership, the Group can study consumers' preferences for prices, qualities and styles in order to formulate precise strategies for its branding and products on the e-commerce platform.

### **Flagship Stores**

A smart and consistent store image is a key component of the brand's professional yet fashionable image. The Group is dedicated to constantly refurbishing its Xtep brand flagship stores with new and updated interior designs. As of 30 June 2011, the Group had a total of 40 Xtep brand flagship stores.

## OTHER BRANDS

Some of the retail outlets of Other brands were closed down due to a lack of competitive advantage in the higher tier cities. As of 30 June 2011, the number of retail outlets of Other brands was reduced by 80 leaving a total of 340 retail outlets.

## MANAGEMENT CAPABILITIES

### Retail Chain Management

In keeping with our positioning for the mass market, the Xtep brand has over the years built a nationwide distribution network with a leading presence in second- and third-tier cities. The Group sees its distributors as long-term business partners, offering strong support to them and helping improve their operational efficiency and profitability. The Group appointed a total of 28 exclusive Xtep brand distributors to cover 31 provinces, autonomous regions and municipalities in China during the period under review. The Group believes that the exclusive distributor system works perfectly well as both parties can be very focused on building the network with mutual long-term benefits.

A consistent and smart store image can help to enhance the shopping experience for customers. The Group provides guidelines and adopts a strict code of practice to standardize operational procedures, retail outlet decor and display, customer service benchmarks and pricing policies. In addition, the Group continues to offer regular training in the areas of marketing, visual merchandising and inventory management in order to foster the expertise, product knowledge, and technical skills of its retail team. During the period under review, over 100 different training programs were provided to the distributors and franchisees.

A stringent retail chain management system has been one of the crucial factors to the Group's success. As of 30 June 2011, approximately 4,800 retail outlets, representing nearly 65% of the total number of Xtep brand retail outlets, had adopted the real-time monitoring DRP system. The system enables the Group to accurately and quickly monitor the inventory level at the retail end so that the Group can plan and closely monitor the market situation as well as optimize inventory control.

### Supply Chain Management

The Group has adopted a vertically integrated business model from design and production to sales and distribution management. The Group is able to respond quickly to the ever-changing market demands and fashion trends by utilizing our own production facilities. As of 30 June 2011, the Group's own facilities in Quanzhou, Fujian included 12 footwear production lines and 20 apparel production lines with a total annual production capacity of approximately 12 million pairs of footwear products and approximately 5 million pieces of apparel products. The utilization rate of the production facilities was close to 100%. By sales volume, approximately 54% of footwear products and 11% of apparel products were manufactured by the Group during the period under review.

## FINANCIAL REVIEW

### REVENUE AND GROSS PROFIT MARGIN BREAKDOWN BY BRANDED PRODUCT SALES

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

For the six months ended 30 June

	Revenue (RMB'000)			As a percentage of revenue (%)		Gross profit margin (%)		
	2011	2010	Change (%)	2011	2010	2011	2010	Change (pts)
Xtep brand	2,452,200	1,900,785	+29.0	95.4	93.2	40.9	40.5	+0.4
Other brands	118,074	139,371	-15.3	4.6	6.8	41.8	44.4	-2.6
Total	2,570,274	2,040,156	+26.0	100.0	100.0	40.9	40.7	+0.2

For the six months ended 30 June 2011, the total revenue of the Group increased by approximately 26.0% to approximately RMB2.6 billion (2010: RMB2.0 billion). The gross profit margin grew by 0.2 percentage point to 40.9% (2010: 40.7%). The increase in overall revenue and gross profit margin was due to substantial growth of the Xtep brand. The decrease in revenue of Other brands was due to the competition in higher tier cities where Other brands conducted their businesses. Xtep brand products remained as the Group's major revenue contributor, which accounted for approximately 95.4% of the Group's total revenue. The improvement in the Group's gross profit margin was due to improvement of our Xtep brand products' gross profit margin.

## XTEP BRAND

### REVENUE BREAKDOWN OF XTEP BRAND BY PRODUCT CATEGORY

For the six months ended 30 June

	Revenue (RMB'000)			As a percentage of revenue (%)	
	2011	2010	Change (%)	2011	2010
Footwear	1,052,200	817,852	+28.7	42.9	43.0
Apparel	1,357,600	1,050,235	+29.3	55.4	55.3
Accessories	42,400	32,698	+29.7	1.7	1.7
Total	2,452,200	1,900,785	+29.0	100.0	100.0
Gross profit margin	40.9%	40.5%	+0.4 pt		

For the six months ended 30 June 2011, the Group's total revenue from the Xtep brand products surged by 29.0% to approximately RMB2.5 billion (2010: RMB1.9 billion) and the gross profit margin increased by 0.4 percentage point to 40.9% (2010: 40.5%). The remarkable results of Xtep brand products were mainly attributable to the widespread recognition of the Xtep brand as a result of our sponsoring of a number of high-profile international and national sporting events and its unique entertainment marketing strategy. In addition, as a result of the popularity of Xtep brand products among the general public, we have recorded satisfactory sales performance through our expanded sales channels and network.

#### REVENUE, SALES VOLUME AND AVERAGE WHOLESALE SELLING PRICE OF XTEP BRAND FOOTWEAR PRODUCTS

For the six months ended 30 June

	2011	2010	Change (%)
Revenue (RMB million)	1,052.2	817.8	+28.7
Sales volume (million pairs)	11.1	9.5	+16.4
Average wholesale selling price (RMB)	94.8	85.7	+10.6
Gross profit margin	41.1%	40.3%	+0.8 pt

Revenue from Xtep brand footwear products rose by 28.7% to approximately RMB1.1 billion (2010: RMB0.8 billion), accounting for 42.9% of the revenue from Xtep brand. The growth in revenue was mainly due to the increases in the sales volume of footwear products by approximately 16.4% to 11.1 million pairs (2010: 9.5 million pairs) and average wholesale selling price by approximately 10.6% to RMB94.8 (2010: RMB85.7). Due to the successful marketing campaign of "Love Running, Love Xtep" and our sponsoring of various important international marathons, there was significant growth in the sales volume of running footwear series. The growth in average wholesale selling price was mainly due to the increase in retail price. The discount given to distributors remained at 60% to the suggested retail price in the first half of 2011. In order to control cost inflation, the Group has taken necessary measures such as increasing the amount of inventory purchased and making more advance payments to the outsource suppliers. As such, the Group has successfully lower the cost of sales and improved the gross profit margin by 0.8 percentage point to 41.1% (2010: 40.3%).

## REVENUE, SALES VOLUME AND AVERAGE WHOLESALE SELLING PRICE OF XTEP BRAND APPAREL PRODUCTS

For the six months ended 30 June

	2011	2010	Change (%)
Revenue (RMB million)	1,357.6	1,050.2	+29.3
Sales volume (million pieces)	23.5	20.0	+17.6
Average wholesale selling price (RMB)	57.8	52.5	+10.0
Gross profit margin	40.9%	40.7%	+0.2 pt

Revenue from Xtep brand apparel products increased by 29.3% to approximately RMB1.4 billion (2010: RMB1.1 billion). The strong growth was due to the significant increase in sales volume by approximately 17.6% to 23.5 million pieces (2010: 20.0 million pieces) and average wholesale selling price increased by approximately 10.0% to RMB57.8 (2010: RMB52.5). The substantial growth in sales volume was predominantly due to the strong and differentiated position of the Xtep brand as the leading fashion sportswear brand. Nowadays, young customers are demanding more trendy and stylish sportswear apparel products and the Xtep brand is the most suitable choice for them. Xtep brand apparel products also provided the mass market with attractive value for quality products. Xtep brand's superstar spokespersons have also drawn the tremendous attention of young customers and accordingly, sales volume grew rapidly during the period under review. The growth in average wholesale selling price was mainly due to the increase in retail price. The discount given to distributors remained at 60% to the suggested retail price in the first half of 2011. In order to control cost inflation, the Group has taken necessary measures such as increasing the amount of inventory purchased and making more advance payments to the outsource suppliers. As such, the Group has successfully lowered the cost of sales and improved the gross profit margin by 0.2 percentage point to 40.9% (2010: 40.7%).

Notes:

- (1) We do not include details of the sales volume, average wholesale selling price and gross profit margin for the accessory products of the Xtep brand because we have a broad range of accessory products that vary significantly in terms of unit price. We believe that a unit-based analysis of this product category is not meaningful.
- (2) Average wholesale selling price represented the revenue for the financial period divided by the total units sold during the financial period.



## OTHER BRANDS

### REVENUE BREAKDOWN OF OTHER BRANDS BY PRODUCT CATEGORY

For the six months ended 30 June

	Revenue (RMB'000)			As a percentage of revenue (%)	
	2011	2010	Change (%)	2011	2010
Footwear	58,578	37,840	+54.8	49.6	27.1
Apparel	49,602	94,447	-47.5	42.0	67.8
Accessories	9,894	7,084	+39.7	8.4	5.1
Total	118,074	139,371	-15.3	100.0	100.0
Gross profit margin	41.8%	44.4%	-2.6 pt		

Revenue from Other brands were derived mainly from products which are licensed to the Group. For the six months ended 30 June 2011, revenue from Other brands was approximately RMB118.1 million (2010: RMB139.4 million), a decrease of 15.3% over last period. The gross profit margin was 41.8% (2010: 44.4%). The decrease in revenue was related to an increase in revenue of footwear products but was offset by the decrease in revenue of apparel products. The decrease in gross profit margin was mainly due to the cost pressure in 2011 and lower average selling price due to fierce competition in the high tier markets.

Revenue from the Other brands footwear products increased by 54.8% to approximately RMB58.6 million (2010: RMB37.8 million). The increase in revenue was primarily due to the significant increase in sales volume by approximately 62.0% to 0.9 million pairs (2010: 0.6 million pairs) because of the attractive design of Disney Sports brand footwear products. However, in order to maintain the competitiveness in the market, the average wholesale selling price of footwear products decreased slightly by approximately 4.4% to RMB64.0 (2010: RMB66.9). As the cost of sales have inflated more rapidly than the wholesale selling price have increased, the gross profit margin decreased by 4.6 percentage points to 40.4% (2010: 45.0%).

Revenue from the Other brands apparel products decreased by 47.5% to approximately RMB49.6 million (2010: RMB94.4 million). The decrease in revenue was mainly due to the fierce competition in the higher tier cities which caused the sales volume to decrease by approximately 45.1% to 0.6 million pieces (2010: 1.1 million pieces) and the average wholesale selling price to decrease by approximately 4.4% to RMB79.8 (2010: RMB83.5). As the cost of sales inflated more rapidly than the wholesale selling price have increased, the gross profit margin decreased by 1.5 percentage point to 43.1% (2010: 44.6%).

Notes:

- (1) We do not include details of the sales volume, average wholesale selling price and gross profit margin for the accessory products of Other brands because we have a broad range of accessory products that vary significantly in terms of unit price. We believe that a unit-based analysis of this product category is not meaningful.
- (2) Average wholesale selling price represented the revenue for the financial period divided by the total units sold during the financial period.

#### REVENUE BREAKDOWN BY PRODUCT CATEGORY

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

For the six months ended 30 June

	Revenue (RMB'000)			As a percentage of revenue (%)	
	2011	2010	Change (%)	2011	2010
Footwear	1,110,778	855,692	+29.8	43.2	41.9
Apparel	1,407,202	1,144,682	+22.9	54.7	56.1
Accessories	52,294	39,782	+31.5	2.1	2.0
Total	2,570,274	2,040,156	+26.0	100.0	100.0
Gross profit margin	40.9%	40.7%	+0.2 pt		

Total revenue of the Group from footwear products rose by 29.8% to approximately RMB1.1 billion (2010: RMB0.9 billion). Revenue from apparel products grew by 22.9% to approximately RMB1.4 billion (2010: RMB1.1 billion), and also the revenue from accessories increased by 31.5% to approximately RMB52.3 million (2010: RMB39.8 million). Revenue increased in all product segments, mainly due to successful brand building and marketing strategy to provide high quality fashion sports products for the mass market.

## REVENUE BREAKDOWN BY REGION SALES

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

For the six months ended 30 June

	2011		2010		Change
	Revenue (RMB'000)	As a percentage of revenue (%)	Revenue (RMB'000)	As a percentage of revenue (%)	(%)
Xtep brand					
Eastern	1,022,995	39.8	804,309	39.4	+27.2
Southern	715,815	27.8	574,700	28.2	+24.6
Western and Northern	713,390	27.8	521,776	25.6	+36.7
Sub-total	2,452,200	95.4	1,900,785	93.2	+29.0
Other brands	118,074	4.6	139,371	6.8	-15.3
Total	2,570,274	100.0	2,040,156	100.0	+26.0

Eastern region includes:	Shanghai, Jiangsu, Zhejiang, Anhui, Shandong, Jiangxi and Fujian
Southern region includes:	Hubei, Hunan, Henan, Guangxi, Guangdong, Hainan, Taiwan and Hong Kong
Western and Northern region includes:	Sichuan, Guizhou, Yunnan, Chongqing, Tibet, Shaanxi, Ningxia, Gansu, Qinghai, Xinjiang, Heilongjiang, Jilin, Liaoning, Tianjin, Hebei, Shanxi, Beijing and Inner Mongolia

Due to the effective marketing promotion of the Xtep brand and the expansion of the sales network, the growth in the eastern region was mainly derived from Shandong province, Anhui province and Jiangxi province; the growth in the southern region was mainly derived from Henan province and Hubei province; whereas the growth in the western and northern region was mainly derived from Sichuan province, Guizhou province and Hebei province.

## COST OF SALES BREAKDOWN

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

For the six months ended 30 June

	2011		2010		Change (%)
	Cost of sales (RMB'000)	As a percentage of cost of sales (%)	Cost of sales (RMB'000)	As a percentage of cost of sales (%)	
Raw materials	725,317	47.8	536,787	44.4	+35.1
Outsourced production costs	715,554	47.1	602,661	49.8	+18.7
Direct staff costs	61,792	4.1	57,359	4.7	+7.7
Others	16,095	1.0	12,566	1.1	+28.1
Total	1,518,758	100.0	1,209,373	100.0	+25.6

### COST OF SALES

During the period under review, cost of sales of the Group increased by 25.6% when compared to the same period last year, mainly because of the increase in the cost of raw materials and outsourced production costs. As the extent of increases of the Group's total cost of sales was less than the increase of the Group's total revenue, the Group's gross profit margin still recorded an increase.

As a result of the Group's stringent control over costs and quality, more raw materials were purchased by the Group. Accordingly, the percentage of raw materials increased to approximately 47.8% of the total cost of sales. The increase in direct staff costs was due to the increase in staff's wages and benefits.

### OTHER INCOME AND GAINS

During the period under review, other income and gains of the Group was approximately RMB5.3 million (2010: RMB10.1 million). The decrease was primarily due to the decrease in subsidy income received from the local Chinese government.

### SELLING AND DISTRIBUTION COSTS

For the six months ended 30 June 2011, the Group's selling and distribution costs amounted to approximately RMB360.1 million (2010: RMB304.0 million), which represented approximately 14.0% (2010: 14.9%) of the Group's total revenue. Given the Group's strategy of enhancing its brand status, the sponsorship of high-profile sports events and its innovative entertainment marketing efforts, advertising and promotion costs amounted to approximately RMB303.1 million (2010: RMB239.1 million), which represented approximately 11.8% (2010: 11.7%) of the Group's total revenue.

### GENERAL AND ADMINISTRATIVE EXPENSES

For the six months ended 30 June 2011, the Group's general and administrative expenses amounted to approximately RMB132.4 million (2010: RMB84.9 million), which represented approximately 5.2% (2010: 4.2%) of the Group's total revenue. The increase of general and administrative expenses was mainly due to the increase of share option

costs which increased by approximately RMB14.4 million amounted to approximately RMB18.6 million (2010: RMB4.2 million) for the period. The Group's research and development expenses amounted to approximately RMB36.0 million (2010: RMB26.5 million), representing approximately 1.4% (2010: 1.3%) of the Group's total revenue. The research and development expenses are mainly related to the improvement of footwear design and functions as well as the enhancement of apparel quality in terms of appearance, function and durability.

## **TAX EXPENSES**

The total tax expenses of the Group for the period under review amounted to approximately RMB103.3 million (2010: RMB81.2 million).

The Group enjoyed certain preferential tax exemption during the period and the effective tax rate for the period under review was 18.1% (2010: 17.9%). Details of tax rates of the Group are set out in note 8 to the condensed consolidated interim financial statements.

## **PROFIT ATTRIBUTABLE TO EQUITY HOLDERS AND NET PROFIT MARGIN**

For the six months ended 30 June 2011, the profit attributable to equity holders of the Company amounted to approximately RMB466.2 million (2010: RMB373.5 million), an increase of approximately 24.8% over the same period last year. The Group's gross profit margin increased to 40.9% (2010: 40.7%) due to the improvement of the Xtep brand's gross profit margin which rose to 40.9% (2010: 40.5%). However, due to the increases in advertising and promotion costs and share option costs, the Group's operating margin slightly decreased to 22.0% (2010: 22.2%). The Group's effective tax rate increased to 18.1% (2010: 17.9%). As a result, the Group's net profit margin was slightly decreased to 18.1% (2010: 18.3%).

## **DIVIDEND**

In view of the strong business growth and the solid cash position of the Group, the Board declared an interim dividend of HK13.0 cents (equivalent to approximately RMB10.7 cents) per Share, which represented an approximately 30% increase as compared to the same period last year (2010: HK10.0 cents, equivalent to approximately RMB8.7 cents). The interim dividends amount to a total payout of HK\$282,880,000 (equivalent to approximately RMB231,962,000) (2010: HK\$217,468,000, equivalent to approximately RMB190,263,000). The dividend payout ratio for the period under review was approximately 50% (2010: 51%).

## **WORKING CAPITAL CYCLE**

During the period, the Group's overall working capital cycle was 66 days (2010: 27 days).

The Group has successfully lower the total cost of sales and improved the Group's overall gross profit margin. Such successful cost control method was carried out by increasing inventory purchases when the cost of sales are inflated significantly compared to the same period last year. The benefits of gross profits' increase have outweighed the costs of increasing inventory. As such, the Group's average inventory turnover days for the period was 81 days (2010: 46 days).

The Group's average trade and bills receivables turnover days for the period was 58 days (2010: 57 days). Stable turnover days were maintained and it is still within the general 90 days credit period given to customers.

The Group's average trade and bills payable turnover days for the period was 73 days (2010: 76 days). Stable turnover days were maintained and it is still within the general 90 days credit period given by the creditors.

## LIQUIDITY AND CAPITAL RESOURCES

As of 30 June 2011, the Group's current assets was approximately RMB4,130.7 million (31 December 2010: RMB3,976.6 million), representing an increase of 3.9% where the Group's current liabilities was approximately RMB1,050.8 million (31 December 2010: RMB891.9 million), representing an increase of 17.8%. As a result, the Group's current ratio was 3.9 (31 December 2010: 4.5).

The Group's primary sources of operating funds are cash flows from operating activities, and cash and bank balance. As explained above in the working capital cycle section, in order to implement tight cost control to lower the cost of production, it is necessary to increase certain cash flow payments. Hence, the Group has taken necessary measures to increase inventory purchases and increase advance payments to suppliers. As a result, net cash outflow from operating activities for the six months ended 30 June 2011 was approximately RMB334.9 million (2010: net cash inflow of RMB230.2 million). As of 30 June 2011, the Group's total cash and bank balances amounted to approximately RMB1,824.2 million (31 December 2010: RMB2,443.7 million), while the Group's bank borrowing amounted to RMB216.3 million (31 December 2010: nil). As of 30 June 2011, the Group has pledged RMB475.0 million to secure banking facilities granted to the Group. As of 30 June 2011, the Group's gearing ratio was 6.0% (31 December 2010: 0%), which is defined as total borrowings divided by the sum of share capital and reserves of the Group. The Group remained net cash position, reflecting its healthy financial condition, paving the way for future development.

## INVENTORY PROVISION

For the six months ended 30 June 2011, the Group did not have any inventory provision.

## DOUBTFUL DEBT PROVISION

For the six months ended 30 June 2011, the Group did not have any doubtful debt provision.

## CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Details of the Group's capital commitments are set out in note 23 to the condensed consolidated interim financial statements.

As of 30 June 2011, the Group did not have any material contingent liabilities.

## FOREIGN CURRENCY RISKS

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

## CAPITAL MARKET

The Group will seek the appropriate timing and condition to expand the participation in different capital markets. On 29 November 2010, the Company announced that an application was made to the Taiwan Stock Exchange and the Taiwan Central Bank for the offering and listing of TDR, for further details please refer to the Company's announcement dated on 29 November 2010. Due to the current unstable financial market conditions and the absence of any immediate need to raise funds for working capital, the board of Directors decided to postpone the listing of TDR.

## 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 brands in order to generate more returns to its 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 generating net proceeds from the global offering of approximately HK\$2,088 million (after deducting underwriting commissions and related expenses).

Proceeds from the global offer (HK\$ million)			
Use of proceeds	Available to utilize	Utilized (as at 30 June 2011)	Unutilized (as at 30 June 2011)
Media advertising and brand promotion activities	459	459	–
Expanding and improving distribution network	355	273	82
Expanding production and operating facilities	397	350	47
Acquiring brands	501	–	501
Enhancing design and R&D capabilities	146	146	–
Enhancing IT management system	63	63	–
General working capital	167	167	–
Total	2,088	1,458	630

## HUMAN RESOURCES

As at 30 June 2011, the Group had 7,860 employees (31 December 2010: 7,433 employees). The Group provides introductory orientation programs and continuous training to its employees. Topics covered include industry knowledge, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and standard of its staff. The Group will strive to strengthen human resources management to provide strong support for the development of the Group's business through staff recruitment initiatives and the optimization of the organizational structure and corporate culture to ensure that the Group will be able to maintain sustainable development in the future.

## FUTURE PROSPECTS

### Market Outlook

Doubt continued to surround the global economy amidst the US National debts and European sovereign debt crisis. Nevertheless, under the steady political and economic environment in China, the Chinese economy is still under a healthy condition. China's sporting industry has been supported and promoted by the Chinese government in recent years. The increase of popularity in sports means that the sportswear industry continues with a healthy expansion, and the Group is poised to capture these opportunities.

### Integrated Marketing and Promotions

To strengthen the image of Xtep brand as the slogans “Xtep is Fashion Sports” and “Sports Like No Other”, the Group continues to strive to enhance its unique sports and entertainment marketing strategy by introducing new sponsorship campaigns in 2011. Running and football still remain integral parts of Xtep brand’s long-term brand building strategy.

### International and National Events

Xtep brand will continue to extend its reach to the global market through effective sponsorship campaigns in various international and national events. The Group was proud to win the sponsorship of the Great Britain and USA delegates at the 26<sup>th</sup> Universiade in Shenzhen. The Group believes these sponsorship campaigns will further enhance the Xtep brand image and profile.

The 26<sup>th</sup> Universiade is an international multi-sport event, organized for university athletes by the International University Sports Federation. Held in Shenzhen China in August 2011, the 26<sup>th</sup> Universiade is expected to attract millions of spectators and a world-wide audience. The Group has become the official partner and sole award-winning sportswear sponsor of the USA Team, and the sole sporting products sponsor of the Great Britain Team for the Games.

### Running

As a leading player in the fashion sportswear industry, Xtep brand will continue to strengthen the functionality of its products and establish running as a key direction of our marketing campaign. The Group plans to enhance its core marketing campaign, “Love Running, Love Xtep”, by continuously sponsoring important international marathons in major cities in China in the second half of 2011 as follows:

- Tibet International Half Marathon
- Xi’an City Wall International Marathon
- Hangzhou International Marathon
- Taipei International Marathon

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

### Football

After breaking into the European market last year with the sponsorship of an English Premier League football team, the Group signed a sponsorship agreement with La Liga’s Villarreal C.F. this year. This agreement will help raising the Xtep brand’s profile in Europe and further expose the brand to millions of football enthusiasts.

As an official technical sponsor and exclusive provider of sportswear and accessories for Villarreal C.F., the Group will provide the team with sportswear and accessories during the five-year period from 1 July 2011 to 30 June 2016. Players of the Villarreal C.F. team will participate in national and international tournaments, training sessions, pre-game preparation and other club activities in sportswear adorned with Xtep brand’s logo. Under the five-year agreement, the Xtep logo will appear in television broadcasts of



Villarreal C.F. games and the venues for all matches played by the team in La Liga as well as Copa del Rey. Apart from air-time, the Xtep brand logo will also be shown on screens and score boards at the stadiums. There will be a full-page advertisement in each of the club's monthly magazines to further promote the Xtep brand.

### **CX Games**

The Group is the title sponsor for the Xtep 2011 CX-Games. Another 9 games will be held in Shanghai, Guangzhou, Chengdu, Wuhan, Xiamen, Xi'an, Zhengzhou, Shenyang and Qingdao. These exciting games will draw great attention to the participants and audience, thereby successfully promoting the Xtep brand in these provinces.

### **Entertainment Marketing**

Entertainment marketing remains one of the key strategies through which the Group reaches out to the younger generation. The Xtep Superstars Concert 2011 will be held from in August 2011 in Chongqing with the Xtep brand's superstar spokespersons team including Nicholas Tse, Wilber Pan, Jolin Tsai, and Han Geng. The event will allow hundreds of thousands of music fans to enjoy a phenomenal music performance featuring Xtep brand's representatives as well as other artistes. The annual event is expected to create another wave of excitement and reinforce the brand's image among younger consumers.

To further increase market attention and brand recognition, the Group will continue to strengthen its strategic partnerships with major television channels such as CCTV-1, CCTV-5, Hunan Satellite and Zhejiang Satellite by launching more new TV commercials and increasing product placement in these channels.

### **Product Innovation, Distinguished Design and R&D capabilities**

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

#### **Running and football series**

In 2011, the Group will continue to focus on expanding its running and football sportswear series, as evidenced by the Group's continued sponsorship of multiple marathons throughout this year as well as its five-year cooperation agreement with Spanish La Liga giant Villarreal C.F. under which the Group will provide apparel to the team. More professional and stylish running shoes will be launched. Also, a new Villarreal-themed product line will soon be launched to further enrich its football apparel product offerings.

#### **Urban series**

In order to meet the increasing demand of young customers requesting for more trendy lifestyle products, the Group will increase its product offerings through Xtep brand's new urban series. The urban series will feature contributions from international designers and it will be promoted by its new brand representative, Han Geng. With Han's young and energetic image and his popularity across the media and the Internet, Xtep brand's new urban series will be able to leverage his popularity throughout the community to gain further brand exposure and further boost its brand awareness among its targeted customers. The Group fully expects it to be enthusiastically received by a customer base eagerly anticipating such a new development in the industry.

### **“Xtep 1+1”**

As part of the Group’s product diversification, there are also plans to open a new Xtep children footwear and apparel series, called “Xtep 1+1”. There are plans to open about 100 retail outlets positioned in the second- and third-tier cities by the end of 2012.

The Group’s efforts at diversifying its product offering means that the Xtep brand will appeal to a much broader audience, no matter if they are male or female, old or young. More importantly, it helps to create potential market opportunities for the Group to achieve sustainable business growth in the near future.

### **Retail Network Expansion**

The Group carefully plans its network expansion. As urbanization continues in the PRC, there are still thousands of towns which are not yet covered by commercial outlets. The Group remained focused on the second- and third-tier cities, an area in which the Xtep brand has a clear brand status advantage. The Group is planning to reach a total number of approximately 7,900 Xtep brand retail outlets by the end of 2011. The Group also endeavors to tap into overseas markets, bringing Xtep brand to a more global audience.

### **Production Maximization**

In order to improve production quality and efficiency, the Group has plans to expand its production capacity. In addition to the production facilities located in Quanzhou, Fujian, the Group will increase a total of approximately 3 million pairs of footwear products production capacities in Hunan province by the end of 2011. Furthermore, the Group plans to add a production base in Anhui province which is expected to start production in 2013.

### **Conclusion**

The Group believes that the sportswear industry in China is expanding under the sustained growth in the economy and the increasing popularity of sports among Chinese citizens. Stability in the Chinese market is also important in strengthening the confidence of consumers. Looking ahead, the Group will continue to adopt innovative marketing and promotion strategies, enlarge its retail network, assemble experienced design and product R&D teams and improve its production capacity. With these solid commitments, the Group will continue to deliver solid performance to its shareholders and to lead the Xtep brand to become a world-class fashion sportswear brand.

# 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 2011 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 consists of six executive Directors, one non-executive Director and three independent non-executive Directors and has a strong independence element in its composition.

## MODEL CODE

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

set out in the Model Code and its code of conduct regarding directors' securities transactions during the six months ended 30 June 2011.

## REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules. The audit committee of the Company has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of the interim results and the audited condensed consolidated interim financial statements for the six months ended 30 June 2011.

The external auditor has reviewed the interim financial information for the six months ended 30 June 2011 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 2011.

## BOARD OF DIRECTORS

Mr. Xiao Feng has resigned from his position as a non-executive director of the Company with effect from 17 June 2011.

## DISCLOSURE OF INTERESTS

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

As at 30 June 2011, 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 <sup>(1)</sup>
Mr. Ding Shui Po <sup>(2)</sup>	Interests of controlled corporation/ Beneficial interests	1,313,559,500	60.37%
Ms. Ding Mei Qing <sup>(3)</sup>	Interests of controlled corporation	1,310,059,500	60.20%
Mr. Lin Zhang Li <sup>(4)</sup>	Interests of spouse	1,310,059,500	60.20%
Mr. Ye Qi <sup>(5)</sup>	Beneficial interests	5,500,000	0.25%
Mr. Ho Yui Pok, Eleutherius <sup>(6)</sup>	Beneficial interests	10,000,000	0.46%
Mr. Tan Wee Seng <sup>(7)</sup>	Beneficial interests	1,250,000	0.06%

## Notes:

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

of these shares are subject to the exercise of options granted on 14 January 2011 under the Share Option Scheme.

- (7) 600,000 of these shares are subject to the exercise of options granted on 30 March 2010 under the Share Option Scheme. Another 600,000 of these shares are subject to the exercise of options granted on 14 January 2011 under the Share Option Scheme. The remaining 50,000 of these shares were acquired by Mr. Tan Wee Seng on the Stock Exchange.

Save as disclosed above, as at 30 June 2011, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

So far as is known to any Director or chief executive of the Company, as at 30 June 2011, the persons or corporations (other than the Directors or chief

executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Nature of Interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company <sup>(1)</sup>
Group Success	Beneficial interests	1,310,059,500	60.20%
Carlyle Asia Growth Partners III, L.P.	Beneficial interests	200,769,294	9.23%
CAGP III Co-investment, L.P.	Beneficial interests	8,931,206	0.41%
CAGP General Partner, L.P. <sup>(2)</sup>	Interests of controlled corporation	209,700,500	9.64%
CAGP Ltd <sup>(2)</sup>	Interests of controlled corporation	209,700,500	9.64%
Value Partners Limited <sup>(3)</sup>	Investment manager	118,075,000	5.43%
Value Partners Group Limited <sup>(3)</sup>	Interests of controlled corporation	118,075,000	5.43%
Cheah Capital Management Limited <sup>(3)</sup>	Interests of controlled corporation	118,075,000	5.43%
Cheah Company Limited <sup>(3)</sup>	Interests of controlled corporation	118,075,000	5.43%
Hang Seng Bank Trustee International Limited <sup>(3)</sup>	Trustee	118,075,000	5.43%
Cheah Cheng Hye <sup>(3)</sup>	Founder of a discretionary trust	118,075,000	5.43%
To Hau Yin <sup>(4)</sup>	Interests of spouse	118,075,000	5.43%

*Notes:*

- (1) It was based on 2,176,000,000 issued Shares of the Company as at 30 June 2011.
- (2) CAGP General Partner, L.P. is the general partner of Carlyle Asia Growth Partners III, L.P. and CAGP III Co-investment, L.P., both limited partnerships. CAGP Ltd is the general partner of CAGP General Partner, L.P.
- (3) Value Partners Limited holds shares of the Company as an investment manager. Value Partners Limited is 100% controlled by Value Partners Group Limited, which in turn is 28.69% controlled by Cheah Capital Management Limited, which in turn is 100% controlled by Cheah Company Limited, which in turn is 100% controlled by Hang Seng Bank Trustee International Limited. Hang Seng Bank Trustee International Limited is trustee for a discretionary trust which is interested in the Shares of the Company. Mr. Cheah Cheng Hye is the founder of the discretionary trust. Mr. Cheah Cheng Hye is also a director of Value Partners Limited and Value Partners Group Limited.
- (4) To Hau Yin, the spouse of Cheah Cheng Hye, is deemed to be interested in Cheah Cheng Hye's interests in the Company.

Save as disclosed above, as at 30 June 2011, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares

and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## SHARE OPTION SCHEMES

### Pre-IPO Share Option Scheme

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

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

Details of the share options granted under the Pre-IPO Share Option Scheme as at 30 June 2011 are as follows:

Name	Outstanding as at 1 January 2011	Exercised during the six months ended 30 June 2011	Outstanding as at 30 June 2011
<b>Directors</b>			
Mr. Ye Qi	1,500,000	–	1,500,000
Mr. Ho Yui Pok, Eleutherius	1,000,000	–	1,000,000
<b>Employees</b>			
In aggregate	14,475,000	–	14,475,000
<b>Total</b>	<b>16,975,000</b>	<b>–</b>	<b>16,975,000</b>

No options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the six months ended 30 June 2011.

### Share Option Scheme

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

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

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

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

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



Details of the share options granted under the Share Option Scheme as at 30 June 2011 are as follows:

Name	Date of Grant	Exercise price per Share <sup>(1)</sup>	Exercise period <sup>(2)(3)(4)</sup>	Outstanding as at 1 January 2011	Granted during the six months ended 30 June 2011	Exercised during the six months ended 30 June 2011	Outstanding as at 30 June 2011
<b>Directors</b>							
Mr. Ye Qi	28 May 2010	HK\$6.00	28 May 2010 – 27 May 2020	1,000,000	-	-	1,000,000
Mr. Ye Qi	14 January 2011	HK\$5.50	14 January 2011 – 13 January 2021	-	3,000,000	-	3,000,000
Mr. Ho Yui Pok, Eleutherius	29 July 2009	HK\$4.11	29 July 2009 – 28 July 2019	1,500,000	-	-	1,500,000
Mr. Ho Yui Pok, Eleutherius	28 May 2010	HK\$6.00	28 May 2010 – 27 May 2020	1,000,000	-	-	1,000,000
Mr. Ho Yui Pok, Eleutherius	14 January 2011	HK\$5.50	14 January 2011 – 13 January 2021	-	6,500,000	-	6,500,000
Mr. Tan Wee Seng	30 March 2010	HK\$6.13	30 March 2010 – 29 March 2020	600,000	-	-	600,000
Mr. Tan Wee Seng	14 January 2011	HK\$5.50	14 January 2011 – 13 January 2021	-	600,000	-	600,000
<b>Employees</b>							
In aggregate	29 July 2009	HK\$4.11	29 July 2009 – 28 July 2019	8,170,000	-	-	8,170,000
In aggregate	28 January 2010	HK\$5.01	28 January 2010 – 27 January 2020	500,000	-	-	500,000
In aggregate	28 May 2010	HK\$6.00	28 May 2010 – 27 May 2020	8,000,000	-	-	8,000,000
In aggregate	14 January 2011	HK\$5.50	14 January 2011 – 13 January 2021	-	49,900,000	-	49,900,000
<b>Total</b>				<b>20,770,000</b>	<b>60,000,000</b>	<b>-</b>	<b>80,770,000</b>

During the six months ended 30 June 2011, no share options granted under the Share Option Scheme were exercised, lapsed or cancelled.

Notes:

- (1) The closing price per Share immediately before 14 January 2011 (the date on which share options were granted) was HK\$5.43.
- (2) Share options granted under the Share Option Scheme on 29 July 2009, 28 January 2010 and 30 March 2010 shall vest in the grantees in accordance with the timetable below (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

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

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

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

- (4) Share options granted under the Share Option Scheme on 14 January 2011 shall vest in the grantee in accordance with the timetable below:

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

Further details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 22 to the financial statements.

**Condensed Consolidated Income Statement**  
Six months ended 30 June 2011

		Six months ended 30 June	
	Notes	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
<b>REVENUE</b>	5	2,570,274	2,040,156
Cost of sales		(1,518,758)	(1,209,373)
<b>Gross profit</b>		1,051,516	830,783
Other income and gains	5	5,252	10,128
Selling and distribution costs		(360,071)	(304,050)
General and administrative expenses		(132,440)	(84,932)
<b>Operating profit</b>	6	564,257	451,929
Finance income, net	7	5,230	2,700
<b>PROFIT BEFORE TAX</b>		569,487	454,629
Income tax expense	8	(103,275)	(81,172)
<b>PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>		466,212	373,457
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>	10		
Basic (RMB cents)		21.43	17.18
Diluted (RMB cents)		21.33	17.12

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

**Condensed Consolidated Statement of Comprehensive Income**

Six months ended 30 June 2011

Six months ended 30 June

	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
<b>Profit for the period</b>	466,212	373,457
<b>Other comprehensive income for the period:</b>		
Exchange difference on translation of financial statements of overseas subsidiaries	(2,134)	(5,378)
Other comprehensive income for the period, net of tax	(2,134)	(5,378)
<b>Total comprehensive income for the period</b>	464,078	368,079

**Condensed Consolidated Statement of Financial Position**  
30 June 2011

	Notes	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		224,179	197,073
Prepaid land lease payments		108,876	20,843
Deposits paid for acquisition of land use rights	11	260,176	88,699
Intangible assets		1,103	994
<b>Total non-current assets</b>		<b>594,334</b>	<b>307,609</b>
<b>CURRENT ASSETS</b>			
Inventories	12	887,045	462,562
Trade receivables	13	913,356	727,056
Prepayments, deposits and other receivables	14	506,120	343,260
Pledged bank deposits	15	475,000	–
Cash and cash equivalents	15	1,349,188	2,443,702
<b>Total current assets</b>		<b>4,130,709</b>	<b>3,976,580</b>
<b>CURRENT LIABILITIES</b>			
Trade payables	16	577,843	639,141
Deposits received, other payables and accruals	17	175,037	164,593
Interest-bearing bank borrowing	18	216,340	–
Tax payable		81,537	88,254
<b>Total current liabilities</b>		<b>1,050,757</b>	<b>891,988</b>
<b>NET CURRENT ASSETS</b>		<b>3,079,952</b>	<b>3,084,592</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>3,674,286</b>	<b>3,392,201</b>
<b>NON-CURRENT LIABILITY</b>			
Deferred tax liabilities	19	52,368	39,868
<b>Total non-current liability</b>		<b>52,368</b>	<b>39,868</b>
<b>NET ASSETS</b>		<b>3,621,918</b>	<b>3,352,333</b>
<b>EQUITY</b>			
Equity attributable to ordinary equity holders of the Company			
Issued capital	20	19,197	19,197
Reserves	21	3,597,721	3,333,136
<b>Non-controlling interest</b>		<b>3,616,918</b>	<b>3,352,333</b>
		5,000	–
<b>TOTAL EQUITY</b>		<b>3,621,918</b>	<b>3,352,333</b>

## Condensed Consolidated Statement of Changes in Equity

Six months ended 30 June 2011

### SIX MONTHS ENDED 30 JUNE 2011 (UNAUDITED)

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

### SIX MONTHS ENDED 30 JUNE 2010 (UNAUDITED)

Note	Attributable to ordinary equity holders of the Company									Non-controlling interest	Total equity
	Issued capital	Share premium account	Capital reserve	Statutory surplus fund	Share option reserve	Exchange fluctuation reserve	Retained profits	Total reserves	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
<b>At 1 January 2010</b>	19,177	1,529,827	118,600	216,279	11,998	(8,012)	1,096,211	2,964,903	2,984,080	-	2,984,080
Total comprehensive income for the period	-	-	-	-	-	(5,378)	373,457	368,079	368,079	-	368,079
Exercise of share options	9	3,590	-	-	(668)	-	-	2,922	2,931	-	2,931
Equity-settled share option transactions	-	-	-	-	4,227	-	-	4,227	4,227	-	4,227
2009 final dividend declared and paid	9	(189,890)	-	-	-	-	-	(189,890)	(189,890)	-	(189,890)
2009 special dividend declared and paid	9	(94,945)	-	-	-	-	-	(94,945)	(94,945)	-	(94,945)
<b>At 30 June 2010</b>	19,186	1,248,582	118,600	216,279	15,557	(13,390)	1,469,668	3,055,296	3,074,482	-	3,074,482

**Condensed Consolidated Statement of Cash Flows**  
Six months ended 30 June 2011

	Six months ended 30 June	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	(334,864)	230,241
NET CASH OUTFLOW FROM INVESTING ACTIVITIES*	(775,599)	(13,113)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	18,057	(274,029)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,092,406)	(56,901)
Cash and cash equivalents at beginning of period	2,443,702	2,497,635
Effect of foreign exchange rate changes, net	(2,108)	(5,368)
Cash and cash equivalents at end of period	1,349,188	2,435,366
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,312,120	2,208,257
Non-pledged time deposits with original maturity of less than three months when acquired	37,068	227,109
	1,349,188	2,435,366

\* Net cash outflow from investing activities for the period included the placement of pledged bank deposits of RMB475,000,000 (2010: Nil).

## Notes to Condensed Consolidated Interim Financial Statements

30 June 2011

### 1. CORPORATE INFORMATION

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

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

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

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The condensed consolidated interim financial statements do not include all the information and disclosures required in the financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2010.

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 2010 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 the HKICPA which are effective for the Group's financial year beginning on 1 January 2011.

HKFRS 1 Amendment	<i>Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendment	<i>Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues</i>
HK(IFRIC)-Int 14 Amendments	<i>Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

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



### 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 2010.

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

#### Valuation of share options

As described in note 22 to the financial statements, the Company has engaged an independent professionally qualified valuer to assist in the valuation of the share options granted during the period. The fair value of options granted under the share option scheme is determined using the Binomial Option Pricing Model. The significant inputs into the model were the weighted average share price at the grant date, risk-free interest rate, exercise price, expected volatility of the underlying shares, expected dividend yield and expected life of options. When the actual results of the inputs differ from management's estimate, it will have an impact on share option expenses and the related share option reserve of the Company.

### 4. SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of sportswear, including footwear, apparel and accessories. All of the Groups' products are of similar nature and subject to similar risk and return. 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 expenditure are predominantly attributable to a single geographical region, which is the People's Republic of China (the "PRC"). Therefore, no analysis by geographical region is presented.

## 5. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
<b>Revenue</b>		
Manufacture and sale of sportswear:		
Footwear	1,110,778	855,692
Apparel	1,407,202	1,144,682
Accessories	52,294	39,782
	2,570,274	2,040,156
<b>Other income and gains</b>		
Subsidy income from the PRC government *	3,062	7,724
Rental income	843	403
Others	1,347	2,001
	5,252	10,128
	2,575,526	2,050,284

\* 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	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
Advertising and promotion costs	303,121	239,074
Research and development costs	35,974	26,509
Staff costs	135,824	95,345
Equity-settled share option expense	18,611	4,227
Depreciation	11,523	8,011
Amortisation of intangible assets	157	111
Amortisation of prepaid land lease payments	450	251

**7. FINANCE INCOME, NET**

	Six months ended 30 June	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
Interest expense on bank loans repayable within five years	(739)	–
Interest expense on discounted bills receivables	(9,804)	(5,175)
Foreign exchange differences, net	952	–
Bank interest income	14,821	7,875
	5,230	2,700

**8. INCOME TAX**

No provision for Hong Kong profits tax has been made as the Group has utilised tax losses to offset assessable profits arising in Hong Kong during the period. For the six months ended 30 June 2010, no provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for that period. Taxes on profits assessable elsewhere have been calculated at the prevailing tax rates, based on the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
Current tax – PRC		
Charge for the period	90,595	73,172
Underprovision in prior periods	180	–
Deferred tax	12,500	8,000
	103,275	81,172

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

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

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 of 22% for the year ended 31 December 2010 and 24% for the year ending 31 December 2011.

## 9. DIVIDENDS

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

	Six months ended 30 June	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
Interim dividend – HK13.0 cents (six months ended 30 June 2010: HK10.0 cents per ordinary share)	231,962	190,263

At the board meeting held on 16 August 2011, the board of directors declared and approved an interim dividend of HK13.0 cents (equivalent to approximately RMB10.7 cents) per ordinary share, totalling HK\$282,880,000 (equivalent to approximately RMB231,962,000), for the six months ended 30 June 2011. This interim dividend has not been recognised as a liability in the condensed consolidated financial statements.

At the board meeting held on 23 August 2010, the board of directors declared and approved an interim dividend of HK10.0 cents (equivalent to approximately RMB8.7 cents) per ordinary share, totalling HK\$217,468,000 (equivalent to approximately RMB190,263,000), for the six months ended 30 June 2010.

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

	Six months ended 30 June	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
Dividends paid during the period:		
Final in respect of the financial year ended:		
31 December 2010 – HK12.0 cents per ordinary share	218,104	–
31 December 2009 – HK10.0 cents per ordinary share	–	189,890
Special in respect of the financial year ended:		
31 December 2009 – HK5.0 cents per ordinary share)	–	94,945
	218,104	284,835

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

### (a) Basic earnings per share

The calculation of basic earnings per share amount for the six months ended 30 June 2011 was based on the profit for the period attributable to ordinary equity holders of the Company of RMB466,212,000 (six months ended 30 June 2010: RMB373,457,000) and the weighted average number of ordinary shares in issue during the six months ended 30 June 2011 of 2,176,000,000 (six months ended 30 June 2010: 2,173,860,387).

### (b) Diluted earnings per share

The calculation of the diluted earnings per share amount for the six months ended 30 June 2011 is based on the profit for the period attributable to ordinary equity holders of the Company of RMB466,212,000 (six months ended 30 June 2010: RMB373,457,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during that period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options into ordinary shares during that period of 9,230,675 (six months ended 30 June 2010: 6,983,615).

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

As at 30 June 2011, the Group paid deposits of RMB157,100,000 and RMB100,000,000 for the auction of land in Anhui Province, the PRC. Pursuant to agreement entered into between the Group and an independent third party on 25 March 2011, the Group has agreed to acquire a parcel of land in Quanzhou, Fujian Province, the PRC of RMB3,076,000.

As at 31 December 2010, the Group paid a deposit of RMB50,079,000 for the acquisition of a parcel of land in Xiamen, Fujian Province, the PRC and another parcel of land in Quanzhou, Fujian Province, the PRC of RMB38,620,000, respectively. At the end of the reporting period, the considerations of the two agreements have been fully paid by the Group and the land use right permits were obtained.

**12. INVENTORIES**

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Raw materials	341,016	327,397
Work in progress	72,236	51,039
Finished goods	473,793	84,126
	887,045	462,562

**13. TRADE RECEIVABLES**

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

An aged analysis of the Group's trade receivables that are not considered to be impaired as at 30 June 2011 is as follows:

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Neither past due nor impaired	762,330	525,196
Less than 3 months past due	114,871	161,405
Past due between 3 to 9 months	36,155	40,455
	913,356	727,056

**14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Prepayments	76,734	105,048
Advance payments to suppliers	417,089	227,668
Other deposits	1,848	4,544
Other receivables	10,449	6,000
	506,120	343,260

**15. CASH AND CASH EQUIVALENTS**

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Time deposits	512,068	42,817
Cash and bank balances	1,312,120	2,400,885
	1,824,188	2,443,702
Less: Pledged time deposits for bank borrowing	(475,000)	–
Cash and cash equivalents	1,349,188	2,443,702

The cash and bank balances of the Group denominated in RMB amounted to approximately RMB1,786,369,000 as at 30 June 2011 (31 December 2010: RMB2,372,886,000). 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.

**16. TRADE PAYABLES**

An aged analysis of the Group's trade payables as at 30 June 2011, based on the invoice date, is as follows:

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Within 3 months	549,458	585,922
3 to 6 months	21,129	38,911
6 to 12 months	7,256	14,096
Over 1 year	–	212
	577,843	639,141

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

**17. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS**

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Deposits received	49,841	30,865
Accruals	91,097	83,808
Value-added tax payables	21,397	32,871
Other payables	12,702	17,049
	175,037	164,593

**18. INTEREST-BEARING BANK BORROWING**

	30 June 2011 (Unaudited)			31 December 2010 (Audited)		
	Effective interest rate per annum %	Maturity	RMB'000	Effective interest rate per annum %	Maturity	RMB'000
<b>Current (repayable within one year and on demand)</b>						
Bank loan – secured	HIBOR+1.5	2012	216,340	–	–	–
			216,340			–

Note:

Xtep International Holdings Limited had been granted a banking facility of HK\$500,000,000 from bank which was secured by time deposits of RMB475,000,000. As at 30 June 2011, amount equivalent to RMB216,340,000 of bank loan was drawn (2010: Nil).



## 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 Mainland China. 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 Mainland China and jurisdiction of the foreign investors. For the Group, the applicable rate for the withholding tax is 5%. In estimating the withholding taxes on dividends expected to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008, the directors have made assessment based on the factors which included dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future.

As at 30 June 2011, there were no significant unrecognised deferred tax liabilities (31 December 2010: Nil) for withholding taxes that would be payable on the unremitted earnings of the Company's subsidiaries expected to be distributed, after considering the abovementioned factors, in the foreseeable future.

## 20. SHARE CAPITAL

The share capital as at 30 June 2011 and 31 December 2010 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 2011

	HK'000 (Unaudited)	RMB'000 (Unaudited)
Authorised: 100,000,000,000 ordinary shares of HK\$0.01 each	1,000,000	935,629
Issued and fully paid: 2,176,000,000 ordinary shares of HK\$0.01 each	21,760	19,197

### At 31 December 2010

	HK'000 (Audited)	RMB'000 (Audited)
Authorised: 100,000,000,000 ordinary shares of HK\$0.01 each	1,000,000	935,629
Issued and fully paid: 2,176,000,000 ordinary shares of HK\$0.01 each	21,760	19,197

## 21. RESERVES

The amounts of the Group's reserves and movement therein for the six months ended 30 June 2011 are presented in the condensed consolidated statement of changes in equity.

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

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

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

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

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

## 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 Scheme"). Further details of the Pre-IPO Scheme were disclosed in the Company's annual report for the year ended 31 December 2010.

As at 30 June 2011, a total of 16,975,000 (31 December 2010: 16,975,000) share options (the "Pre-IPO Share Options") under the Pre-IPO Scheme remained outstanding. During the six months ended 30 June 2011, no Pre-IPO Share Options were exercised (six months ended 30 June 2010: 1,035,000).

At the date of approval of the condensed consolidated interim financial statements, the Company had 16,975,000 Pre-IPO Share Options outstanding under the Pre-IPO Scheme, which represented approximately 0.8% of the issued share capital of the Company as at that date.

### (b) Share option scheme

The Company has also adopted a share option scheme (the "Share Option Scheme") pursuant to the shareholders' written resolution passed on 7 May 2008. Further details of the Share Option Scheme are disclosed in the Company's annual report for the year ended 31 December 2010.

As at 30 June 2011, a total of 80,770,000 (31 December 2010: 20,770,000) share options under the Share Option Scheme remained outstanding. During the six months ended 30 June 2011, a total of 60,000,000 share options has been granted. On 14 January 2011, the Company granted 60,000,000 share options under the Share Option Scheme to certain grantees to subscribe for a total of 60,000,000 ordinary shares of HK\$0.01 each in the share capital of the Company at an exercise price of HK\$5.50 per share.

There being no exercise or lapse of any Share Options during the period ended 30 June 2011 (six months ended 30 June 2010: Nil).

At the date of approval of the condensed consolidated interim financial statements, the Company had 80,770,000 Share Options outstanding under the Share Option Scheme, which represented approximately 3.7% of the issued share capital of the Company as at that date.

## 23. COMMITMENTS

- (a) The commitments as at 30 June 2011 are as follows:

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Contracted for commitment in respect of:		
– construction of new buildings	2,703	2,117
– consultancy fee	125	–
– advertising and promotion costs	215,294	170,231
	218,122	172,348

- (b) As at 30 June 2011, the Group had an authorised but not contracted for commitment of RMB356,900,000 in respect of an investment project in the PRC. (31 December 2010: Nil)
- (c) For the period from 1 January 2010 to 31 December 2012, the Group is obliged to pay a minimum guaranteed royalty to a licensor, however, such amount will be adjusted based on the actual sales amount of the product for these periods.

## 24. OPERATING LEASE ARRANGEMENTS

As at 30 June 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Within one year	7,725	7,195
In the second to fifth years, inclusive	11,182	15,202
	18,907	22,397

## 25. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 16 August 2011.



**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 57 to 74 which comprises the condensed consolidated statement of financial position as at 30 June 2011, 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

16 August 2011

## Glossary

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

“Board”	The Board of Directors of the Company
“Business Day”	Any day on which the Hong Kong Stock Exchange is open for the business of dealing in securities
“Company” or “Xtep Holdings”	Xtep International Holdings Limited
“Director(s)”	The director(s) of the Company
“DRP System”	Distribution Resource Planning System
“EVA material”	Ethylene-vinyl acetate material
“GDP”	Gross domestic product
“Group”	The Company and its subsidiaries
“Group Success”	Group Success Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 23 February 2007, the entire issued share capital of which is directly owned as to 63.2% by Mr. Ding Shui Po and 36.8% by Ms. Ding Mei Qing
“HK\$” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IAAF Shanghai Diamond League”	International Association of Athletics Federations Diamond League Shanghai
“IT”	Information Technology
“Listing Date”	3 June 2008, on which dealing in the Shares first commence on the Hong Kong Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Model Code”	Model code for securities transactions by directors of listed issuers
“Other brands”	Brands other than Xtep brand
“PRC”	The People’s Republic of China excluding, for the purpose of this interim report, Hong Kong, Macau and Taiwan
“Pre-IPO Share Option Scheme”	The share option scheme for employees of the Group approved and adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed “Pre-IPO Share Option Scheme” in Appendix VI to the prospectus of the Company dated 21 May 2008
“R&D”	Research and development
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	Ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Share Option Scheme”	The share option scheme adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed “Share Option Scheme” in Appendix VI to the prospectus of the Company dated 21 May 2008
“Shareholder(s)”	Shareholder(s) of the Company
“Xtep (China)”	Xtep (China) Co., Ltd., an indirect wholly-owned subsidiary of the Group





**特步國際控股有限公司**

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