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

2014

Interim Report

ABOUT XTEP

The Group developed its owned sportswear brand Xtep in 2002 and it is now a leading PRC-based fashion sportswear brand. The Group managed an extensive distribution network through exclusive distributors which include over 7,000 stores nationwide covering 31 provinces, autonomous regions and municipalities across the PRC. Over the years, the Group has been engaging in the design, development, manufacturing, sales and marketing and brand management of sports footwear, apparel and accessories. The Group's shares commenced trading on the Main Board of Hong Kong Stock Exchange on 3 June 2008.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Tan Wee Seng (陳偉成)

Independent Non-executive Directors

Sin Ka Man (冼家敏)
Xu Peng Xiang (許鵬翔)
Gao Xian Feng (高賢峰)
Bao Ming Xiao (鮑明曉)

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

COMPANY SECRETARY

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

AUTHORIZED REPRESENTATIVES

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

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISER AS TO HONG KONG LAWS

Orrick, Herrington & Sutcliffe

AUDITOR

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

Bank of East Asia
China Construction Bank
China Merchants Bank
China Minsheng Bank
Hang Seng Bank
Industrial Bank
Taipei Fubon Bank

INVESTOR RELATIONS CONSULTANTS

Strategic Financial Relations Limited
Aries Consulting Limited

COMPANY WEBSITE

www.xtep.com.hk

KEY MARKETING EVENTS IN 1H 2014

MARATHON

RUNNING

True to the "Love Running, Love Xtep" motto, the Group has introduced innovative materials and designs to its latest product line-up; delivering a perfect synthesis of functionality and aesthetic appeal that runners of all capabilities can appreciate. The Group has also continued to raise brand awareness by sponsoring marathons in the PRC and Hong Kong, and became the first domestic sportswear brand to be the official sports apparel sponsor for the Standard Chartered Hong Kong Marathon since 2012.

Through its efforts in running events over years, the Group has fully demonstrated its unique market leading position in promoting and developing the increasingly popular running sports in the PRC.

JANUARY
Xiamen

MARCH
Chongqing

FEBRUARY
Hong Kong

MARCH
Zhengzhou


APRIL
Yangzhou

FOOTBALL

Retaining its focus on the China mass market, Xtep has set football as one of the core sports categories for its branding strategy. With the growing passion in football in China, Xtep has strengthened its promotional resources in the sport through various sponsorships at college, university and professional level, and has injected the unique concept of "Joyful Football" and "Campus Football" into its branding strategy, promoting mass participation and enjoyment of football games.

In order to strengthen the connection between Xtep and football, the Group continues its endorsement of a number of domestic and foreign football clubs, including Villarreal C.F. in La Liga, Hong Kong Standard Rangers FC, China All Star Football Team and Hong Kong All Star Sports Association etc., and title sponsorship for two top national campus football events, namely, the Xtep China University Football League (11 a-side) and the Xtep China College Futsal League (5 a-side) since 2010.

特步 CUFL
特步中国大学生足球联赛
XTEP CHINA UNIVERSITY FOOTBALL LEAGUE

特步 CCFL
中国大学生5人制足球联赛
CHINA COLLEGE FUTSAL LEAGUE

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2014

TOTAL REVENUE FOR THE GROUP 1H 2014

RMB2,135.0 MILLION

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2014

TOTAL REVENUE

RMB2,135.0 million

GROSS PROFIT MARGIN

40.4%

PROFIT ATTRIBUTABLE TO ORDINARY EQUITY SHAREHOLDERS

RMB284.2 million

INTERIM DIVIDEND

HK8.5 cents per Share

DIVIDEND PAYOUT RATIO

51.6%

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

FIVE-YEAR FINANCIAL SUMMARY

For the six months ended 30 June

	2014	2013	2012	2011	2010
Profitability data (RMB million)					
Revenue	**2,135.0**	2,098.0	2,607.3	2,570.3	2,040.2
Gross profit	**862.1**	843.1	1,067.6	1,051.5	830.8
Operating profit	**425.8**	475.5	593.8	564.3	451.9
Profit attributable to ordinary equity Shareholders	**284.2**	340.9	467.8	466.2	373.5
Basic earnings per Share (RMB cents) (Note 1)	**13.05**	15.66	21.50	21.43	17.18
Profitability ratios (%)					
Gross profit margin	**40.4**	40.2	40.9	40.9	40.7
Operating profit margin	**19.9**	22.7	22.8	22.0	22.2
Net profit margin	**13.3**	16.2	17.9	18.1	18.3
Effective tax rate	**31.1**	28.6	22.7	18.1	17.9
Return on average total equity holders' equity (annualized) (Note 2)	**12.3**	15.6	23.2	26.7	24.6
Operating ratios (as a percentage of revenue) (%)					
Advertising and promotional costs	**12.5**	9.0	11.4	11.8	11.7
Staff costs	**9.8**	8.5	6.7	5.3	4.7
R&D costs	**2.4**	2.3	1.6	1.4	1.3

As of 30 June

	2014	2013	2012	2011	2010
Assets and liabilities data (RMB million)					
Non-current assets	**1,039.8**	813.5	549.9	594.3	279.6
Current assets	**6,729.4**	6,137.6	5,382.9	4,130.7	3,644.1
Current liabilities	**2,140.2**	1,941.1	1,298.1	1,050.8	814.0
Non-current liabilities	**999.4**	611.2	496.4	52.3	35.3
Non-controlling interests	**2.3**	4.9	8.0	5.0	0.0
Shareholders' equity	**4,627.3**	4,393.9	4,130.3	3,616.9	3,074.4
Asset and working capital data					
Current asset ratios	**3.1**	3.2	4.1	3.9	4.5
Gearing ratios (%) (Note 3)	**22.4**	19.0	13.0	4.6	0.0
Net asset value per Share (RMB) (Note 4)	**2.13**	2.02	1.90	1.66	1.41

REVENUE

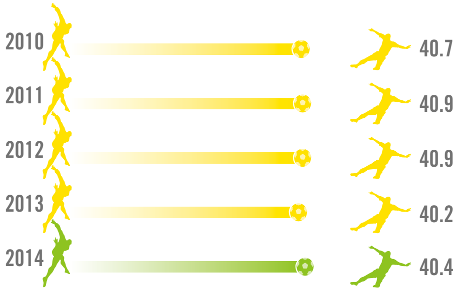
(RMB million) (For the six months ended 30 June)

2,135.0

GROSS PROFIT MARGIN

(%) (For the six months ended 30 June)

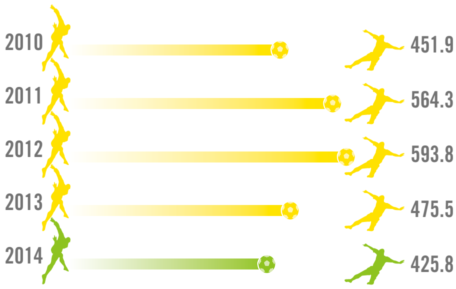
40.4



OPERATING PROFIT

(RMB million) (For the six months ended 30 June)

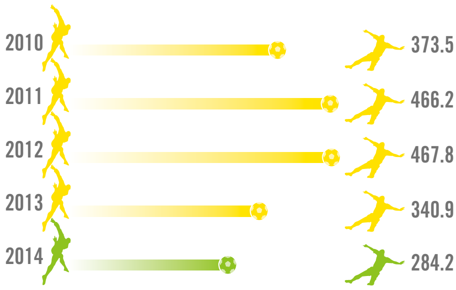
425.8



PROFIT ATTRIBUTABLE TO ORDINARY EQUITY SHAREHOLDERS

(RMB million) (For the six months ended 30 June)

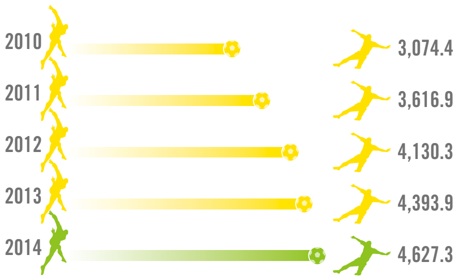
284.2



SHAREHOLDERS' EQUITY

(RMB million) (As at 30 June)

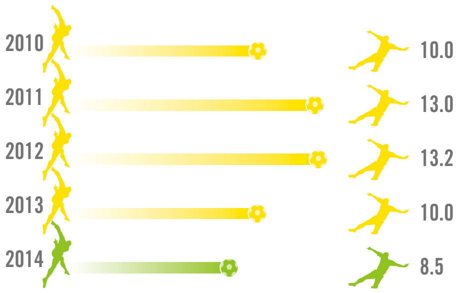
4,627.3



INTERIM DIVIDEND PER SHARE

(HK cents) (For the six months ended 30 June)

8.5



Notes:

1) The calculation of basic earnings per Share is based on the profit attributable to ordinary equity Shareholders 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 total assets of the Group 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 at the end of the period.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am pleased to announce the unaudited interim results of the Group for the six months ended 30 June 2014.

SATISFACTORY PERFORMANCE UNDER CHALLENGING ENVIRONMENT

During the Period, consolidation of China's sportswear industry continued, with the business environment remaining challenging due to industry competition coupled with continued de-stocking and discounting pressure. However, being a strong player with core brand values, we were able to overcome the challenges confronted and seize new market opportunities. Despite the difficult times, the Group has been able to deliver a stable financial performance by setting out and achieving initiatives along various lines, including enhancing branding efforts, establishing distinctive product offerings and enforcing stringent management controls across the Group's entire retail channel. In particular, the Group has formulated and executed two major strategies during the Period to facilitate its long term development:

1. Enhanced the product portfolio: By increasing the proportion of higher gross profit margin and more competitive footwear products, the revenue of footwear products surged by 27.4% to approximately RMB1,326.4 million (2013: RMB1,040.8 million) and the segmental gross profit margin increased to 41.0% (2013: 40.9%); and

2. Enhanced the brand equity: By reinforcing effective promotions in international sports events and mass market commercial advertising, the advertising and promotional expenses for the Period increased by approximately RMB77.8 million, which accounted for 12.5% of the Group's revenue.

The total revenue of the Group increased by 1.8% year-on-year to RMB2,135.0 million (2013: RMB2,098.0 million) for the Period. Such better than expected performance was mainly due to the strong market acceptance of the Group's high quality footwear products which supported revenue increase from this segment and accounted for 62.1% of the Group's revenue but was partially offset by the decrease of revenue from apparel and accessories products. The increase of the Group's revenue was also due to the increase of revenue through flagship stores on the e-commerce platform and the increase of revenue from Xtep Kids products. Profit attributable to ordinary equity Shareholders was approximately RMB284.2 million, representing a decrease of approximately RMB56.7 million over the corresponding period of last year (2013: RMB340.9 million), and was mainly due to increase in advertising and promotional expenses for the Period by approximately RMB77.8 million to RMB267.1 million (2013: RMB189.3 million) for enhancing the Group's brand equity.

The Board recommends a stable return to Shareholders of the Group and has resolved to declare an interim dividend of HK8.5 cents (2013: HK10.0 cents) per Share, which is equivalent to a payout ratio of 51.6% (2013: 50.8%).

BRAND BUILDING

During the Period, we continued to place great effort on bolstering the profile of Xtep as a fashionable, trendy sportswear brand that also delivers outstanding functionality, all the while adhering to our vision of becoming a leading fashion sportswear brand. Owing to an effective dual-marketing strategy incorporating sports and entertainment elements, we have reinforced our distinctive brand image. In respect of sports marketing, we placed further focus on running and football – two of the most popular sports in China – which many members of the general public associate Xtep with. Our efforts include the sponsorship of ten internationally renowned marathons in China and Hong Kong in 2014 of which five have taken place, including the Standard Chartered Hong Kong Marathon, which is the largest participatory sporting event organized annually in Hong Kong.

We have also achieved enormous success in entertainment marketing. Our celebrity endorsement strategy and title-sponsorship of a popular Chinese entertainment television program, namely, "Day Day Up" (「天天向上」), produced by Hunan Satellite TV, continued to enhance Xtep's image and raise brand awareness.

OUR MISSION:

TO FEEL "SPORTS LIKE NO OTHER"

OUR VISION:

TO BECOME A WORLD-CLASS LEADING FASHION SPORTSWEAR BRAND

DING SHUI PO
Chairman

PRODUCTS ENHANCEMENT AND CHANNEL CONTROL

With the rapidly changing preferences of today's consumer, adapting and integrating into the constantly evolving consumer market remains vital in upholding our leading position in the industry. Aside from brand building efforts, we have been diligently expanding and deepening our product ranges. Xtep products focus on both functionality and mass market appeal, as exemplified by our performance, campus and urban series. All of our innovative products deliver a perfect synthesis of functionality and aesthetic appeal. To tap into the expanding kids products segment, we have leveraged the Xtep brand's successful image and enriched the Xtep Kids series, which has successfully broadened our customer base.

The Group has continued to focus on channel management during the Period as well. Our efforts included expanding the DRP system's coverage to over 80% of the 7,310 Xtep retail stores that are operated by our exclusive distributors and their respective franchisees. Such in-depth management control has improved the retail inventory level. Also, the Group's flagship stores on such e-commerce platforms as Tmall, Taobao and JD have successfully enhanced its sales performance by leveraging the popular trend of online shopping.

OUTLOOK

Looking ahead, the sportswear industry in China will continue to be marred by intense competition and lack of product differentiation. Nonetheless, ongoing consolidation will be beneficial to the industry, and allow well-managed brands such as Xtep to strengthen its position in the sportswear market.

With the long-term well-being of the Group in mind, we will continue to implement our proven business development strategies. This will include further raising brand awareness by way of dual-marketing, i.e. incorporating elements of sports and entertainment, and thus reinforcing the public's notion of Xtep as a trendy, fashionable and functional sportswear brand.

To deliver substance to such a notion is equally important; hence, we will further bolster our product line-up: introducing innovative designs that are backed by innovative features. To ensure that such products reach the public in an effective manner, we will continue to strengthen our distribution network through enhanced management control, as well as by working closely with our distributors and providing them with necessary support so that ultimately, mutually fruitful results are achieved.

Capitalizing on our stable performance and healthy financial position, together with clear business strategies in place, we are well-poised to pave a path towards healthier growth as market conditions further stabilize in the near future.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to take this opportunity to express my gratitude to the management team and all employees of the Group for their dedication and contributions to the well-being of Xtep for their ability to confront challenges in a resolute and effective manner. Sincere gratitude must also be extended to all of our business partners, Shareholders and customers for their unwavering support. The Group remains fully committed to promoting its core brand value and delivering fair returns to its shareholders.

Ding Shui Po
Chairman

Hong Kong, 21 August 2014

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

While the first half of 2014 has proven to be another challenging year for the sportswear industry, with lingering issues hindering its development, including excessive inventory and lack of product differentiation, there are signs suggesting that a gradual recovery is underway as market consolidation begins to wind down.

The turnaround in the sportswear industry parallels that of the consumer goods market which experienced a rise in retail sales, climbing by 12.1% year-on-year during the first half of 2014. In particular, demand for garments, footwear, hats and knitwear rose by 10.0%. Consumption sentiment is expected to stabilize.

Factors that are anticipated to help stimulate sportswear demand in China include ongoing urbanization, particularly in third- and fourth-tier cities, the rising popularity of running-related activities, and the general appeal of sports attire even among those who do not lead active lifestyles.

BUSINESS REVIEW

During the Period, the Group continued to implement strategies aimed at preserving its leading position in the fashion sportswear segment, including the following:

- Ongoing execution of a dual-marketing strategy that leverages elements of sports and entertainment to reinforce Xtep's image as a fashionable sportswear brand;
- Further efforts and focus on leveraging popular sports, as well as mass market segments of the sportswear market;
- Continuing R&D of new products, as well as the refinement of its existing portfolio; and
- Implementation of stringent controls across Xtep's retail distribution channels so as to further bolster the Group and distributors' operational efficiency.

PROVEN BRANDING STRATEGIES

Over the past several years, the Group has employed a well-tested dual-marketing strategy that capitalizes on the appeal of sports and entertainment. Such a strategy has consequently helped make Xtep synonymous with trendiness, sportiness and an active, healthy lifestyle among many members of the general public. In order to enhance the Group's brand equity, the advertising and promotional expenses for the Period increased by 41.1% to approximately RMB267.1 million (2013: RMB189.3 million) which accounted for 12.5% (2013: 9.0%) of the Group's revenue.

Sports Marketing

During the Period, the Group continued to reinforce its association with running, sponsoring several internationally recognized marathons in China and Hong Kong, including Xiamen International Marathon, Yangzhou Jianzhen International Half Marathon and Standard Chartered Hong Kong Marathon, which is the largest participatory sporting event organized annually in the city.

Aside from the sponsorships of such sporting events, the Group has further strengthened its bond with runners of all types through the Xtep Runners Club, which was established in 2012. Now with some 13,000 registered members nationwide, all are provided with regular updates on training, as well as reminders of upcoming running events across Greater China. The Xtep Runners Club is thus a convenient platform for members to gather information as well as communicate with likeminded individuals. For the Group, the club is also a highly cost-effective means of promoting brand loyalty and for assessing the latest trends.

With the increasing popularity in China, football too is a sport that the Group has continued to strengthen its association with. Xtep is the title sponsor of two national campus football leagues, namely, Xtep China University Football League (特步中國大學生足球聯賽), i.e. "Xtep CUFL", which follows an 11-a-side format; and the Xtep China College Futsal League (特步中國大學生五人制足球聯賽), i.e. "Xtep CCFL", which follows a 5-a-side format. The Group also endorses a number of foreign and domestic football clubs, including Villarreal C.F. in Spanish La Liga and Hong Kong Standard Rangers FC in Hong Kong First Division League.

Not one to be limited to conventional mindset, the Group is increasing its presence in other sports that are growing in popularity, including field hockey. During the Period, the Group entered into an apparel sponsorship agreement with The Hockey Club 's-Hertogenbosch a.k.a. HC Den Bosch in the Netherlands. Under the agreement, the Group will not only provide apparel to both the men's and women's squads, but will also be responsible for developing the club members' kit. It is worth noting that the women's HC Den Bosch team has won The EuroHockey Club Champions Cup for 13 of the past 15 seasons, thus making them ideal for showcasing Xtep.

Major sports events sponsored by the Group in 1H2014

Running
- Xiamen International Marathon
- Standard Chartered Hong Kong Marathon
- Chongqing International Marathon
- China Zheng-kai International Marathon (Zhengzhou, Kaifeng)
- Yangzhou Jianzhen International Half Marathon
- Hong Kong Olympic Day Run 2014

Other sports events
- Samsung 57th Festival of Sport

Football
- Xtep China University Football League
- Xtep China Colleague Futsal League
- ZSFL Xtep League (浙江省中小學校園足球聯賽)

Major football clubs sponsored by the Group in 1H2014

- La Liga, Villarreal C.F. (西甲維拉利爾足球俱樂部)
- China All Star Football Team (中國明星足球隊)
- Chinese Football Reporter United (中國足球記者聯隊)
- Beijing Institute of Technology FC (北京理工大學足球俱樂部)
- Hong Kong First Division League, Hong Kong Rangers FC (港甲標準流浪足球會)
- Hong Kong All Star Sports Association (香港明星足球隊)

Entertainment Marketing

A key component of the Group's brand building strategy involves entertainment marketing of which celebrity endorsement plays a prominent role. The Group's "Xtep Stars", which include Nicholas Tse (謝霆鋒), Han Geng (韓庚) and Justin Gatlin have continued to bring the brand closer to its target consumers. Nicholas Tse remains the face behind the Group's "Wind Fire Shoes" (風火鞋), which are now in its 17th iteration, while Han Geng effectively endorses the Group's trendy, sports-inspired lifestyle series. Straddling both the sports and entertainment spheres with equal finesse is renowned sprinter Justin Gatlin, who is also a brand ambassador of Xtep's running products.

New additions to the Xtep fraternity this year include Chen Ding (陳定), the first Chinese athlete to ever win an Olympic gold medal in the 20 km racewalk event, which he achieved at the 2012 Summer Olympics. Joining him are the “Day Day Brothers” (「天天兄弟」), comprising Wang Han (汪涵), Ou Hansheng (a.k.a Ou Di (歐弟)), Tian Yuan (田源), Qian Feng (錢楓) and Tanas Kim Ensheng (金恩聖). The five protagonists are a permanent fixture in the popular Chinese entertainment television program “Day Day Up”, which the Group is a title sponsor.

Aside from the Group’s title-sponsorship of “Day Day Up” broadcasted by Hunan Satellite TV, it also maintains cooperative ties with CCTV-5 – China’s premier sports channel – serving as its official broadcast partner during the network’s coverage of football matches. The Group continued to be the strategic partner of CCTV Kids Channel, the most influential children’s TV channel in the PRC, Jiangsu Youman Cartoon TV and Beijing Ka Ku TV, to boost brand awareness and exposure of Xtep Kids.

To reach its loyal customers on a more personal level, the Group’s distributor its largest flagship and first concept store to date, the Fashion Sports Experience Store opened in Changsha, PRC, in May 2014. Among the many unique features found in the inviting, over 2,000 square meter three-storey store include an “augmented reality interactive zone” where computer-human interaction is achieved through the fusion of real world data with virtual reality. There are also several unique areas, namely, “Sports Concept Experience Area”, “Full Collection Sales Area” and “VIP Integrated Experience Area” that enable Xtep to connect with target customers based on sporting habits and interests.

Enriched and Enhanced Product Portfolio

With sports-inspired apparel and footwear products projected to account for 42% of sportswear's absolute growth globally up to 2018, according to 2013 data from Euromonitor, it is apparent that further bolstering of Xtep position as a trendy, dynamic sportswear brand will stand the Group in good stead over the long term. Towards this goal, the Group has leveraged its research and design might to develop products of exceptional quality and visual appeal.

Drawing from the professionalism and creativity of the Group's 700 strong R&D team, which during the Period alone developed some 1,500 different styles of apparel and footwear products, this group of talents have been entrusted with instilling the essence of Xtep in its latest collection of products. Among their recent achievements include the brand new "dual direction shock absorber" 2.0 running series – "1,000 km Range Protection" running shoes, which carried on the legacy of the Group's appealing shock absorber running series released since 2013, and are specifically tailored for long-distance runners. Boasting several appealing features, including a frontal area that provides added rebound rate and shock absorption insoles that minimizes vibration while offering excellent protection, the shoes are an ideal companion to athletes of all capabilities.

Aside from the aforementioned product, the team has continued to look at ways to exploit the anti-vibration properties of various plastics and rubbers (polyurethane) with the goal of enhancing the comfort of its footwear, leading ultimately to new levels of sporting enjoyment.

Footwear is an important component of the Group's product line-up, it includes the *Sports Performance Collection*, which encompasses the running, football, cross-training and outdoor series and the *Sports Lifestyle Collection* that feature fashion-oriented sportswear, and consists of the Campus, Classic, Denim and XTOP series. The *Sports Lifestyle Collection* was established by the Group in direct response to the growing affluence of PRC consumers.

In line with Xtep's commitment to excellence across all of its products, investments in R&D during the Period increased by 9.5% to approximately RMB51.9 million (2013: RMB47.4 million), representing 2.4% of the total revenue of the Group (2013: 2.3%).

Strategic Distribution Network

With the objective of optimising Xtep's distribution network, and thereby enhance operational efficiency, the management has further streamlined the Group's retail coverage. The Group continued to focus on retail channel management by increasing the DRP system's coverage to over 80% of the 7,310 (31 December 2013: 7,360) Xtep brand retail outlets that are operated by its exclusive distributors and franchisees. Such stringent management control over the retail outlets has brought fruitful results. The retail operating data collected daily by the Group's DRP system indicates that the retail inventory level has gradually improved. The stock-in and stock-out rate has also been improved following the de-stocking exercise from 2013 and through the proactive reduction of sales orders. As a result, not only have sales orders that were placed by the distributors and franchisees during the Period been 100% delivered, the Group has also recorded a low single-digit rise in the product replenishment. Although the replenishment level recorded represents a modest improvement, it does suggests that prudent procedures for placing sales orders are an effective means for controlling the retail operation. It is a crucial and essential management method for exercising detailed product production and delivery plans, so that the retail inventory level can reach an optimal level.

In assisting distributors and franchisees to better cope with market competition, the Group made appropriate reductions in product supplies and maintained the wholesales discount rate at 62% (2013: 62%) during the Period. Meanwhile, as new market opportunities emerged, the Group introduced more distributors with extensive retail experience and expanded the distributorship from 28 to 37 during the Period.

With approximately 18% of China's population in 2013 falling under the 0-14 age bracket, according to The World Bank, here too is a market that the Group has responded to. Through the Xtep Kids series, the Group has been able to cater for the needs of young children, the products of which are available through approximately 320 POS as at 30 June 2014 (31 December 2013: 300 POS), comprising existing Xtep stores and standalone stores that are largely found in second- and fourth-tier cities.

E-commerce

Recognizing the importance of O2O integration, the Group is continuing to make significant strides in e-commerce. Apart from operating its own official website www.xtep.com.cn, the Group operated its own flagship store on the leading online retail shopping platform, Tmall and cooperated with several notable e-commerce platforms such as Taobao and JD. In addition, the Group has authorized those experienced and reputable retail online dealers that conduct business through various online platforms under the sales guidance of the Group's e-commence team.

The e-commerce team has established its own product R&D team and product supply chain. Such a strategy allows for the more rapid turnaround of styles and products, which enables the Group's e-commerce business to adopt a fast retailing business model. Although the total revenue contributions from the e-commerce accounted for a low percentage of the Group's total revenue during the Period, the management believes that such contribution will grow at a rapid pace once more new products are delivered and sold through the online platforms.

Overseas Operation

Xtep is also growing its footprint overseas. In March 2014 the Group unveiled its Xtep mono-branded store in Valencia, thus marking the fourth mono-branded store to open in Spain. Moreover, the Group now has over 200 POS across the Middle East and Central and Western Europe.

Supply Chain Management

The Group is fully aware of the virtues of maintaining a vertically integrated business model; where design, production, sales and distribution can be meticulously managed. Such a model was enhanced when phase one of the Anhui plant commenced operation in 2013, together with the production facilities in Quanzhou, Fujian Province, the Group has a total annual production capacity of approximately 20.0 million pairs of footwear products and approximately 8.5 million pieces of apparel products, which provided the Group with significant production flexibility and greater control of production costs. As for the changes in volume output of footwear and apparel products in the Period, the in-house ratio of footwear and apparel was 62% (2013: 69%) and 30% (2013: 17%), respectively. And to optimize production efficiency, the management has continued to employ the extensive DRP system which enables the Group to quickly react to the latest trends and market demands by readily adjusting production schedules and thereby control costs and protect margins.

OUTLOOK

The sportswear industry in China is expected to remain challenging despite recent signs of a recovery as intense competition will invariably lead to the further exit of less competitive players. Such developments will nevertheless result in a leaner and healthier industry that better supports competitive sportswear brands. Moreover, the ongoing urbanization in China and rising disposable income among its citizens will likewise bode well for the sportswear industry.

As has been the practice of the Group, Xtep will continue to employ its differentiated marketing strategy for which supported its journey towards becoming a world-class fashion sportswear brand. Xtep already enjoys a strong association with running and football due to its strategic sponsorship programs, and will explore new sporting activities as highlighted by the recent signing of an apparel sponsorship agreement with The HC Den Bosch in the Netherlands. Recognizing that trendiness and image play equally important roles in today's sportswear industry, the Group will continue to leverage its brand ambassadors to promote the stylishness and appeal of its products. With new celebrity endorsements including the "Day Day Brothers" and Olympian, Chen Ding joining the lineup, the Group also expects to make further boost in the market by capitalizing on their popularity.

The constant enhancement and development of its product portfolio which encompasses not only running products, but also other sports-related and lifestyle products such as the Xtep Kids and XTOP series will support the Group's dual-marketing efforts. To seize emerging opportunities in the outdoor market, Xtep will further enrich the product offerings of its online business as well, officially launching its outdoor collection, XUP, in early August 2014. And for sustaining its product differentiation from other brands, the Group will continue to increase its investments in bolstering the R&D team and into new technologies, thus ensuring that the Group's collection of products continues to possess both style and substance.

Going forward, the Group will continue to employ stringent management controls over its nationwide distribution network and work closely with its long-standing exclusive distributors and franchisees. It will also closely monitor the operating performance of its retail channels by leveraging the DRP system, which provides both extensive and detailed coverage. At the same time, the management will employ prudent strategies to maximize the profitability of retailers, including a flexible ordering policy that keeps retail inventory at a healthy and efficient level. The Group expects the number of Xtep outlets to remain at approximately 7,300–7,400 and the number of Xtep Kids sales network to reach approximately 350 POS by the end of 2014.

FINANCIAL REVIEW

GROUP REVENUE AND GROSS PROFIT MARGIN BREAKDOWN BY PRODUCT CATEGORY

The following table sets out the contributions to the Group's revenue and gross profit margin by product category for the Period:

For the six months ended 30 June

	Revenue (RMB million)			As a percentage of revenue (%)		Gross profit margin (%)	
	2014	2013	Change (%)	**2014**	2013	**2014**	2013
Footwear	**1,326.4**	1,040.8	+27.4	**62.1**	49.6	**41.0**	40.9
Apparel	**783.0**	1,017.7	–23.1	**36.7**	48.5	**39.4**	39.7
Accessories	**25.6**	39.5	–35.2	**1.2**	1.9	**35.0**	35.7
Total	**2,135.0**	2,098.0	+1.8	**100.0**	100.0	**40.4**	40.2

The Group's total revenue for the Period amounted to approximately RMB2,135.0 million (2013: RMB2,098.0 million), representing an increase of approximately 1.8% compared to the same period last year. Such better than expected performance was mainly due to the enhancement of product portfolio by increasing the proportion of footwear products with higher gross profits margins and which are more competitive and increases in revenue derived from e-commerce and Xtep Kids products.

During the Period, the Group continued with its effective marketing strategy through various running-related promotions, such as being the sole apparel sponsor of major international marathons in the PRC. Moreover, better design and material enhancement of running footwear products helped build the Xtep image among runners in the PRC. As a result, revenue from the Group's footwear products increased by 27.4% to approximately RMB1,326.4 million (2013: RMB1,040.8 million). Due to fierce competition in the sportswear apparel and accessories market and the Group's proactive actions taken to reduce supplies to control the inventory level at retail channels, the Group has reduced the output volume of apparel and accessories. As a result, revenue from the Group's apparel products decreased by 23.1% to approximately RMB783.0 million (2013: RMB1,017.7 million) and revenue from accessories decreased by 35.2% to approximately RMB25.6 million (2013: RMB39.5 million).

The Group's overall gross profit margin increased by 0.2 percentage point to 40.4% (2013: 40.2%). The increase in overall gross profit margin was mainly due to an increase in the gross profit margin of footwear products to 41.0% (2013: 40.9%), but partially offset by the slight decrease in profit margin of apparel and accessories. The improvement in the gross profit margin of footwear was mainly due to effective cost controls and supply chain management.

OTHER INCOME AND GAINS

During the Period, other income and gains of the Group mainly represented subsidized income from the PRC Government, which amounted to approximately RMB10.2 million (2013: RMB8.7 million); and net income derived from available-for-sale financial assets was approximately RMB63.7 million (2013: RMB44.6 million), which was mainly derived from interest income from treasury deposit products.

SELLING AND DISTRIBUTION EXPENSES

For the Period, the Group's selling and distribution expenses increased by 42.0%, amounting to approximately RMB327.6 million (2013: RMB230.7 million), representing approximately 15.3% (2013: 11.0%) of the Group's total revenue. The increase in selling and distribution expenses was mainly due to an increase in advertising and promotional costs of approximately RMB77.8 million, which rose by 41.1% to approximately RMB267.1 million (2013: RMB189.3 million), representing approximately 12.5% (2013: 9.0%) of the Group's total revenue. The expenses from advertising and promotion mainly focused on brand building through TV commercials and event sponsorship of various high-profile international marathon events and football leagues in the PRC.

GENERAL AND ADMINISTRATIVE EXPENSES

For the Period, the Group's general and administrative expenses amounted to approximately RMB185.2 million (2013: RMB192.5 million), which represented approximately 8.7% (2013: 9.2%) of the Group's total revenue. The R&D costs for the Period increase by 9.5% to approximately RMB51.9 million (2013: RMB47.4 million), representing approximately 2.4% (2013: 2.3%) of the Group's total revenue. The R&D costs were mainly related to the improvement of product design and functionality, as well as material enhancement.

Maintaining a prudent approach towards financial management, a net provision for doubtful debt was made for the long outstanding account receivables for the Period, which amounted to approximately RMB23.7 million (2013: RMB30.5 million).

NET FINANCE INCOME/COSTS

The total net finance cost of the Group for the Period amounted to approximately RMB12.8 million (2013: net finance income RMB0.9 million). The decrease was mainly due to a decrease in interest income to RMB17.9 million (2013: RMB25.2 million) and interest expenses increased to approximately RMB30.6 million (2013: RMB23.6 million) primarily as a result of an increase in bank loans.

OPERATING PROFIT MARGIN

The operating profit margin for the Period decreased by 2.8% to 19.9% (2013: 22.7%). This was mainly due to an increase in advertising and promotional costs.

INCOME TAX EXPENSES

Income tax of the Group for the Period was approximately RMB128.4 million (2013: RMB136.1 million), consisting of profit tax relating to operating companies which amounted to approximately RMB107.4 million (2013: RMB117.6 million). The effective tax rate was 26.0% (2013: 24.7%). Also, there was an underprovision of income tax of approximately RMB11.5 million (2013: underprovision of RMB6.6 million). The withholding tax of the Group amounted to approximately RMB9.5 million (2013: RMB12.0 million) and the corresponding effective tax rate was 2.3% (2013: 2.5%).

PROFIT ATTRIBUTABLE TO ORDINARY EQUITY SHAREHOLDERS AND NET PROFIT MARGIN

For the six months ended 30 June 2014, the profit attributable to ordinary equity Shareholders was approximately RMB284.2 million (2013: RMB340.9 million), representing a decrease of approximately RMB56.7 million over the same period last year. The decrease was mainly due to an increase in advertising and promotional costs for the Period by approximately RMB77.8 million as compared to same period last year. The Group's net profit margin decreased to 13.3% (2013: 16.2%).

DIVIDEND

The Group has a high level of net cash and bank balances. The Board has therefore recommended an interim dividend of HK8.5 cents per Share (2013: HK10.0 cents per Share). The total interim dividend payout ratio for the Period is 51.6% (2013: 50.8%).

WORKING CAPITAL CYCLE

Inventories

INVENTORIES	2014 RMB million	2013 RMB million	Changes RMB million
Balance at 1 January	**536.8**	582.7	–45.9
Balance at 30 June	**777.8**	596.0	+181.8
Average balance (note 1)	**657.3**	589.3	+68.0
Cost of sales for the period ended 30 June	**1,272.9**	1,254.9	+18.0
Average turnover days (note 2)	**94 days**	86 days	+8 days

INVENTORIES	30 June 2014		31 December 2013		30 June 2013	
	RMB million	Mix (%)	RMB million	Mix (%)	RMB million	Mix (%)
Raw materials	**195.9**	**25.2**	230.4	42.9	175.5	29.4
Work in progress	**48.0**	**6.2**	55.4	10.3	50.5	8.5
Finished goods	**533.9**	**68.6**	251.0	46.8	370.0	62.1
Total	**777.8**	**100.0**	536.8	100.0	596.0	100.0

As at 30 June 2014, the Group's balance of inventory was RMB777.8 million.

The increase in inventory balance was mainly due to an increase in finished goods as the Group expects the recovery of the industry will continue in the second half year. Nevertheless, the percentage mix of finished goods to the total inventories as at 30 June 2014 was 68.6%, which was comparable to 30 June 2013 level (62.1%). As the average balance of inventory for the Period has increased, the turnover days of inventory for the Period has increased by 8 days to 94 days (2013: 86 days).

Trade Receivables

TRADE RECEIVABLES	2014 RMB million	2013 RMB million	Changes RMB million
Balance at 1 January	**1,137.9**	1,035.9	+102.0
Balance at 30 June	**1,099.3**	1,175.7	–76.4
Average balance (note 1)	**1,118.6**	1,105.8	+12.8
Revenue for the period ended 30 June	**2,135.0**	2,098.0	+37.0
Average turnover days (note 2)	**96 days**	96 days	No change

As at 30 June 2014, the Group's net balance of trade receivables was RMB1,099.3 million.

The net balance of trade receivables as at 30 June 2014 has been reduced by approximately RMB76.4 million as compared to RMB1,175.7 million as at 30 June 2013. The Group continues to provide temporary support to assist its retail channels in face of a progressive recovery across the retail channels. Hence, the turnover days of trade receivables remained stable at 96 days (2013: 96 days). The Group also utilized the credit period of trade payables by its suppliers and extended the trade payable days at the same time.

Trade Payables

TRADE PAYABLES	2014 RMB million	2013 RMB million	Changes RMB million
Balance at 1 January	**597.5**	482.5	+115.0
Balance at 30 June	**806.5**	665.1	+141.4
Average balance (note 1)	**702.0**	573.8	+128.2
Cost of sales for the period ended 30 June	**1,272.9**	1,254.9	+18.0
Average turnover days (note 2)	**101 days**	84 days	+17 days

As at 30 June 2014, the Group's trade payables balance was RMB806.5 million.

As mentioned above, the increase was due to the Group having utilized the credit period of suppliers and extended the payment days in order to support trade receivables terms. The average trade payable turnover days for the Period increased by 17 days to 101 days (2013: 84 days).

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

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

Bills Receivables and Bills Payables

In order to utilise more flexible working capital facilities, the Group increase the acceptance and usage of bills receivables and bills payables, respectively. As at 30 June 2014, the bills receivables amounted to approximately RMB560.4 million (31 December 2013: RMB13.0 million) and the bills payables amounted to approximately RMB20.3 million (31 December 2013: RMB3.5 million). For the Period, the turnover days of bills receivables was 25 days (2013: Nil) and the turnover days of bills payables was 2 days (2013: Nil).

LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2014, the Group's total cash and cash equivalents amounted to approximately RMB3,019.0 million (31 December 2013: RMB3,563.4 million), representing a decrease of approximately RMB544.4 million. The net cash and cash equivalents (including fixed deposits held at banks with maturity dates of over three months, pledged deposits and other current financial assets, minus bank loans) was approximately RMB2,268.3 million as at 30 June 2014 (as at 31 December 2013: RMB2,863.1 million). This was mainly attributable to:

(a) Net cash outflow from operating activities that amounted to RMB376.7 million, which was due to the payment of income and withholding tax amounting to RMB203.3 million and cash used in operating activities mainly due to increase in inventory and bills receivables, and offset by the decrease in trade receivables and increase in trade and bills payables;

(b) Net cash outflow from investing activities amounted to RMB211.1 million, and was mainly due to capital expenditure amounting to RMB62.2 million, increase in available-for-sale investment amounting to RMB150.0 million and deposit for acquisition of land use right amounting to RMB46.3 million;

(c) Net cash inflow from financing activities amounted to RMB42.9 million, mainly due to the payment of a final dividend in respect of the 2013 financial year amounting to RMB137.7 million and offsetting by the net increase in bank borrowings amounting to RMB215.4 million.

The decrease in the Group's cash and bank deposits is summarised as follows:

	Six months ended 30 June 2014 RMB'000
Cash used in operating activities	**(173,305)**
Income and withholding tax paid	**(203,348)**
Net cash flow used in operating activities	**(376,653)**
Net capital expenditure	**(62,214)**
Increase in available-for-sale investment	**(150,000)**
Deposit for acquisition of land use right	**(46,335)**
Dividends paid	**(137,732)**
Net proceeds from bank loans	**215,419**
Others	**13,119**
Net decrease in cash and cash equivalents	**(544,396)**

As at 30 June 2014, the Group's gearing ratio was 22.4% (31 December 2013: 20.9%), which is defined as the total bank borrowings divided by the Group's total assets.

As at 30 June 2014, the total assets of the Group amounted to RMB7,769.2 million (31 December 2013: RMB7,306.8 million), represented by non-current assets of RMB1,039.8 million (31 December 2013: RMB954.6 million) and current assets of RMB6,729.4 million (31 December 2013: RMB6,352.2 million). The total liabilities of the Group amounted to RMB3,139.6 million (31 December 2013: RMB2,799.2 million), represented by non-current liabilities of RMB999.4 million (31 December 2013: RMB443.2 million) and current liabilities of RMB2,140.2 million (31 December 2013: RMB2,356.0 million). The total non-controlling interests of the Group amounted to RMB2.3 million (31 December 2013: RMB1.9 million). Hence, the total net assets of the Group amounted to RMB4,627.3 million (31 December 2013: RMB4,505.7 million), representing an increase of 2.7%. Net assets per Share as at 30 June 2014 were approximately RMB2.13 (31 December 2013: RMB2.07), representing an increase of 2.7%.

INVENTORY PROVISION

For the Period, the Group did not have any inventory provisions.

IMPAIRMENT PROVISION FOR TRADE RECEIVABLES

For the Period, the Group recorded a net impairment provision for trade receivables amounting to approximately RMB23.7 million (2013: RMB30.5 million).

COMMITMENTS

Details of the Group's commitments are stated in note 24 of the financial statements.

CONTINGENT LIABILITIES

As of 30 June 2014, the Group did not have any material contingent liabilities.

CHARGE OF ASSETS

Save as disclosed in notes 15 and 18 of the financial statements relating to certain amounts of bank deposits pledged to secure the banking facilities, none of the Group's assets were pledged as of 30 June 2014.

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

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the Period, the Group did not have any significant investments or acquisitions or sales of subsidiaries. The Group will continue to seek opportunities to acquire and work with international brands in order to generate more returns to its Shareholders. No plans have been authorized by the Board for any material investments or additions of capital assets as at the date of this interim report.

HUMAN RESOURCES

As at 30 June 2014, the Group had 8,230 employees (31 December 2013: 8,180 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 standards of its staff. The Group will strive to strengthen human resources management to provide strong support for the development of the Group's business through staff recruitment initiatives, optimization of the organizational structure and promulgation of its corporate culture to ensure that the Group will be able to maintain sustainable development in the future.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions throughout the six months ended 30 June 2014, 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 are comprised of experienced and high caliber individuals. The Board currently consists of six executive Directors, one non-executive Director and four 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 2014.

REVIEW OF INTERIM FINANCIAL STATEMENTS

Disclosure of financial information in this report complies with Appendix 16 of the Listing Rules. The audit committee of the Company has held meetings to discuss the internal controls and financial reporting matters of the Company, including the review of the interim results and the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2014.

The external auditor has reviewed the interim financial information for the six months ended 30 June 2014 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 2014.

DISCLOSURE OF INTERESTS

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

As at 30 June 2014, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Long Positions in the Company

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company(1)
Mr. Ding Shui Po(2)	Interests of controlled corporation/ Beneficial interests	1,321,375,000	60.69%
Ms. Ding Mei Qing(3)	Interests of controlled corporation	1,310,059,500	60.17%
Mr. Lin Zhang Li(4)	Interests of spouse	1,310,059,500	60.17%
Mr. Ye Qi(5)	Beneficial interests	5,500,000	0.25%
Mr. Ho Yui Pok, Eleutherius(6)	Beneficial interests	10,000,000	0.46%
Mr. Tan Wee Seng(7)	Beneficial interests	1,380,000	0.06%

Notes:

(1) It was based on 2,177,215,000 issued Shares of the Company as at 30 June 2014.

(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 Group Success being controlled by Wan Xing International Holdings Limited which is in turn controlled by Mr. Ding Shui Po. Mr. Ding Shui Po is also beneficially interested in 11,315,500 Shares of the Company.

(3) Ms. Ding Mei Qing is deemed to be interested in the Shares of the Company held by Group Success by virtue of Group Success being controlled by Wan Xing International Holdings Limited which is in turn 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 shares held by 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 7 December 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 7 December 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 7 December 2011 under the Share Option Scheme. The remaining 180,000 of these shares were acquired by Mr. Tan Wee Seng on the Stock Exchange.

Long Positions in Associated Corporation: Xtep International E-Commerce Investment Limited

Name of Director	Nature of interest	Number of shares interested	Approximate percentage of interest in the issued share capital of associated corporation
Mr. Ho Yui Pok, Eleutherius[1]	Interests of controlled corporation and interests of spouse	1,750	3.5%

Note:

(1) Such interests are held by a company which is equally owned by Mr. Ho Yui Pok, Eleutherius and his spouse.

Save as disclosed above, as at 30 June 2014, 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.

Save as disclosed above, 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 2014, the persons or corporations (other than the Directors or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Nature of Interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company[1]
Group Success	Beneficial interests	1,310,059,500	60.17%
Wan Xing International Holdings Limited[2]	Interests of controlled corporation	1,310,059,500	60.17%
Carlyle Asia Growth Partners III, L.P.	Beneficial interests	200,769,294	9.22%
CAGP III Co-investment, L.P.	Beneficial interests	8,931,206	0.41%
CAGP General Partner, L.P.[3]	Interests of controlled corporation	209,700,500	9.63%
CAGP Ltd[3]	Interests of controlled corporation	209,700,500	9.63%

Notes:

(1) It was based on 2,177,215,000 issued Shares of the Company as at 30 June 2014.
(2) Wan Xing International Holdings Limited is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing International Holdings Limited.
(3) CAGP General Partner, L.P. is the general partner of Carlyle Asia Growth Partners III, L.P. and CAGP III Co-investment, L.P., both limited partnerships. CAGP Ltd is the general partner of CAGP General Partner, L.P.

Save as disclosed above, as at 30 June 2014, 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 adopted the Pre-IPO Share Option Scheme on 7 May 2008 for the purpose of giving its employees an opportunity to have a personal stake in the Company and motivating its employees to optimize their performance and efficiency, and retaining its employees whose contributions are important to the long-term growth and profitability of the Group. Options to subscribe for an aggregate of 19,000,000 Shares were granted on 7 May 2008. The exercise price per Share is HK$3.24, being a discount of 20% to the global offering price. No further options would be granted under the Pre-IPO Share Option Scheme on or after the Listing Date. All options granted under the Pre-IPO Share Option Scheme may be exercised during the option period commencing from the end of twelve months after the Listing Date to the date falling 10 years from the offer date of the options and can only be exercised in the following manner:

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

Details of the share options granted under the Pre-IPO Share Option Scheme as at 30 June 2014 are as follows:

Name	Outstanding as at 1 January 2014	Exercised during the six months ended 30 June 2014	Outstanding as at 30 June 2014
Directors			
Mr. Ye Qi	1,500,000	–	1,500,000
Mr. Ho Yui Pok, Eleutherius	1,000,000	–	1,000,000
Employees			
In aggregate	14,265,000	–	14,265,000
Total	**16,765,000**	**–**	**16,765,000**

No options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the six months ended 30 June 2014.

Share Option Scheme

The Company 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 2014 are as follows:

Name	Date of Grant	Exercise price per Share	Exercise Period[(1)(2)(3)]	Outstanding as at 1 January 2014	Granted during the six months ended 30 June 2014	Cancelled during the six months ended 30 June 2014	Exercised during the six months ended 30 June 2014	Outstanding as at 30 June 2014
Directors								
Mr. Ye Qi	28 May 2010	HK$6.00	28 May 2012 – 27 May 2020	1,000,000	–	–	–	1,000,000
Mr. Ye Qi	7 December 2011	HK$2.35	14 January 2012 – 13 January 2021	3,000,000	–	–	–	3,000,000
Mr. Ho Yui Pok, Eleutherius	29 July 2009	HK$4.11	29 July 2010 – 28 July 2019	1,500,000	–	–	–	1,500,000
Mr. Ho Yui Pok, Eleutherius	28 May 2010	HK$6.00	28 May 2012 – 27 May 2020	1,000,000	–	–	–	1,000,000
Mr. Ho Yui Pok, Eleutherius	7 December 2011	HK$2.35	14 January 2012 – 13 January 2021	6,500,000	–	–	–	6,500,000
Mr. Tan Wee Seng	30 March 2010	HK$6.13	30 March 2011 – 29 March 2020	600,000	–	–	–	600,000
Mr. Tan Wee Seng	7 December 2011	HK$2.35	14 January 2012 – 13 January 2021	600,000	–	–	–	600,000
Employees								
In aggregate	29 July 2009	HK$4.11	29 July 2010 – 28 July 2019	8,140,000	–	–	–	8,140,000
In aggregate	28 January 2010	HK$5.01	28 January 2011 – 27 January 2020	500,000	–	–	–	500,000
In aggregate	28 May 2010	HK$6.00	28 May 2012 – 27 May 2020	8,000,000	–	–	–	8,000,000
In aggregate	7 December 2011	HK$2.35	14 January 2012 – 13 January 2021	49,375,000	–	–	(450,000)[(4)]	48,925,000
Total				**80,215,000**	**–**	**–**	**(450,000)**	**79,765,000**

Saved as disclosed above, during the six months ended 30 June 2014, no share options were granted, exercised, lapsed or cancelled under the Share Option Scheme.

Notes:

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

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

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

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

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

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

(4) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$3.25.

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

SHARE AWARD SCHEME

On 1 August 2014, the Company has adopted the Share Award Scheme ("**Scheme**") in which the Group's employees, executives, officers or directors will be entitled to participate.

Details of the Scheme are set out in the Company's announcement dated 1 August 2014.

As at the date of this report, the Board neither granted any awards nor caused to pay the trustee the trust fund for purchase nor subscription of Shares.

SPECIFIC PERFORMANCE OBLIGATIONS ON CERTAIN CONTROLLING SHAREHOLDERS

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

On 9 January 2014, the Company as borrower entered into another facility agreement (together with the 2012 Facility Agreement, the "**Facility Agreements**") with a consortium of 11 banks arranged by HASE as co-ordinator, a mandated lead arranger and facility agent in the principal amount of US$92,000,000 and HK$452,400,000 (equivalent to approximately HK$1,170,000,000 in aggregate) (together with the 2012 Facility, the "**Facilities**") was made available to the Company on the terms and conditions stated therein.

The Facilities are guaranteed by certain subsidiaries of the Company.

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

(a) Mr. Ding Shui Po is not or ceases to be the chairman of the Board;

(b) Mr. Ding Shui Po does not or ceases to maintain control over the management and business of the Group;

(c) Mr. Ding Shui Po and Ms. Ding Mei Qing (the "**Majority Shareholders**") collectively do not or cease to own, directly or indirectly, at least 40% of the beneficial shareholding, carrying at least 40% of the voting rights in the Company, free from any security; or

(d) the Majority Shareholders collectively are not or cease to be the single largest shareholder of the Company.

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

As at 30 June 2014 and as at the date of this report, Mr. Ding Shui Po was an executive director, the chairman and a controlling shareholder of the Company. Ms. Ding Mei Qing was an executive director and a controlling shareholder of the Company. Mr. Ding Shui Po and Ms. Ding Mei Qing owned Wan Xing International Holdings Limited as to 63.2% and 36.8%, respectively, and Wan Xing International Holdings Limited wholly owned Group Success Investments Limited which in turn held representing approximately 60.17% of the issued share capital of the Company. Mr. Ding Shui Po also had personal beneficial interests in approximately 0.52% of the issued share capital of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2014

	Notes	Six months ended 30 June 2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
REVENUE	5	**2,134,975**	2,097,960
Cost of sales		**(1,272,851)**	(1,254,878)
Gross profit		**862,124**	843,082
Other income and gains	5	**76,403**	55,592
Selling and distribution expenses		**(327,555)**	(230,676)
General and administrative expenses		**(185,176)**	(192,453)
Operating profit	6	**425,796**	475,545
Net finance income/(costs)	7	**(12,843)**	911
PROFIT BEFORE TAX		**412,953**	476,456
Income tax expense	8	**(128,364)**	(136,132)
PROFIT FOR THE PERIOD		**284,589**	340,324
Attributable to:			
Ordinary equity holders of the Company		**284,224**	340,874
Non-controlling interests		**365**	(550)
		284,589	340,324
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10		
Basic (RMB cents)		**13.05**	15.66
Diluted (RMB cents)		**12.94**	15.56

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2014

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**284,589**	340,324
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of financial statements of operations outside Mainland China	**(25,944)**	23,624
Other comprehensive income/(loss) for the period, net of tax	**(25,944)**	23,624
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**258,645**	363,948
Attributable to:		
Ordinary equity holders of the Company	**258,280**	364,498
Non-controlling interests	**365**	(550)
	258,645	363,948

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2014

	Notes	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**584,868**	544,711
Prepaid land lease payments		**218,254**	220,672
Deposits for acquisition of land use rights	13	**52,596**	6,261
Intangible assets		**1,124**	1,066
Available-for-sale investment		**33,000**	33,000
Deposits	14	**39,914**	38,871
Non-current time deposits	15	**110,000**	110,000
Total non-current assets		**1,039,756**	954,581
CURRENT ASSETS			
Inventories	11	**777,784**	536,799
Trade receivables	12	**1,099,310**	1,137,943
Bills receivables	12	**560,451**	13,000
Prepayments, deposits and other receivables	14	**383,800**	385,508
Tax recoverable		**8,860**	355
Available-for-sale investment		**150,000**	–
Pledged bank deposits	15	**730,288**	715,203
Cash and cash equivalents	15	**3,018,991**	3,563,387
Total current assets		**6,729,484**	6,352,195
CURRENT LIABILITIES			
Trade and bills payables	16	**826,864**	601,018
Deposits received, other payables and accruals	17	**298,389**	332,687
Interest-bearing bank borrowings	18	**964,536**	1,350,637
Tax payable		**50,482**	71,625
Total current liabilities		**2,140,271**	2,355,967
NET CURRENT ASSETS		**4,589,213**	3,996,228
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,628,969**	4,950,809
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	18	**776,404**	174,884
Deferred tax liabilities	19	**108,117**	153,453
Deferred subsidy		**114,833**	114,833
Total non-current liabilities		**999,354**	443,170
NET ASSETS		**4,629,615**	4,507,639
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	20	**19,207**	19,204
Reserves	21	**4,608,139**	4,486,531
		4,627,346	4,505,735
Non-controlling interests		**2,269**	1,904
Total equity		**4,629,615**	4,507,639

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2014

SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

		Attributable to ordinary equity holders of the Company										
			Reserves									
	Note	Issued capital RMB'000	Share premium account RMB'000	Capital reserve RMB'000	Statutory surplus fund RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014		19,204	129,172	118,600	418,218	114,122	39,614	3,666,805	4,486,531	4,505,735	1,904	4,507,639
Total comprehensive income for the period		–	–	–	–	–	(25,944)	284,224	258,280	258,280	365	258,645
Equity-settled share option arrangements		–	–	–	–	450	–	–	450	450	–	450
2013 final dividend declared and paid	9(b)	–	–	–	–	–	–	(137,732)	(137,732)	(137,732)	–	(137,732)
Exercise of share options		3	835	–	–	(225)	–	–	610	613	–	613
At 30 June 2014		19,207	130,007	118,600	418,218	114,347	13,670	3,813,297	4,608,139	4,627,346	2,269	4,629,615

SIX MONTHS ENDED 30 JUNE 2013 (UNAUDITED)

		Attributable to ordinary equity holders of the Company										
			Reserves									
	Note	Issued capital RMB'000	Share premium account RMB'000	Capital reserve RMB'000	Statutory surplus fund RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2013		19,200	128,094	118,600	389,471	99,982	5,888	3,513,127	4,255,162	4,274,362	5,419	4,279,781
Total comprehensive income for the period		–	–	–	–	–	23,624	340,874	364,498	364,498	(550)	363,948
Equity-settled share option arrangements		–	–	–	–	8,149	–	–	8,149	8,149	–	8,149
2012 final dividend declared and paid	9(b)	–	–	–	–	–	–	(174,795)	(174,795)	(174,795)	–	(174,795)
2012 special dividend declared and paid	9(b)	–	–	–	–	–	–	(78,658)	(78,658)	(78,658)	–	(78,658)
Exercise of share options		2	539	–	–	(117)	–	–	422	424	–	424
At 30 June 2013		19,202	128,633	118,600	389,471	108,014	29,512	3,600,548	4,374,778	4,393,980	4,869	4,398,849

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2014

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	**(376,653)**	406,395
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(211,059)**	(13,142)
NET CASH FLOWS FROM FINANCING ACTIVITIES	**42,895**	47,552
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(544,817)**	440,805
Cash and cash equivalents at beginning of period	**3,563,387**	3,122,801
Effect of foreign exchange rate changes, net	**421**	(2,397)
Cash and cash equivalents at end of period	**3,018,991**	3,561,209
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents balance as stated in the condensed consolidated statement of financial position	**3,018,991**	3,561,209

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2014

1. CORPORATE INFORMATION

Xtep International Holdings Limited (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. 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 Wan Xing International Holdings Limited, which is a limited liability company incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The condensed consolidated interim financial statements do not include all the information and disclosures required in the financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2013.

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 2013 except as described below. In the current period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2014.

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*

The adoption of the above new and revised 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 their accompanying disclosures, and the disclosure of contingent liabilities. 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 2013.

4. OPERATING SEGMENT INFORMATION

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

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Revenue		
Manufacture and sale of sportswear:		
Footwear	**1,326,353**	1,040,774
Apparel	**782,987**	1,017,645
Accessories	**25,635**	39,541
	2,134,975	2,097,960
Other income and gains		
Subsidy income from the PRC government*	**10,158**	8,675
Rental income	**1,179**	1,069
Net income derived from available-for-sale financial assets	**63,727**	44,640
Others	**1,339**	1,208
	76,403	55,592
	2,211,378	2,153,552

* 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	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Advertising and promotional costs	**267,114**	189,298
Provision for impairment of trade receivables, net	**23,677**	30,539
Loss on write-off of items of property, plant and equipment	**4,525**	–
Research and development costs*	**51,894**	47,373
Staff costs	**209,383**	178,351
Equity-settled share option expense	**450**	8,149
Depreciation	**17,422**	19,816
Amortisation of intangible assets	**159**	159
Amortisation of prepaid land lease payments	**2,428**	2,428

* The research and development costs for the six months ended 30 June 2014 includes RMB39,504,000 (six months ended 30 June 2013: RMB35,499,000) relating to depreciation of research and development centres and staff costs for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses.

7. NET FINANCE INCOME/(COSTS)

An analysis of finance income/(costs) is as follows:

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Interest expense on bank loans wholly repayable within five years	**(17,722)**	(15,602)
Interest expense on discounted bills receivables	**(4,876)**	(10,493)
Amortisation of bank charges on syndicated loans	**(9,132)**	(3,148)
Foreign exchange differences, net	**(179)**	(667)
Bank interest income	**17,925**	25,173
Unrealised gain on interest rate swaps*	**1,141**	5,648
	(12,843)	911

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

8. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Current tax – Overseas		
Charge for the period	**107,350**	117,552
Underprovision in prior periods	**11,514**	6,580
	118,864	124,132
Deferred tax	**9,500**	12,000
	128,364	136,132

Xtep (China) Co., Ltd. ("Xtep China"), a wholly-owned subsidiary of the Company, was taxed at a preferential 15% tax rate for the six months ended 30 June 2014 and 2013 as Xtep China was qualified as a High-New Technology Enterprise (the "HNTE") in the PRC and obtained the HNTE certificate in 2013.

9. DIVIDENDS

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

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Interim dividend – HK8.5 cents (six months ended 30 June 2013: HK10.0 cents) per ordinary share	**146,755**	173,100

At the board meeting held on 21 August 2014, the board of directors declared and approved an interim dividend of HK8.5 cents (equivalent to approximately RMB6.7 cents) per ordinary share, totalling approximately HK$185,063,000 (equivalent to approximately RMB146,755,000), for the six months ended 30 June 2014. This interim dividend has not been recognised as a liability in the condensed consolidated financial statements.

At the board meeting held on 23 August 2013, the board of directors declared and approved an interim dividend of HK10.0 cents (equivalent to approximately RMB7.95 cents) per ordinary share, totalling approximately HK$217,654,000 (equivalent to approximately RMB173,100,000), for the six months ended 30 June 2013.

9. DIVIDENDS (continued)

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

	Six months ended 30 June	
	2014 **RMB'000** **(Unaudited)**	2013 RMB'000 (Unaudited)
Dividends paid during the period:		
Final dividends in respect of the financial year ended:		
31 December 2013 – HK8.0 cents per ordinary share	**137,732**	–
31 December 2012 – HK10.0 cents per ordinary share	–	174,795
Special dividends in respect of the financial year ended:		
31 December 2012 – HK4.5 cents per ordinary share	–	78,658
	137,732	253,453

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 2014 was based on the profit for the period attributable to ordinary equity holders of the Company of RMB284,224,000 (six months ended 30 June 2013: RMB340,874,000) and the weighted average number of ordinary shares in issue during the six months ended 30 June 2014 of 2,176,958,000 (six months ended 30 June 2013: 2,176,318,000).

(b) Diluted earnings per share

The calculation of diluted earnings per share amount for the six months ended 30 June 2014 is based on the profit for the period attributable to ordinary equity holders of the Company of RMB284,224,000 (six months ended 30 June 2013: RMB340,874,000). The weighted average number of ordinary shares of 2,196,651,000 (six months ended 30 June 2013: 2,190,968,000) used in the calculation is the weighted average number of 2,176,958,000 (six months ended 30 June 2013: 2,176,318,000) 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 19,693,000 (six months ended 30 June 2013: 14,650,000) ordinary shares during that period.

11. INVENTORIES

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Raw materials	**195,939**	230,396
Work in progress	**47,919**	55,364
Finished goods	**533,926**	251,039
	777,784	536,799

12. TRADE RECEIVABLES AND BILLS RECEIVABLES

	Notes	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Trade receivables		**1,251,406**	1,266,362
Less: provision for impairment of receivables		**(152,096)**	(128,419)
	(a)	**1,099,310**	1,137,943
Bills receivables	(b)	**560,451**	13,000

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. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group's trade receivables relate to a number of diversified customers and there is certain concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

12. TRADE RECEIVABLES AND BILLS RECEIVABLES (continued)

Notes:

(a) An aged analysis of the Group's trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Within 3 months	**587,466**	727,910
3 to 6 months	**365,596**	297,626
Over 6 months	**146,248**	112,407
	1,099,310	1,137,943

An ageing analysis of the Group's trade receivables, based on the payment due date, that are not considered to be impaired as at 30 June 2014 is as follows:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Neither past due nor impaired	**587,466**	727,910
Less than 3 months past due	**365,596**	297,626
Past due over 3 to 6 months	**89,428**	82,071
Past due over 6 months	**56,820**	30,336
	1,099,310	1,137,943

(b) The maturity dates of the Group's bills receivables as at the end of the reporting period are as follows:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Within 3 months	**75,800**	–
3 to 6 months	**484,651**	13,000
	560,451	13,000

None of the above bills receivables is either past due or impaired.

13. DEPOSITS FOR ACQUISITION OF LAND USE RIGHTS

Pursuant to agreements entered into between the Group and local government authorities on 22 July 2011 and 9 February 2014, the Group has paid RMB6,261,000 (31 December 2013: RMB6,261,000) and RMB46,335,000 (31 December 2013: Nil) in connection with the acquisition in progress with respect to two parcels of land in Fujian Province, the PRC. In relation to the amount of RMB46,335,000 paid, should the bidding of that parcel of land become unsuccessful, the corresponding agreement would be cancelled. At the end of the reporting period, the bidding of these parcels of land has not yet been arranged by the corresponding PRC government.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Prepayments	**144,746**	153,097
Deposits and advance payments to suppliers	**90,747**	102,084
Deposits for construction contracts	**11,921**	10,111
Deposits for acquisition of items of property, plant and equipment	**27,993**	28,760
Other deposits	**1,647**	1,568
Value added tax ("VAT") recoverable	**132,581**	125,818
Other receivables	**14,079**	2,941
	423,714	424,379
Less: Non-current portion	**(39,914)**	(38,871)
	383,800	385,508

None of the above financial assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

15. TIME DEPOSITS, CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

	Notes	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Time deposits		**862,721**	1,060,762
Cash and bank balances*		**2,996,558**	3,327,828
		3,859,279	4,388,590
Less: Pledged deposits:			
for short term bank loans	18	**(697,764)**	(686,445)
for bank guarantees**		**(28,455)**	(28,455)
for bills payable	16	**(4,069)**	(303)
		(730,288)	(715,203)
Less: Time deposits with original maturity of more than one year when acquired*		**(110,000)**	(110,000)
Cash and cash equivalents		**3,018,991**	3,563,387

* The non-current time deposits of RMB110,000,000 (31 December 2013: RMB110,000,000) and bank balance of RMB49,180,000 (31 December 2013: RMB48,220,000) were capital guaranteed funds undertaken by a wholly-owned subsidiary of the Company to maintain in PRC bank accounts pursuant to the terms of the Group's short-term revolving banking facilities.

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

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB2,968,550,000 (31 December 2013: RMB3,297,077,000) and RMB862,721,000 (31 December 2013: RMB1,060,762,000), respectively. RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day to two years depending on the immediate cash requirements of the Group, and earn interest at the respective deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

16. TRADE AND BILLS PAYABLES

An ageing analysis of the Group's trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Within 3 months	**675,204**	513,113
3 to 6 months	**109,102**	45,539
Over 6 months	**22,213**	38,854
Trade payables	**806,519**	597,506
Bills payables	**20,345**	3,512
Trade and bills payables	**826,864**	601,018

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

As at 30 June 2014, bills payables of RMB20,345,000 (31 December 2013: RMB3,512,000) were secured by pledge of time deposits of RMB4,069,000 (31 December 2013: RMB303,000).

17. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Deposits and advances from customers	**69,863**	71,429
Accruals	**203,231**	180,487
VAT payables	**371**	13,002
Derivative financial instruments	**15,143**	16,194
Other payables	**9,781**	51,575
	298,389	332,687

18. INTEREST-BEARING BANK BORROWINGS

	Notes	30 June 2014 (Unaudited) Effective interest rate per annum %	Maturity	RMB'000	31 December 2013 (Audited) Effective interest rate per annum %	Maturity	RMB'000
Current							
Current portion of syndicated loans	(a)	**HIBOR/LIBOR +2.2%**	**2015**	**29,353**	HIBOR/LIBOR +3%	2014	345,940
Other bank loans	(b)	**HIBOR+1.5% to 2.25%**	**2014 to 2015**	**935,183**	HIBOR+1.5% to 2.25%	2014	1,004,697
				964,536			1,350,637
Non-current							
Syndicated loans	(a)	**HIBOR/LIBOR +2.2%**	**2017**	**776,404**	HIBOR/LIBOR +3%	2015	174,884
				1,740,940			1,525,521

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Analysed into:		
Bank loans repayable:		
Within one year and on demand	**964,536**	1,350,637
In the second year	**489,457**	174,884
In the third to fifth years, inclusive	**286,947**	–
	1,740,940	1,525,521

Notes:

(a) The bank loans are supported by a corporate guarantee provided by certain of the Company's wholly-owned subsidiaries, to the extent of HK$452,400,000 (equivalent to approximately RMB360,065,000) (31 December 2013: HK$140,400,000, equivalent to approximately RMB111,070,000) and US$92,000,000 (equivalent to approximately RMB567,755,000) (31 December 2013: US$82,000,000, equivalent to approximately RMB502,660,000) as at the end of the reporting period.

(b) The bank loans are supported by:

(i) the pledge of certain of the Group's deposits amounting to RMB697,764,000 (31 December 2013: RMB686,445,000);

(ii) corporate guarantees provided by two wholly-owned subsidiaries of the Company to the extent of HK$700,000,000 (equivalent to approximately RMB557,130,000) (31 December 2013: HK$700,000,000, equivalent to approximately RMB553,770,000) as at the end of the reporting period; and

(iii) non-current time deposits of RMB110,000,000 (31 December 2013: RMB110,000,000) and bank balance of RMB49,180,000 (31 December 2013: RMB48,220,000) were capital guaranteed funds undertaken by a wholly-owned subsidiary of the Company to maintain in PRC bank accounts pursuant to the terms of the Group's short-term revolving loan facilities (note 15).

As at 30 June 2014, except for bank loan of RMB493,101,000 (31 December 2013: RMB426,583,000) which was denominated in US dollars, all bank borrowings are denominated in Hong Kong dollars.

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 accrued 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% or 10%. 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 an assessment based on the factors which included dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future.

At 30 June 2014, there were no significant unrecognised deferred tax liabilities (31 December 2013: 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 2014 and 31 December 2013 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 2014

	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: 2,177,215,000 ordinary shares of HK$0.01 each	**21,772**	**19,207**

During the period, 450,000 (31 December 2013: 450,000) shares of HK$0.01 each were issued for cash at a subscription price of HK$2.35 (31 December 2013: HK$2.35) per share pursuant to the exercise of the Company's share options for a total cash consideration, before expenses of approximately HK$1,058,000 (31 December 2013: HK$1,058,000). Details of the Company's share option schemes are included in note 22 to the condensed interim financial statements.

At 31 December 2013

	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: 2,176,765,000 ordinary shares of HK$0.01 each	21,768	19,204

21. RESERVES

The amounts of the Group's reserves and movements therein for the six months ended 30 June 2014 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 2013.

At 30 June 2014, a total of 16,765,000 (31 December 2013: 16,765,000) share options (the "Pre-IPO Share Options") under the Pre-IPO Scheme remained outstanding. During the six months ended 30 June 2014, no Pre-IPO Share Options were exercised (six months ended 30 June 2013: Nil).

At the date of approval of the condensed consolidated interim financial statements, the Company had 16,765,000 Pre-IPO Share Options outstanding under the Pre-IPO Scheme, which represented approximately 0.77% 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 2013.

As at 30 June 2014, a total of 79,765,000 (31 December 2013: 80,215,000) share options (the "Share Options") under the Share Option Scheme remained outstanding.

22. SHARE OPTION SCHEMES (continued)

(b) Share option scheme (continued)

During the six months ended 30 June 2014, the subscription rights attaching to 450,000 (six months ended 30 June 2013: 225,000) share options granted under the Share Option Scheme were exercised at the subscription price of HK$2.35 per share, resulting in the issue of 450,000 shares (six months ended 30 June 2013: 225,000 shares).

At the date of approval of the condensed consolidated interim financial statements, the Company had 79,765,000 Share Options outstanding under the Share Option Scheme, which represented approximately 3.66% of the issued share capital of the Company as at that date.

23. OPERATING LEASE ARRANGEMENTS

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

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Within one year	**9,096**	7,566
In the second to fifth years, inclusive	**8,357**	10,951
After five years	**2,295**	3,060
	19,748	21,577

24. COMMITMENTS

In addition to the operating lease commitments detailed in note 23 above, the Group had the following commitments at the end of the reporting period:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Contracted for commitment in respect of:		
– construction of new buildings	**64,347**	40,040
– construction of new manufacturing facilities	**33,322**	42,729
– advertising and promotional expenses	**266,233**	203,246
– acquisition of property, plant and equipment	**11,997**	11,997
– software	**800**	100
	376,699	298,112
Authorised, but not contracted for:		
– construction of new buildings and new manufacturing facilities	**229,076**	244,389
	605,775	542,501

25. FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY

At 30 June 2014, the Group discounted certain commercial bills receivables with a carrying amount in aggregate of approximately RMB197,380,000 (31 December 2013: RMB610,330,000) to a bank in the PRC (the "Derecognised Bills") for cash. The Derecognised Bills have a remaining maturity from approximately sixteen days to five months at the end of the reporting period. In accordance with the Law of Negotiable Instrument in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC bank and/or the issuers of commercial bills receivables default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills are equal to their carrying amounts. In the opinion of the directors, the fair value of the Group's Continuing Involvement in the Derecognised Bills is not significant.

During the six months ended 30 June 2014, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills (six months ended 30 June 2013: Nil). No gains or losses were recognised from the continuing involvement, both during the period or cumulatively. The discount of bills receivables of RMB197,380,000, RMB610,330,000 and RMB479,000,000 has been made near the period ended 30 June 2014, the year ended 31 December 2013 and period ended 30 June 2013, respectively.

26. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged bank deposits, trade and bills receivables, trade and bills payables, financial assets included in other receivables, financial liabilities included in deposits received, other payables and accruals, interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments. For the Group's unlisted available-for-sale equity investments, they were stated at cost less impairment because the unlisted investments do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

The Group's financial team is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of pledged deposits and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values of these instruments approximate to their carrying amount. The Group's own non-performance risk for interest-bearing bank borrowings as at 30 June 2014 was assessed to be insignificant.

26. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

As at 30 June 2014 and 31 December 2013, the financial instruments measured at fair value held by the Group comprised derivative financial instruments and were classified as Level 2.

During the six months ended 30 June 2014, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (30 June 2013: Nil).

27. EVENT AFTER THE REPORTING PERIOD

On 1 August 2014, the Company has adopted a share award scheme in which the Group's employees, executives, officers or directors will be entitled to participate. Details of this scheme was set out in an announcement of the Company dated 1 August 2014.

28. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 21 August 2014.

REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

EY 安永

To the board of directors of Xtep International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial statements set out on pages 41 to 61 which comprises the condensed consolidated statement of financial position of Xtep International Holdings Limited and its subsidiaries as at 30 June 2014, and the related 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 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 information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with 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 are not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants

22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

21 August 2014

GLOSSARY

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

"Board"	The Board of Directors of the Company
"Business Day"	Any day on which the Hong Kong Stock Exchange is open for the business of dealing in securities
"Company"	Xtep International Holdings Limited
"Corporate Governance Code"	The Corporate Governance Code as set out in Appendix 14 of the Listing Rules
"Director(s)"	The director(s) of the Company
"DRP System"	Distribution Resource Planning System
"GDP"	Gross domestic product
"Group"	The Company and its subsidiaries
"Group Success"	Group Success Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 23 February 2007, and is wholly owned by Wan Xing International Holdings Limited, which is in turn 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" and "HKSE"	The Stock Exchange of Hong Kong Limited
"Listing Date"	3 June 2008, on which dealing in the Shares first commence on the Hong Kong Stock Exchange
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"020"	Online to Offline
"Period"	Six months ended 30 June 2014
"POS"	Points of sale
"PRC" or "China"	The People's Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan

"Pre-IPO Share Option Scheme"	The share option scheme for employees of the Group approved and adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed "Pre-IPO Share Option Scheme" in Appendix VI to the prospectus of the Company dated 21 May 2008
"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$0.01 each in the share capital of the Company
"Share Option Scheme"	The share option scheme adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed "Share Option Scheme" in Appendix VI to the prospectus of the Company dated 21 May 2008
"Shareholder(s)"	Shareholder(s) of the Company
"U.S."	United States of America
"US$"	U.S. dollars, the lawful currency of the U.S.
"Xtep (China)"	Xtep (China) Co., Ltd., an indirect wholly-owned subsidiary of the Company
"Xtep"	Xtep brand

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