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

Interim Report 2013

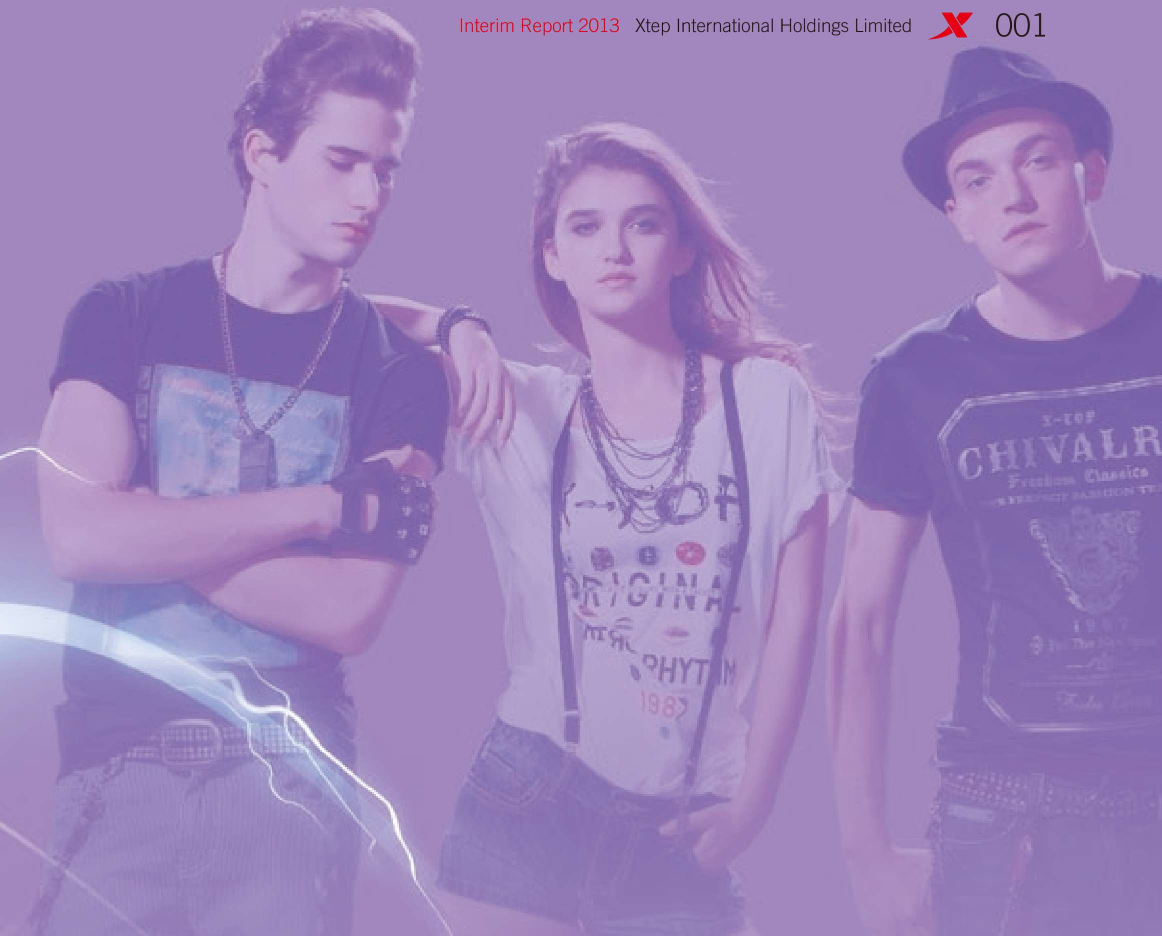
Liaoning2013

中華人民共和國第十二屆運動會體育用品行業唯一官方合作夥伴
Sole Official Sportswear Partner of The 12th National Games of the PRC

MISSION & VISION

OUR MISSION:
To feel "Sports like no other"

OUR VISION:
To become a world-class leading fashion sportswear brand



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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

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISER AS TO HONG KONG LAWS

Orrick, Herrington & Sutcliffe

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

Porda Havas International Finance
Communications Group
Aries Consulting Limited

COMPANY WEBSITE

www.xtep.com.hk

MARATHONS

JAN 2013
Xiamen

FEB 2013
Hong Kong

MAR 2013
Zhengzhou, Kaifeng

APR 2013
Yangzhou

MAY 2013
Tianjin

MAY 2013
Yingkou

LIFE IS A MARATHON

KEEP IT UP!

SOLE APPAREL SPONSOR OF INTERNATIONAL MARATHONS

With running as Xtep's core sports category, the Group has sponsored a number of major international marathons to advocate its spirit of "Love Running, Love Xtep" and to boost the popularity of its running products. At present, the Group is the only Chinese sportswear enterprise that has sponsored key international marathons in over ten major cities in Greater China. Through various sponsorships and related marketing activities, the Group is committed to developing running sports in Greater China and promoting marathon running as a healthy and enjoyable sport in the region.

Apart from raising its brand awareness through sponsoring marathons, the Group also incorporated promotional elements of the marathon events it sponsored into its advertisements placed in various media including CCTV-5 and the decorations in its retail outlets with a view to boosting the publicity of the events and driving the growth of Xtep.


XTEP
STARS
Justin Gatlin
Gwei Lun-Mei
（桂綸鎂）
XTEP
ENG


UNLIMITED VITALITY
Han Geng
（韓庚）
Nicholas Tse
（謝霆鋒）


FOUR SEASONS
COLLECTION
SPRING
SUMMER


AUTUMN
WINTER

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2013

NET CASH FLOW FROM OPERATING ACTIVITIES

RMB406.4 million

Total Revenue

RMB2,098.0 million

Gross Profit Margin

40.2%

Profit Attributable to Ordinary Equity Shareholders

RMB340.9 million

Interim Dividend

HK10.0 cents per Share

Dividend Payout Ratio

50.8%

Cautionary Statement Regarding Forward-looking Statements

This Interim Report contains certain forward-looking statements with respect to the financial condition, results of operations and business of Xtep International Holdings Limited and its subsidiaries (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 "Management Discussion and Analysis".

FIVE-YEAR FINANCIAL SUMMARY

For the six months ended 30 June

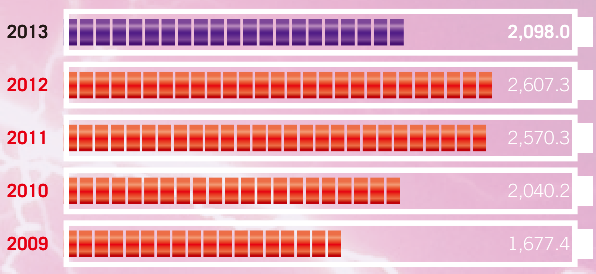
	2013	2012	2011	2010	2009
Profitability data (RMB million)					
Revenue	**2,098.0**	2,607.3	2,570.3	2,040.2	1,677.4
Gross profit	**843.1**	1,067.6	1,051.5	830.8	647.8
Operating profit	**475.5**	593.8	564.3	451.9	331.3
Profit attributable to ordinary equity Shareholders	**340.9**	467.8	466.2	373.5	306.5
Basic earnings per Share (RMB cents) (Note 1)	**15.66**	21.50	21.43	17.18	14.10
Profitability ratios (%)					
Gross profit margin	**40.2**	40.9	40.9	40.7	38.6
Operating profit margin	**22.7**	22.8	22.0	22.2	19.8
Net profit margin	**16.2**	17.9	18.1	18.3	18.3
Effective tax rate	**28.6**	22.7	18.1	17.9	7.4
Return on average total equity holders' equity (annualized) (Note 2)	**15.6**	23.2	26.7	24.6	22.8
Operating ratios (as a percentage of revenue) (%)					
Advertising and promotional costs	**9.0**	11.4	11.8	11.7	11.6
Staff costs	**8.5**	6.7	5.3	4.7	4.8
Research and development costs	**2.3**	1.6	1.4	1.3	1.7

As of 30 June

	2013	2012	2011	2010	2009
Assets and liabilities data (RMB million)					
Non-current assets	**813.5**	549.9	594.3	279.6	224.7
Current assets	**6,137.6**	5,382.9	4,130.7	3,644.1	3,047.0
Current liabilities	**1,941.1**	1,298.1	1,050.8	814.0	521.7
Non-current liabilities	**611.2**	496.4	52.3	35.3	7.2
Non-controlling interests	**4.9**	8.0	5.0	0.0	0.0
Shareholders' equity	**4,393.9**	4,130.3	3,616.9	3,074.4	2,742.8
Asset and Working Capital data					
Current asset ratios	**3.2**	4.1	3.9	4.5	5.8
Gearing ratios (%) (Note 3)	**19.0**	13.0	4.6	0.0	0.0
Net asset value per Share (RMB) (Note 4)	**2.02**	1.90	1.66	1.41	1.26

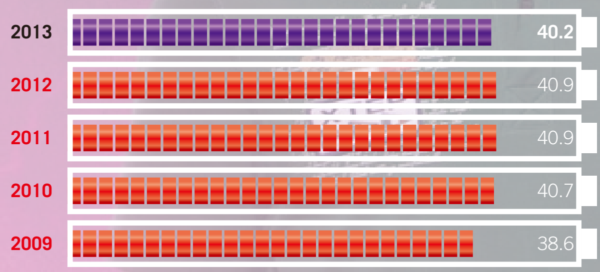
REVENUE
(RMB MILLION) (1H 2013)

2,098.0



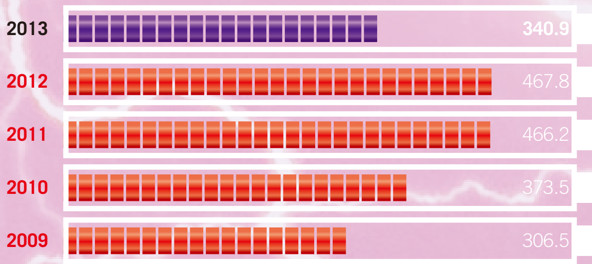
GROSS PROFIT MARGIN
(%) (1H 2013)

40.2



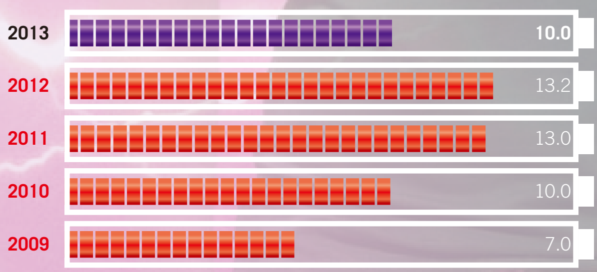
PROFIT ATTRIBUTABLE TO ORDINARY EQUITY SHAREHOLDERS
(RMB MILLION) (1H 2013)

340.9



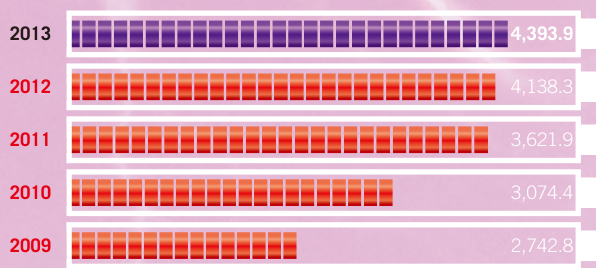
INTERIM DIVIDEND PER SHARE
(HK cents) (1H 2013)

10.0



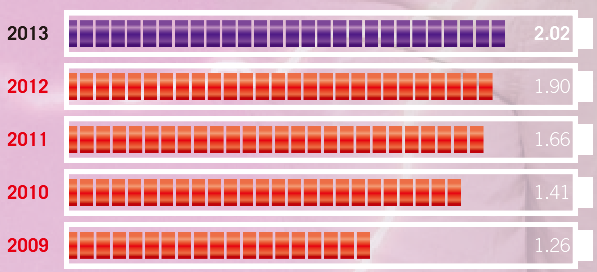
SHAREHOLDERS' EQUITY
(RMB MILLION) (30 JUNE 2013)

4,393.9



NET ASSET VALUE PER SHARE
(RMB) (30 JUNE 2013)

2.02



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.

FINANCIAL REVIEW OF XTEP PRODUCTS

REVENUE AND GROSS PROFIT MARGIN BREAKDOWN OF XTEP PRODUCTS BY PRODUCT CATEGORY

For the six months ended 30 June

	Revenue (RMB' Million)			As a percentage of revenue (%)		Gross profit margin (%)	
	2013	2012	Change (%)	**2013**	2012	**2013**	2012
Footwear	**1,016.0**	1,188.9	-14.5	**49.9**	46.0	**41.2**	41.8
Apparel	**982.3**	1,350.4	-27.3	**48.2**	52.2	**40.1**	40.6
Accessories	**38.3**	45.8	-16.5	**1.9**	1.8	**36.0**	35.8
Total	**2,036.6**	2,585.1	-21.2	**100.0**	100.0	**40.6**	41.1

XTEP PRODUCTS GROSS PROFIT MARGIN (1H 2013)

40.6%

XTEP PRODUCTS REVENUE (1H 2013)

RMB2,036.6 million

CHAIRMAN'S STATEMENT

XTEP IS POISED TO GROW STRONGER DESPITE INDUSTRY HEADWINDS

Dear Shareholders,

On behalf of the Board, I am pleased to announce the unaudited interim results of Xtep International Holdings Limited and the Group for the six months ended 30 June 2013, together with comparative figures for the corresponding period in 2012, which were reviewed by our independent auditors and our audit committee.

MARKET OVERVIEW

The year 2013 remains challenging with both growth and setbacks for the global and Chinese economies alike. According to the NBS, China's GDP growth has dropped from 7.7% in the first quarter of 2013 to 7.5% in the second quarter of the year. However, the total retail sales of consumer goods in China has recorded a growth of 12.7% in the first half of 2013 compared to the same period in 2012 as a result of the Chinese government's urbanization policy which has stimulated internal consumption.

Despite an increase in China's overall retail consumption, the domestic sportswear industry continued to face fierce market competition primarily due to excessive retail inventories, underperforming retail channels and poor corporate management systems, causing many domestic sportswear enterprises to struggle under tremendous pressure. The Group has planned well in advance to combat these market challenges and has implemented a range of management measures and provided strong support to its distributors to weather this stormy period. Although such adjustments and supportive measures have caused an impact on the current year's financial results, we believe these tactics will enable our Group to grow from strength to strength and deliver sustainable profits in the long run, hence realizing the long-term value for our Shareholders.


26006
29018

RESULTS REVIEW

During the Period, the Group's total revenue amounted to RMB2,098.0 million, representing a decrease of approximately 19.5% over the same period last year (2012: RMB2,607.3 million). This is partly the result of our proactive actions taken to manage the amount of orders placed at sales fairs, which aimed at reducing our supplies to mitigate the risk of excess inventory level in our retail channels. The decline was also attributable to the increase of wholesale discount rate from 60% in 2012 to 62% since January 2013, which serves as a direct support to distributors of the Group.

During the Period, our effective measures of cost control have yielded positive results which offset the decline in gross profit margin primarily caused by the increase in wholesale discount rate. The overall gross profit margin of the Group has slightly decreased by 0.7 percentage point to 40.2% (2012: 40.9%). Profit attributable to ordinary equity Shareholders was approximately RMB340.9 million, representing a decrease of 27.1% over the same period last year (2012: RMB467.8 million). Basic earnings per Share was approximately RMB15.7 cents (2012: RMB21.5 cents).

Given that the Group has a strong net asset value and operating cash flow, the Board recommended an interim dividend of HK10.0 cents (2012: HK13.2 cents) per Share, equivalent to a payout ratio of 50.8% (2012: 50.3%).

STRATEGY REVIEW

The Group laid out on a series of initiatives to strengthen its market position and hone its competitive edge in face of the industry-wide phenomenon of excessive inventory built-up and heavy retail discounts over the past periods. Such strategic imperatives include:

3 STRATEGIC IMPERATIVES

1) Reinforcing Xtep's leading position in the fashion sportswear market through an effective dual-marketing strategy which incorporates both sports and entertainment elements;
2) Focusing on popular sports and mass market segments of the sportswear market; and
3) Imposing stringent control over retail distribution channels to ensure healthy development.

Effective Branding Strategy

Acknowledging that a strong brand with distinctive differentiation is the key to stay competitive at all times, the Group continued to invest in brand building despite industry headwinds during the Period. We continued with our unique dual marketing strategy incorporating sports and entertainment elements. During the Period, the Group secured sponsorships for some of the most high-profile international marathons held in China, such as the Xiamen International Marathon, the Standard Chartered Hong Kong Marathon and the Tianjin International Marathon. The Xtep's slogan of "Love Running, Love Xtep" was widely publicized at these marathons as well as all kinds of related marketing activities throughout the country, thereby effectively strengthening the Group's foothold in the running arena.

In addition to marathons, football is another major sport that the Group strongly supports. During the Period, the Group has secured sponsorship for the domestic and international football teams, and the sponsorship for national university and institution football leagues (both 5-a-side and 11-a-side). Such marketing efforts enabled Xtep to fully penetrate into a younger group of customers and football lovers.

The Group is the first and forerunner in entertainment marketing. During the Period, entertainment celebrities' endorsements of Xtep were seen in various national advertisements and sponsorships in a range of mass and popular sports events. Going alongside with the sponsorship of the Standard Chartered Hong Kong Marathon 2013 in February this year is an impressive advertising campaign featuring the Group's brand ambassadors placed at the entire platform level of one of the busiest MTR stations in Hong Kong. The marketing campaign has gained Xtep tremendous recognition amongst consumers.

Broadened Product Portfolio

The Group's product strategy continues to be sports inspired with trendy lifestyle designs, coupled with sound and solid sports technical functionality. The change in market dynamics, with consumers' inclination towards healthy lifestyles and increases in sports participation among the public have resulted in a rising demand for sportswear products in China, in particular, products for running and football, which are increasingly popular sports activities in the country. To capture these opportunities, the Group has increased its research and development resources to facilitate new materials and product development with an aim to offer more innovative and fashionable designs for our products. On top of that, the Group has broadened its product portfolio by introducing new series of outdoor products and kidswear series to cater to the needs of different customer groups.

Strengthened Distribution Network

We see distributors as an integral part of our business model and regard them as our important partners for promoting brand presence and enhancing customer experience. With this in mind, the Group is committed to providing them with the necessary support to increase their operational efficiency against this unfavorable market backdrop. The Group has put forward detailed planning in advance and implemented such plans mainly in three directions: 1) appropriate reduction of product supplies to distributors and franchisees after taking into consideration of their channel inventory level; 2) an increase in the wholesale discount rate from 60% to 62%; and 3) an increase in the Group's investments to extend coverage of the retail monitoring system for better management of inventory levels.

While these measures have put pressure on the Group's short-term financial performance, they contributed to the healthy development of our distribution channels and their operational efficiencies in the long term, as reflected in the stable number of the Group's retail outlets. As of 30 June 2013, the total number of retail outlets of Xtep remained stable at 7,435 (as of 31 December 2012: 7,510), representing a net reduction of 75 outlets.

OUTLOOK

Since 2012, China's sportswear industry has shifted from a period of rapid expansion to consolidation. However, we believe that such phase of industry consolidation will be beneficial to the long term development of the sportswear industry. Enterprises that have clear brand positioning, solid product development roadmap and distinctive marketing strategies will be able to rapidly respond to challenges and to emerge as stronger players. Xtep is well-positioned to benefit from the industry consolidation.

Looking ahead to the second half of 2013, despite ongoing uncertainties stemming from the slow recovery of the global economy, slowing GDP growth in China and industry-wide issues remain, we believe that continued urbanization in the PRC, increasing awareness of healthy lifestyles and enthusiasm for participating in regular physical activities will continue to provide a sustainable future for the domestic sportswear industry.

Among a range of prominent sponsorships in the second half of 2013, the Group is honored to be appointed as the sole apparel sponsor of the 12th National Games of the PRC to be held in Liaoning Province in September 2013 for the third consecutive time. The sponsorship of this national event will allow us to greatly boost our brand status in the PRC. The Group will continue to take a prudent and pragmatic approach to sustain business development, adopt a unique dual marketing strategy, reinforce promotional efforts in branding and diversify our product portfolio to cater to broadened consumer segments. We are confident that Xtep's unique positioning will serve as a core competitive edge in achieving our goal to become a world-class leading fashion sportswear brand in the future.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to express my heartfelt thanks to our Shareholders, customers and business partners who have trusted and supported us all along. Our success is achieved by our talented and valued management who have extensive experience in our industry, as well as our staff who are dedicated to overcoming all difficulties and challenges. The Group will continue to strengthen its brand equity and bring fruitful returns to Shareholders.

Ding Shui Po
Chairman

Hong Kong, 23 August 2013

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Despite signs of a global economic recovery since late last year, uncertainties in the macroeconomic environment including concerns over the possible withdrawal of the quantitative easing in the U.S. continued to hinder its full recovery in the first half of 2013. Meanwhile, economic recovery in China was slower than market forecasts with the country's exports showing dismal growth during the Period. According to the NBS, the growth of total retail sales of consumer goods in the first six months of 2013 faltered to 12.7%, down from 14.4% over the same period last year, revealing a stalled rebalancing towards consumer-driven growth. However, in June 2013 retail sales were up 13.3% year-on-year, or up 1.3% month-over-month. In particular, spending on garments, footwear, hats and knitwear increased by 15.0% compared to a year earlier, suggesting stabilized consumers spending, if not a mildly improving situation.

Despite a recent moderate pick-up in China's overall retail consumption, the domestic sportswear industry continued to face fierce market competition primarily brought forth by industry issues such as excessive inventory build-up across retail channels that have intensified over the past few years. Therefore, sales in the overcrowded sportswear industry remained sluggish in the first half of 2013. However, efforts at inventory and discount rate controlling strategies that the industry players have made started to yield positive results stepping into 2013, and overall operating conditions witnessed a slight improvement after two years of market consolidation.

BUSINESS REVIEW

As part of efforts to uphold the Group's leading fashion sportswear brand position, during the Period the Group embarked on strategic imperatives including:

1) Reinforcing Xtep's leading position in the fashion sportswear market through an effective dual-marketing strategy which incorporates both sports and entertainment elements;
2) Focusing on popular sports and mass market segments of the sportswear market;
3) Imposing stringent controls over the Group's retail distribution channels to ensure distributors' healthy development at a manageable pace; and
4) Implementing effective supply chain management.

EFFECTIVE BRANDING STRATEGY

While the ongoing industry consolidation saw a reshuffling in the ranking of domestic brands, Xtep's distinctive positioning and effective marketing strategies enabled the brand to successfully stand out in the overcrowded marketplace under these difficult market conditions. The Group's unique dual marketing strategy incorporating sports and entertainment elements that has been implemented throughout the years has firmly established Xtep's distinctive image as a trendy and fashionable sportswear brand, gaining wide consumer recognition and acknowledgement.

Sports Marketing

To reinforce its brand image among the general public, the Group strategically sponsored a number of prominent sporting events in the first half of 2013 and continued to enhance its core sports categories of running and football, fostering an enduring fashion sportswear brand image and promoting Xtep nationwide and in the international arena.

RUNNING

With running as Xtep's core sports category, the Group has been working towards the ultimate goal of becoming the "Runner's Choice". The Group has taken an active part in significant running events such as major international marathons and various prominent running events to boost the popularity of its running products. At present, the Group is the only Chinese sportswear enterprise that has been able to sponsor key international marathons in over ten major cities across Greater China. Through various sponsorships and related marketing activities, the Group is committed to developing the sport of running in China and promoting the brand slogan of "Love Running, Love Xtep".

During the Period, the Group sponsored six major international marathons in the PRC in addition to the IAAF Shanghai Diamond League. The Group's partnership with these premier running events recognized and acknowledged the superior performance of Xtep's running products. To name a few, the Group was successfully reappointed as the sole apparel sponsor of the 2013 IAAF Shanghai Diamond League, the exclusive apparel partner of the Xiamen International Marathon (Gold Label Road Race recognized by IAAF), the China Yangzhou Jianzhen International Half Marathon (Gold Label Road Race recognized by IAAF) and the Standard Chartered Hong Kong Marathon (Silver Label Road Race recognized by IAAF). The continuing sponsorship of these key sporting events in Asia has greatly enhanced Xtep's visibility and credibility and hence, effectively strengthened its foothold in the running arena.

Major running events sponsored by the Group in the first half of 2013

Marathons

- **Xiamen International Marathon**
- **Standard Chartered Hong Kong Marathon**
- **China Zheng-kai International Marathon**
- **Yangzhou Jianzhen International Half Marathon**
- **Tianjin International Marathon**
- **Yingkou Bayuquan Marathon (Also served as the 12th National Games marathon final)**

Other Running Events

- **IAAF Shanghai Diamond League (Shanghai)**
- **Olympic Day Run 2013 (Hong Kong)**

Xtep Runners Club

Since its establishment in June 2012, Xtep Runners Club has attracted over 3,000 registered members nationwide. The growing popularity of the club is also a testament to Xtep's market leading status and its professional running-focused brand image. Xtep Runners Club provides members with related training, professional equipment and advice, offering an interactive informational platform for fellow running lovers. Xtep Runners Club regularly organizes group participation in various running events and advocates a healthy lifestyle for its members, while spreading the brand spirit of "Love Running, Love Xtep" at the same time.

FOOTBALL

As one of the most popular sports among Xtep's young target customers, football also plays an important role in the marketing strategy of the Group. To further elevate Xtep image among Chinese youth, the Group has sponsored a variety of football events that enjoy high popularity in universities and colleges, as well as professional football clubs.

During the Period, the Group continued to be the title sponsor of the Xtep China University Football League (特步中國大學生足球聯賽) (the "Xtep CUFL", an 11-a-side game) and the Xtep Chinese College Futsal League (特步中國大學生五人制足球聯賽) (the "Xtep CCFL", a 5-a-side game) and endorsed a number of football clubs, both domestic and foreign. The 2012-2013 Xtep CUFL attracted participants from over 400 universities and colleges and consisted of provincial, regional and national final three stages with a total of about 1,300 matches, marking a record high. While the 2012–2013 Xtep CCFL, being the only official league for colleague futsal in China, attracted the participation of approximately 3,000 university and college players from over 280 football teams nationwide. Alongside this year's tournament, the Group introduced a cheerleading competition, successfully gaining extensive media exposure and seeing high popularity among youths. These ongoing sponsorships of high-profile national campus football leagues and endorsement of domestic and overseas football teams directly boosted brand preference for Xtep and enhanced its brand popularity in national and international markets.

Major football leagues sponsored by the Group in the first half of 2013

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

Major football clubs sponsored by the Group in the first half of 2013

- China League One, Shijiazhuang Yongchang Junhao FC (中甲石家莊永昌駿豪足球俱樂部) (PRC)
- China All Star Football Team (中國明星足球隊) (PRC)
- Chinese Football Reporter United (中國足球記者聯隊) (PRC)
- Beijing Institute of Technology FC (北京理工大學足球俱樂部) (PRC)
- Changchun Yatai FC (長春亞泰足球俱樂部) (PRC)
- Hong Kong First Division League, Hong Kong Rangers FC (港甲標準流浪足球會) (Hong Kong)
- Hong Kong All Star Sports Association (香港明星足球隊) (Hong Kong)
- La Liga, Villarreal C.F. (西甲維拉利爾足球俱樂部) (Spain)

OTHER SPORTS

2013 Mutua Madrid Open

Apart from supporting events in the Group's core sports categories, the Group has also extended its promotion into other sports activities. From 3 May to 12 May 2013, the Group sponsored the 2013 Mutua Madrid Open, an international male and female professional tennis tournament, by providing footwear products to the ball boys and girls, linesmen as well as models throughout the nine days event, thus boosting exposure of Xtep in the Iberian Peninsula. The Madrid Open was broadcasted in approximately 160 countries and has brought worldwide recognition to Xtep. This valuable sponsorship showcased Xtep internationally and was a great opportunity for the Group's sales network expansion in Spain.

Entertainment Marketing

MEDIA EXPOSURE

In the first half of 2013, the Group continued to partner with the mainstream media in the PRC to maximize its brand exposure.

As the sole title sponsor of the highly popular entertainment program "Day Day Up" (「天天向上」) on Hunan Satellite TV, Xtep has successfully penetrated into the young and energetic group of customers in China. Apart from regional media, the Group remained the official broadcast partner of CCTV-5 – China's top sports channel – for football games and continued its advertising and promotion campaigns on the channel during the Period. Leveraging on the broad platform of this national sports channel, the Group successfully gained more visibility among sports enthusiasts. Furthermore, the Group took full advantage of the rising popularity of social media, such as Facebook, Sina Weibo and Renren to promote various events and news updates of the Group, thus attaining higher brand awareness.

XTEP STARS

To consolidate its leading market position, the Group has implemented a celebrity endorsement strategy and as a result successfully enlarged its young customer base as well as strengthened its trendy and innovative brand image. Xtep's celebrity spokespersons range from the entertainment field to the sports field, and all have achieved enormous success in their respective endeavors. Their youthful and trendy image, as well as their distinctive personal character traits have fully expressed Xtep features to customers and promoted Xtep's products. Xtep's celebrity spokespersons include Nicholas Tse, Han Geng, Gwei Lun-mei, alongside with the renowned US sprinter and London Olympics 2012 men's 100-meter bronze medalist Justin Gatlin.

Justin Gatlin is a famous US sprinter and won the men's 100-meter bronze medalist at the London Olympics 2012. Gatlin successfully defended his title at the IAAF Diamond League in Doha, Qatar on 10 May 2013. He then went on to win multiple championships in a number of prestigious IAAF events, including the men's 100-meter track event at the 2013 IAAF World Challenge in Beijing, the 2013 Prefontaine Classic in Eugene and the 2013 Golden Gala in Rome. Gatlin's outstanding performance in numerous sprinting events has demonstrated the superior functionality of Xtep's professional running gear.

INNOVATIVE AND DIVERSIFIED PRODUCTS

Broadened Product Portfolio

The Group's product strategy continues to be sports inspired with trendy lifestyle designs, coupled with sound and solid sports technical functionality. The change of market dynamics, with consumers' inclination towards healthy lifestyles and increases in sports participation among the public have resulted in a rising demand for sportswear products in China, in particular, products for running and football, which are increasingly popular sports activities in the country. To capture these opportunities, the Group has increased its research and development resources to facilitate new materials and product development with an aim to offer more innovative and fashionable designs for our products during the Period. On top of that, the Group has broadened its product portfolio by introducing new series of outdoor products and kidswear series to cater to the needs of different customer groups.

Supported by the Group's seasoned manufacturing experiences and know-how in designing and producing sportswear products, the Group is always committed to providing a diversified product portfolio to cater to the specific needs of different consumer groups. During the Period, Xtep running and cross-training footwear products continued to occupy the dominant positions and accounted for the major part of our total product portfolio. Meanwhile, the profile of football and outdoor footwear products was gearing up, in view of the growing popularity of football among youth and an increasing interest in nature and outdoor activities among the increasingly affluent middle class in the PRC. In terms of Xtep's apparel, on top of its well-established and dominant running and cross-training fashion sports apparel lines, the Group expanded the collection of its "X-TOP" urban series that exhibiting comfort, flexibility and style to address consumers who prefer sportswear products for daily use. Backed by its unique fashion sportswear concept, Xtep will continue to enhance its product portfolio in order to capture innumerable emerging opportunities.

Recognizing the high potential of the kidswear market brought by the rising purchasing power of parents in the PRC, the Group continued to expand its "Xtep Kids" series. A separate team was assigned to manage this product line so as to fully explore the business opportunities present in the kidswear segment. As a result of its efforts, revenue generated from the Group's kidswear line recorded a significant increase during the Period. The substantial increase was mainly attributable to the successful launch of "Xtep Kids" products through their retail points of sale ("POS") backed by the underlying demand for kidswear products nowadays in China. As of 30 June 2013, the Group had around 150 POS selling "Xtep Kids" products, consisting of two formats – separated zones within existing stores and standalone stores that normally located beside Xtep stores.

Product Innovation

Innovation and quality play a vital role in allowing the Group's products to stand out in the market. Therefore, the Group has continuously dedicated resources to research and design and strengthened its professional team. The Group's in-house laboratory operates with stringent quality assurance standards to ensure that all the Xtep's products adhere to the highest level of quality and performance. The research and development cost for the Period increased by 15.5% to approximately RMB47.4 million (2012: RMB41.0 million) and represented 2.3% (2012: 1.6%) of the total revenue of the Group.

The Group continuously invests in technology, research and development to improve the quality of its footwear products. By developing a series of shock absorbent materials like the PU series, EVA series and soft plastic series, the Group ensures runners of all levels enjoy the highest level of comfort as well as new sporting experience. In particular, during the Period, Xtep launched its "dual direction shock absorber" running shoes demonstrating the new technology. Endorsed by the Group's spokesperson, Justin Gatlin, the "dual direction shock absorber" running shoes received wide recognition and appreciation among general customers, especially runners. Gatlin's excellent performances during the Period at the IAAF Diamond League meetings also brought Xtep into the international spotlight and demonstrated the superior functionality of the Group's running shoe products. Subsequently, Xtep launched its new "light running" series with Gwei Lun-mei, the winner of the Golden Horse Award for Best Actress in 2012 as the product's spokesperson. This product line won the market's recognition for its ultra-light, breathable sports fabrics and fresh color characteristics.

Placing great emphasis on the design and comfort of the Xtep sportswear products, the Group continued to improve the product quality by acquiring cutting-edge technology and equipment. During the Period, the Group further enhanced its existing product series with the introduction of three core technologies including PU upper and outsole materials, P2i ion-mask™ technology and insoles with intelligent environment control. The additions of these new technologies and design innovations were designed to maximize the comfort level of the Group's products while providing exceptional performance, thus enhancing the overall customer experience of wearing Xtep products.

Apart from technological support, the Group's research and design team serves as the most valuable asset throughout the Group's product development process. The Group's professional team consists of brilliant talents from all over the world. The Group believes that a diverse range of talents will be able to inspire the uniqueness of Xtep's products and benefit Xtep in maintaining its leading position in the fashion sportswear industry. During the Period, the research and design team consisted of 680 people and created 1,500 types of newly-designed apparel and footwear products. The Group is confident that its continuous investment in talent acquisition will sustain its business development and bring fruitful returns.

DISTRIBUTION NETWORK MANAGEMENT

Stringent Distribution Channel Management

At the frontline for advocating Xtep's presence and products, distribution channels play an integral role in the overall success of the Group's business. Therefore, the Group has made tremendous efforts and provided necessary support in maintaining the competitiveness of the Group's distribution channels in terms of operational performance and profitability amidst adverse market conditions. The Group has put forward detailed planning in advance and implemented such plans mainly in three directions: 1) appropriate reduction of product supplies to distributors and franchisees after taking in-depth consideration of their channel inventory level; 2) increasing the wholesale discount rate from 60% to 62% as a direct means of support for its distributors and franchisees; and 3) enhancing and extending DRP System coverage so as to optimize resource allocation and improve the overall operational efficiency of its distribution channels. Although these measures contributed to a short-term setback in the Group's financial results, the Group deemed these were vital for maintaining its distributors' and franchisees' competitiveness and sustainability in the long run, thus allowing Xtep to become more competitive in the future.

Aiming to improve its overall operational performance, the Group has adjusted its distribution network coverage during the Period. As of 30 June 2013, the total number of Xtep's retail outlets was 7,435 (as of 31 December 2012: 7,510), representing a net reduction of 75 outlets. Certain retail outlets were closed mainly due to underperformance and low operational efficiency while certain new retail outlets were opened at locations with high customer traffic areas. Apart from carefully managing the number of retail outlets to optimize its resource allocation, the Group continues to invest in revamping existing outlets to strengthen its market positioning.

Retail Performance and Channel Inventory

Effectively and stringently controlling inventory levels is critical for Xtep to maintain its business development during the current industry consolidation phase. During the Period, the Group's real-time monitoring DRP System, with an extensive coverage increased to approximately 80% (end of 2012: 75%), enabled the Group to precisely and promptly monitor inventory levels at the retail end so that the Group could make timely and flexible strategic adjustments according to dynamic market situations. In addition, the Group was able to review the sell-through rate of seasonal sales orders placed by its distributors and franchisees so as to maintain inventory at the retail end at a manageable level. Furthermore, the Group provided its distributors and franchisees with clear ordering guidelines and has been encouraging them to take a conservative approach in placing future product orders.

Inventory clearance and promotions were made through discount outlets which are located away from the major retail outlets and also through the e-commerce channels. Coupled with the reduced output supply of products in the Group's retail channels, there were signs of improvements to the excessive inventory level and retail discount rate. Additionally, the Group offered regular training sessions to equip the retail team with more expertise, product knowledge and technical skills. The Group engaged expertise on retail outlet design to improve the product display efficiencies, most of the retail outlets were re-decorated with special "running-theme" display areas to attract customers with our new designs of running footwear and apparel products.

Channel Diversification

To expand and strengthen its sales network, the Group is constantly exploring opportunities to diversify its sales channels. Eyeing enormous market potential of e-commerce, the Group has proactively started plotting the development of its online distribution channels. In addition to its own official website www.xtep.com.cn, the Group has also been cooperating with a number of leading online websites such as taoxie.com, taobao.com, TMall.com and paipai.com etc. As of 30 June 2013, the Group had over 800 parties in the network of authorized e-commerce dealers operating businesses in these online platforms. Stepping into 2013, the e-commerce channel functioned not only as a means of sales clearance but also to introduce new design products for customers.

Apart from strengthening its presence in the PRC, the Group also began to penetrate into overseas markets to gradually extend its global market reach in recent years. At present, the Group has about 200 overseas POS, which are mainly located in the Middle East, Spain and Central Europe.

EFFECTIVE SUPPLY CHAIN MANAGEMENT

Vertically Integrated Business Model

The Group adopted a vertically integrated business model from design and production to sales and distribution management. Leveraging on the smooth operation of the model, the Group can deliver products and respond to real-time changes in market demand in a timely and precise way so as to achieve a high degree of resource utilization and effective management of its supply. The Group's in-house production capability helped maintain its flexibility to adjust its production schedules and hence controlled costs and protected the margins in an effective manner. During the Period, the Group maintained full utilization of its Quanzhou production facilities in Fujian Province with a total annual production capacity of approximately 12 million pairs of footwear products and approximately 6 million pieces of apparel products. In order to improve its production quality and efficiency, the Group commenced construction of its new production facilities in Anhui Province last year. Phase one construction of the Anhui plant, with a total annual production capacity of approximately 3 million pairs of footwear products has been completed and commenced production during the Period. In the long run, the enlarged production capacity brought by the Anhui plant should reduce per-unit production costs, and thus benefit the Group in achieving economies of scale. During the Period, in terms of volume sold by the Group, the in-house production capacity was approximately 69% (2012: 50%) of footwear products and 17% (2012: 10%) of apparel products.

FUTURE PROSPECTS

MARKET OUTLOOK

Looking ahead, the global economy is still facing uncertainties, while China's economy is recovering at a stall speed. Nevertheless, the PRC Government's favorable policy on urbanization to stimulate consumption in third and fourth-tier cities will eventually benefit the sportswear sector. On the other hand, enterprises across the industry have implemented effective measures to confront sector-wide issues, propelling the sustainable and long-term healthy development of the industry. The Group will maintain its differentiated marketing strategy and will work towards the goal of becoming a world-class fashion sportswear brand.

UNIQUE BRAND MARKETING

The success of Xtep was built upon its unique brand positioning and differentiated marketing strategy. Leveraging on its trendy and fashionable brand image, the Group will continue to sponsor international and domestic sporting events to uphold its leading fashion sportswear brand position and to build stronger brand equity for Xtep. Among a range of prominent sponsorships in the second half of 2013, the Group is honored to be appointed as the sole apparel sponsor of the 12th National Games to be held in Liaoning Province in September 2013 for the third consecutive time. Meanwhile, the Group has been appointed as the official apparel sponsor of 14 delegation teams of the 12th National Games, including the team from Beijing, Fujian, Guangdong, Guizhou, Henan, Hebei, Hunan, Hubei, HKSAR, Jiangsu (host city for the tenth National Games), Liaoning (the host city of this year's 12th National Games), Tianjin (host city for the upcoming 13th National Games) and Zhejiang as well as the China's military delegation team. The Group will fully utilize this opportunities generated in the region by this top national sporting event.

PRODUCT INNOVATION AND DIVERSIFIED PRODUCT PORTFOLIO

To consolidate and to maintain its unique brand image, the Group will keep abreast of changing market trends and cater to different customers' preferences. To capitalize on the opportunities amidst PRC consumers' growing inclination towards healthy lifestyles and increasing participation rates in sports, the Group strives to enhance its product portfolio of running and football products as well as other sports related and lifestyle products. Taking into account the success of the "Xtep Kids" series during the Period, the Group believes that the kidswear market possesses huge potential and reaffirms its plan to have about 300 POS in second to fourth-tier cities by 2014. Meanwhile, the Group will further develop its "X-TOP" urban series, as well as its e-commerce distribution channels to promote seamless cooperation between online and offline sales channels. In terms of research and development, the Group will continue to elevate its research and design capabilities with more advanced technology investment in order to innovate more fashionable and trendy sportswear products with superior quality. The Group holds the belief that innovative products help to strengthen Xtep's unique brand competitiveness as reputation cultivates greater brand loyalty.

DISTRIBUTION CHANNEL MANAGEMENT

Retail channel management remains to be a top priority in supporting the sustainable development of the Group. Despite the operating environment of the sportswear sector shows signs of a slowing recovering in the first half of 2013, the Group will continue to place close monitoring on the sales channels. At present, the Group expected that to control the number of Xtep outlets to a total of 7,300-7,400 by the end of 2013. The Group will continue to enforce a prudent approach and actively manage orders that distributors and franchisees to be placed at coming sales fairs to bring inventory levels back to a healthy state. The Group expects that as a result of the above measures, the situation will improve gradually. The Group will continue to expand the e-commerce and overseas sales channels to reach out more different groups of customers.

Conclusion

The macroeconomic and industry-specific sentiments may still cause uncertainties that linger into the second half of 2013. Faced with such challenges, the Group is committed to leveraging all of its resources to ensure healthy and sustainable development of the business. The Group will continue to implement its successful unique marketing strategies and reinforce product innovation to consolidate its leading market position. At the same time, the Group will continue to take a cautious approach and make timely adjustments in response to the ever-changing market. We believe that the industry will remain sustainable after the current consolidation stage. Enterprises that have a clear brand positioning, solid product development roadmap and distinctive marketing strategies and are able to rapidly respond to challenges will emerge as stronger players. Xtep is well-positioned to benefit from this wave of consolidation.

FINANCIAL REVIEW

GROUP REVENUE AND GROSS PROFIT MARGIN BREAKDOWN BY BRANDED PRODUCT SALES

For the six months ended 30 June

	Revenue (RMB'million)			As a percentage of revenue (%)		Gross profit margin (%)		
	2013	2012	Change (%)	**2013**	2012	**2013**	2012	Change (pts)
Xtep products	**2,036.6**	2,585.1	–21.2	**97.1**	99.1	**40.6**	41.1	–0.5
Other products	**61.4**	22.2	+176.6	**2.9**	0.9	**27.6**	27.7	–0.1
Total	**2,098.0**	2,607.3	–19.5	**100.0**	100.0	**40.2**	40.9	–0.7

The Group's total revenue for the six months ended 30 June 2013 amounted to approximately RMB2.10 billion (2012: RMB2.61 billion), representing a decrease of approximately 19.5% compared to the same period last year. Xtep products remained as the Group's major revenue contributor, which accounted for approximately 97.1% of the Group's total revenue. The Xtep products' revenue amounted to approximately RMB2.04 billion (2012: RMB2.59 billion), representing a decrease of approximately 21.2% as a result of fierce competition in the sportswear industry and our proactive actions taken to reduce our supplies with an aim to mitigating the risks of excess inventory level at retail channels. On the other hand, the Group's revenue from other products increased by approximately 176.6% to approximately RMB61.4 million (2012: RMB22.2 million), which was mainly due to an increase in sales of Xtep Kids products.

The Group's overall gross profit margin decreased slightly by 0.7 percentage point to 40.2% (2012: 40.9%). The result was mainly due to the action taken to assist the retail channel operation by increasing our wholesale discount rate on Xtep products from 60% to 62% during the Period. However, the impact on gross margin due to an increase in wholesale discount rate was offset by a reduction of cost of sales due to cost control on production process and material costs.

XTEP PRODUCTS

Revenue and Gross Profit Margin Breakdown Of Xtep Products By Product Category

For the six months ended 30 June

	Revenue (RMB'million)		Change (%)	As a percentage of revenue (%)		Gross profit margin (%)	
	2013	2012		**2013**	2012	**2013**	2012
Footwear	**1,016.0**	1,188.9	–14.5	**49.9**	46.0	**41.2**	41.8
Apparel	**982.3**	1,350.4	–27.3	**48.2**	52.2	**40.1**	40.6
Accessories	**38.3**	45.8	–16.5	**1.9**	1.8	**36.0**	35.8
Total	**2,036.6**	2,585.1	–21.2	**100.0**	100.0	**40.6**	41.1

For the six months ended 30 June 2013, revenue from the Xtep products decreased by approximately 21.2% to RMB2.04 billion (2012: RMB2.59 billion) compared to the same period last year.

The decrease in revenue was mainly due to fierce competition in the sportswear industry and our proactive actions taken to reduce supplies to control the inventory level at retail channels. The decrease in footwear products was less than the decrease in apparel products mainly due to the enduring success of the Group's promotion and advertising campaign among the major marathons in the PRC and successful brand building efforts through the Xtep's slogan of "Loving Running, Love Xtep".

For the six months ended 30 June 2013, revenue from the Xtep footwear products decreased by approximately 14.5% to RMB1.02 billion (2012: RMB1.19 billion) compared to the same period last year. During the period, the Group continued with its effective marketing strategy through various related promotions on running and football such as being the sole apparel sponsor for major international marathons and sponsoring high profile national campus football leagues in the PRC. Meanwhile, better design and material enhancement on running footwear products also helped build the Xtep image among runners in the PRC. The decrease in gross profit margin was mainly due to an increase in wholesale discount rate from 60% to 62% in order to ease the pressure of retail channel operations.

Due to fierce industry competition, for the six months ended 30 June 2013, revenue from the Xtep apparel products decreased by approximately 27.3% to RMB0.98 billion (2012: RMB1.35 billion) compared to the same period last year. The decrease was mainly due to mitigating the risk of excessive retail channel inventory level. The decrease in gross profit margin was mainly due to an increase in wholesale discount rate from 60% to 62%. We believe such measures are necessary in maintaining the competitiveness of the Group's retail channel in terms of operational performance and profitability amidst adverse market conditions.

OTHER PRODUCTS

It is part of the Group's strategy to diversify products portfolio and further expanding into multi-brand portfolio. Revenue from other products was derived mainly from Xtep Kids series products. For the six months ended 30 June 2013, revenue from other products was approximately RMB61.4 million (2012: RMB22.2 million), representing a significant increase of 176.6% over last period. The gross profit margin was stable at 27.6% (2012: 27.7%). The significant increase in revenue from other products was mainly due to the introduction of Xtep Kids. Customers gained their confidence in Xtep Kids products due to the positive brand image of Xtep.

GROUP REVENUE BREAKDOWN BY PRODUCT CATEGORY

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

For the six months ended 30 June

	Revenue (RMB'million)			As a percentage of revenue (%)	
	2013	2012	Change (%)	**2013**	2012
Footwear	**1,040.8**	1,194.9	–12.9	**49.6**	45.8
Apparel	**1,017.7**	1,365.9	–25.5	**48.5**	52.4
Accessories	**39.5**	46.5	–14.9	**1.9**	1.8
Total	**2,098.0**	2,607.3	–19.5	**100.0**	100.0
Gross profit margin	**40.2%**	40.9%	–0.7 pt		

The Group's revenue in each product category was reduced due to our strategy to mitigate the pressure of excessive inventory level at retail channels. However, we received positive feedback from customers through our promotions in various major running events in the PRC and the improvements on running performance products. As a result, the effect of reduction from footwear products are less than the other categories. Total revenue of the Group from footwear products decreased by 12.9% to approximately RMB1.04 billion (2012: RMB1.19 billion). Revenue from apparel products decreased by 25.5% to approximately RMB1.02 billion (2012: RMB1.37 billion), and also the revenue from accessories decreased by 14.9% to approximately RMB39.5 million (2012: RMB46.5 million).

OTHER INCOME AND GAINS

During the Period, other income and gains of the Group mainly represented subsidy income from the PRC government was approximately RMB8.7 million (2012: RMB13.9 million). Net income derived from available-for-sale financial assets was approximately RMB44.6 million (2012: RMB5.7 million), which were mainly derived from interest income from treasury deposits products.

SELLING AND DISTRIBUTION EXPENSES

For the six months ended 30 June 2013 the Group's selling and distribution expenses amounted to approximately RMB230.7 million (2012: RMB346.3 million), representing approximately 11.0% (2012: 13.3%) of the Group's total revenue. The decrease in selling and distribution expenses was mainly due to a decrease in advertising and promotional costs to approximately RMB189.3 million (2012: RMB297.9 million), which represented approximately 9.0% (2012: 11.4%) of the Group's total revenue. The Group decided to reduce the advertising and promotional costs in the first six months of 2013 mainly due to the foreseeable major expenditure in the second half of 2013 as the Group was appointed as the sole apparel sponsor of the PRC's most important sports event in 2013 – the 12th National Games.

GENERAL AND ADMINISTRATIVE EXPENSES

For the six months ended 30 June 2013, the Group's general and administrative expenses amounted to approximately RMB192.5 million (2012: RMB150.3 million), which represented approximately 9.2% (2012: 5.8%) of the Group's total revenue. The increase in general and administrative expenses was mainly due to an increase in research and development costs which amounted to approximately RMB47.4 million (2012: RMB41.0 million), representing approximately 2.3% (2012: 1.6%) of the Group's total revenue. The research and development costs were mainly related to the improvement of product design and functionality as well as material enhancement. On the other hand, as a prudent approach, a provision for doubtful debt was provided for the long outstanding account receivables for the Period amounted to approximately RMB39.0 million (2012: nil) and a write-back of provision for impaired receivables of approximately RMB8.5 million (2012: nil).

NET FINANCE INCOME

The total net finance income of the Group for the Period amounted to approximately RMB0.9 million (2012: RMB11.3 million). The decrease was mainly due to a decrease in interest income to RMB25.2 million (2012: RMB35.9 million) as the interest derived from treasury products were included under "Other income" as disclosed above. On the other hand, the interest expenses increased to approximately RMB23.6 million (2012: RMB22.2 million) primarily as a result of an increase in bank loans.

OPERATING PROFIT MARGIN

The operating profit margin for the Period slightly decreased by 0.1% to 22.7% (2012: 22.8%). It was mainly due to a decrease in gross profit margin of 0.7 percentage point as a result of an increase in wholesale discount rate offered to the distribution channels and also an increase in general and administrative expenses by 3.4 percentage points mainly due to the increase of research and development cost and provision of doubtful debts. However, the effect was offset by a decrease in selling and distribution costs by 2.3 percentage points as a result of a decrease in advertising and promotional costs.

INCOME TAX EXPENSES

Income tax of the Group for the Period was approximately RMB136.1 million (2012: RMB137.7 million). It was comprised of profit tax related to the operating companies which amounted to approximately RMB117.6 million (2012: RMB123.7 million) and the effective tax rate was 24.7% (2012: 20.5%). The increase of effective tax rate of profit tax during the Period was mainly due to the expiry of preferential tax exemption of the Group's certain subsidiary companies in the PRC. Also, there was an underprovision of income tax of approximately RMB6.6 million (2012: overprovision of RMB0.3 million). On the other hand, the withholding tax of the Group amounted to approximately RMB12.0 million (2012: RMB14.0 million) and the effective tax rate was 2.5% (2012: 2.3%).

PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS AND NET PROFIT MARGIN

For the six months ended 30 June 2013, the profit attributable to ordinary equity holders was approximately RMB340.9 million (2012: RMB467.8 million), representing a decrease of approximately 27.1% over the same period last year. The decrease was mainly due to a decrease in revenue and gross profit margin. The Group's net profit margin decreased to 16.2% (2012: 17.9%).

DIVIDEND

The Group has a strong net asset value and operating cash flow and therefore the Board recommended an interim dividend which amounted to HK10.0 cents per Share (2012: HK13.2 cents per Share). The total interim dividend payout ratio for the Period was 50.8% (2012: 50.3%).

WORKING CAPITAL CYCLE

Inventories

INVENTORIES	**2013 RMB'million**	2012 RMB'million	Changes RMB'million
Balance at 1 January	**582.7**	671.5	
Balance at 30 June	**596.0**	700.9	– 104.9
Average balance (note 1)	**589.3**	686.2	
Cost of sales for the period ended 30 June	**1,254.9**	1,539.7	
Average turnover days (note 2)	**86 days**	82 days	

As at 30 June 2013, the Group's balance of inventory was RMB596.0 million, representing a decrease of approximately RMB104.9 million as compared to the same period last year (30 June 2012: RMB700.9 million) which was due to a reduction of product supplies and proper inventory controls. The average inventory turnover days was steady at 86 days (2012: 82 days) as compared to the same period last year.

Trade and Bills Receivables

TRADE AND BILLS RECEIVABLES	**2013 RMB'million**	2012 RMB'million	Changes RMB'million
Balance at 1 January	**1,035.9**	1,205.4	
Balance at 30 June	**1,176.9**	909.9	+267.0
Average balance (note 1)	**1,106.4**	1,057.6	
Revenue for the period ended 30 June	**2,098.0**	2,607.3	
Average turnover days (note 2)	**96 days**	74 days	

As at 30 June 2013, the Group's balance of trade and bills receivables was RMB1,176.9 million, representing an increase of approximately RMB267.0 million as compared to the same period last year (30 June 2012: RMB909.9 million). The average trade and bills receivables turnover days was 96 days (2012: 74 days). The increases in the balance of trade and bills receivables and the average trade and bills receivables turnover days were due to temporary support to assist the Group's retail channels in face of adverse industry environment. On the other hand, the Group also utilised the credit period of trade payables by its suppliers and extended the trade payables days at the same time. Hence, the net working capital days were maintained at a stable level.

Trade Payables

TRADE PAYABLES	**2013 RMB'million**	2012 RMB'million	Changes RMB'million
Balance at 1 January	**482.5**	498.9	
Balance at 30 June	**665.1**	505.5	+159.6
Average balance (note 1)	**573.8**	502.2	
Cost of sales for the period ended 30 June	**1,254.9**	1,539.7	
Average turnover days (note 2)	**84 days**	60 days	

As at 30 June 2013, the Group's balance of trade payables was RMB665.1 million, representing an increase of approximately RMB159.6 million as compared to the same period last year (30 June 2012: RMB505.5 million). The average trade payables turnover days was 84 days (2012: 60 days). As mentioned above, such increase was due to the Group having utilised the credit period of suppliers and extended the payment days in order to support long account receivables terms.

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.

LIQUIDITY AND CAPITAL RESOURCES

Improvements on net assets

As at 30 June 2013, the total assets of the Group amounted to RMB6,951.1 million (31 December 2012: RMB6,499.5 million), represented by non-current assets of RMB813.5 million (31 December 2012: RMB663.3 million) and current assets of RMB6,137.6 million (31 December 2012: RMB5,836.2 million). The total liabilities of the Group amounted to RMB2,552.3 million (31 December 2012: RMB2,219.7 million), represented by non-current liabilities of RMB611.2 million (31 December 2012: RMB782.9 million) and the current liabilities of RMB1,941.1 million (31 December 2012: RMB1,436.8 million). The total non-controlling interests of the Group amounted to RMB4.9 million (31 December 2012: RMB5.4 million). Hence, the total net assets of the Group amounted to RMB4,398.8 million (31 December 2012: RMB4,279.8 million), representing an increase of 2.8%. Net assets per Share as at 30 June 2013 were approximately RMB2.02 (31 December 2012: RMB1.97), representing an increase of 2.5%.

As at 30 June 2013, the Group's non-current assets were approximately RMB813.5 million (31 December 2012: RMB663.3 million) and the increase was mainly due to an increase in net book value of property, plant and machinery in the amount of approximately RMB87.1 million and the increase of time deposit of approximately RMB60.0 million. The Group's current assets were approximately RMB6,137.6 million (31 December 2012: RMB5,836.2 million), representing an increase of 5.2%. The increase was mainly due to an increase of cash and bank balances of approximately RMB438.4 million as a result of effective working capital management. The Group's current liabilities were approximately RMB1,941.1 million (31 December 2012: RMB1,436.8 million), representing an increase of 35.1%. The increase was mainly due to an increase of bank borrowings of approximately RMB461.5 million due to payment of dividends. The Group's current assets ratio as at 30 June 2013 was 3.2 (31 December 2012: 4.1). The Group's non-current liabilities were approximately RMB611.2 million (31 December 2012: RMB782.9 million). The decrease was mainly due to a decrease of bank borrowings of approximately RMB183.7 million due to reclassification to current liabilities.

Improvements on net cash and bank balances

As of 30 June 2013, the Group's total cash and bank balances amounted to approximately RMB4,119.0 million (31 December 2012: RMB3,680.0 million), representing an increase of approximately RMB439.0 million. This was mainly due to improvements in working capital management. The total cash and balance balances represented by pledged bank deposits of RMB497.8 million (31 December 2012: RMB557.2 million), time deposit of RMB60.0 million (31 December 2012: nil) and cash and bank balances of RMB3,561.2 million (31 December 2012: RMB3,122.8 million).

The Group's total bank borrowings amounted to RMB1,323.3 million (31 December 2012: RMB1,045.5 million), representing an increase of approximately RMB277.8 million. This was mainly due to the payment of dividends. Hence, the total net cash and bank balances as at 30 June 2013 amounted to approximately RMB2,795.7 million (31 December 2012: RMB2,634.5 million), representing an increase of 6.1%.

As at 30 June 2013, the Group's gearing ratio was 19.0% (31 December 2012: 16.1%), which is defined as the total bank borrowings divided by the Group's total assets.

Improvements on cash flow from operating activities

As at 30 June 2013, the Group's cash and cash equivalents increased by RMB438.4 million and amounted to approximately RMB3,561.2 million (31 December 2012: RMB3,122.8 million), representing an increase of 14.0%. This was mainly due to the followings:

Net cash flows from operating activities amounted to approximately RMB406.4 million. This was mainly due to an effective working capital management.

Net cash flows used in investing activities amounted to approximately RMB13.1 million. This was mainly due to addition of property, plant and machinery of approximately RMB106.9 million and increase in time deposit by RMB60.0 million, but offset by decrease in available-for-sale investment by RMB100.0 million.

Net cash flows from financing activities amounted to approximately RMB47.5 million. This was mainly due to addition of net bank loans of approximately RMB298.0 million and offset by the payment of dividends of approximately RMB253.5 million.

INVENTORY PROVISION

For the six months ended 30 June 2013, the Group did not have any inventory provision.

PROVISION FOR RECEIVABLES IMPAIRMENT

For the six months ended 30 June 2013, the Group recorded a provision for receivables impairment amounted to approximately RMB39.0 million (2012: nil) and also a write-back of provision for impaired receivables of approximately RMB8.5 million (2012: nil).

COMMITMENTS

Details of the Group's commitments are stated in the note 23 to the financial statements.

CONTINGENT LIABILITIES

As of 30 June 2013, the Group did not have any material contingent liabilities.

CHARGE OF ASSETS

Save as disclosed in note 14 to the financial statements related to certain amount of bank deposits pledged to secure the banking facilities, none of the Group's assets was pledged as of 30 June 2013.

FOREIGN CURRENCY RISKS

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

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. There was no plan 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 2013, the Group had 7,983 employees (31 December 2012: 7,865 employees). The Group provides introductory orientation programs and continuous training to its employees. Topics covered include industry knowledge, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and standard of its staff. The Group will strive to strengthen human resources management to provide strong support for the development of the Group's business through staff recruitment initiatives and the optimization of the organizational structure and corporate culture to ensure that the Group will be able to maintain sustainable development in the future.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions throughout the six months ended 30 June 2013, 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 2013.

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 2013.

The external auditor has reviewed the interim financial information for the six months ended 30 June 2013 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 2013.

DISCLOSURE OF INTERESTS

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

As at 30 June 2013, 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	60.71%
Ms. Ding Mei Qing(3)	Interests of controlled corporation	1,310,059,500	60.19%
Mr. Lin Zhang Li(4)	Interests of spouse	1,310,059,500	60.19%
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 2,176,540,000 issued Shares of the Company as at 30 June 2013.

(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 14 January 2011 under the Share Option Scheme.

(6) 1,000,000 of these shares are subject to the exercise of options granted on 7 May 2008 under the Pre-IPO Share Option Scheme. Another 1,500,000 of these shares are subject to the exercise of options granted on 29 July 2009 under the Share Option Scheme. Another 1,000,000 of these shares are subject to the exercise of options granted on 28 May 2010 under the Share Option Scheme. The remaining 6,500,000 of these shares are subject to the exercise of options granted on 14 January 2011 under the Share Option Scheme.

(7) 600,000 of these shares are subject to the exercise of options granted on 30 March 2010 under the Share Option Scheme. Another 600,000 of these shares are subject to the exercise of options granted on 14 January 2011 under the Share Option Scheme. The remaining 180,000 of these shares were acquired by Mr. Tan Wee Seng on the Stock Exchange.

Save as disclosed above, as at 30 June 2013, 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 2013, 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	60.19%
Wan Xing International Holdings Limited[(2)]	Interests of controlled corporation	1,310,059,500	60.19%
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 2,176,540,000 issued Shares of the Company as at 30 June 2013.
(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 2013, 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 2013 are as follows:

Name	Outstanding as at 1 January 2013	Outstanding as at 30 June 2013
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 2013.

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 2013 are as follows:

Name	Date of Grant	Exercise price per Share	Exercise Period[(1)(2)(3)]	Outstanding as at 1 January 2013	Granted during the six months ended 30 June 2013	Cancelled during the six months ended 30 June 2013	Exercised during the six months ended 30 June 2013	Outstanding as at 30 June 2013
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	49,825,000	–	–	(225,000)[(4)]	49,600,000
Total				**80,665,000**	**–**	**–**	**(225,000)**	**80,440,000**

Saved as disclosed above, during the six months ended 30 June 2013, 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 225,000 share options were exercised on 25 April 2013. The closing price of the Shares immediately before 25 April 2013 was HK$3.12.

Further details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 21 to the financial statements.

SPECIFIC PERFORMANCE OBLIGATIONS ON CERTAIN CONTROLLING SHAREHOLDERS

On 25 April 2012, the Company as borrower entered into a facility agreement (the "**Facility Agreement**") with a syndicate of eight banks which is 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 "**Facility**") was made available to the Company on the terms and conditions stated therein. The Facility is guaranteed by certain subsidiaries of the Company.

It is provided in the Facility Agreement, 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.

(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 Facility whereupon the whole or relevant part of the Facility shall immediately be cancelled; (b) declare that all or part of the Facility, together with accrued interest, and all other amounts accrued or outstanding under the Facility Agreement 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 Facility 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 2013, 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 60.2% 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.

CHANGES IN DIRECTORS' INFORMATION

Mr. Tan Wee Seng, a non-executive Director of the Company, ceased to be an independent director, chairman of the audit committee and chairman of the special committee on the privatization of 7 Days Group Holdings Limited with effect from 6 July 2013. The shares of 7 Days Group Holdings Limited were delisted from the New York Stock Exchange on the same date.

Save as disclosed above, there is no other information in respect of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2013

	Notes	Six months ended 30 June 2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
REVENUE	5	**2,097,960**	2,607,318
Cost of sales		**(1,254,878)**	(1,539,684)
Gross profit		**843,082**	1,067,634
Other income and gains	5	**55,592**	22,780
Selling and distribution expenses		**(230,676)**	(346,321)
General and administrative expenses		**(192,453)**	(150,250)
Operating profit	6	**475,545**	593,843
Net finance income	7	**911**	11,297
PROFIT BEFORE TAX		**476,456**	605,140
Income tax expense	8	**(136,132)**	(137,652)
PROFIT FOR THE PERIOD		**340,324**	467,488
Attributable to:			
Ordinary equity holders of the Company		**340,874**	467,783
Non-controlling interests		**(550)**	(295)
		340,324	467,488
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10		
Basic (RMB cents)		**15.66**	21.50
Diluted (RMB cents)		**15.56**	21.45

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2013

	Six months ended 30 June 2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD	**340,324**	467,488
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 overseas subsidiaries	**23,624**	(1,579)
Other comprehensive income/(loss) for the period, net of tax	**23,624**	(1,579)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**363,948**	465,909
Attributable to:		
Ordinary equity holders of the Company	**364,498**	466,204
Non-controlling interests	**(550)**	(295)
	363,948	465,909

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2013

	Notes	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**474,032**	386,932
Prepaid land lease payments		**223,091**	225,478
Deposits for acquisition of land use rights		**6,261**	6,261
Intangible assets		**467**	626
Available-for-sale investment		**33,000**	33,000
Deposits	13	**16,627**	10,991
Non-current time deposit	14	**60,000**	–
Total non-current assets		**813,478**	663,288
CURRENT ASSETS			
Inventories	11	**595,977**	582,707
Trade and bills receivables	12	**1,176,896**	1,035,877
Prepayments, deposits and other receivables	13	**296,878**	421,413
Tax recoverable		**8,882**	16,190
Available-for-sale investment		**–**	100,000
Pledged bank deposits	14	**497,798**	557,211
Cash and bank balances	14	**3,561,209**	3,122,801
Total current assets		**6,137,640**	5,836,199
CURRENT LIABILITIES			
Trade payables	15	**665,103**	482,517
Deposits received, other payables and accruals	16	**233,011**	287,357
Interest-bearing bank borrowings	17	**972,395**	510,882
Tax payable		**70,596**	156,066
Total current liabilities		**1,941,105**	1,436,822
NET CURRENT ASSETS		**4,196,535**	4,399,377
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,010,013**	5,062,665
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	17	**350,878**	534,598
Deferred tax liabilities	18	**145,453**	133,453
Deferred subsidy		**114,833**	114,833
Total non-current liabilities		**611,164**	782,884
NET ASSETS		**4,398,849**	4,279,781
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	19	**19,202**	19,200
Reserves	20	**4,374,778**	4,255,162
		4,393,980	4,274,362
Non-controlling interests		**4,869**	5,419
Total equity		**4,398,849**	4,279,781

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2013

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

SIX MONTHS ENDED 30 JUNE 2012 (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 2012		19,199	617,683	118,600	343,520	58,653	718	2,749,063	3,888,237	3,907,436	3,944	3,911,380
Total comprehensive income for the period		–	–	–	–	–	(1,579)	467,783	466,204	466,204	(295)	465,909
Equity-settled share option arrangements		–	–	–	–	11,580	–	–	11,580	11,580	–	11,580
2011 final dividend declared and paid	9(b)	–	(254,907)	–	–	–	–	–	(254,907)	(254,907)	–	(254,907)
Capital contribution from a non-controlling interest of a subsidiary		–	–	–	–	–	–	–	–	–	4,370	4,370
At 30 June 2012		19,199	362,776	118,600	343,520	70,233	(861)	3,216,846	4,111,114	4,130,313	8,019	4,138,332

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**406,395**	733,810
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(13,142)**	(66,908)
NET CASH FLOWS FROM FINANCING ACTIVITIES	**47,552**	31,379
NET INCREASE IN CASH AND CASH EQUIVALENTS	**440,805**	698,281
Cash and cash equivalents at beginning of period	**3,122,801**	2,068,163
Effect of foreign exchange rate changes, net	**(2,397)**	(974)
Cash and cash equivalents at end of period	**3,561,209**	2,765,470
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances as stated in the condensed consolidated statement of financial position	**3,561,209**	2,765,470

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2013

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 changed from Group Success Investments Limited to Wan Xing International Holdings Limited with effect from 8 July 2013. Wan Xing International Holdings Limited 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 2012.

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 2012 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 HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning on 1 January 2013.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2013

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Other than as further explained below regarding the impact of amendments to HKAS 1 and HKFRS 13, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The HKAS 1 Amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point of time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs.

The adoption of HKFRS 13 only affects disclosures on fair value measurements in the condensed consolidated interim financial statements. HKFRS 13 has been applied prospectively.

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 2012.

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.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2013

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	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Manufacture and sale of sportswear:		
Footwear	**1,040,774**	1,194,899
Apparel	**1,017,645**	1,365,931
Accessories	**39,541**	46,488
	2,097,960	2,607,318
Other income and gains		
Subsidy income from the PRC government*	**8,675**	13,930
Rental income	**1,069**	842
Net income derived from available-for-sale financial assets	**44,640**	5,715
Others	**1,208**	2,293
	55,592	22,780
	2,153,552	2,630,098

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

6. OPERATING PROFIT

The Group's operating profit is arrived at after charging/(crediting):

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Advertising and promotional costs	**189,298**	297,885
Write-back of provision for impaired trade receivables	**(8,486)**	–
Provision for impaired trade receivables	**39,025**	–
Research and development costs*	**47,373**	41,013
Staff costs	**178,351**	173,393
Equity-settled share option expense	**8,149**	11,580
Depreciation	**19,816**	14,417
Amortisation of intangible assets	**159**	159
Amortisation of prepaid land lease payments	**2,428**	2,423

* *The research and development costs for the six months ended 30 June 2013 includes RMB35,499,000 (six months ended 30 June 2012: RMB28,414,000) relating to depreciation of research and development centers 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.*

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2013

7. NET FINANCE INCOME

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest expense on bank loans wholly repayable within five years	**(15,602)**	(6,333)
Interest expense on discounted bills receivables	**(10,493)**	(15,855)
Amortisation of bank charges on a syndicated loan	**(3,148)**	(1,058)
Foreign exchange differences, net	**(667)**	(184)
Bank interest income	**25,173**	35,878
Unrealised gain/(loss) on interest rate swaps*	**5,648**	(1,151)
	911	11,297

* *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 2013 (six months ended 30 June 2012: 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	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax – Overseas		
Charge for the period	**117,552**	123,963
Underprovision/(overprovision) in prior periods	**6,580**	(311)
	124,132	123,652
Deferred tax	**12,000**	14,000
	136,132	137,652

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2013

9. DIVIDENDS

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interim dividend – HK10.0 cents (six months ended 30 June 2012: HK13.2 cents) per ordinary share	**173,100**	235,010

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. This interim dividend has not been recognised as a liability in the condensed consolidated financial statements.

At the board meeting held on 21 August 2012, the board of directors declared and approved an interim dividend of HK13.2 cents (equivalent to approximately RMB10.8 cents) per ordinary share, totalling approximately HK$287,264,000 (equivalent to approximately RMB235,010,000), for the six months ended 30 June 2012.

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends paid during the period:		
Final dividends in respect of the financial year ended:		
31 December 2012 – HK10.0 cents per ordinary share	**174,795**	–
31 December 2011 – HK14.5 cents per ordinary share	**–**	254,907
Special dividend in respect of the financial year ended:		
31 December 2012 – HK4.5 cents per ordinary share	**78,658**	–
	253,453	254,907

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2013

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

(a) Basic earnings per share

The calculation of basic earnings per share amounts for the six months ended 30 June 2013 was based on the profit for the period attributable to ordinary equity holders of the Company of RMB340,874,000 (six months ended 30 June 2012: RMB467,783,000) and the weighted average number of ordinary shares in issue during the six months ended 30 June 2013 of 2,176,318,000 (six months ended 30 June 2012: 2,176,240,000).

(b) Diluted earnings per share

The calculation of diluted earnings per share amounts for the six months ended 30 June 2013 is based on the profit for the period attributable to ordinary equity holders of the Company of RMB340,874,000 (six months ended 30 June 2012: RMB467,783,000). The weighted average number of ordinary shares of 2,190,968,000 (six months ended 30 June 2012: 2,181,281,000) used in the calculation is the weighted average number of 2,176,318,000 (six months ended 30 June 2012: 2,176,240,000) 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 14,650,000 (six months ended 30 June 2012: 5,041,000) ordinary shares during that period.

11. INVENTORIES

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Raw materials	**175,512**	284,146
Work in progress	**50,458**	68,959
Finished goods	**370,007**	229,602
	595,977	582,707

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2013

12. TRADE AND BILLS RECEIVABLES

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Trade receivables	**1,283,426**	1,113,055
Less: provision for impaired trade receivables	**(107,717)**	(77,178)
	1,175,709	1,035,877
Bills receivables	**1,187**	–
Trade and bills receivables	**1,176,896**	1,035,877

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

An 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 2013 is as follows:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Neither past due nor impaired	**835,276**	690,437
Less than 3 months past due	**286,228**	345,440
Past due over 3 months	**54,205**	–
	1,175,709	1,035,877

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2013

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Prepayments	**143,445**	156,066
Deposits and advance payments to suppliers	**130,602**	231,484
Deposits for construction contracts	**16,627**	10,991
Other deposits	**1,023**	1,449
Value added tax ("VAT") recoverable	**17,218**	28,298
Other receivables	**4,590**	4,116
	313,505	432,404
Less: Non-current portion	**(16,627)**	(10,991)
	296,878	421,413

None of the above 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.

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

	Note	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Time deposits		**196,212**	789,713
Cash and bank balances*		**3,922,795**	2,890,299
		4,119,007	3,680,012
Less: Pledged deposits:			
for short term bank loans	17	**(468,584)**	(527,997)
for bank guarantees**		**(29,214)**	(29,214)
		(497,798)	(557,211)
Less: Time deposit with original maturity of more than one year when acquired*		**(60,000)**	–
Cash and cash equivalents		**3,561,209**	3,122,801

* *The non-current time deposit of RMB60,000,000 and bank balance of RMB99,220,000 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.*

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2013

14. TIME DEPOSITS, CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS (continued)

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB3,885,067,000 (31 December 2012: RMB2,846,603,000) and RMB196,212,000 (31 December 2012: RMB789,713,000), 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 bank 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 (31 December 2012: one day to one year) depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

15. TRADE PAYABLES

An ageing analysis of the Group's trade payables as at 30 June 2013, based on the invoice date, is as follows:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Within 3 months	**611,168**	437,359
3 to 6 months	**3,903**	17,025
Over 6 months	**50,032**	28,133
Trade payables	**665,103**	482,517

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

16. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Deposits and advances from customers	**43,624**	43,158
Accruals	**166,178**	160,987
VAT payables	**1,613**	29,807
Derivative financial instruments	**6,162**	11,971
Other payables	**15,434**	41,434
	233,011	287,357

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2013

17. INTEREST-BEARING BANK BORROWINGS

		30 June 2013 (Unaudited)			31 December 2012 (Audited)		
	Notes	**Effective interest rate per annum %**	**Maturity**	**RMB'000**	Effective interest rate per annum %	Maturity	RMB'000
Current							
Current portion of syndicated loans	(a)	**HIBOR/LIBOR +3%**	**2014**	**255,905**	HIBOR/LIBOR +3%	2013	80,787
Other bank loans	(b)	**HIBOR+2.2% to 2.375%**	**2014**	**716,490**	HIBOR+1.5% to 2.375%	2013	430,095
				972,395			510,882
Non-current							
Syndicated loans	(a)	**HIBOR/LIBOR +3%**	**2014 to 2015**	**350,878**	HIBOR/LIBOR +3%	2014 to 2015	534,598
				1,323,273			1,045,480

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Analysed into:		
Bank loans repayable:		
Within one year and on demand	**972,395**	510,882
In the second year	**350,878**	355,111
In the third to fifth years, inclusive	**–**	179,487
	1,323,273	1,045,480

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2013

17. INTEREST-BEARING BANK BORROWINGS (continued)

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$140,400,000 (equivalent to approximately RMB111,772,000) (31 December 2012: HK$140,400,000, equivalent to approximately RMB113,935,000) and US$82,000,000 (equivalent to approximately RMB506,751,000)(31 December 2012: US$82,000,000, equivalent to approximately RMB516,374,000) as at the end of the reporting period.*

(b) *The bank loans are supported by:*

(i) *the pledge of certain of the Group's time deposits amounting to RMB468,584,000 (31 December 2012: RMB527,997,000);*

(ii) *corporate guarantees provided by two wholly-owned subsidiaries of the Company to the extent of HK$700,000,000 (equivalent to approximately RMB557,270,000) (31 December 2012: HK$700,000,000, equivalent to approximately RMB568,050,000) as at the end of the reporting period; and*

(iii) *time deposit of RMB60,000,000 and bank balance of RMB99,220,000, which 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 14).*

As at 30 June 2013, except for the bank loan of RMB496,705,000 (31 December 2012: RMB504,116,000) which was denominated in US dollars, all bank borrowings are denominated in Hong Kong dollars.

18. 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 2013, there were no significant unrecognised deferred tax liabilities (31 December 2012: 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.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2013

19. SHARE CAPITAL

The share capital as at 30 June 2013 and 31 December 2012 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 2013

	HK'000 (Unaudited)	RMB'000 (Unaudited)
Authorised: 100,000,000,000 ordinary shares of HK$0.01 each	**1,000,000**	**935,629**
Issued and fully paid: 2,176,540,000 ordinary shares of HK$0.01 each	**21,765**	**19,202**

During the period, 225,000 (31 December 2012: 75,000) shares of HK$0.01 each were issued for cash at a subscription price of HK$2.35 (31 December 2012: 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$529,000 (31 December 2012: HK$176,000). Details of the Company's share option schemes are included in note 21 to the financial statements.

At 31 December 2012

	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: 2,176,315,000 ordinary shares of HK$0.01 each	21,763	19,200

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2013

20. RESERVES

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

21. 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 2012.

At 30 June 2013, a total of 16,765,000 (31 December 2012: 16,765,000) share options (the "Pre-IPO Share Options") under the Pre-IPO Scheme remained outstanding. During the six months ended 30 June 2013, no Pre-IPO Share Options were exercised (six months ended 30 June 2012: 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 0.8% of the issued share capital of the Company as at that date.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2013

21. SHARE OPTION SCHEMES (continued)

(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 2012.

As at 30 June 2013, a total of 80,440,000 (31 December 2012: 80,665,000) share options (the "Share Options") under the Share Option Scheme remained outstanding.

During the six months ended 30 June 2013, the subscription rights attaching to 225,000 (six months ended 30 June 2012: Nil) share options granted under the Share Option Scheme were exercised at the subscription price of HK$2.35 per share during the periods, resulting in the issue of 225,000 shares (six months ended 30 June 2012: Nil).

At the date of approval of the condensed consolidated interim financial statements, the Company had 80,440,000 Share Options outstanding under the Share Option Scheme, which represented approximately 3.7% of the issued share capital of the Company as at that date.

22. 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 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Within one year	**8,873**	10,330
In the second to fifth years, inclusive	**8,563**	10,065
After five years	**3,825**	4,590
	21,261	24,985

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2013

23. COMMITMENTS

(a) In addition to the operating lease commitments detailed in note 22 above, the Group had the following commitments at the end of the reporting period:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Contracted for commitment in respect of:		
– construction of new buildings	**66,691**	73,001
– construction of new manufacturing facilities	**74,677**	14,403
– advertising and promotional expenses	**264,997**	249,475
	406,365	336,879
Authorised, but not contracted for:		
– construction of new buildings	**–**	8,539
– construction of new manufacturing facilities	**256,981**	376,349
	256,981	384,888
	663,346	721,767

(b) For the period from 1 January 2010 to 31 December 2012, the Group is obliged to pay a minimum guaranteed royalty to a licensor, however, such amount will be adjusted based on the actual sales amount of the relevant product for these periods.

24. FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY

At 30 June 2013, the Group discounted certain bank and commercial bills receivables with a carrying amount in aggregate of approximately RMB479,000,000 to banks in the PRC (the "Derecognised Bills") for cash. The Derecognised Bills have a remaining maturity from approximately fifty days to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks 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, it 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 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 2013, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the continuing involvement, both during the period or cumulatively. The discount of bills receivables has been made before the period ended 30 June 2013 and the year ended 31 December 2012 amounted to RMB479,000,000 and RMB839,019,000, respectively.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2013

25. FAIR VALUE AND FAIR VALUE HIERARCHY

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 cash and bank balances, non-current time deposit, pledged bank deposits, trade and bills receivables, trade payables, financial assets included in other receivables, financial liabilities included in other payables and accruals and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments. Available-for-sale investment was stated at cost less impairment because the unlisted equity investment does not have quoted market price in an active market and whose fair value cannot be reliably measured.

Derivative financial instruments, which are interest rate swaps, are measured using valuation techniques similar to swap model, using present value calculations. The model incorporates various market observable inputs including the credit quality of counterparty, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of interest rate swaps are the same as their fair values.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 30 June 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 2013, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

26. 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 23 August 2013.

REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

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 of Xtep International Holdings Limited set out on pages 57 to 77 which comprises the condensed consolidated statement of financial position as at 30 June 2013, and the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months period then ended and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

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

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young
Certified Public Accountants

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

23 August 2013

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
"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"	The Stock Exchange of Hong Kong Limited
"IAAF"	International Association of Athletics Federations
"Listing Date"	3 June 2008, on which dealing in the Shares first commence on the Hong Kong Stock Exchange
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Model Code"	Model code for securities transactions by directors of listed issuers
"NBS"	National Bureau of Statistics of China
"Period"	For the six months ended 30 June 2013
"PRC"	The People's Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan

GLOSSARY

"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
"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)"	Holders of the Share(s) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"U.S."	United States of America
"Xtep (China)"	Xtep (China) Co., Ltd., an indirect wholly-owned subsidiary of the Group
"Xtep"	Xtep brand

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