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Xtep International Holdings Limited

特步國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1368)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

RESULTS HIGHLIGHTS

- Revenue rose by 22% to approximately RMB2,040 million
- Gross profit margin expanded by 2.1 percentage points to 40.7%
- Operating profit margin expanded by 2.4 percentage points to 22.2%
- Profit attributable to shareholders increased by 22% to approximately RMB373 million
- Basic earnings per Share increased by 22% to RMB17.18 cents
- Interim dividend per Share increased by 43% to HK10 cents, representing payout ratio of 51% of the profit for the period (2009: 44%)
- Overall working capital turnover days reduced by 14 days to 27 days
- Total number of retail outlets reached 7,009 (Xtep brand 6,579; Other brands 430)

XTEP BRAND FINANCIAL HIGHLIGHTS

- Xtep brand footwear products
 - Revenue increased by 12% to approximately RMB818 million
 - Gross profit margin increased by 1.4 percentage points to 40.3%
 - Sales volume increased by 4.6% to 9.5 million pairs
 - Average selling price (wholesale) increased by 6.6% to RMB85.7
- Xtep brand apparel products
 - Revenue increased by 31% to approximately RMB1,050 million
 - Gross profit margin increased by 2.5 percentage point to 40.7%
 - Sales volume surged by 15.0% to 20.0 million pieces
 - Average selling price (wholesale) increased by 13.9% to RMB52.5

XTEP BRAND OPERATIONAL HIGHLIGHTS*

- Total number of Xtep retail outlets increased by 476 to 6,579
- Total number of Xtep flagships stores increased by 6 to 36
- Total gross sales floor area increased by 11.4% to 555,000m²
- Average sales floor area per retail outlet increased by 3.4% to 84.4m²

* *Compared to 31 December 2009*

CHAIRMAN'S STATEMENT

On behalf of the Board of Xtep International Holdings Limited, I am pleased to present the interim results of the Group for the six months ended 30 June 2010.

Remarkable Advancement

The Chinese government's fiscal policies and economic stimulus measures have fueled increasing domestic consumption and the purchasing power of consumers, underscoring the economic rebound in the first half of 2010. According to the "Guiding Opinion on Faster Development of Sports Industry" issued by the General Office of the State Council in March 2010, the Chinese government aims to build a strong domestic sportswear industry to compete in the international arena by 2020. With rising market demand driven by growing urbanization and Chinese consumers' passion for sports, China's sports market holds huge potential and promise with an industry scale expecting to reach RMB2,000 billion in the future. Drawing upon its unique dual sports and entertainment marketing strategy, the Xtep brand is well positioned to strengthen its foothold and popularity in this dynamic and fast developing market. During the period under review, the Group has continued to boost its brand image through various marketing programs and accelerated the expansion of its retail network, yielding significant results in every aspect of its business.

During the period under review, total revenue of the Group was RMB2,040.2 million (2009: RMB1,677.4 million), representing an increase of approximately 22% over the same period last year. Revenue from the Xtep brand increased significantly by approximately 23% to RMB1,900.8 million (2009: RMB1,548.8 million) while the overall gross profit margin rose to 40.7% (2009: 38.6%). Profit attributable to Shareholders was approximately RMB373.5 million (2009: RMB306.5 million), representing an increase of approximately 22% over the same period last year. Basic earnings per share for the six months ended 30 June 2010 were up by approximately 22% to RMB17.18 cents (2009: RMB14.10 cents). The satisfactory results and the adequate surplus cash balances have resulted in the Board recommending payment of an interim dividend of HK10.0 cents per Share (2009: HK7.0 cents per Share), representing an increase of 43% from last year. The payout ratio was approximately 51% (2009: 44%).

Xtep Brand Xtep World

The Xtep brand continues to be the Group's most powerful asset, accounting for approximately 93% of total revenue. As brand building has been one of the major tasks of the Group in recent years, the Xtep brand is on its way to becoming a recognized world-class brand due to the sponsorship efforts of international and national events. During the period, the Group unveiled its five-year sponsorship agreement with Birmingham International Holdings Limited, under which the Group will exclusively supply apparel to the Birmingham City Football Club, an English Premier League team. The Xtep brand made history by becoming the first PRC sportswear brand to be involved in the English Premier League. The professional and fashionable "Xtep-Birmingham" outfits, designed and exclusively sponsored by the Group, will be worn by all Birmingham team players during the season, which will be followed by hundreds of millions of football fans around the globe. The sponsorship is also a major milestone for the Group, propelling forward the Xtep brand, the fast growing young fashion sportswear brand, onto the global stage and further supporting football, one of our long-term strategies.

The Group's nationwide sponsorship of the Shanghai World Expo 2010 was another highlight during the period. As the Shanghai World Expo is the largest world expo in terms of participation due to its scale and exposure, the Group was able to enhance the visibility of the Xtep brand by exclusively sponsoring outfits for all the expo volunteers.

The Group also capitalized on the power of the digital age by improving its brand exposure in cyberspace. The Group was the sports sponsor for the World Cup site of Sohu.com, a popular domestic website. The collaboration allowed Sohu's wide customer base to access the Group's latest products, promoting the Xtep brand to a huge internet audience. As online shopping has become increasingly popular among the younger generation due to its speediness and convenience, the Group has further forged a partnership with Taobao.com, China's largest online consumer e-commerce marketplace, in Shanghai in May 2010. This allows the Group to develop an efficient online business platform that further expands its sales and distribution channels, and caters to the needs of the targeted customers, which, in turn, will further enhance its brand awareness and recognition.

“Love Running, Love Xtep”

As one of China's most popular sports, running constitutes a key focus of the Group's long-term strategy. The Group has sponsored high-profile running events as part of its strategy towards enhancing its overall presence. During the period under review, the Group became a partner and the sole sportswear sponsor to the IAAF Shanghai Diamond League, a top annual series of track and field event with numerous reigning world and Olympics champions joining the 16 diamond races in Shanghai, and the sole sports product partner of the Xiamen International Marathon as well as various other prominent running events. These events have attracted wide media coverage thus boosting the Group's core values and market position.

Nationwide Network

The Group's established nationwide distribution network is the result of a proactive expansion strategy honed over the years. The strength of its network lies in its focus on second and third-tier markets with the emphasis now placed on increasing Xtep brand retail outlets by 800 to 1,000 for the full year of 2010. As at 30 June 2010, the total number of Xtep brand retail outlets reached 6,579 (31 December 2009: 6,103), exceeding the target of 6,500 set at the beginning of the year. During the period under review, the Group embarked on a strategy of expansion in second and third-tier cities, as they hold the greatest potential, with over 90% of retail outlets located in these markets. The Xtep brand has already established a leading market position in areas of Hunan Province, and plans to replicate its success in other second and third-tier cities. This early-mover advantage will undoubtedly give the Group an unrivaled competitive edge over existing and future competitors given its pioneering focus on second and third-tier markets.

The Group has also made progress in expanding its overseas network during the period. The first overseas Xtep brand retail outlet was established in early June this year in Taipei, positioning the Xtep brand to become one of the first Mainland Chinese sportswear brands to enter the Taiwan market and embark on a road towards Southeast Asia.

Establishment of flagship stores has been crucial to the strengthening of the Group's brand image and customer loyalty, elevating the overall customer experience and satisfaction. As at 30 June 2010, the Group has established a total of 36 (31 December 2009: 30) Xtep brand flagship stores, representing an increase of approximately 20% over last year.

Management Like No Other

The Group continues to place emphasis on corporate management as a way of strengthening and leveraging its operational capability. By actively promoting supply chain management and boosting its competencies in design, production, sales and distribution, the Group is well equipped to respond to the fast-changing market needs and fashion trends while enhancing customers' satisfaction and loyalty.

To ensure the continued innovation and quality of products, the Group has set up a new research and development centre in Guangzhou to enhance the product standard and broaden the range of designs going forward. The new research and development centre, which became operational in April 2010, is equipped with advanced design facilities and a design team with international and local experience which stays ahead of the fast-changing fashion trends. The diverse mix of the design team enables the Group to offer products with fashionable design and style catering to different consumer preferences. In addition, the Group has deployed a new IT solution, namely Product Lifecycle Management, to facilitate the design and development process. The application allows the Group to reduce product development lead times, enhance product quality and provide faster response to customers' ever-changing needs.

In March 2010, the Group joined the Hang Seng Indexes as a constituent of three Hang Seng Composite Index series, namely the Hang Seng Composite Index, the Hang Seng Composite Industry Index – Consumer Goods and the Hang Seng Composite Small Cap Index. The accreditation not only reflects the recognition of the Group's dedicated efforts to deliver consistent growth and solid business performance over the years, but also improves the Group's presence in the international financial markets.

A Future Full of Promise

A challenging road undoubtedly lies ahead despite indications of a full economic recovery in the future. Facing intensifying competition from both domestic and global players, we aim to strengthen the sustainability and potential of our brand portfolio. These efforts include the promotion of the sport of football; in particular, enhancing the recognition of the English Premier League by welcoming the Birmingham City Football Club to China in our role as the club's sponsor. The Group was also the title sponsor of Birmingham City Football Club's China Tour with invitation matches being played in Hong Kong, Beijing and Shenyang. Wide media coverage of these events had been received due to the soaring popularity of the sport and enthusiasm of fans given the recently concluded World Cup tournament. These initiatives will further elevate the Xtep brand's image and help the Group to build stronger relationships with consumers.

The Group will continue to focus on the sponsorship of international events in order to enhance recognition of the Xtep brand at a global level. To support the 16th Asian Games to be held in Guangzhou in November this year, the Group will place additional television commercials during the period as well as setting up a flagship store in Guangzhou to heighten the Xtep brand image.

In a further step towards raising the profile of the Xtep brand, the Group will also launch the “2010 Xtep Stars Nationwide Concert Tour” in August to October this year. To be performed by the Xtep brand’s celebrity spokespersons, the concert tour is expected to generate ample exposure and arouse unprecedented excitement that embodies the spirit and energy of the brand.

To enhance the Group’s leading market position and deepen its network penetration, the Group plans to increase the number of Xtep brand retail outlets to approximately 7,000 and flagship stores to approximately 40 by the end of year. Going forward, the Group also intends to further expand its reach overseas by increasing points of sales of the Xtep brand and the Disney Sport brand across the Middle East and Southeast Asia.

To support continuous growth and expansion, the Group will further refine its internal management and step up efforts on improving the efficiency of product design, research and development, financial and operational management. The Group will also implement stringent control and management of the sales channel network, and optimize supply chain processes with the aim of developing a demand-driven, flexible and effective operation.

Appreciation

Our accomplishments are the combined efforts of our management and hard-working staff. I wish to sincerely thank my fellow Directors and our Group’s employees for their dedication throughout the period. Their hard work has helped us to overcome challenging market conditions. I also wish to extend my sincere gratitude to the continued support of our Shareholders, customers and suppliers. We are committed to becoming a world-class fashion sportswear brand and to bring solid financial returns to all our stakeholders through the delivery of sustainable business growth.

Ding Shui Po
Chairman

INTERIM RESULTS

The Board of Directors of Xtep International Holdings Limited is pleased to announce the interim results and the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2010, together with the comparative figures for the corresponding period in 2009. These results have been reviewed by the Company's audit committee, comprising solely the independent non-executive Directors, one of whom chairs the committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

Six months ended 30 June 2010

		Six months ended 30 June	
		2010	2009
	Notes	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
REVENUE	5	2,040,156	1,677,436
Cost of sales		<u>(1,209,373)</u>	<u>(1,029,660)</u>
Gross profit		830,783	647,776
Other income and gains	5	10,128	6,662
Selling and distribution costs		(304,050)	(242,378)
General and administrative expenses		<u>(84,932)</u>	<u>(80,766)</u>
Operating profit	6	451,929	331,294
Finance income/(costs), net	7	<u>2,700</u>	<u>(164)</u>
PROFIT BEFORE TAX		454,629	331,130
Income tax expense	8	<u>(81,172)</u>	<u>(24,596)</u>
PROFIT FOR THE PERIOD		<u>373,457</u>	<u>306,534</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	10		
Basic (RMB cents)		<u>17.18</u>	<u>14.10</u>
Diluted (RMB cents)		<u>17.12</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	373,457	306,534
Other comprehensive income for the period:		
Exchange difference on translation of financial statements of overseas subsidiaries	(5,378)	43,317
Income tax relating to the component of other comprehensive income	<u>—</u>	<u>—</u>
Other comprehensive income for the period, net of tax	<u>(5,378)</u>	<u>43,317</u>
Total comprehensive income for the period	<u>368,079</u>	<u>349,851</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2010

	<i>Notes</i>	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		197,491	192,969
Prepaid land lease payments		21,229	21,345
Deposit paid for acquisition of land use rights		50,079	50,079
Deposits paid for acquisition of items of property, plant and equipment		10,000	10,000
Intangible assets		841	615
		<u>279,640</u>	<u>275,008</u>
CURRENT ASSETS			
Inventories		344,439	265,689
Trade and bills receivables	11	747,999	522,755
Prepayments, deposits and other receivables		116,317	79,526
Cash and cash equivalents		2,435,366	2,497,635
		<u>3,644,121</u>	<u>3,365,605</u>
CURRENT LIABILITIES			
Trade and bills payables	12	563,448	439,398
Deposits received, other payables and accruals		175,265	165,494
Tax payable		75,298	24,373
		<u>814,011</u>	<u>629,265</u>
NET CURRENT ASSETS		<u>2,830,110</u>	<u>2,736,340</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,109,750</u>	<u>3,011,348</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		35,268	27,268
		<u>35,268</u>	<u>27,268</u>
NET ASSETS		<u><u>3,074,482</u></u>	<u><u>2,984,080</u></u>
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	13	19,186	19,177
Reserves		3,055,296	2,964,903
TOTAL EQUITY		<u><u>3,074,482</u></u>	<u><u>2,984,080</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 June 2010

1. CORPORATE INFORMATION

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The condensed consolidated interim financial statements do not include all the information and disclosures required in the financial statements, and should be read in conjunction with the annual financial statements for the year ended 31 December 2009.

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 2009 except as described by below. In the current period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new HKFRSs") issued by HKICPA which are effective for the Group's financial year beginning on 1 January 2010.

HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 Amendment	Amendment to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>

HK(IFRIC)-Int 17 Amendments to HKFRS 5 included in <i>Improvements to HKFRSs issued in October 2008</i>	<i>Distributions of Non-cash Assets to Owners</i> Amendments to HKFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the Controlling Interest in a Subsidiary</i>
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2009 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

In preparing the condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those used by management in the preparation of the Group's annual financial statements for the year ended 31 December 2009.

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

Valuation of share options

As described in note 21 to the financial statements, the Company has engaged an independent professionally qualified valuer to assist in the valuation of the share options granted during the period. The fair value of options granted under the share option scheme is determined using the Trinomial Option Pricing Model. The significant inputs into the model were the weighted average share price at the grant date, risk-free interest rate, exercise price, expected volatility of the underlying shares, expected dividend yield and expected life of options. When the actual results of the inputs differ from management's estimate, it will have an impact on share option expenses and the related share option reserve of the Company.

4. SEGMENT INFORMATION

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

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Manufacture and sale of sportswear:		
Footwear	855,692	789,470
Apparel	1,144,682	866,888
Accessories	39,782	21,078
	2,040,156	1,677,436
Other income and gains		
Subsidy income from the PRC government *	7,724	3,577
Rental income	403	282
Others	2,001	2,803
	10,128	6,662
	2,050,284	1,684,098

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

6. OPERATING PROFIT

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

	Six months ended 30 June	
	2010 <i>RMB'000</i> (Unaudited)	2009 <i>RMB'000</i> (Unaudited)
Advertising and promotion costs	239,074	193,874
Research and development costs	26,509	28,500
Staff costs	95,345	81,318
Depreciation	8,011	7,229
Amortisation of intangible assets	111	88
Amortisation of prepaid land lease payments	251	251

7. FINANCE INCOME/(COSTS), NET

	Six months ended 30 June	
	2010 <i>RMB'000</i> (Unaudited)	2009 <i>RMB'000</i> (Unaudited)
Interest expense on bank loans repayable within five years	–	(5,080)
Interest expense on discounted bills receivables	(5,175)	–
Foreign exchange differences, net	–	(3,629)
Bank interest income	7,875	8,545
	<u>2,700</u>	<u>(164)</u>

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 during the period (six months ended 30 June 2009: Nil). Taxes on profits assessable elsewhere have been calculated at the prevailing rates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2010 <i>RMB'000</i> (Unaudited)	2009 <i>RMB'000</i> (Unaudited)
Current tax – overseas		
Charge for the period	73,172	19,702
Underprovision in prior periods	–	494
Deferred tax	8,000	4,400
	<u>81,172</u>	<u>24,596</u>

Xtep (China) Co., Ltd. (“Xtep China”), a wholly-owned subsidiary of the Company, was entitled to a 50% reduction in the PRC corporate income tax of the tax rate of 25% for the year ended 31 December 2009. For the year ending 31 December 2010, Xtep China was subject to corporate income tax rate of 25%.

Koling (Fujian) Garment Co., Ltd. (“Koling (Fujian)”) and Xtep Sports Goods Co., Ltd. Jinjiang (“Xtep Jinjiang”), wholly-owned subsidiaries of the Company, enjoyed exemption from the PRC corporate income tax for the year ended 31 December 2009 and were entitled to a 50% reduction in the PRC corporate income tax of the tax rate of 25% for the year ending 31 December 2010.

廈門特步投資有限公司 (“Xtep Xiamen”), a wholly-owned subsidiary of the Company, has been granted certain tax relief whereby the profit of Xtep Xiamen was taxed at the prevailing tax rate set by the local tax authority of 20% for the year ended 31 December 2009 and 22% for the year ending 31 December 2010.

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

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit before tax	<u>454,629</u>	<u>331,130</u>
Tax at the applicable rates	115,651	85,064
Lower tax rate for specific province or tax holidays	(53,827)	(87,293)
Adjustments in respect of current tax of prior periods	–	494
Income not subject to tax	(762)	(1,468)
Expenses not deductible for tax	9,127	20,026
Effect of withholding tax at 5% on the distributable profits of the Group’s PRC subsidiaries	8,000	4,400
Tax losses not recognised	<u>2,983</u>	<u>3,373</u>
Tax charge at the Group’s effective rate	<u>81,172</u>	<u>24,596</u>

9. DIVIDENDS

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

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interim dividend – HK10.0 cents (six months ended 30 June 2009: HK7.0 cents per ordinary share)	<u>190,263</u>	<u>134,155</u>

At the board meeting held on 23 August 2010, the board of directors declared and approved an interim dividend of HK10.0 cents (equivalent to approximately RMB8.7 cents) per ordinary share, totalling HK\$217,468,000 (equivalent to approximately RMB190,263,000), for the six months ended 30 June 2010. This interim dividend has not been recognised as a liability in the condensed consolidated financial statements.

At the board meeting held on 7 September 2009, the board of directors declared and approved an interim dividend of HK7.0 cents (equivalent to approximately RMB6.2 cents) per ordinary share, totalling HK\$152,155,150 (equivalent to approximately RMB134,155,000), for the six months ended 30 June 2009.

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

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends paid during the period:		
Final in respect of the financial year ended:		
31 December 2009 – HK10.0 cents per ordinary share	189,890	–
31 December 2008 – HK8.0 cents per ordinary share	–	153,286
Special in respect of the financial year ended:		
31 December 2009 – HK5.0 cents per ordinary share	94,945	–
31 December 2008 – HK5.0 cents per ordinary share	–	95,803
	<u>284,835</u>	<u>249,089</u>

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

(a) Basic earnings per share

The calculation of basic earnings per share amount for the six months ended 30 June 2010 was based on the profit for the period attributable to ordinary equity holders of the Company of RMB373,457,000 (six months ended 30 June 2009: RMB306,534,000) and the weighted average number of ordinary shares in issue during the six months ended 30 June 2010 of 2,173,860,387 (six months ended 30 June 2009: 2,173,645,000).

(b) Diluted earnings per share

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

No adjustment has been made to the basic earnings per share amount presented for the six months ended 30 June 2009 in respect of a dilution as the exercise price of the share options of the Company outstanding during the period is higher than the average market price of the Company's ordinary shares and, accordingly, they have no dilutive effect on the basic earnings per ordinary shares.

11. TRADE AND BILLS RECEIVABLES

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

An aged analysis of the Group's trade receivables that are not considered to be impaired as at 30 June 2010 is as follows:

	30 June 2010	31 December 2009
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Neither past due nor impaired	510,449	274,962
Less than 3 months past due	210,279	185,595
Past due between 3 to 9 months	26,224	59,434
Past due over 9 months	—	1,700
	<hr/>	<hr/>
Trade receivables	746,952	521,691
Bills receivables	1,047	1,064
	<hr/>	<hr/>
Trade and bills receivables	<u>747,999</u>	<u>522,755</u>

12. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade and bills payables as at 30 June 2010, based on the invoice date, is as follows:

	30 June 2010	31 December 2009
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Within 3 months	499,228	365,594
3 to 6 months	36,326	47,749
6 to 12 months	27,894	24,579
Over 1 year	—	1,005
	<hr/>	<hr/>
Trade payables	563,448	438,927
Bills payables	—	471
	<hr/>	<hr/>
Trade and bills payables	<u>563,448</u>	<u>439,398</u>

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

13. SHARE CAPITAL

The share capital as at 30 June 2010 and 31 December 2009 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 2010

	<i>HK'000</i>	<i>RMB'000</i>
Authorised:		
100,000,000,000 ordinary shares of HK\$0.01 each	<u>1,000,000</u>	<u>935,629</u>
Issued and fully paid:		
2,174,680,000 ordinary shares of HK\$0.01 each	<u>21,747</u>	<u>19,186</u>

During the period, 1,035,000 (2009: Nil) shares of HK\$0.01 each were issued for cash at a subscription price of HK\$3.24 each per share pursuant to the exercise of the Company's share options for a total cash consideration, before expenses of HK\$3,353,000. Details of the Company's share option scheme are included in note 14 to financial statements.

At 31 December 2009

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

14. 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 2009.

At 30 June 2010, a total of 17,965,000 (31 December 2009: 19,000,000) share options (the "Pre-IPO Share Options") under the Pre-IPO Scheme remained outstanding. During the six months ended 30 June 2010, 1,035,000 (six months ended 30 June 2009: Nil) Pre-IPO Share Options were exercised and resulted in the issue of 1,035,000 ordinary shares of the Company (note 19).

At the date of approval of the Condensed Consolidated Interim Financial Statements, the Company had 17,965,000 Pre-IPO Share Options outstanding under the Pre-IPO Scheme, which represented approximately 0.8% of the issued share capital of the Company as at that date.

(b) Share option scheme

The Company has also adopted a share option scheme (the “Share Option Scheme”) pursuant to the shareholders’ written resolution passed on 7 May 2008. Further details of the Share Option Scheme are disclosed in the Company’s annual report for the year ended 31 December 2009.

21,100,000 (31 December 2009: 10,000,000) share options (the “Share Options”) has been granted under the Share Option Scheme up to the 30 June 2010. On 29 July 2009, the Company granted 10,000,000 share options under the Share Option Scheme to certain grantees to subscribe for a total of 10,000,000 ordinary shares of HK\$0.01 each in the share capital of the Company at an exercise price of HK\$4.11 per share. On 28 January 2010, 30 March 2010 and 28 May 2010, the Company granted 500,000, 600,000 and 10,000,000 share options under the Share Option Scheme to certain grantees to subscribe for a total of 11,100,000 ordinary shares of HK\$0.01 each in the share capital of the Company at an exercise price of HK\$5.01, HK\$6.13 and HK\$6.00 per share, respectively.

There being no exercise or lapse of any Share Options during the period ended 30 June 2010 (six months ended 30 June 2009: Nil).

At the date of approval of the Condensed Consolidated Interim Financial Statements, the Company had 21,100,000 Share Options outstanding under the Share Option Scheme, which represented approximately 1.0% of the issued share capital of the Company as at that date.

FINANCIAL SUMMARY

	For the six months ended	
	30 June	
	2010	2009
Profitability data (RMB million)		
Revenue	2,040.2	1,677.4
Gross profit	830.8	647.8
Operating profit	451.9	331.3
Profit for the period	373.5	306.5
Basic earnings per Share (RMB cents) (<i>Note 1</i>)	17.18	14.10
Profitability ratios (%)		
Gross profit margin	40.7	38.6
Operating profit margin	22.2	19.8
Net profit margin	18.3	18.3
Effective tax rate	17.9	7.4
Return on average total equity holders' equity (<i>Note 2</i>)	12.3	11.4
Operating ratios (as a percentage of revenue) (%)		
Advertising and promotion costs	11.7	11.6
Staff costs	4.7	4.8
Research and development costs	1.3	1.7
As at 30 June		
	2010	2009
Assets and liabilities data (RMB million)		
Non-current assets	279.6	224.7
Current assets	3,644.1	3,047.0
Current liabilities	814.0	521.7
Non-current liabilities	35.3	7.2
Shareholders' equity	3,074.4	2,742.8
Asset and Working Capital data		
Current asset ratios	4.5	5.8
Gearing ratios (%) (<i>Note 3</i>)	0.0	0.0
Net asset value per Share (RMB) (<i>Note 4</i>)	1.41	1.26
Average inventory turnover days (days) (<i>Note 5</i>)	46	49
Average trade and bills receivables turnover days (days) (<i>Note 6</i>)	57	60
Average trade and bills payables turnover days (days) (<i>Note 7</i>)	76	68
Overall working capital turnover days (days)	27	41

Notes:

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

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

Embarking on A Journey of Growth

The global economy embarked on a road to recovery in the first half of 2010 with clear signs that recovery among emerging countries was most robust in China. The effective stimulus package including economic and monetary policies initiated by the Chinese government helped domestic industries to rebound from the financial crisis and regain stable growth. According to the National Bureau of Statistics of China, China's GDP increased by approximately 11.1% in the first half of 2010 to approximately RMB17,284 billion as compared to the same period last year. The accumulated total retail sales of consumer goods also rose by approximately 18.2% over the same period last year to approximately RMB7,267 billion, of which, retail sales of consumer goods in urban areas increased by approximately 18.6% over the same period last year to approximately RMB6,266 billion. All market indicators point to a gradual pick up in the Chinese economy with analysts confident about the vibrant economic outlook. Driven by rising consumers' purchasing power and a booming domestic demand, China's sports product industry sees ample room for growth.

China's GDP growth continued to chart an upward trend in the first half of this year. Some second and third-tier cities in China are experiencing rapid economic growth and becoming growth drivers for the country's sports industry due to the growing purchasing power of the middle class and economic policies advocated by the Chinese government. According to the National Bureau of Statistics of China, second and third-tier cities such as Hunan, Hubei, Fujian and Jiangxi all recorded a growth of over 14% in GDP in the first half of 2010, surpassing the country's average of 11.1%. The figures show the huge potential of these markets. With intensifying competition from international and domestic players in the industry, the Group enjoys a definite advantage of having a well-established foothold in second and third-tier markets.

Placing Sports on the National Agenda

Promotion of the sports industry is on the top of the national agenda this year. In March 2010, the General Office of the State Council introduced a number of measures to speed up the development of the sports industry. These include the construction of sports infrastructure in both urban and rural areas and the establishment of related institutional mechanisms. The Chinese government is also promoting sports as a healthy lifestyle pursuit, and is encouraging people to take part in all sports activities. The sports product industry is therefore a major industry supported by the Chinese government with new guidelines established to create favorable market conditions for the further development of the industry.

Sports Mania Grips the Nation

The passion for sports continues following the 2008 Beijing Olympics, the 11th National Games and the East Asian Games in 2009, with international events such as the World Cup 2010 in South Africa. Growing awareness of staying healthy and fit has also underscored the popularity of sports. Consumers are embracing a sportier and more leisurely lifestyle that matches the message embodied in the Group's brand equity. It is expected that the Guangzhou Asian Games, to be held in the second half of 2010, will continue to stimulate consumer interest in sports related products. In addition, with consumers' rising income in recent years, people have become increasingly brand-conscious and are trading up to higher quality sports products, presenting tremendous business opportunities for the Group.

Business Review

The Group's sustainable growth in the first half of 2010 can be attributed mainly to the improvement of the four core competitive aspects of the Xtep brand, namely brand building, innovative products, channel establishment and management capability.

Brand Building

“Sports like no other” is the core concept of the Xtep brand. To strengthen its leading position in the fashion sportswear sector, the Group launched innovative branding promotions that combine sports with entertainment marketing. In addition to sponsoring international and national events as well as major sports events, the Group also implemented broad and effective media promotions through a variety of channels. In addition, the Group embarked on a journey to establish itself as a leading fashion sportswear brand not only in China but also in the global arena, aiming ever higher in its development.

Sponsorship of events is an integral part of the Xtep brand’s overall promotion campaign to ensure optimal levels of exposure. During the period under review, the Group continued to identify the most cost effective marketing and sponsorship opportunities and committed to the sponsorship of the following key events:

1. *International and National Events*

Shanghai World Expo 2010

The Shanghai World Expo is China’s most influential international event in 2010. Held from 1 May to 31 October 2010, it hosts an unprecedented 192 countries and 50 international organizations as well as more than 70 million visitors expected, ensuring the widest possible participation in the history of World Expo. The Group sponsors the “Expo Xtep” outfits exclusively for all volunteers at the event, raising the visibility of the Xtep brand. This sponsorship demonstrates the Group’s commitment towards elevating the Xtep brand to the international level to become a true global player. Through sponsorship of this international event, which galvanizes people from all around the world, the Group realizes its vision of “Rooted in China, Face the World” and gains additional brand recognition.

4th All-China Games

Held once every four years, the All-China Games is a national non-Olympic multi-sports event organized by the General Administration of Sports of the PRC. Comparable to the National Games, it gathers top athletes from all over the country and is well received by the public. The 4th All-China Games was held from 16-26 May this year in Hefei city, Anhui province, and comprised of 34 competition events including fin swimming, water skiing, jet skiing, Chinese wrestling, open water swimming and life saving. As the official partner and sole sports products sponsor of the 4th All-China Games, the Group sponsored all the outfits for the athletes from Hefei, Jiangsu, Anhui, Guizhou and Hong Kong. This enhanced the Group’s partnership with national premier games and highlighted the Group’s continued support for China’s sports industry.

2. *Sports Events*

Football

Birmingham City Football Club

In January 2010, the Group entered into a five-year sponsorship agreement with Birmingham International Holdings Limited, under which the Group will supply apparel to Birmingham City Football Club (“BCFC”), becoming the first PRC sportswear brand to have a presence in the English Premier League (EPL). The EPL is globally recognized as one of the most important and widely followed of the major football leagues. BCFC, with its 125 years of history, achieved a record 14-game unbeaten streak in top-flight matches and finished ninth in the EPL last season. Under the sponsorship agreement, BCFC’s players and supporting staff will wear football outfits designed by the Group during matches, training sessions and club events. Eight mega advertising billboards bearing Xtep brand’s logo will also be displayed around BCFC’s football stadium to maximize publicity. The sponsorship marks a major milestone for the Group as it propels the fast growing young fashion sportswear brand onto the global arena and generates significant marketing and promotional opportunities.

All Star Sports Association

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

Running

Love Running, Love Xtep

Running is one of the world’s most popular sports whether it be for competitive or leisure purposes. It remained the Group’s key focus for sports marketing in the first half of this year. The Group strengthened its resources on various running-oriented activities to improve brand visibility of the Xtep brand running shoes series. During the period under review, the Group also organized many running-related promotions and sponsored activities along with broadcasting innovative television commercials featuring the slogan of “Love Running, Love Xtep” via major television channels.

2010 Xiamen International Marathon

The Xiamen International Marathon was jointly organized by the Chinese Athletic Association and the Xiamen Municipal Government. It comprised of eight race categories including men's and women's marathon, half marathon, 10km race and the 5km race, with over 50,000 participating runners from 35 countries. This year's event was broadcasted live by CCTV and XMTV, with the relay broadcasted by over 40 TV stations worldwide. The Group is the event's sole sports producer partner for five consecutive years from 2009 to 2013 and has sponsored the sports apparel for the participants.

IAAF Shanghai Diamond League

The IAAF Diamond League is a renowned annual series of track and field meets. The Shanghai league was the second leg of the series this year and was held at the Shanghai Stadium on 23 May 2010. With seven world records created this year, the league featured "Chinese Flying Man" Liu Xiang, a 110m hurdler, and "The Jamaican Lightning" Usain Bolt, the world record holder for 100m and 200m, together with some of the world reigning and Olympic champions at the 16 diamond races. The Group was partner and the sole sportswear sponsor for this event from 2010-2012, highlighting the Group's continuous support towards the sports industry and further strengthening its focus on becoming a professional running brand. As the league was broadcast by 48 television stations worldwide, including live broadcasts by China Central Television Channel 5 (CCTV-5) and the British Broadcasting Corporation Channel 3 (BBC3) in United Kingdom, the Xtep brand was viewed by audiences worldwide, further enhancing its recognition and reputation.

Amway Nutrilite Healthy Run

The Group was the sponsor of the Amway Nutrilite Healthy Run held in Hefei in April 2010. The 5km run, which was also a supporting event for the 4th All-China Games, attracted over 20,000 participants.

2010 Olympic Day Run

The Group was one of the sponsors of the 2010 Olympic Day Run, organized by the Sports Federation & Olympic Committee of Hong Kong, China. The event was held in June this year at the Hong Kong Disneyland Resort which had attracted approximately 3,400 participants and 11 corporate teams.

BCFC-Xtep Walkathon for Brightness 2010

The BCFC-Xtep Walkathon for Brightness 2010 was sponsored jointly by the Group and Birmingham International Holdings Limited. The 3km walkathon attracted over 1,000 participants, including approximately 35 corporate teams, public participants and the visually impaired. Partnered with the organizer for the first time, the event raised approximately HK\$700,000 for the visually impaired.

Other Sports Events

In addition to sponsoring football and running events, the Group also sponsored other popular sports events to enhance and promote the Xtep brand name including:

CX National Games

To brand ourselves as an exciting game promoter and supporter, the Group has served as the sole title sponsor of the CX National Games for four consecutive years. Being the most prestigious CX Games competition in China, it included some of the world's most popular emerging sports among the youngsters, such as skateboarding, inline skating and many others. Due to its grand-scale, and high performance standards of the participants, the CX National Games captured enormous media attention and was named "The Best CX Games Competition in China". In addition, the Group sponsored the "CX Campus Games" at many Chinese universities in Beijing, Chengdu, Guangzhou, Shanghai, Shenyang and Wuhan.

Women's Chinese Basketball Association (WCBA)

To promote the Xtep brand through popular sports events and to display the sports products with fashion and trendy designs, the Group was the sole title sponsor of the WCBA from 2007 to 2013.

3. *Entertainment and Commercials*

Along with sponsoring international and nationwide events and high-profile sports events, the Group has been continuously implementing a unique marketing strategy combining sports and entertainment to connect with its customers and maximize brand exposure. Capitalizing on the football frenzy generated by the World Cup 2010, the Group launched two new commercials named "I love X Football" (我愛 X 足球) and "Embrace the legend" (共享傳奇), featuring the Xtep brand's spokespersons such as Nicholas Tse, Jolin Tsai and Wilber Pan. Dressed in the latest sportswear collection of the Xtep brand, the brand spokespersons exuded their energetic and stylish charisma and attracted numerous trend-followers. Not only did the well-received commercial catered for the football enthusiasm of the public, it also lifted the profile of the Xtep brand significantly.

During the 2010 autumn sales fair held in February this year, eight of the Xtep brand's spokespersons, namely Nicholas Tse, Jolin Tsai and Wilber Pan and the five "Super Girls", performed in front of over 5,000 distributors and franchisees. In addition to providing an opportunity for distributors, franchisees and all sales staff to have close encounters with the spokespersons, the performance also raised staff morale and enhanced their sense of belonging to the Group.

The Group utilized multimedia advertising strategies to draw the attention of consumers. Engaging commercials were aired during prime hours on leading channels, notching up high viewer ratings in different regions. The TV channels included:

National: CCTV-1 – As China Central Television’s (“CCTV”) most important all around national channel, it features a mix of all kinds of TV programs and is available to both cable and non-cable television viewers. The Group’s TV commercials were aired on this channel to increase brand awareness.

Sports: CCTV-5 – This is a dedicated national sports channel that features sports events of all types. The Group entered into a two-year agreement with CCTV-5 and became the official partner of CCTV-5 from 2008 to 2010. The aim is to broadcast the Xtep brand’s commercials during coverage of all live sporting events. The main purpose of this collaboration was to boost the Xtep brand’s profile in the sports product sector.

Central China: Hunan Satellite TV – This channel is a popular primary TV channel that mainly offers entertainment and information programs in China. The Group is the sole title sponsor of “Progressing Everyday 《天天向上》”, a highly entertaining program with overwhelming response from audiences, which has helped to increase recognition of the Xtep brand.

Southern China: Southeast Satellite – This channel covers the southern provinces and Taiwan, with focus placed on the strait and entertainment. The Group is also a major sponsor of a popular music program “Southeast Music Chart Awards”, which has attracted many young music lovers.

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

Digital: Sohu.com – The Group was the sports product sponsor for Sohu.com’s World Cup website and forged a three-year strategic partnership with Sohu.com from 2010-2012 on brand development and network promotion. Leveraging on the extensive network of Sohu.com, the Group is able to promote its fashionable brand differentiation to a wider consumer base through its entertaining and innovative commercials.

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

Innovative Products

Adhering to the brand philosophy of “Sports like no other”, the Group has continued to focus on expanding to expand the running and soccer series as well as other fashion oriented sportswear products series during the period under review. The Group has long prided itself on its high quality product design and R&D capabilities. Its product design team, which comprises over 600 industry professionals, works closely with reputable fashion and trend research and design institutions in England, France, South

Korea and the United States, for their advanced fashion knowledge and global exposure in order to offer a broad range of product designs to meet the changing needs of customers. To further strengthen its R&D capabilities, the Group has recently established a new 2,500 square meter R&D centre in Guangzhou, with a key focus on the development of new apparel lines. The centre is equipped with advanced design facilities and houses a design and R&D team with staff coming from different cities in Mainland China and Korea with immense knowledge and exposure in the fashion trends in China and abroad, bringing together a wide range of talent and experience.

In addition, the Group has adopted an application of Product Lifecycle Management (“PLM”), a web-based solution of managing the entire lifecycle of a product from its conception, through design and manufacture, to product delivery. This application offers a collaborative platform for the design and R&D teams, factories and suppliers, aiming at reducing product development time lines and improving product quality.

Footwear Products

During the period under review, the Group launched more than 1,900 types of new and fashionable footwear designs mainly under six categories, namely running shoes, classic shoes, casual shoes, basketball shoes, tennis shoes and children shoes, all of which blend fashion with function. In addition, the Group launched the stylish “Super Girls” footwear series for the trendy customers. One of the Group’s key success factors lies with its innovative and creative trendy products. The Group has placed much emphasis to improve the functionality and technological standard in its footwear products at all times. During the period under review, the following key elements have been enhanced by adopting advanced technologies:

- self-developed X-CJ jelly material and high elastic EVA material to improve shock resistant
- super light weight material to reduce the weight of performance long distance running shoes
- nanosilver anti-bacterial chemicals to depress the inhabitation of bacteria

Apparel Products

During the period under review, the Group introduced more than 2,600 types of sportswear apparel designs under four collections, namely soccer, comprehensive training, tennis and city, unveiling the fashionable and energetic essence of the Xtep brand to the target customers. In addition, the brand new “Super Girls” sports series, which featured winners of the hottest “Super Girls” singing contest, was launched during the period under review and has received positive response from the customers.

In addition, the Group continued to employ cutting-edge technology to enhance the functions of the sportswear apparel, emphasizing on the comfort and breathability features. Cool and comfortable fibres are processed with nano-technology which offer maximum comfort by filtering the thermal radiation in light and reducing heat. Eco-friendly warm fibres are also used to keep warm and breathable.

Channel Establishment

A strong foothold nationwide

As at 30 June 2010, the Group had a total of 7,009 retail outlets through its network of distributors and third-party retailers. The following table illustrates the number of retail outlets operated by the Group's distributors and third-party retailers under the Xtep brand and Other brands:

Number of retail outlets

Brands	As at 30 June 2010	As at 31 December 2009	Changes
Xtep brand	6,579	6,103	+476
Other brands	430	430	–
Total	<u>7,009</u>	<u>6,533</u>	<u>+476</u>

The following table details the number of retail outlets and flagship stores of Xtep brand and Other brands by geographic region in China as at 30 June 2010:

	Number of Xtep brand retail outlets	Number of Xtep brand flagship stores	Number of Other brands retail outlets	Number of Other brands flagship stores
Eastern region	2,549	13	146	–
Southern region	1,625	12	117	1
Western region	1,106	4	41	–
Northern region	1,299	7	126	–
Total	<u>6,579</u>	<u>36</u>	<u>430</u>	<u>1</u>

Xtep Brand

As the Xtep brand continues to expand its retail network profile, the total number of retail outlets, flagship stores, gross saleable area and average saleable area per retail outlet are as follows:

	As at 30 June 2010	As at 31 December 2009	Changes
Total number of retail outlets	6,579	6,103	+476
Total number of flagship stores	36	30	+6
Gross saleable areas (square meters)	555,000	498,000	+11.4%
Average saleable area per retail outlet (square meters)	84.4	81.6	+3.4%

Major Regions

During the period under review, the Xtep brand sales network expanded rapidly throughout the nation, in particular, Hunan and Hubei provinces in the southern region, as well as Jiangsu, Zhejiang, Anhui and Shandong provinces in the eastern region were among the Group's key retail outlet network. According to the latest figures released by the National Bureau of Statistics of China, the GDP in most of the above regions recorded double-digit growth, outperforming China's overall GDP level of 11.1% during the first half of 2010. The Group aims to further expand its business network in these fast growing areas. As at 30 June 2010, the Group had a total of 4,174 retail outlets through its distributors or third-party retailers in the eastern and southern regions, accounting for approximately 63% of its total national retail network.

Flagship Store Development

The Group strives to enhance its recognition and customer loyalty through setting up and renovating its flagship stores. As at 30 June 2010, the Group had a total of 36 Xtep brand flagship stores, an increase of 6 stores as compared to 31 December 2009. These flagship stores are located in prime locations across the nation including Hunan, Hubei, Anhui and Shandong.

Capturing a New Market

In early June 2010, the Group launched the first Xtep brand retail outlet in Taipei through a third-party distributor, which is located in the prime shopping district Ximending, becoming one of the first Chinese brand to enter into the Taiwan market. This marks an important step in the expansion of the Group's business network in the Southeast Asia.

Embracing a Digital Pathway

In May 2010, the Group partnered with Taobao.com, the largest online shopping marketplace in Asia, commanding hundreds of millions of high-quality sellers, to develop an efficient online business platform with the purpose of expanding its sales and distribution channels and optimizing emerging opportunities in e-commerce. With a registered user base of more than 190 million as at April 2010, Taobao.com captures an overwhelming majority of online shoppers in China. According to market research, China's online shopping market was estimated to reach approximately RMB280 billion in 2010, and it will further grow to approximately RMB1 trillion in 2013. Since its launch, the Group's online flagship store has also been well received, gaining recognition from consumers who enjoy the fun of shopping for Xtep sportswear products, including items exclusively available online. Along with the cooperation with Taobao.com, the Group has also established various online shops and flagship stores in Paipai.com and Youa.com during the period under review, in an effort to continue to capture the enormous potential arising from online shopping.

Other Brands

Other brands comprise of the Disney Sport brand and the Koling brand. These retail outlets are mainly in the northern and eastern regions due to the greater brand recognition in these areas.

The Group continues to focus on its multi-brand strategy to achieve sustainable growth. Much effort has been placed on developing the Disney Sport brand due to its huge market potential as Disney's popular characters are sought after by teenagers worldwide. On the other hand, the Group continued to reduce the operation of Koling brand, so that the Group can utilise the resources better in the mass market sector to generate better returns. During the period under review, significant achievement was made in developing the Disney Sport brand through the formation of licensing agreements for distribution of the brand products in 21 overseas countries including Southeast Asia, the Middle East and Middle Europe. This further extended the Group's reach on the world stage. As at 30 June 2010, there were 430 Other brands retail outlets in China.

Management Capability

Channel management

The Group's strong and stable network of seasoned distributors across the country has been crucial to its success. Valued as important business partners, the Group has appointed a total of 28 exclusive Xtep brand distributors and 50 Other brands distributors to cover 31 provinces. In-depth training in areas of marketing, visual merchandising and inventory management is provided on a regular basis to ensure the steadfast image of the Group as a fashion sportswear leader.

The Group also adopts a standard code of practice that covers operations, specifications on outlet design and layout settings, customer service standards and pricing policies, in order to maintain a consistent and uniform brand image across all retail outlets. The Group has issued standardized manuals detailing guidelines on the display of products to all its retail outlets, ensuring a uniformity of style throughout the country. The outlook and the decoration of the stores are also upgraded every two years to provide customers with new and refreshing shopping experience.

A stringent distribution management system has also contributed to the retail outlets' smooth operations. As at 30 June 2010, up to approximately 55% of the Xtep brand retail outlets nationwide have adopted the real-time monitoring DRP system. The DRP system, which directly links up with the distributors' inventory and financial systems as well as the retail outlet sales system, allows the Group to record and track real-time inventory levels and monitor the movement of products at warehouses and retail outlets. Consequently, the Group can better plan and closely monitor the market situation as well as optimize inventory control. By keeping track of the preferences and consumption behaviors of customers, the system also assisted the Group in enhancing its product design of the new season.

Supply chain management

A vertically integrated business model from design and production to sales and distribution management enables the Group to respond quickly to the ever-changing market demands and fashion trends through the use of its own production facilities. During the period under review, the Group's own facilities included 12 footwear production lines and 20 apparel production lines with a total annual production capacity of approximately 12 million pairs of footwear products and approximately 3 million pieces of apparel products. The utilization rate of the production facilities was 100%. In terms of sales volume, approximately 60% of footwear and 7% of apparel products were manufactured by the Group during the period under review.

Staff development

The Group recognizes people as one of its most important assets and is committed to developing its staff to perform at their full potential. During the period under review, a number of training courses were provided for both the distributors and retail salespersons to enhance their management skills and sales techniques. Staff were constantly updated with latest product information. The training sessions not only helped to nurture the corporate culture, but also cultivated a sense of belonging among staff.

Apart from regular training sessions, the Group had strengthened its internal control by adopting various methods to evaluate staff performance. For instance, "invisible customer" assessment was implemented across the nation to evaluate from a customer's perspective on a variety of aspects including the retail stores' tidiness, customer services and politeness of the staff. Other aspects such as the display and decoration of the retail stores were also reviewed to see if they had complied with the guidelines set forth in the manual.

Financial Review

Revenue and Gross Profit Margin Breakdown by Branded Product Sales

For the six months ended 30 June

	Revenue (RMB'000)			As a percentage of revenue (%)		Gross profit margin (%)		
	2010	2009	Changes (%)	2010	2009	2010	2009	Changes (pts)
Xtep brand	1,900,785	1,548,780	+22.7	93.2	92.3	40.5	38.5	+2.0
Other brands	139,371	128,656	+8.3	6.8	7.7	44.4	40.4	+4.0
Total	<u>2,040,156</u>	<u>1,677,436</u>	<u>+21.6</u>	<u>100.0</u>	<u>100.0</u>	<u>40.7</u>	<u>38.6</u>	<u>+2.1</u>

For the six months ended 30 June 2010, the total revenue of the Group increased by approximately 22% to approximately RMB2.0 billion (2009: RMB1.7 billion). The gross profit margin grew by 2.1 percentage points to 40.7% (2009: 38.6%). The increase in overall revenue and gross profit margin was due to substantial and strong growth in the performance of the Xtep brand. Steady improvement of the Other brands due to the increase in sales of the Disney Sport brand was offset by the decrease in sales of the Koling brand. The Xtep brand products remained the Group's major products contributor, which accounted for approximately 93% of the Group's total revenue. The improvement in the Group's gross profit margin was due to the improvement of both of the Xtep brand and the Other brands product's gross profit margin.

Xtep Brand

Revenue Breakdown of Xtep Brand by Product Category

For the six months ended 30 June

	Revenue (RMB'000)			As a percentage of revenue (%)	
	2010	2009	Changes (%)	2010	2009
Footwear	817,852	733,689	+11.5	43.0	47.4
Apparel	1,050,235	801,616	+31.0	55.3	51.8
Accessories	32,698	13,475	+142.7	1.7	0.8
Total	<u>1,900,785</u>	<u>1,548,780</u>	<u>+22.7</u>	<u>100.0</u>	<u>100.0</u>
Gross profit margin	<u>40.5%</u>	<u>38.5%</u>	<u>+2.0 pts</u>		

For the six months ended 30 June 2010, the Group's total revenue from the Xtep brand products increased by approximately 23% to RMB1.9 billion (2009: RMB1.5 billion) and the gross profit margin increased by 2.0 percentage points to 40.5% (2009: 38.5%). The remarkable results of the Xtep brand products were mainly attributable to the widespread recognition of Xtep brand as a result of the sponsorship of a number of high-profile international and national sports events and its unique entertainment marketing method. Besides, as a result of the popularity of Xtep brand products among the general public and the satisfactory sales performance through its expanded sales channels and network.

Revenue, Sales Volume and Average Selling Price of Xtep Brand Footwear Products

For the six months ended 30 June

	2010	2009	Changes
Revenue (RMB million)	<u>817.8</u>	<u>733.7</u>	<u>+11.5%</u>
Sales volume (million)	9.5	9.1	+4.6%
Average selling price (RMB)	85.7	80.4	+6.6%
Gross profit margin	40.3%	38.9%	+1.4 pts

Revenue from Xtep brand footwear products rose by 11.5% to RMB0.8 billion (2009: RMB0.7 billion), accounting for 43.0% of the revenue from the Xtep brand. The growth in revenue was mainly because of the increase in the sales volume of footwear products by approximately 4.6% to 9.5 million pairs (2009: 9.1 million pairs) and average selling price by approximately 6.6% to RMB85.7 (2009: RMB80.4). The growth in average selling price was primarily as a result of the increase recognition on Xtep brand name and therefore the Group has increased the retail price of Xtep brand footwear and reduced the discount given to the distributors. Due to the increase in average selling price and successful cost control, the gross profit margin grew by 1.4 percentage points to 40.3% (2009: 38.9%).

Revenue, Sales Volume and Average Selling Price of Xtep Brand Apparel Products

For the six months ended 30 June

	2010	2009	Changes
Revenue (RMB million)	<u>1,050.2</u>	<u>801.6</u>	<u>+31.0%</u>
Sales volume (million)	20.0	17.4	+15.0%
Average selling price (RMB)	52.5	46.1	+13.9%
Gross profit margin	40.7%	38.2%	+2.5 pts

Revenue from Xtep brand apparel products increased by 31.0% to RMB1.1 billion (2009: RMB0.8 billion). The strong growth was due to the significant increase in the sales volume by approximately 15.0% to 20.0 million pieces (2009: 17.4 million pieces) and average selling price increased by approximately 13.9% to RMB52.5 (2009: RMB46.1). The substantial growth in sales volume was predominantly due to the strong and differentiated brand position of Xtep brand sportswear apparel products, providing the general market with a real sense of cutting edge fashion, coupled with the idol marketing to arouse the fashion conscious youngsters. Accordingly, the sales volume grew rapidly during the period under review.

As the Xtep brand name has risen significantly, the Group has increased the retail price of Xtep brand apparel and with tight cost control, the gross profit margin increased significantly by 2.5 percentage points to 40.7% (2009: 38.2%).

Notes:

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

Other Brands

Revenue Breakdown of Other Brands by Product Category

For the six months ended 30 June

	Revenue (RMB'000)			As a percentage of revenue (%)	
	2010	2009	Changes (%)	2010	2009
Footwear	37,840	55,781	-32.2	27.1	43.4
Apparel	94,447	65,272	+44.7	67.8	50.7
Accessories	7,084	7,603	-6.8	5.1	5.9
Total	<u>139,371</u>	<u>128,656</u>	<u>+8.3</u>	<u>100.0</u>	<u>100.0</u>
Gross profit margin	<u>44.4%</u>	<u>40.4%</u>	<u>+4.0 pts</u>		

Revenue from the Other brands was derived from the Disney Sport brand and the Koling brand. For the six months ended 30 June 2010, revenue from Other brands was RMB139.4 million (2009: RMB128.7 million), an increase of approximately 8.3% over that in the previous period, whereas the gross profit margin was 44.4% (2009: 40.4%). The increase in revenue was mainly due to increase of sales of Disney Sport brand products but it was offset by the decrease of Koling brand products. The increase in gross profit margin was mainly due to increase of Other brands apparel products.

Revenue, Sales Volume and Average Selling Price of Other Brands Footwear Products

For the six months ended 30 June

	2010	2009	Changes
Revenue (RMB million)	<u>37.8</u>	<u>55.8</u>	<u>-32.2%</u>
Sales volume (million)	0.6	0.7	-23.2%
Average selling price (RMB)	66.9	75.8	-11.7%
Gross profit margin	45.0%	45.3%	-0.3 pts

Revenue from the Other brands footwear products decreased by approximately 32.2% to RMB37.8 million (2009: RMB55.8 million). The decrease in revenue was primarily due to the decrease in sales volume by approximately 23.2% to 0.6 million pairs (2009: 0.7 million pairs) as a result of the scaling down the Koling brand's footwear products. Reduce in sales of Koling brand also caused the decrease in average selling price as it was priced at a higher ended market. As a result, the average selling price of footwear products decreased by approximately 11.7% to RMB66.9 (2009: RMB75.8). As the Group also reduced the cost of sales of footwear products, which resulted in a slight decrease in gross profit margin by 0.3 percentage points to 45.0% (2009: 45.3%).

Revenue, Sales Volume and Average Selling Price of Other Brands Apparel Products

For the six months ended 30 June

	2010	2009	Changes
Revenue (RMB million)	<u>94.4</u>	<u>65.3</u>	<u>+44.7%</u>
Sales volume (million)	1.1	0.8	+35.6%
Average selling price (RMB)	83.5	78.3	+6.7%
Gross profit margin	44.6%	37.8%	+6.8 pts

Revenue from the Other brands apparel products increased by 44.7% to RMB94.4 million (2009: RMB65.3 million). The increase in revenue was attributable to the increase in sales volume by approximately 35.6% to 1.1 million pieces (2009: 0.8 million pieces) and average selling price by approximately 6.7% to RMB83.5 (2009: RMB78.3). The significant increase in sales volume was mainly as a result of the successful marketing of the Disney Sport brand and fashion trendy collection of apparel products which were widely accepted by the young generation customers. As the popularity of the Disney Sport brand increased, the average selling price increased and therefore the gross profit margin increased. The significant increase in sales of the Disney Sport brand products had offset the decrease in sales of Koling brand products.

Notes:

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

Revenue Breakdown by Product Category

For the six months ended 30 June

	Revenue (RMB'000)			As a percentage of revenue (%)	
	2010	2009	Changes (%)	2010	2009
Footwear	855,692	789,470	+8.4	41.9	47.1
Apparel	1,144,682	866,888	+32.0	56.1	51.7
Accessories	39,782	21,078	+88.7	2.0	1.2
Total	<u>2,040,156</u>	<u>1,677,436</u>	<u>+21.6</u>	<u>100.0</u>	<u>100.0</u>
Gross profit margin	<u>40.7%</u>	<u>38.6%</u>	<u>+2.1 pts</u>		

Total revenue of the Group from footwear products rose by 8.4% to RMB0.9 billion (2009: RMB0.8 billion) and revenue from apparel products grew by 32.0% to RMB1.1 billion (2009: RMB0.9 billion), while revenue from accessories increased by 88.7% to RMB0.04 billion (2009: RMB0.02 billion). Revenue from apparel products accounted for 56.1% of the total revenue, primarily due to successful brand building and the marketing strategy to provide high quality fashion sports products for mass market.

Revenue Breakdown by Region Sales

For the six months ended 30 June

	2010		2009		Changes
	Revenue	As a percentage of revenue	Revenue	As a percentage of revenue	
	(RMB'000)	(%)	(RMB'000)	(%)	(%)
Xtep brand					
Eastern	804,309	39.4	607,485	36.2	+32.4
Southern	574,700	28.2	462,205	27.6	+24.3
Western	239,150	11.7	206,824	12.3	+15.6
Northern	282,626	13.9	272,266	16.2	+3.8
Sub-total	1,900,785	93.2	1,548,780	92.3	+22.7
Other brands	139,371	6.8	128,656	7.7	+8.3
Total	<u>2,040,156</u>	<u>100.0</u>	<u>1,677,436</u>	<u>100.0</u>	<u>+21.6</u>

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

Due to the effective marketing promotion of Xtep brand and the expansion of sales network, strong growth of the Xtep brand in the eastern region was recorded in Shandong province and Anhui province; the growth in the southern region was mainly in Hunan province and Hubei province; whereas the growth in the western region was mainly in Sichuan province.

Cost of Sales Breakdown

For the six months ended 30 June

	2010	As a	2009	As a	Changes
	Cost of	percentage	Cost of	percentage	
	sales	of cost	sales	of cost	
	(RMB'000)	of sales	(RMB'000)	of sales	(%)
		(%)		(%)	
Raw materials	536,787	44.4	452,398	43.9	+18.7
Outsourced production costs	602,661	49.8	517,535	50.3	+16.4
Direct staff costs	57,359	4.7	47,776	4.6	+20.0
Others	12,566	1.1	11,951	1.2	+5.1
Total	<u>1,209,373</u>	<u>100.0</u>	<u>1,029,660</u>	<u>100.0</u>	<u>+17.5</u>

Cost of sales

During the period under review, cost of sales of the Group increased by 17.5% as compared to the same period last year, mainly because of the increase in cost of raw materials and outsourced production costs. As the extent of increase of the Group's total cost of sales was less than the increase of the Group's total revenue, the Group's gross profit margin still recorded an increase.

As a result of the Group's stringent control over costs and quality, outsourced raw materials for part of the processing were purchased by the Group. Accordingly, the percentage of raw materials increased to approximately 44%. The increase in direct staff costs was due to the increase in staff's wages and benefits.

Other Income and Gains

During the period under review, other income and gains of the Group was approximately RMB10.1 million (2009: RMB6.7 million). The increase was primarily due to the increase in subsidy income received from the local Chinese government.

Selling and Distribution Costs

For the six months ended 30 June 2010, the Group's selling and distribution costs amounted to approximately RMB304.0 million (2009: RMB242.4 million), which represented approximately 14.9% (2009: 14.4%) of the Group's total revenue. Given the Group's strategy of enhancing its brand status, the sponsorship of high-profile sports events and its innovative entertainment marketing efforts, advertising and promotion costs increased from approximately RMB193.9 million in the first half of 2009 (accounting for 11.6% of revenue) to approximately RMB239.1 million (accounting for 11.7% of revenue) during the period under review.

General and Administrative Expenses

General and administrative expenses increased from approximately RMB80.8 million (accounting for 4.8% of revenue) for the first six months of 2009 to approximately RMB84.9 million (accounting for 4.2% of revenue) for the period under review. As a result of tight cost control which led to decrease in overall general and administrative expenses as a percentage of revenue. The Group's research and development expenses amounted to approximately RMB26.5 million (accounting for 1.3% of revenue) (2009: RMB28.5 million, accounting for 1.7% of revenue), mainly related to the improvement of footwear design and functions as well as the enhancement of apparel quality in terms of appearance, function and durability.

Income Tax Expense

Income tax expense of the Group for the period under review amounted to approximately RMB81.2 million (2009: RMB24.6 million).

Pursuant to the New Enterprise Income Tax Law of the PRC and its implementation rules (effective from 1 January 2008), both domestic enterprises and foreign-invested enterprises are subject to the unified PRC enterprise income tax rate of 25%. Xtep (China) enjoyed a 50% tax reduction at the unified tax rate of 25% for the year ended 31 December 2008 and 2009 and subject to the unified tax rate of 25% thereafter. Koling (Fujian) Garment Co., Ltd. enjoyed exemption of the PRC enterprise income tax for the year ended 31 December 2008 and 2009, and thereafter will be entitled to a 50% reduction in the PRC enterprise income tax over the next three years. Since the Group enjoyed a more preferential tax exemption in the period ended 31 December 2009, the effective tax rate for the period under review was 17.9%, which was higher as compared to 7.4% in the same period last year.

Profit Attributable to Equity Holders and Net Profit Margin

For the six months ended 30 June 2010, the profit attributable to equity holders of the Company amounted to approximately RMB373.5 million (2009: RMB306.5 million), an increase of approximately 22% over the same period last year. The Group's gross profit margin increased to 40.7% (2009: 38.6%) due to the improvement of the Xtep brand gross profit margin which rose to 40.5% (2009: 38.5%). With tight and effective cost control, the Group's operating margin improved to 22.2% (2009: 19.8%). Since the preferential tax treatment mainly ended in 2009, the Group's effective tax rate increased to 17.9% (2009: 7.4%). As a result, the Group's net profit margin was 18.3% (2009: 18.3%).

Working Capital Cycle

During the period, the Group's overall working capital cycle decreased by 14 days to 27 days as compared to the same period last year (2009: 41 days). For the six months ended 30 June 2009, the Group's overall working capital cycle decreased by 21 days to 41 days as compared to the six months ended 30 June 2008 (2008: 62 days).

The Group's average inventory turnover days decreased by 3 days to 46 days as compared to the same period last year (2009: 49 days), primarily due to improved production planning, procurement control and logistics management.

The Group's average trade and bills receivables turnover days decreased by 3 days to 57 days as compared to the same period last year (2009: 60 days), predominantly due to improvement on credit control.

The Group's average trade and bills payable turnover days increased by 8 days to 76 days as compared to the same period last year (2009: 68 days), primarily as a result of tighter cash management.

Liquidity and Capital Resources

As at 30 June 2010, the Group's current assets was approximately RMB3,644.1 million (31 December 2009: RMB3,365.6 million) representing an increase of 8.3% where the Group's current liabilities was approximately RMB814.0 million (31 December 2009: RMB629.3 million) representing an increase of 29.4%. The higher rate of increase in current liabilities was due to the utilisation of suppliers' credit terms. As a result, the Group's current ratio was 4.5 (31 December 2009: 5.3).

The Group's primary sources of operating funds are cash flows from operating activities and cash and bank balances. The net cash inflow from operating activities for the six months ended 30 June 2010 was approximately RMB230 million (2009: RMB338 million). As explained above in the working capital cycle section, the Group's overall working capital turnover days for the period improved by 14 days (2009: improved by 21 days). As a result, the net cash inflow for the period was less than the last period. As at 30 June 2010, the Group's total cash and bank balances amounted to approximately RMB2,435.4 million (31 December 2009: RMB2,497.6 million), represented approximately 2.5% decrease which was mainly due to payment of dividends. As at 30 June 2010, the Group's bank borrowing amounted to nil (31 December 2009: nil). As at 30 June 2010, the Group did not pledge any asset to secure any banking facilities granted to the Group. As at 30 June 2010, the Group's gearing ratio was 0% (31 December 2009: 0%), which is defined as total borrowings divided by the sum of share capital and reserves of the Group. The Group maintained a net cash position, reflecting its healthy financial condition, paving the way for future development.

Inventory Provision

For the six months ended 30 June 2010, the Group did not have any inventory provision.

Doubtful Debt Provision

For the six months ended 30 June 2010, the Group did not have any doubtful debt provision.

Capital Commitments and Contingent Liabilities

As at 30 June 2010, the Group did not have any material capital commitments or contingent liabilities.

Foreign Currency Risks

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

Significant Investments and Acquisitions

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

Use of Net Proceeds from the Global Offering

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

Proceeds from the Global Offer (HK\$ million)

Use of proceeds	Available to utilize	Utilized (as at 30 June 2010)	Unutilized (as at 30 June 2010)
Media advertising and brand promotion activities	459	459	–
Expanding and improving distribution network	355	223	132
Expanding production and operating facilities	397	150	247
Acquiring brands	501	–	501
Enhancing design and R&D capabilities	146	146	–
Enhancing IT management system	63	29	34
General working capital	167	167	–
Total	<u>2,088</u>	<u>1,174</u>	<u>914</u>

Human Resources

As at 30 June 2010, the Group had 7,383 employees (31 December 2009: 7,352 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 development of its organizational structure and corporate culture to ensure that the Group will be able to maintain sustainable development in the future.

Prospects

Market Outlook

In response to the global financial turmoil that swept across the world, the Chinese government implemented effective policies that achieved remarkable results. With its GDP growing at a steady pace and its citizens' income expanding, China emerged from the crisis stronger and continues to be one of the fastest growing economies in the world.

The market potential for the sports industry in China is particularly promising, partly due to the favorable measures and stimulus plan laid out by the Chinese government, including the construction of sports infrastructure, in both urban and rural areas, and the promotion of sports as a way of life. A series of influential sports events both at home and abroad further strengthen Chinese citizens' awareness of health and their passion in sports, thus propelling the consumption of sports products. As one of the leading sports brands, the Xtep brand is well positioned to capture these opportunities and further expand its business.

Integrated Marketing and Promotions

Creative marketing and promotions that integrate sports and entertainment remain a focal point for the Group. A series of publicity strategies will be deployed by the Xtep brand in the second half of 2010 to further enhance its brand recognition.

Football

The Group provides outfits for the BCFC in the coming season which started in August 2010, becoming the first Chinese sports brand to appear on stage as a sponsor of the English Premier League. The sponsorship demonstrates the functionality of the Group's products to people from around the world and raise the brand's position in the international arena, The new "Xtep-Birmingham" outfits designed by the Group were unveiled during the "Xtep Cup China Tour" held in July 2010 when the Birmingham team players wore the new outfits in their games against the football teams of Hong Kong, Beijing and Shenyang. Riding on the football frenzy engendered by the 2010 World Cup, the tour has aroused national attention and further enhanced the Group's brand awareness in both the domestic and overseas markets.

Running

The Group plans to leverage on other high-profile running events to achieve greater brand visibility in the second half of 2010 mainly as follows:

- Tibet International Half Marathon Challenge
- Xian City Wall Marathon
- Healthy Running

Entertainment

Entertainment marketing remains as one of the key strategies through which the Group reaches to the younger generation. In the second half of 2010, the Group will host a number of concerts including the “Hangzhou Music Festival” and “Xtep-Southeast Satellite Music Award Nationwide Concert Tour 2010” which will be held in cities Kunming, Harbin, Chengdu, Zhengzhou, Xi’an and Haikou. The Xtep brand’s spokesperson including Nicholas Tse, Wilber Pan and Jolin Tsai, as well as the five “Super Girls” will perform in the concerts in August to October 2010. With reference to the overwhelming public response towards the concerts hosted by the Group in previous years, the events are expected to create another wave of excitement and reinforce the brand’s image among the younger generation.

As Hunan Satellite is one of the major entertainment channels in China, the Group will continue its title sponsorship of the high viewing ratings program “Progressing Everyday 《天天向上》”. To further increase market attention and brand recognition, the Group will strengthen its strategic partnerships with major television channels such as CCTV-1, CCTV-5, Hunan Satellite, Anhui Satellite, Zhejiang Satellite, and Jiangsu Satellite by launching more new TV commercials and increasing product placements in these channels. Additional efforts will be placed on some of the new strategic markets such as Heilongjiang and Sichuan.

Innovative Products

Leveraging on its sound design and R&D teams, the Group will continue to launch innovative products blending fashion and sports. The Group will expand its footwear collection by introducing new products series to meet the different needs of customers. For instance, new running shoes series will be launched with features that are suitable for a variety of environment and functions, while the new outdoor shoes series will cater to the needs of outdoor enthusiasts with rugged style. Since the Group has entered into a sponsorship agreement with Birmingham International Holdings Limited under which the Group will supply apparel to BCFC, a number of related products such as “Xtep-BCFC” collection and BCFC football jersey collection, will soon enter the market to further enrich its product offerings.

Retail Network Expansion

The Group places great importance on the expanding of its sales network as a key to increase its market penetration. More flagship stores are to be set up across the nation so as to enhance the Group's brand recognition and reputation with the focus on second and third-tier provinces such as Hunan, Hubei, Anhui, Sichuan and Shandong. The Group targets to have approximately 7,000 retail outlets of Xtep brand by the end of 2010.

For overseas expansion, the Group plans to expand its sales network abroad with a focus on Middle East countries such as Turkey, Saudi Arabia and Egypt and the Southeast Asian countries such as Indonesia.

E-commerce Platform Enhancement

In view of the increasing popularity of online shopping among youngsters, the Group believes e-commerce possesses huge market potential and sees it as one of the important sales networks in the near future. Along with the partnership with Sohu.com and Taobao.com, the Group will continue to develop and strengthen its e-commerce platform in the cyberspace by identifying and seeking cooperation with other high traffic e-platforms.

Distinguished Design and R&D Capabilities

The Group believes that design and R&D capabilities are fundamental to their business and will continue to offer high-quality sports products by allocating more resources on product design and R&D. The Group's R&D capabilities has been further strengthened with the newly set-up R&D centre in Guangzhou which is equipped with advanced facilities and a strong design team. The Group will continue to launch products blending fashion and sports and attract more experienced designers with diverse backgrounds and expertise as part of an aim to stay at the forefront of the latest fashion trends and sports functionality.

Optimizing Production

The Group's long-term development objective is to produce high-quality products at a lower cost. The Group will expand the quality supplier chain in the Fujian, Jiangxi and Anhui province to lower production cost and increase the Group's overall production efficiency.

Conclusion

China's sports product industry is thriving thanks to the growth in the domestic economy and the increasing popularity of sports among Chinese citizens. The Group will press ahead with its unique and innovative brand differentiation strategies to further strengthen Xtep brand's market positioning and its recognition at the global level. Looking ahead, the Group will continue to adopt integrated marketing strategies, offer more innovative products and designs, broaden its retail network, and assemble experienced design and R&D teams to improve its production capacity to consolidate its position as an industry leader.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions contained in the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Company has complied with such code provisions throughout the six months ended 30 June 2010 except for the deviation from code provision A.2.1 as disclosed below.

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

MODEL CODE

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions throughout the six months ended 30 June 2010.

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 2010.

The external auditor has reviewed the condensed consolidated interim financial statements for the six months ended 30 June 2010 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 2010.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this announcement, the Company has maintained the prescribed public float of not less than 25% of the Company's issued shares as required under the Listing Rules for the period from the listing date to 30 June 2010.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company's website (www.xtep.com.hk). The interim report for the six months ended 30 June 2010 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and available on the same websites in due course.

DIVIDEND

In view of the strong business growth and the solid cash position of the Group, the Board declared an interim dividend of HK10.0 cents (equivalent to approximately RMB8.7 cents) per Share, which represented approximately 43% increased as compared to last period (2009: HK7.0 cents, equivalent to approximately RMB6.2 cents). The interim dividends amount to a total payout of HK\$217,468,000 (equivalent to approximately RMB190,263,000 (2009: HK\$152,155,150, equivalent to approximately RMB134,155,000)). The dividend payout ratio for the period under review was approximately 51% (2009: 44%).

CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members of the Company will be closed from Tuesday, 7 September 2010 to Thursday, 9 September 2010, both days inclusive, for the purpose of determining Shareholders' entitlements to the proposed interim dividend. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 6 September 2010.

DEFINITIONS

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

“Board”	The Board of Directors of the Company
“Business Day”	Any day on which the Hong Kong Stock Exchange is open for the business of dealing in securities
“Company” or “Xtep”	Xtep International Holdings Limited
“Director(s)”	The director(s) of the Company
“DRP System”	Distribution Resource Planning System
“EVA material”	Ethylene-vinyl acetate material
“GDP”	Gross domestic product
“Group”	The Company and its subsidiaries
“Group Success”	Group Success Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 23 February 2007, the entire issued share capital of which is directly owned as to 63.2% by Mr. Ding Shui Po and 36.8% by Ms. Ding Mei Qing
“HK\$” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IAAF Shanghai Diamond League”	International Association of Athletics Federations Diamond League Shanghai
“IT”	Information Technology
“Listing Date”	3 June 2008, on which dealing in the Shares first commence on the Hong Kong Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited

“Model Code”	Model code for securities transactions by directors of listed issuers
“Other brands”	Disney Sport brand and Koling brand collectively
“PRC”	The People’s Republic of China excluding, for the purpose of this interim report, Hong Kong, Macau and Taiwan
“Pre-IPO Share Option Scheme”	The share option scheme for employees of the Group approved and adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed “Pre-IPO Share Option Scheme” in Appendix VI to the prospectus of the Company dated 21 May 2008
“R&D”	Research and development
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	Ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Share Option Scheme”	The share option scheme adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed “Share Option Scheme” in Appendix VI to the prospectus of the Company dated 21 May 2008
“Shareholder(s)”	Shareholder(s) of the Company
“Xtep (China)”	Xtep (China) Co., Ltd., an indirect wholly-owned subsidiary of the Group

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

Hong Kong, 23 August 2010

As at the date of this announcement, the executive directors of the Company are Mr. Ding Shui Po, Ms. Ding Mei Qing, Mr. Lin Zhang Li, Mr. Ding Ming Zhong, Mr. Ye Qi and Mr. Ho Yui Pok, Eleutherius; the non-executive directors of the Company are Mr. Xiao Feng and Mr. Tan Wee Seng and the independent non-executive directors of the Company are Mr. Sin Ka Man, Mr. Xu Peng Xiang and Dr. Gao Xian Feng.