

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

(Incorporated in the Cayman Islands with Limited Liability)
Stock code : 1368



Xtep – Principal Partner for the Volunteers of the World Expo 2010 Shanghai
特步 — 中國2010年上海世博會志願者首席合作伙伴



Expand Border ▶ **to the World**
2009 Annual Report





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2009 Prominent Events



China Sports for All Xtep Supports All

The 11th National Games of China Official Partner



中华人民共和国第十一届运动会合作伙伴



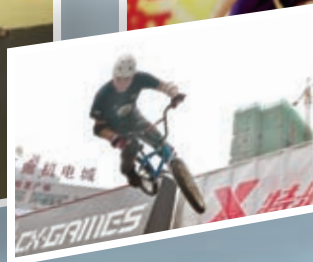
2009 Major Marketing Promotion

Sports Marketing and Sponsorships

Marathon



Exciting Games



Popular Sports



Entertainment Marketing



Strong TV Commercial Partnerships



东南卫视



中国·安徽卫视
CHINA ANHUI TV STATION



湖南卫视



中央电视台



2009-2010 直播赛事节目合作伙伴



中国全民全运 特步全力以赴

特步，让全运会与众不同

2009 Awards

May 1st Labor Medal

All China Federation of Trade of Unions (ACFTU)
(April 2009)

Platinum Donors Award

The Community Chest (May 2009)

Outstanding Brand Awards 2009

Economic Digest (June 2009)

The Community Chest Annual Presentation of Awards 2008/09

The Community Chest (June 2009)

Asia's 200 Best Under A Billion

Forbes Asia (September 2009)

National Integrity Culture Development Top 10

China Culture Administration Society and China
Organization of Culture Assessment Base (October 2009)

Ernst & Young Entrepreneur Of The Year 2009 China

Ernst & Young (October 2009)

Most Competitive Brand in 2009

China Trademark Festival Steering Committee of China
Trademark Association 2009 (3rd session) (November 2009)

Outstanding Enterprise 2009

Economic Digest (November 2009)

Chinese Businessman Top 500 in 2009

Assessment Steering Committee of Top 500 Overseas
Chinese Merchants in China's Market organized by
Ta Kung Po (December 2009)

2009 Quanzhou Economic Figure of the Year

The 5th Quanzhou Annual Economy Meeting
(February 2010)





2009 (第三屆) 中國商標節

特步(中國)有限公司:

你單位的 X特步 商標被推 品商標, 特此證明。

2009

最具競爭力的商品商標

2009年(11月)

HONG KONG
OUTSTANDING
ENTERPRISES
香港傑出企業
經濟一龍

香港傑出企業 2009
Hong Kong Outstanding Enterprises

主 板

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



Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Xiao Feng (肖楓)

Independent non-executive Directors

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

BOARD COMMITTEES

Audit committee

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

Remuneration committee

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

Nomination committee

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

Economic and Technical Development Zone
Quanzhou City
Fujian Province
PRC 362000

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISER AS TO HONG KONG LAWS

Orrick, Herrington & Sutcliffe

AUDITORS

Ernst & Young

COMPLIANCE ADVISER

Shenyin Wanguo Capital (H.K.) Limited

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

INVESTOR RELATIONS CONSULTANTS

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

COMPANY WEBSITE

www.xtep.com.hk



Financial Highlights

Total Revenue

+24% to approximately >
RMB 3,545 million

Gross Profit Margin

+2.0 percentage points to > **39.1%**

Profit for the Year

+27% to approximately >
RMB 648 million

Proposed Final dividend per Share : **HK10.0 cents**
 Proposed Special dividend per Share : **HK5.0 cents**
 Interim dividend per Share : **HK7.0 cents**
 Total payout ratio : **65%**



CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

Financial Performance

Net profit margin: **18.3%** ↑ **0.6% pt**
 Basic earnings per Share: **RMB 29.8 cents** ↑ **11%**
 Working capital cycle reduced by 21 days to **32 days**

XTEP BRAND

	Gross profit margin	Sales Volume	Average selling price (wholesale price)
Footwear	39.1% ↑ 3.5% pts	19.1 mil pairs ↑ 5%	RMB 79.4 ↑ 9%
Apparel	39.1% ↑ 1.0% pt	28.6 mil pieces ↑ 33%	RMB 62.0 ↑ 10%





FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December

	2009	2008	2007	2006	2005
Profitability data (RMB million)					
Revenue	3,545.3	2,867.2	1,364.9	483.6	297.4
Gross profit	1,387.8	1,064.3	443.1	136.1	59.7
Operating profit	701.4	590.6	267.1	56.8	14.3
Profit for the year	647.5	508.2	221.9	50.1	8.2
Basic earnings per Share (RMB cents) (Note 1)	29.79	26.84	15.11	3.41	0.56
Profitability ratios (%)					
Gross profit margin	39.1	37.1	32.5	28.1	20.1
Operating profit margin	19.8	20.6	19.6	11.8	4.8
Net profit margin	18.3	17.7	16.3	10.4	2.8
Effective tax rate	7.8	12.0	13.1	–	9.6
Return on average total equity holders' equity (Note 2)	23.0	34.8	94.9	31.3	6.4
Operating ratios (as a percentage of revenue) (%)					
Advertising and marketing expenses	11.8	9.1	5.6	8.6	7.7
Staff costs	5.3	5.5	8.5	12.1	12.5
Research and development	1.6	1.6	1.2	1.3	1.1

As at 31 December

	2009	2008	2007	2006	2005
Assets and liabilities data (RMB million)					
Non-current assets	275.0	198.3	128.6	107.5	81.9
Current assets	3,365.6	3,079.9	774.9	414.9	234.0
Current liabilities	629.3	637.6	405.8	335.0	183.8
Non-current liabilities	27.3	2.8	217.9	–	–
Shareholders' equity	2,984.1	2,637.8	279.8	187.4	132.1
Asset and Working Capital data					
Current asset ratios	5.3	4.8	1.9	1.2	1.3
Gearing ratios (%) (Note 3)	0.0	4.7	41.5	105.1	67.6
Net asset value per Share (RMB) (Note 4)	1.37	1.21	N/A	N/A	N/A
Average inventory turnover days (days) (Note5)	47	49	68	133	156
Average trade receivables and bills receivables turnover days (days) (Note 6)	54	48	56	109	80
Average trade and bills payables turnover days (days) (Note 7)	69	44	30	74	70

Notes:

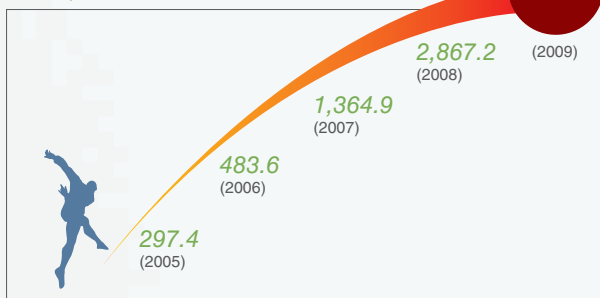
- 1) The calculation of basic earnings per Share is based on the profit attributable to ordinary equity holders of the Company divided by the weighted average number of ordinary shares in issue during the relevant year.
- 2) Return on average total equity holders' equity is equal to the profit for the year 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 year.
- 4) The calculation of net asset value per Share is based on the total number of Shares in issue after the Company's listing and at the end of the year.
- 5) Average inventory turnover days is equal to the average of opening and closing inventory divided by costs of sales and multiplied by 365 days.
- 6) Average trade receivables and bills receivables turnover days is equal to the average of opening and closing trade receivables divided by revenue and multiplied by 365 days (or 366 days in 2008).
- 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 365 days (or 366 days in 2008).



REVENUE (RMB million)

3,545.3 (2009)

+24%



OPERATING PROFIT (RMB million)

701.4 (2009)

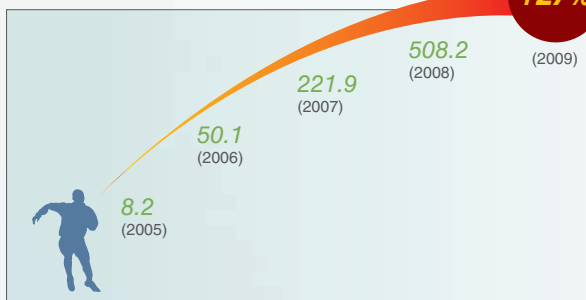
+19%



PROFIT FOR THE YEAR (RMB million)

647.5 (2009)

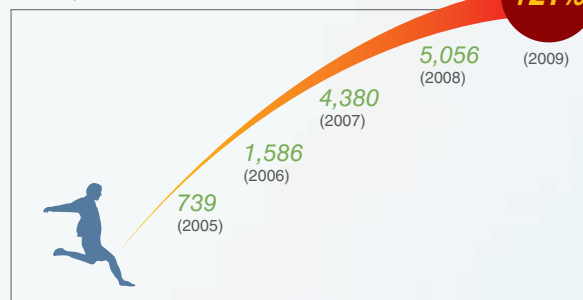
+27%



NUMBER OF XTEP STORES

6,103 (2009)

+21%



GROSS PROFIT MARGIN (%)

39.1 (2009)

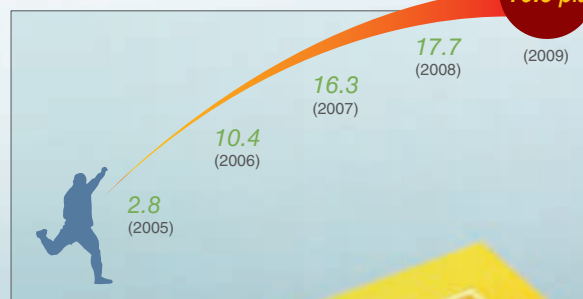
+2.0 pts



NET MARGIN (%)

18.3 (2009)

+0.6 pts





Alluring Spring Blossom





Chairman's Statement



XTEP:
**“Sports like no
other”** aim to
become a world-class
leading fashion
sportswear brand



Ding Shui Po
Chairman



Dear Shareholders:

On behalf of the Board of Xtep International Holdings Limited, I am pleased to present the audited annual results of the Group for the year ended 31 December 2009.

EXTRAORDINARY GROWTH


In the first half of 2009, the global market was still under the haze of the financial crisis and the world economy remained unstable. Under the PRC government's aggressive financial policies together with revitalization measures for progressive action on urbanization and domestic consumption, there appeared significant recovery in the domestic economy in the second half of the year. With the improving economic environment in the second half of 2009, the Group continued to promote Xtep brand through innovative sports and entertainment marketing strategies, therefore tremendously enhanced the recognition of Xtep brand and accordingly accelerated the expansion of the Group's retail network. As the Group implemented stringent control over the retail network operating efficiency which resulted in increase of average sales per store. The Group has succeeded in achieving extraordinary results and a pleasing performance in every aspect.

Total revenue of the Group for the year was RMB3,545.3 million (2008: RMB2,867.2 million), representing an increase of 24% over last year. Of which, revenue from Xtep brand increased significantly by approximately 28% to RMB3,330.8 million (2008: RMB2,606.2 million). Overall gross profit margin of the Group rose to 39.1% (2008: 37.1%). Profit attributable to shareholders was approximately RMB647.5 million (2008: RMB508.2 million), representing an increase of 27% over last year. Basic earnings per Share were RMB29.79 cents (2008:

RMB26.84), representing an increase of 11%. The reason for lesser growth in basic earnings per Share as compared to the growth in profit attributable to shareholders was due to the listing of the Group on 3 June 2008 and thus the calculation of the weighted average number of shares for 2008 was based on approximately 1.894 billion Shares while that for 2009 was based on 2.174 billion Shares. Given the satisfactory results and the adequate surplus cash balances, to reward the support of the Shareholders, the Board recommended the payment of a final dividend of HK10.0 cents per Share (2008: HK8.0 cents per Share) and a special dividend of HK5.0 cents per Share (2008: HK5.0 cents per Share). Together with an interim dividend of HK7.0 cents per Share (2008: HK5.0 cents per Share), the total dividend for the year amounted to HK22.0 cents per Share (2008: HK18.0 cents per Share), representing an increase of 22%. The total dividend payout ratio for the year amounted to 65%.

 Revenue from *Xtep brand*

+28%

To approximately
RMB 3,331 million 





BRAND ENHANCEMENT

The Group aims to develop Xtep brand into a world-class leading fashion sportswear brand and has continuously focused on branding by means of sponsoring nationwide and international events, high-profile sports events and adopting innovative entertainment marketing promotion. The recognition of Xtep brand has been strengthened and stepped towards a breakthrough in brand development. In October 2009, we were re-appointed as the sole sports product partner for the 11th National Games. The National Games is an important sports event in China organized every four years, attracting hundreds of millions of spectators. The Group is very honoured to be the sole sports product partner for the National Games again in 2009 and all of the eight representative teams we sponsored achieved satisfactory results. The sponsorship increased the recognition of Xtep brand in China significantly.

Apart from national contests, the Group is also very supportive to other major sports events in China. We believe that sponsoring these major sports events does not only enhance Xtep's brand image but also provides support to the development of domestic sports industry. To promote the spirit of "Sports for All" and be in line with the strengthening of Xtep brand's recognition in the running arena, the Group expands sponsorship and promotions in key running contests, including the Group's appointment as the sole sports product partner for the Xiamen International Marathon for five consecutive years from 2009 to 2013.

Brand differentiation has been a competitive advantage of the Group. To strengthen Xtep brand's leading position in the fashion sportswear sector, we take advantage of the influence of well-known entertainment icons among youngsters to promote through entertainment marketing events. During 2009, in the key PRC markets, the Group organized the "2009 Xtep Stars Nationwide Concert Tour" performed by Xtep brand's spokespersons. Besides, the Group appointed the top five winners of last year's hottest Chinese singing contest "Super Girl Talent Show", to be additional spokespersons. They held concerts in major cities in the PRC which were solely sponsored by Xtep brand, which drew in great publicity. All these superstars concerts have attracted wide coverage of the media, including television, magazines, newspapers and the internet, strengthening Xtep brand's recognition and its leading position in the fashion trends.

The Group fully understands the importance of marketing promotions. To further intensify our brand promotions, we continue to optimize media's channels for promotions. This year, the Group became a partner of CCTV for its live match programs from 2009 to 2010. Furthermore, the penetration of TV commercials and TV program sponsorship with extremely high national viewing ratings such as Hunan Satellite and Anhui Satellite has further increased Xtep brand's recognition among the TV audience.



“LOVE RUNNING, LOVE XTEP”

Among the sports industry in China, running products have enormous potentials for growth. Therefore, we focus on improving the design and functionality factors in our running product series, including the launch of various new series of lightweight, shock resistant and fashionable light running shoes. Xtep has been actively strengthening the fashion sense and functionality of product designs. The Group cooperates closely with design teams in the England, France and Korea in launching multi-functional and trend-setting new products and has succeeded in developing fashion products featuring cold protection, sweat absorption, UV resistance and 3D cutting. The Group believes that products blending fashion and functionality is an important strategy for Xtep brand to be successful in attracting and retaining consumers.

The Group has devoted respective resources into the running product series to increase market attention. During the year, the Group has launched new TV commercials at major television channels such as CCTV, Hunan Satellite and Anhui Satellite with the slogan of “Love Running, Love Xtep”, aiming to enhance the brand position of Xtep brand’s running shoes series among consumers.

NETWORK EXPANSION

During the year, the Group strived continuously to enhance the retail network so as to face a challenging market environment. Therefore, the Group made comprehensive improvements aspects of site selections, store image designs and customer services. Given the tremendous rise in the recognition of Xtep brand, Xtep brand’s products are extremely popular in China’s second and third-tier markets. As at 31 December 2009, the number of Xtep brand retail outlets had already reached 6,103 (2008: 5,056), representing an increase of approximately 21% over last year and exceeding our target of 5,800 outlets set in 2009. Currently, most of the Xtep brand retail outlets in the country have been renewed into the fifth-generation shop design and over 85% of the retail outlets are located in the second and third-tier markets. We believe that innovative store designs will provide customers with a more pleasant shopping environment and enhance consumer satisfaction.

Establishment of flagship stores is an important part of brand building of the Group’s image. As at 31 December 2009, the total number of Xtep brand flagship stores in China reached 30 outlets. The Chinese economy has been growing fast, especially astounding economic developments in the second- and third-tier cities. We have placed second and third-tier cities as the core markets for development, in particular the immense market potentials hidden in Central and North East of China. Currently, Xtep brand has already established its leading market position in areas of the Hunan Province, hence provided a solid foundation for further market expansion in other second and third-tier cities so that more Chinese consumers can experience the extraordinary brand essence of Xtep brand.





DISTINGUISHED MANAGEMENT

We place great emphasis on corporate management. To further enhance management systems for increased project operating efficiency, we are active in improving supply chain and strengthening management in design, production, sales and distribution, with an aim to promptly react to the continuously changing market needs and fashion trends. In 2009, real-time monitoring of the distribution resource planning (DRP) system adopted by the Group covered approximately 50% of Xtep brand nationwide retail outlets. The DRP system is capable of tracking real-time sales, inventory and product conditions, hence enabling the Group to be more effective in planning and monitoring of sales and market conditions.

Thanks to the rising brand image and recognition of Xtep brand together with the dedicated work and efforts of the entire management and staff towards the Group, I was very honored to be awarded the “Ernst & Young Entrepreneur of the Year” for 2009 China, organized by Ernst & Young and selected by an independent and professional panel of experts. This award is being praised in the market as the “Oscars” for the business sector. Furthermore, in March 2010, the Group was accredited by Hang Seng Indexes as a constituent of three Hang Seng Composite Index series namely:

- a) Hang Seng Composite Index;
- b) Hang Seng Composite Industry Index – Consumer Goods; and
- c) Hang Seng Composite Small Cap Index.

Having such prestigious award and accreditation are great encouragements for our future corporate developments.

WORLD-CLASS BRAND, CHINA MARKET

Along with the effective and sustained economic development, speedy urbanization reforms and aggressive promotion of domestic demand and consumption in China, the Chinese consumers are expected to grow continuously in the long run. The sports industry is going to be one of the key industries supported by the Chinese government and the domestic sports product industry will continue to benefit from it in the foreseeable future. To increase the presence of Xtep brand as a world-class brand, the Group will continue to strengthen brand building, product innovation, network expansion and distinguished management.

The Shanghai World Expo to be held in 2010 will be a world-class event for China to demonstrate the country's culture, economy and enterprises to the world. The Group is very proud to become the principal sponsoring partner for the volunteers of the Shanghai World Expo 2010. All volunteers within the Expo arena will wear exclusive “Expo Xtep” sports outfits as designed and provided by the Group. Therefore, participants of different races, countries and enterprises will take note of the fashion and high quality of the sportswear provided by the Group, again raising Xtep brand's position in world-class events.

To enable the staging of Xtep brand at top sports contests going forward, the Group is competing aggressively for the cooperation with international teams. In January 2010, the



Group made a breakthrough development by concluding an agreement with one of the world's top class football leagues, the English premier league, Birmingham City Football Club for the appointment as the sole sports product sponsor for five years from August 2010 to May 2015. Such sponsorship has made history at which Xtep brand will become China's first sports brand to appear on stage as a sponsor at an English premier league. The global broadcast of the contests for the next five years will be watched by hundreds of millions of soccer fans and spectators and they will watch players of the Birmingham team wearing professional and fashionable "Xtep-Birmingham" outfits designed and sponsored by the Group which are capable of demonstrating the dynamic movements of the various players in world-class professional football matches. 2010 is also the year of the World Cup. Therefore, the Group also teamed up with one of the key domestic websites Sohu in becoming the sports product sponsor for Sohu's World Cup website. Taking advantage of Sohu's huge customer base, latest products and updates of Xtep brand will be promoted to the web-viewers while they are browsing the latest news and match results at the website.

To enhance the quality of product designs, the Group will recruit more renowned designers with international experience to join our design team and will set up a R&D center equipped with advanced design facilities in Guangzhou with an aim to launch more new-style products going forward. Besides, the Group will launch the design of Xtep "ultra-light marathon shoes" exclusively for long-distance running events and various fashionable shock-resistant shoes series to strengthen the promotion of running shoes.

The Group also plans to continue the expansion of domestic sales network. In 2010, we plan to increase 800-1,000 Xtep brand retail outlets and 5-8 flagship stores in the premier areas to lift Xtep's brand position.

The Group also places great emphasis on management quality. Going forward, we will continue to focus on the improvement of corporate governance practice, operational strategy and financial management of the management team. Furthermore, we will continue our stringent control and management of the sales channel network and operations of the supply chain. The Group will continue to develop multi-brand strategy and pay close attention to opportunities to expand the multi-brand operation.

SINCERE GRATITUDE

The Group's capability in maintaining distinguished growth is attributed to the loyal services and the relentless efforts of the management and the staff. On behalf of the Board, I would like to take this opportunity to extend my heartfelt thanks to all of our staff for their contributions made during the year. I would also like to express my sincere gratitude to our Shareholders and business partners for their long-term support and trust. The Group will continue to advance its position to become a world-class leading fashion sportswear brand.

Ding Shui Po

Chairman

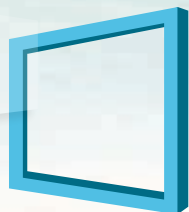
Hong Kong, 29 March 2010







**Ardent
Summer Passion**



Management Discussion and Analysis



MARKET REVIEW

2009, AN EVOLUTIONARY YEAR

In early 2009, the global economy went through challenges and all countries faced various levels of economic deceleration, and China's economic developments was also affected by these external factors. However, the subsequent effective stimulative package including economic and monetary policies launched by the Chinese government have helped domestic industries to regain growth in the second half of the year. The National Bureau of Statistics of China announced that China's GDP for 2009 increased by approximately 8.7% over last year to RMB33,535.3 billion. Moreover, the growth of total retail sales was accelerating and the total annual social consumables of China for 2009 rose by approximately 15.5% over last year to RMB12,534.3 billion, of which, the retail sales of consumer products in urban areas grew by approximately 15.5% over last year to RMB8,513.3 billion. All market indicators have shown that China is situated in a recovery cycle faster than abroad and people's confidence towards the economic outlook of China has been strengthened. Alongside a gradually improving labour market and a constantly rising in purchasing power, sports product will therefore benefits from such sustained consumption momentum. In addition to the fact that Chinese sports product brands have continued to improve, a booming domestic demand in China is indeed considerably favourable to the industry.

HUGE POTENTIALS IN THE MASS MARKET

The sports product industry is one of the major industries supported by the Chinese government. Stabilization of the economy and the sports product industry stimulus program launched by the government are expected to further drive the development of the Chinese sports product industry going forward. In recent years, while most of the retail markets in top tier cities have gradually reached their market potentials for the sportswear industry, the growth in purchasing power of second and third-tier cities was increased steadily due to the economic growth brought forth by the continuous urbanization in China. According to the release of the National Bureau of Statistics of China, in recent years, the GDPs of second and third-tier cities have continued to grow faster than top-tier cities such as Beijing, Shanghai and Shenzhen, in particular regions such as the Hunan, Hubei and Anhui provinces which have recorded growth of over 13% and have become leaders in the nation's economic growth. Rapid economic growth has driven the shift of capital and labour to second and third-tier cities, resulting in a drastic rise in consumer demand and accordingly a bigger market space. Therefore, having a quality retail network in second and third-tier markets will put the Group in a leading position.

SPORTY LIFESTYLE

Since the Beijing Olympics in 2008, Chinese citizens' interest and awareness towards sports have largely increased and a healthy sporty lifestyle has become part of quality of life. Since then, sports are not limited within track and field but have also blended into Chinese citizens' everyday life. It is expected that the post-Olympic effect as well as the forthcoming major international and domestic events such as Shanghai World Expo, South Africa World Cup, Guangzhou Asian Games and Shenzhen Universiade will continue to stimulate consumer interest in sports, hence sparking off a sports apparel consumption boom and providing huge room for the development of China's sports product industry. In recent years, the living standards of Chinese citizens have been rising continuously and the attitudes towards consumption have changed. People have become increasingly brand conscious and are in pursuit of style and trend in leisure consumption, turning fashion sportswear a favourite among the general public and creating unlimited business opportunities for the Group.



*International
Exposure*

*Sports
Sponsorship*

*Entertainment
Marketing*

*Media
Advertising*



BUSINESS REVIEW

The Group achieved sustainable growth in 2009 which was mainly due to the improvement of four core competitiveness of Xtep brand, namely brand building, innovative products, channel establishment and management capability.

BRAND BUILDING

“Sports like no other” is the core concept of Xtep brand. The Group has placed great emphasis on brand building to strengthen the leading position of Xtep brand in the fashion sportswear sector. During the year under review, the Group strived to launch differentiated branding and marketing promotions, through our unique sports and entertainment dual marketing strategies, sponsored national and international events as well as major sports events, hosted entertainment shows and implemented effective media promotions and carried out broad and effective publicity promotions at different channels having various facets and angles.



1. NATIONAL AND INTERNATIONAL EVENTS

All Involve, Sports for All

The 11th National Games was China's most spectacular sports event in 2009. The National Games is a significant sports event in China held every four years, and this year, the opening ceremony was hosted by President Hu Jin Tao. All provinces send their distinguished athletes to compete in the contests which received great attention from the media. The 11th National Games spanning 11 days was held in Jinan, Shandong Province, with a total of 33 major and 362 minor events awarding 551 gold medals. The Group is highly honored to be the sole sports product partner for this event and has sponsored all the outfits for the Shandong, Hunan, Fujian, Jiangsu, Liaoning, Guizhou, Hong Kong as well as the People's Liberation Army delegations. It was also the sole apparel sponsor for the staff, referees, volunteers and the torch relay event. Through live television and broadcast, hundreds of millions of people in various countries shared in the intense atmosphere of the games with the audience on site. Four out of the eight teams with outfits sponsored by the Group, namely Shandong Province, People's Liberation Army, Jiangsu Province and Liaoning Province, acquired the top four positions in the gold medal ranking at the 11th National Games. The Hong Kong team, also sponsored by the Group, had set a record for the number of medals obtained by the team in the past which has become a focus among the media. This promotion has tremendously boosted the recognition and reputation of Xtep brand in the domestic market. Such sponsorship has also deepened the Group's partnership with national premier games and highlighted the Group's support towards China's sports industry.





2. MAJOR SPORTS EVENTS

Love Running, Love Xtep

Apart from being the leader in the fashion sportswear market, Xtep has strengthened the sports factor in functionality, injecting a new element for growth into the Group. Running is one of the most popular sports in the world having equal emphasis on competition and leisure. Given that there are no constraints in age, gender, time and place, running has great potentials among China's sports categories and the market is growing rapidly. In view of such, the Group has established running as a key direction of sports marketing for the year. The Group will also strengthen the input of resources in various running-oriented areas to increase market attention on Xtep brand running shoes series. In 2009, our key promotions include: launch of new innovative television commercials and our slogan of "Love Running, Love Xtep" at major television channels mainly including CCTV-1, CCTV-5, Hunan Satellite and Anhui Satellite.

Besides, the Group's running-related promotions and sponsoring activities for the year under review include:

2009 Xiamen International Marathon

Xiamen International Marathon was jointly organized by the Chinese Athletic Association and the Xiamen Municipal Government. It had eight race categories such as men's and women's marathon, half marathon, 10km race and the 5km race, which were participated by over 36,000 athletics from 30 countries. The Group has become the sole sports product partner of this event for five consecutive years from 2009 to 2013 and sponsored the sports apparel for the participants.

Xian City Wall Marathon

The Group was appointed as the global premier partner and the sole designated sports outfit partner for Xian City Wall Marathon for three consecutive years to provide sports apparel for athletes of the game. The game attracted athletes from 43 countries, 14 provinces of China and regions such as Hong Kong, Macau and Taiwan, together with a number of key politicians and renowned athletes.

Tibet International Half Marathon Challenge

Tibet International Half Marathon Challenge was jointly organized by the Chinese Athletic Association, Sports Bureau of Tibet

Autonomous Region and Lhasa Municipal People's Government. It is an extremely challenging and the world's highest above sea level half marathon. The Group was the designated apparel sponsor to provide relevant sports product for athletes and attendees of the game.

Amway Nutrilite Healthy Running

A series of Healthy Running activities sponsored by the Group were held in Chengdu, Hangzhou and Jinan and achieved great successes with over 20,000 athletes taking part.

2009 Olympic Day Run

The event was held at the Hong Kong Disneyland Resort under the theme of "Move, Learn and Discover".

The above contests captured enormous media attention and gained wide coverage which were able to improve the recognition of Xtep brand. Also, apparel sponsorship enabled potential customers to experience Xtep brand products as part of effective publicity promotions.

Trendy Xtep Exhibits "Sports Like No Other"

Sharing the spirit of extreme sports of "rejecting the traditional" and "break through, to be yourself", the Group teamed up with CX China Extreme Sports Competition for the 3rd consecutive year in 2009. Apart from being the sole title sponsor for the competition, the Group has also sponsored "CX Campus Games" in Beijing, Chengdu, Guangzhou, Shanghai, Shenyang and Wuhan. Xtep CX China Extreme Sports Competition has played an important role in brand positioning with huge response from the media and is widely popular among youngsters in China. Meanwhile, the Group is also active in sponsoring other popular sports events, including National Basketball League (NBL), Women's Chinese Basketball Association (WCBA), Zhejiang Secondary School Basketball League and the Hong Kong All Star Sports Association Limited.

MARATHON STORY

To announce victory to the Athenians, King of Greece sent its long-distance running champion, Pheidippides, to deliver a message "Rejoice! We conquer!" to the Athenians from Marathon to Central Square of Athens with a distance of 42.195km. Pheidippides then died due to exhaustion and his legendary glory has made him the national hero of Greece. Marathon race was then held to remember this legend.





3. ENTERTAINMENT MARKETING AND PROMOTION

Expansion of Brand Spokesperson Team

It is always one of the major entertainment marketing strategies implemented by the Group to endorse celebrities as its brand spokesperson. Xtep brand's awareness was enhanced by leveraging on the charisma of our spokespersons in show business and their enormous power of penetration in the media. In addition to the original brand spokespersons, namely Nicolas Tse, Wilber Pan and Jolin Tsai, the Group also expanded the top-notch team by adding five new members, namely Jiang Yingrong, Li Xiaoyun, Huangying, Yu Kewei and Liu Xijun, the winners of the popular nationwide singing contest "Super Girl" which attracted great public and media attention in 2009.

Series of Mega Entertainment Activities for Xtep

To further strengthen Xtep brand's leading position in the fashion sportswear sector, the Group initiated a series of ingenious, large-scale entertainment marketing activities in the major cities in China focusing on the Xtep brand. The nationwide concert tour titled by Xtep brand has been a unique marketing channel in attracting the attention of the nation's youth and unprecedentedly widely broadcasted by media in China which has resulted in a "Xtep buzz". The concert tour well exemplified a perfect combination of fashion and sports. The major marketing activities are summarized as follows:

Xtep Night – China Tour

This event was arranged by the Organizing Committee of the 11th National Games of China in Jinan, Shandong Province, China as part of the promotion of the 11th National Games. The fabulous performances of the Xtep brand spokespersons in June 2009 drew and thrilled a record breaking number of over 50,000 spectators in Jinan. As the event was widely reported by the media, the Group, as the title sponsor, received extensive media coverage not just in Shandong but also nationwide.

2009 Xtep Stars Nationwide Concert Tour

"2009 Xtep Stars Nationwide Concert Tour", which was held during July and August 2009, was performed by the Xtep brand's spokespersons and comprised five concerts in five major cities where the Xtep brand has further strengthened the brand position, namely Suzhou, Wuhan, Hangzhou, Changsha and Hefei. The opportunity of having close encounters with the superstars has created tremendous attentions and focus in the regions. The five concerts were a great success, drawing over 30,000 participants to the events in aggregate. It further reached out to audience in adjacent regions through widespread coverage on the print before and after the concerts as well as media via live TV broadcast by a number of TV channels such as Hunan Satellite.

Super Girls Concert Tour

The Group organized six concerts for the five reputable winners of the singing contest "Super Girl", in Shanghai, Changchun, Wenzhou, Beijing, Chengdu and Kunming. The six concerts had an extraordinary advertising effect in those cities, and attracted more than 40,000 audiences to the live concerts. Wearing Xtep brand fashionable sportswear during the concerts, our five young and energetic spokespersons exerted their trendy and energetic charisma and attracted numerous trend-followers on televisions and radios, thereby raising the brand position of the Xtep brand significantly.





4. COMMERCIALS

The Group has employed multi-media marketing and promotion strategies and produced multi-faceted commercials to lure the attention of the consumers. During the year, the Group has launched four fashionable and dynamic commercials of four different styles, including:

“Street Dance version”– unrolling energy and rhythm

“Future version”– leading the trend and standing at the frontline of the fashion

“Number version of the National Games”– giving full support to the National Games of China

“Real me version for Xiamen International Marathon” – “Love Running, Love Xtep”, exhibiting the fashionable and functional characteristics of Xtep brand running shoes.

The Group’s thematic TV commercials were broadcasted selectively at the TV channels with influential and high audience ratings to draw the attention of the public to the Xtep brand. The TV channels include:

National : CCTV 1 – It is the most important all round national channel of the China Central Television (“CCTV”). It has a mixture of all kinds of TV programs and is available to both cable and non-cable television viewers. The Group’s TV commercials were placed on this channel to increase brand awareness.

Sports : CCTV 5 – It is a dedicated national sports channel that features sports events of all types. The Group has entered into a two-year agreement with CCTV 5 and became the official partner with CCTV 5 from 2009 to 2010 to broadcast Xtep brand’s commercial among all their live coverage of sporting events. The main purpose of advertising on this channel is to boost the Xtep brand profile in the sports product sector.

Southern China : Hunan Satellite – This channel has become one of the most popular primary TV channels that focuses on entertainment and information in China. The Group is the sole title sponsor of “Progressing Everyday 《天天向上》” which is a highly entertaining programme and one of the most popular entertainment programmes in China with overwhelming response from audience and has therefore increased the Xtep brand recognition.

Southern China : Southeast Satellite – This channel covers Fujian province and Taiwan and possesses the two major features of “Taiwan Strait” and “Entertainment”. The Group is also a major sponsor of a popular music programme “Southeast Music Chart Awards”, arousing the interest of many young music lovers.

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

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



INNOVATIVE PRODUCTS

Xtep brand's designs always pioneers the fashion trend and offers consumers diversified products for selection and distinctive sports experience. Adhering to the brand philosophy of "Sports Like No Other", the Group focused on running and soccer series during the year under review. The Group has launched various products and series, which strengthened the brand penetration and awareness.

During the year under review, the Group had a total of 668 staff (2008: 500 staff) in its design and research and development team and including several reputable foreign designers to enhance the capability of product development and design. The Group entered into close cooperation with the design teams in England, France and South Korea and introduced a total of approximately 2,600 types of footwear designs and approximately 2,800 types of apparel designs during the year. Xtep also held four sales fairs during the year under review, featuring collections of different tailor-made styles for four seasons to meet different preferences of the consumers.

Footwear Designs

During the year, a total of approximately 2,600 types of new and fashionable footwear designs under nine series was launched, mainly includes: casual shoes, classic shoes, canvas shoes, running shoes, tennis shoes and basketball shoes, all of which are the combination of fashion and functions. During the year under review, there were improvements and breakthroughs of its footwear in terms of functions with a view to introduce more comfortable footwear and advance the technological level of the running shoes:

Technology	Major Functions
Taichi-concept shock-resistant soles	Made of high-elastic EVA MDM materials and TPU sheath; preventing muscular strain arising from overbending of foot arch
Double shock-resistant soles	Made of a central supporting framework, a shock absorbing piece, a heel spring stand and a outsole; highlighting the features of anti-slippery and shock-absorption

Technology	Major Functions
Shock-resistant jelly	Made of Phypon rubber midsole and X-CJ jelly with the incorporation of the TPU second forming technology; a high-performance shock-reduction mixture developed by the Group, which is capable of absorbing a majority of the striking force to prevent the backbone, knees and heels from the striking of the counter-force when putting weight on the foot and to help save physical energy
Two-way balancing feature	Achieving both external and internal balancing and shock-resistant functions by utilizing the rebounding effect in the two opposite directions arising from external and internal sides
Nanosilver anti-bacterial chemicals	Nanosilver anti-bacterial chemicals help depress the inhabitation of bacteria and easy for washing

The breakthroughs of the design craftsmanships are as follows:

- Colouring embroidery
- 3D-embroidery
- Crossover craftsmanship and sequin knitting
- Special material with the bamboo-mat pattern
- Special crack leather material
- TPU electroplated diamond-setting hot compression techniques

In addition, different types of footwear will be applied with different pattern styles and embroideries to upgrade the overall aesthetic features.




Apparel Designs

During the year, the Group introduced approximately 2,800 styles seasonal fashion sportswear apparel designs under nine different collections mainly includes: dynamic metropolitan, dynamic lifestyle, classic, Miami, integrated training, football and tennis, rolling out colourful and energetic sportswear apparel products to the market. In particular, to meet the 2010 World Cup frenzy, our football collection adopts the style and colours of football teams from different countries along with the features of the world's leading football leagues, delivering trend-setting sportswear apparel with a modern sensation, which is highly well-received among the consumers.

Major enhancements in the functions and technologies of our sportswear apparel are as follows:

Functions	Features
“Cool & Comfortable” collection	Cool and comfortable fibres processed with nano-technology which can filter the thermal radiation in the light, reflect and disperse infrared rays to reduce heat
“Breathing” function	Super light and dual air circulation with special anti-bacterial processing
Eco-friendly warm cotton	Warm fibres composed of DuPont bio-based materials – Sorona to keep warm and breathable



 Colourful 09炫彩足球系列
Football Series

 Miami Series
09热情迈阿密系列





Shenyang



Hefei



Wuhan



Heilongjiang



Changsha



Xiamen

CHANNEL ESTABLISHMENT

NATIONWIDE RETAIL OUTLET NETWORK

As at 31 December 2009, the Group operated 6,533 retail outlets through its distributors or third-party retailers. The follow table sets out the number of retail outlets operated by the Group's distributors and third-party retailers under Xtep brand and Other brands in China:

Number of retail outlets			
Brands	As at 31 December 2009	As at 31 December 2008	Change
Xtep brand	6,103	5,056	+1,047
Other brands	430	476	-46
Total	6,533	5,532	+1,001

The following map illustrates the geographical distribution of retail outlets of Xtep brand nationwide as at 31 December 2009 :



The following table set out the number of retail outlets and flagship stores of Xtep brand and Other brands by geographic region as at 31 December 2009:

	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	2,314	11	146	–
Southern region	1,499	9	117	1
Western region	1,041	3	41	–
Northern region	1,249	7	126	–
Total	6,103	30	430	1





XTEP BRAND

As Xtep brand continued to expand its retail network coverage, the total number of retail outlets, flagship stores, gross saleable area and average saleable area per retail outlet in China increased as follows:

	As at 31 December 2009	As at 31 December 2008	Change
Total number of retail outlets	6,103	5,056	+20.7%
Total number of flagship stores	30	12	+150.0%
Gross saleable area (square meters)	498,000	377,000	+32.1%
Average saleable area per retail outlet (square meters)	82	75	+9.3%

Major regions

During the year under review, Eastern region and Southern region were the key areas of Xtep brand. In particular, Southern region including Hunan and Hubei and Eastern region including Jiangsu, Zhejiang, Anhui and Shandong were among the Group's major retail outlet network. Based on the latest figures released by the National Bureau of Statistics of China, in 2009, the GDP of most of the above regions recorded a double-digit growth, which outperformed China's overall GDP of 7.1%. The Group's strategies were to further expand its business network in these fast-growing areas. As at 31 December 2009, the Group operated a total of 2,579 retail outlets through its distributors or third-party retailers in the above six provinces, accounting for approximately 42% of the total number of nationwide retail outlets network.

Flagship store development

The Group endeavours to increase its recognition and reputation through revamping retail outlets and setting up flagship stores. As at 31 December 2009, the Group had a total of 30 Xtep brand flagship stores, an increase of 18 stores as compared to 31 December 2008, situated at the prime locations across the nation covering such as: Shanghai, Shandong, Zhejiang, Hunan, Anhui, Jilin, Henan, Guangxi, Shanxi and Guizhou. Moreover, the Group has actively rolled out the 5th generation image store in most of its Xtep brand flagship stores and retail outlets to enhance the overall brand image.



OTHER BRANDS

Other brands mainly include Disney Sport brand and Koling brand. These retail outlets are mainly located in the Northern and Eastern regions as these brands are highly recognized in the above regions. The decrease in the number of retail outlets of Other brands was primarily as a result of the reallocation of resources to Disney Sport brand which has greater growth potentials. Therefore, the number of retail outlets of Koling brand was reduced.

MANAGEMENT CAPABILITIES

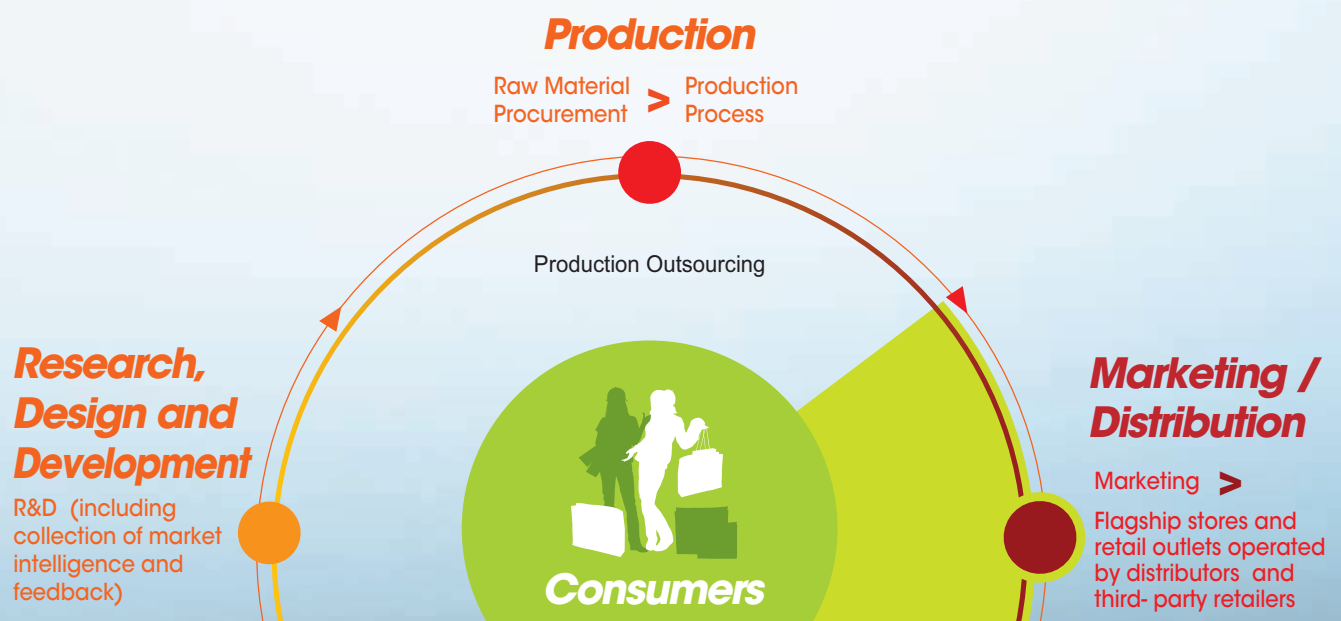
CHANNEL MANAGEMENT

We regard our distributors as our important business partners and have appointed a total of 28 exclusive Xtep brand distributors and 50 Other brands distributors covering 31 provinces. To ensure a consistent brand image is presented and upheld at all retail outlets, the Group has put in place a unified code of operations, detailing specifications on outlet design and layout settings, customer service standards, and pricing policies. Comprehensive training on marketing guidelines, visual merchandising and inventory management are regularly provided as well to ensure that the Group's brand image as a fashion sportswear leader is executed consistently.

The strict distribution management system we follow has been one of the crucial factors to our overall success. As at 31 December 2009, up to 50% of our Xtep brand nationwide retail outlets have adopted the real-time monitoring DRP system. The DRP system links directly to the distributors' inventory and financial systems, allowing us to record and track real-time inventory levels as well as the movement of products at warehouses and retail outlets. Therefore, we can plan and monitor the market situation more efficiently and optimise inventory control.

SUPPLY CHAIN MANAGEMENT

The Group has adopted a vertically integrated business model from design and production to sales and distribution management. We are able to respond quickly to ever changing market demands and fashion trends by utilising our own production facilities. During the year 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, respectively. The utilisation rate of our production facilities was close to 100%. For the year under review, approximately 57% of footwear and 10% of apparel products by sales volume were manufactured by the Group.



MULTI BRAND STRATEGIES

Apart from Xtep brand, the Group also established multi brand strategies through Other brands. Currently, Other brands include Disney Sport brand and Koling brand. As the Group considers that Disney Sport brand poses greater market potential, we have reduced the resources allocated to Koling brand and focus more to develop Disney Sport brand. Over the years, the Group has the following remarkable developments for Disney Sport brand:

1. Licence agreement entered into in 2006 for distribution in China;
2. Licence agreements entered into in 2009 for distribution in Hong Kong/Macau/Taiwan; and
3. Licence agreements entered into in 2010 for distribution in 21 overseas countries including Southeast Asia, Middle East and Middle Europe.

At present, there are more than 400 Disney Sport brand retail outlets nationwide. During the year under review, we opened our first flagship store and two other retail outlets in Hong Kong. We believe that we will continue to expand our retail outlet network nationwide and abroad in the future. We are still at the preliminary stage of brand building and our sales performance is under steady growth. We believe Disney Sport brand will gain popularity in China and abroad with our brand building efforts, coupled with the expected completion of the first Disneyland in Shanghai, China in the future. The Group is confident that Disney Sport brand will generate greater profit contribution in the future.

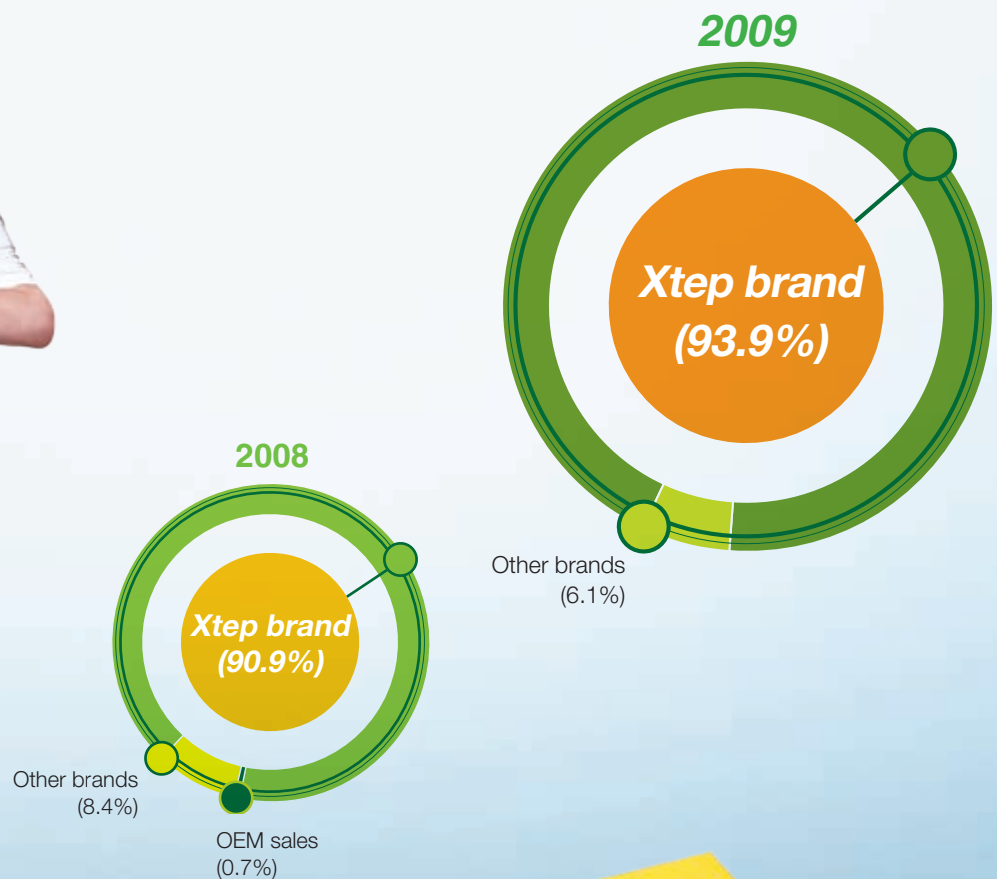


FINANCIAL REVIEW

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

For the year ended 31 December

	Revenue (RMB'000)			As a percentage of revenue (%)		Gross profit margin (%)		
	2009	2008	Change (%)	2009	2008	2009	2008	Change (pts)
Xtep brand	3,330,764	2,606,237	+27.8	93.9	90.9	39.0	36.7	+2.3
Other brands	214,572	241,337	-11.1	6.1	8.4	40.7	43.6	-2.9
OEM sales	-	19,607	N/A	-	0.7	-	17.3	N/A
Total	3,545,336	2,867,181	+23.7	100.0	100.0	39.1	37.1	+2.0





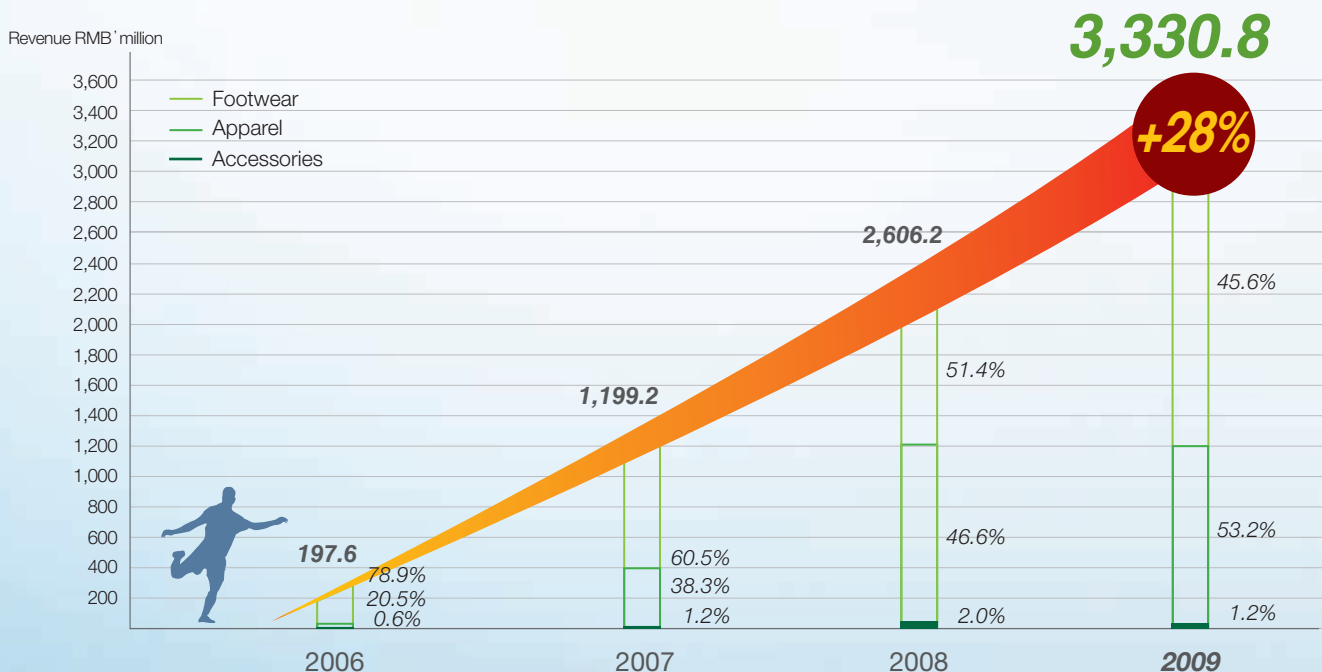
For the year ended 31 December 2009, the total revenue of the Group increased by 24% to approximately RMB3.55 billion (2008: RMB2.87 billion); whereas the gross profit margin grew by 2.0 percentage points to 39.1% (2008: 37.1%). The increase in overall revenue and gross profit margin was due to the substantial growth in the performance of Xtep brand. As sales of Koling brand decreased, the revenue from Other brands fell by approximately 11%. In addition, the Group terminated the OEM business during the year under review. Xtep brand products remain the Group's major source of income, accounting for approximately 94% of the Group's revenue and the analysis on its performance is as follows:

XTEP BRAND

REVENUE BREAKDOWN OF XTEP BRAND BY PRODUCT CATEGORY

For the year ended 31 December

	Revenue (RMB'000)			As a percentage of revenue (%)	
	2009	2008	Change (%)	2009	2008
Footwear	1,520,185	1,340,604	+13.4	45.6	51.4
Apparel	1,773,159	1,215,505	+45.9	53.2	46.6
Accessories	37,420	50,128	-25.4	1.2	2.0
Total	3,330,764	2,606,237	+27.8	100.0	100.0
Gross profit margin	39.0%	36.7%	+2.3 pts		



For the year ended 31 December 2009, the total revenue of the Group from Xtep brand products surged by 28% to RMB3.33 billion (2008: RMB2.61 billion) and the gross profit margin increased by 2.3 percentage points to 39.0% (2008:36.7%). The remarkable results of Xtep brand products was mainly attributable to the recovery of the overall economy of China in the second half of 2009 and the widespread recognition as a result of the sponsorship of a number of high-profile national and international 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 retail channels, the Group expanded the sales channels and network, the Group's overall average wholesale revenue per retail outlet also increased.




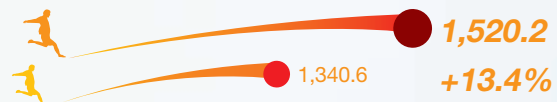
Growth in revenue from Xtep brand is summarized as follows:

	2009	2008	Change (%)
Revenue (RMB million)	3,330.8	2,606.2	+27.8
Average number of retail outlets for the year	5,580	4,718	+18.3
Average wholesale revenue per retail outlet for the year (RMB)	596,911	552,403	+8.1

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

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



For the year ended 31 December

	2009	2008	Change (%)	Revenue (RMB million)
Sales volume (million)	19.1	18.3	+4.5	
Average selling price (RMB)	79.4	73.2	+8.5	
Gross profit margin (%)	39.1	35.6	+3.5 pts	

Revenue from Xtep brand footwear products rose by 13% to RMB1.52 billion (2008: RMB1.34 billion), accounting for 46% of the revenue from Xtep brand. The growth in revenue was mainly because of the increase in the sales volume of footwear products by approximately 5% to 19.1 million pairs (2008: 18.3 million pairs) and average selling price by approximately 8% to RMB79.4 (2008: RMB73.2). The growth in average selling price was primarily as a result of the decrease in discount given to distributors from 65% in 2008 to 62% in 2009. Due to the decline in discount given to distributors and successful cost control, the gross profit margin grew by 3.5 percentage points to 39.1% (2008: 35.6%).

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

For the year ended 31 December

	2009	2008	Change (%)	Revenue (RMB million)
Sales volume (million)	28.6	21.5	+33.2	
Average selling price (RMB)	62.0	56.4	+9.9	
Gross profit margin (%)	39.1	38.1	+1.0 pts	

Revenue from Xtep brand apparel products increased substantially by 46% to RMB1.77 billion (2008: RMB1.21 billion). The strong growth was due to the significant increase in the sales volume by approximately 33% to 28.6 million pieces (2008: 21.5 million pieces) and average selling price increased by approximately 10% to RMB62.0 (2008: RMB56.4). Due to the increase in average selling price, the gross profit margin also rose by 1.0 percentage point to 39.1% (2008: 38.1%). 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 year under review.

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 year divided by the total units sold during the financial year.



OTHER BRANDS

REVENUE BREAKDOWN OF OTHER BRANDS BY PRODUCT CATEGORY


For the year ended 31 December

	Revenue (RMB'000)			As a percentage of revenue (%)	
	2009	2008	Change (%)	2009	2008
Footwear	98,947	94,385	+4.8	46.1	39.1
Apparel	101,302	135,471	-25.2	47.2	56.1
Accessories	14,323	11,481	+24.8	6.7	4.8
Total	214,572	241,337	-11.1	100.0	100.0
Gross profit margin	40.7%	43.6%	-2.9 pts		

Revenue from Other brands was derived from Disney Sport brand and Koling brand. For the year ended 31 December 2009, revenue from Other brands was RMB214.5 million (2008: RMB241.3 million), a decrease of 11% over that in the previous year, whereas the gross profit margin was 40.7% (2008: 43.6%). The decrease in revenue was mainly due to decrease in revenue of Koling brand because of the re-allocation of resources to Disney Sport brand which has greater market potentials and the reduction in the resources in the sales network of Koling brand and its product sales. The decrease in gross profit margin was mainly due to decrease of footwear products gross profit margin which was caused by the decrease in average selling price in order to further expand market penetration.

REVENUE, SALES VOLUME AND AVERAGE SELLING PRICE OF OTHER BRANDS FOOTWEAR PRODUCTS

For the year ended 31 December


	2009	2008	Change (%)
Revenue (RMB million)	98.9	94.4	+4.8
Sales volume (million)	1.2	1.1	+13.6
Average selling price (RMB)	80.0	86.7	-7.7
Gross profit margin (%)	43.1	49.6	-6.5 pts

Revenue from Other brands footwear products grew by 5% to RMB98.9 million (2008: RMB94.4 million). The increase in revenue was primarily due to the increase in sales volume by approximately 14% to 1.2 million pairs (2008: 1.1 million pairs) as a result of the popularity of Disney Sport brand's footwear products. In order to continue its efforts to expand market penetration, average selling price of footwear products fell by approximately 8% to RMB80.0 (2008: RMB86.7), which offset the growth in revenue and resulted in a decrease in gross profit margin by 6.5 percentage points to 43.1% (2008: 49.6%).



REVENUE, SALES VOLUME AND AVERAGE SELLING PRICE OF OTHER BRANDS APPAREL PRODUCTS

For the year ended 31 December

	2009	2008	Change (%)
Revenue (RMB million)	101.3	135.5	-25.2
Sales volume (million)	1.4	1.6	-16.9
Average selling price (RMB)	74.4	82.6	-10.0
Gross profit margin (%)	39.7	39.5	+0.2 pts

Revenue from Other brands apparel products was down by 25% to RMB101.3 million (2008: RMB135.5 million). The reduction in revenue was attributable to decrease in sales volume by approximately 17% to 1.4 million pieces (2008: 1.6 million pieces) and average selling price by approximately 10% to RMB74.4 (2008: RMB82.6); whereas the reduction in sales volume and average selling price was mainly as a result of the decrease in sales of Koling brand.

Koling brand targets the high-end market with high selling price. In order to place more resources to develop Disney Sport brand which has greater market potentials, the Group reduced the sales of products of Koling brand for the year ended 31 December 2009. Besides, as the gross profit margin of Disney Sport brand's apparel products improved, the gross profit margin of Other brands apparel products also grew by 0.2 percentage points to 39.7% (2008: 39.5%).

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 year divided by the total units sold during the financial year.

REVENUE BREAKDOWN BY PRODUCT CATEGORY

For the year ended 31 December

	Revenue (RMB'000)			As a percentage of revenue (%)	
	2009	2008	Change (%)	2009	2008
Footwear	1,619,132	1,454,596	+11.3	45.7	50.7
Apparel	1,874,461	1,350,976	+38.7	52.9	47.1
Accessories	51,743	61,609	-16.0	1.4	2.2
Overall	3,545,336	2,867,181	+23.7	100.0	100.0
Gross profit margin	39.1%	37.1%	+2.0 pts		

Total revenue of the Group from footwear products rose by 11% to RMB1.62 billion (2008: RMB1.45 billion) and revenue from apparel products grew by 39% to RMB1.87 billion (2008: RMB1.35 billion); while revenue from accessories fell by 16% to RMB51.7 million (2008: RMB61.6 million). Revenue from apparel products accounted for 53% of the total revenue, primarily due to the significant increase in the revenue from Xtep brand's apparel products.



REVENUE BREAKDOWN BY REGION SALES AND OEM SALES

For the year ended 31 December

	2009		2008		Change (%)
	Revenue (RMB'000)	As a percentage of product mix (%)	Revenue (RMB'000)	As a percentage of product mix (%)	
Xtep brand					
Eastern region	1,510,264	42.6	1,023,122	35.7	+47.6
Southern region	876,327	24.7	783,740	27.3	+11.8
Western region	541,570	15.3	414,914	14.5	+30.5
Northern region	402,603	11.3	384,461	13.4	+4.7
Sub-total	3,330,764	93.9	2,606,237	90.9	+27.8
Other brands	214,572	6.1	241,337	8.4	-11.1
OEM	-	-	19,607	0.7	N/A
Total	3,545,336	100.0	2,867,181	100.0	+23.7

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

Strong growth of Xtep brand in Eastern region was primarily due to market growth in Shandong province and Anhui province; whereas the growth in Western region was mainly as a result of the market growth in Sichuan province.

COST OF SALES BREAKDOWN

For the year ended 31 December

	2009		2008		Change (%)
	Cost of sales (RMB'000)	As a percentage of cost of sales (%)	Cost of sales (RMB'000)	As a percentage of cost of sales (%)	
Raw materials	1,130,101	52.4	834,266	46.3	+35.5
Outsourced production costs	894,346	41.4	857,289	47.6	+4.3
Direct staff costs	110,252	5.1	87,505	4.8	+26.0
Others	22,850	1.1	23,819	1.3	-4.1
Total	2,157,549	100.0	1,802,879	100.0	+19.7

Cost of sales

During the year under review, cost of sales of the Group increased by 20% year-on-year, mainly because of the increase in cost of raw materials. As the extent of growth in cost of sales was smaller than that in sales revenue, the overall 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 52%. The increase in direct staff costs was due to the increase in staff's wages and benefits.



OTHER INCOME AND GAINS

During the year under review, other income and gains of the Group was approximately RMB10.7 million (2008: RMB5.1 million). The increase was primarily due to the increase in subsidy income received from the Chinese local government and the disposal of display stands.

SELLING AND DISTRIBUTION COSTS

For the year ended 31 December 2009, the Group's selling and distribution costs amounted to approximately RMB523.0 million (2008: RMB350.5 million), which represented approximately 14.8% (2008: 12.2%) of the Group's total revenue. As it is the Group's strategy to enhance the brand status and step up the sponsorship of high-profile sports events and the innovative entertainment marketing efforts, advertising and promotion costs increased from approximately RMB260.0 million in 2008 (accounting for 9.1% of revenue) to approximately RMB418.7 million (accounting for 11.8% of revenue) during the year under review.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased from approximately RMB128.2 million for the year ended 31 December 2008 to approximately RMB174.1 million for the year under review. This was primarily due to the increase in the Group's research and development expenses to approximately RMB56.7 million (accounting for 1.6% of revenue) (2008: RMB45.2 million, accounting for 1.6% of revenue), mainly as a result of the investment in 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 of the Group for the year under review amounted to approximately RMB54.7 million (2008: RMB69.2 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 the 50% tax reduction at the unified tax rate of 25% for the year ended 31 December 2008 and 2009 with respect to the new PRC enterprise income tax. Koling (Fujian) Garment Co., Ltd. enjoyed exemption from 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 for the subsequent three years. The effective tax rate for the year under review was 7.8% (2008: 12.0%).

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS AND NET PROFIT MARGIN

For the year ended 31 December 2009, the profit attributable to equity holders of the Company amounted to approximately RMB647.5 million (2008: RMB508.2 million), an increase of 27% over the same period last year. In addition, the net profit margin of the Group grew by 0.6 percentage points to 18.3% year-on-year (2008: 17.7%), primarily due to the increase in gross profit margin to 39.1% (2008: 37.1%) as a result of stronger Xtep brand. The increase in advertising and promotion costs, research and development expenses, selling and distribution costs and administrative expenses respectively, which offset the growth in gross profit. In addition, as the effective tax rate was reduced as a result of the preferential tax treatment, the Group's net profit margin increased.

DIVIDEND

In view of the strong business growth and the solid financial position of the Group, the Board declared a final dividend of HK10.0 cents (equivalent to approximately RMB8.8 cents) per Share (2008: HK8.0 cents, equivalent to approximately RMB7.1 cents) and a special dividend of HK5.0 cents (equivalent to approximately RMB4.4 cents) per Share (2008: HK5.0 cents, equivalent to approximately RMB4.4 cents), in addition to the interim dividend of HK7.0 cents (equivalent to approximately RMB6.2 cents) per Share (2008: HK5.0 cents, equivalent to approximately RMB4.4 cents) declared, amounting to a total dividend of HK22.0 cents per share (equivalent to approximately RMB19.4 cents), an increase of approximately 22% over that in the same period of last year. The dividend payout ratio for the year was approximately 65%.





WORKING CAPITAL CYCLE

During the year under review, the Group's overall working capital cycle decreased by 21 days to 32 days as compared to last year (2008: 53 days).

The Group's average inventory turnover days improved by 2 days to 47 days as compared to same period last year (2008: 49 days), primarily due to improved production planning, procurement control and logistics management.

The Group's average trade receivables turnover days extended by 6 days to 54 days as compared to last year (2008: 48 days), predominantly due to increase in revenue and expansion of retail outlet network but payments were still received within the 90-day credit period given to customers. On the other hand, the Group's average trade receivables turnover days for the six months ended 30 June 2009 was 60 days, hence, there was an improvement of 6 days as compared to the interim period due to tight credit control.

The Group's average trade payables turnover days increased by 25 days to 69 days as compared to last year (2008: 44 days), primarily as a result of tighter cash management and better utilisation of the credit period provided by suppliers.

LIQUIDITY AND CAPITAL RESOURCES

The Group's primary sources of operating funds are cash flow from operating activities and cash and bank balances. As at 31 December 2009, the Group's current ratio was 5.3 (31 December 2008: 4.8). The Group maintained a net cash position, reflecting its healthy financial condition, paving the way for future development. As at 31 December 2009, the Group's gearing ratio was 0% (31 December 2008: 4.7%), which is defined as total borrowings divided by the sum of share capital and reserves of the Group.

Due to significant improvement of working capital management, the net cash inflow from operating activities for the year ended 31 December 2009 was approximately RMB880.3 million (2008: RMB502.6 million), a year-on-year increase of 75%. On the other hand, as at 31 December 2009, the Group's total cash and bank balances amounted to approximately RMB2,497.6 million (31

December 2008: RMB2,142.9 million), represented approximately 17% increase. As at 31 December 2009, the Group's bank borrowing was nil (31 December 2008: RMB124,000). As at 31 December 2009, the Group did not pledge any asset to secure any banking facilities granted to the Group. As at 31 December 2008, the land use rights and buildings with carrying values of approximately RMB8,639,000 and RMB8,891,000, respectively were pledged to secure the general banking facilities to the Group. For further details, please refer to note 14 and 15 to the financial statements.

INVENTORY PROVISION

For the year ended 31 December 2009, the Group did not have any inventory provision.

DOUBTFUL DEBT PROVISION

For the year ended 31 December 2009, the Group did not have any doubtful debt provision.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2009, 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

For the year ended 31 December 2009, 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 have been listed on the Main Board of the Hong Kong Stock Exchange since 3 June 2008 with 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 31 December 2009)	Unutilized (as at 31 December 2009)
Media advertising and brand promotion activities	459	459	–
Expanding and improving distribution network	355	188	167
Expanding production and operating facilities	397	143	254
Acquiring brands	501	–	501
Enhancing design and R&D capabilities	146	116	30
Enhancing IT management system	63	19	44
General working capital	167	167	–
Total	2,088	1,092	996

HUMAN RESOURCES

As at 31 December 2009, the Group had 7,352 employees (31 December 2008: 6,414 employees).

The Group provides introductory orientation programs and continuous training to its employees that cover 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.

FUTURE PROSPECTS

MARKET OUTLOOK

In light of the devastating economic turmoil that affected the world, governments around the world have subsequently introduced measures to stabilise the economy and China had also responded swiftly and successfully maintained the stated target of economic growth. Looking ahead, it is believed that China will remain as one of the fastest growing economies worldwide. Driven by the positive policies of the Chinese government on accelerating urbanisation and expanding domestic consumption, the level of income and consumption power of the Chinese citizens are expected to grow. As such, we are optimistic about the outlook of the general consumption market.

Following the Beijing Olympics, China has placed great importance on the development of the sports product industry and the sports product industry is expected to be one of the major economic pillars in the future. Currently, the stimulus plan of the sports product industry has been formulated and will soon be introduced. With increasing popularity of sports and the sports frenzy triggered from various high-profile events, coupled with the growing consumption power in second and third-tier cities, the Group will continue to set foot in these markets for the development of the Xtep brand, aggressively seize the market opportunities and actively capitalise on the following growth strategies to achieve greater heights.





FUTURE DEVELOPMENT STRATEGIES

1. WORLD-CLASS BRAND, CHINA MARKET

To further increase the recognition of Xtep brand in China, the Group will make use of influential international events to carry out effective publicity strategies, enabling Xtep brand to appear on world-class arena.

2010 Shanghai World Expo

The Shanghai World Expo which will be held for six months from May to October 2010 is China's first role as the host of a world expo, it will definitely attract great interest and participants worldwide. China will also exhibit its edge in the most distinctive areas including culture, arts, enterprises and economy which will certainly attract global attention and the Shanghai Expo is expected to set a new record for world expos. The Group is highly honored to be the sole sports product sponsor for volunteers of such international event. All volunteers within the Expo arena will be wearing "Expo-Xtep" exclusive sports outfits solely designed by the Group when offering assistance to visitors from all over the world. At that time, worldwide visitors will feel the fashion and dynamic spirit of the volunteers dressed in Xtep brand sports outfits, hence impress the public with "Sports like No Other".

Debut of Chinese sports brand at the English Premier League

Xtep brand has made China's sports brands history. Xtep brand is the first Chinese sports brand to appear on stage as a sponsor at one of the world's most prestigious football leagues – English Premier League ("EPL"). Xtep brand will sponsor one of the EPL, Birmingham City Football Club for five consecutive years from August 2010 to May 2015. For the next five years, the Birmingham team will appear in "Xtep-Birmingham" outfits solely designed and sponsored by the Group which will showcase the fashion charm of Xtep brand at international sports events as witnessed by soccer fans and spectators from all around the world. The sponsorship is to raise Xtep brand position as well as a breakthrough in terms of product design and quality. The Group will design outfits that are able to cope with the quality requirements of ultra-high level of physical activities in professional football games as well as to express the smart and dynamic performances of players in professional contests. Therefore, the exclusive appointment as sports product sponsor for the Birmingham team demonstrates the absolute confidence in Xtep brand.

World Cup boom

The World Cup is held every four years and is scheduled for June 2010. In addition, soccer is a popular sport that arouses global attention. The Group has taken the lead in launching various series of Xtep brand sportswear under the World Cup theme in order to cater for the soccer enthusiasm of the public. The Group has formed alliance with the Chinese popular website Sohu at which the Group serves as the sports product sponsor for Sohu's World Cup website and a three-year strategic business partnership is established. Utilizing Sohu's leading position in the domestic internet arena and in coordination with the trendy commercial advertisement of the Xtep brand, people will be attracted to the Xtep brand's entertaining and innovative commercials when browsing the website, hence achieving great promotional effect.

Innovative entertainment marketing

To help consumers deepen their experience of the fashion charm of Xtep brand, the Group introduces innovative branding campaigns by way of having close contacts with popular young idols among the younger generation. The Group will continue to host concerts in key domestic markets as performed by Xtep brand spokespersons including pop stars Nicholas Tse, Wilber Pan, Jolin Tsai and the five Super Girls. Considering the overwhelming response received by the local markets in the past, such boom is expected to continue going forward.

Strategic partners

The Group will enhance its business relationship with media strategic partners to air commercials in China's major TV channels mainly as follows:

1. National Channel – CCTV-1
2. Sports Channel – CCTV-5
3. Hunan Satellite
4. Anhui Satellite
5. Southeast Satellite



2. INNOVATIVE PRODUCTS

The Group will continue to expand its design and R&D teams and bring in more experienced overseas designers of different background. It will also set up a R&D design centre equipped with advanced facilities in Guangzhou. The Group will continue to launch products blending fashion and sports and will increase products of different styles and elements. Moreover, the Group will maintain its development of the running series products by launching the Xtep brand ultra-light marathon shoes exclusively designed for long-distance running and expanding series of trendy shock-resistant running shoes with distinct features that are suitable for different types of distance, competition environment and game of the running events.

Besides, to strengthen the promotion of the running, the Group will sponsor running events of different characteristics in 2010 mainly as follows:

- Xiamen International Marathon
- Xian Marathon
- Tibet Half Marathon Challenge
- Hong Kong 15km Challenge
- Hong Kong Athletic League

3. NETWORK EXPANSION

The Group will continue with the expansion of sales network and focus in the second and third-tier cities. In 2010, Xtep brand sales network is planned to increase by 800-1,000 retail outlets, with development concentrated in provinces such as Hunan, Anhui, Shandong and Sichuan. The Group will continue to open flagship stores in the premier areas in order to expand the Xtep branding and add approximately 5-8 flagship stores.

4. GLOBAL MARKET AND MULTI-BRAND STRATEGY

The increasing importance of Xtep brand position among in the domestic market, in particular with the recent innovative marketing of the Xtep brand at international sports contests and other special events, has attracted the attention of brand distributors from other parts of the world. To cope with the product and sales requirements of markets abroad, the Group has established in Hong Kong an exclusive team for overseas market, gradually building a global distribution network and paving the way for the global market. Besides, the Group will continue to develop its multi-brand strategy at which other existing brands are utilized for the expansion of domestic and overseas sales.

5. DISTINGUISHED MANAGEMENT

The Group will strive to enhance corporate governance, business strategy and financial management. It will also place emphasis on the improvement of corporate framework and operational efficiency. In light of the fact that stringent sales channel management and product quality control are also areas for further improvement, the Group will improve the efficiency of business operations by enlarging the monitoring scope of distribution resource systems and strengthening the inspection of product quality.

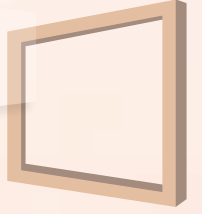
CONCLUSION

The Group will continue with its unique and innovative brand differentiation strategies to improve the position of the Xtep brand in the market and its recognition in international sports and major special events. With the continuous growth in the domestic economy in addition to the fact that Xtep brand possesses distinct advantage in market positioning and solid operational strategies, the Group is confident to maintain its excellent performance growth in its march into the future.





Enchanting Autumn Breeze





Investor Relations Report



OVERVIEW

The Group has attached great importance to the management of investor relations and adopted a “comprehensive, timely and interactive” means to communicate with investors.

FAIR AND TIMELY DISCLOSURE

During the year under review, the Group has been in strict compliance with the requirements of the Hong Kong Stock Exchange. It has made timely, true and accurate disclosure of corporate information, and responded to queries from the market in a timely and accurate manner to enhance the transparency of the Company’s performance. At the same time, the Group will also conduct ongoing communications and implement effective means of communication to strengthen its sustained and steady relationship with its investors.

COMPREHENSIVE CHANNEL AND TARGETS

In order to capture the latest market updates and maintain interactive exchange with investors, the Group has placed much emphasis on the dissemination of information and real-time response to investors’ opinions on the Company, in an effort to reinforce the investors’ awareness and understanding of the Company, and simultaneously collect investors’ opinions and recommendations on the Company.



INVESTOR RELATIONS REVIEW

During the year under review, the Group had strengthened the work of investor and media relations through the following activities under the leadership of Mr. Ho Yui Pok, Eleutherius, chief financial officer and company secretary of the Company and with the full support of the Board of Directors and the senior management:

1. RESULTS ANNOUNCEMENT AND ROADSHOW

The Group had prepared detailed results reports upon finalization of interim and annual results of the Group to discuss the market environment, financial conditions, operating strategies and future outlook to the public accurately and effectively. Upon the publication of 2008 annual results and 2009 interim results, the Group attended a total of nine roadshows in Hong Kong and overseas and met with approximately 150 fund managers and analysts in the major international financial markets including Hong Kong, Singapore, New York and Beijing. During roadshow, the Group clearly stated its branding strengths and market position to the global institutional investors and research analysts, providing them with a full picture of the business prospects of the Group.

2. INVESTORS MEETINGS

In 2009, the Group attended a total of 14 investor forums, conferences and seminars organized by investment banks and securities firms in Hong Kong, China and Singapore and met with approximately 200 analysts and fund managers through one-on-one meetings, group meetings and investment seminars. After attending those investor forums and meetings, the Group received very positive responses and feedbacks from the investors.

3. ONGOING COMMUNICATIONS

Apart from organizing regular investor and analyst presentations upon publication of interim and annual results, the Group also provides opportunities with investors to communicate with the senior management of the Group. In 2009, the Group organized approximately 300 meetings and telephone conference meetings with the investors and research analysts and shared with them the Group's financial performance, business updates and future prospects. During the period under review, a total of 11 renowned investment banks and securities firms had published research reports on the Group.

4. DISSEMINATION OF CORPORATE INFORMATION

The Group responds swiftly to various enquiries made by the investors, analysts and the media by various means of communication. Besides, the company website is one of the quickest means to communicate with investors. During the year under review, the Group continued to make use of its company website www.xtep.com.hk as the platform to communicate with the public and updated the website contents regularly to post announcements, press releases and periodic information so as to strengthen the effectiveness of information dissemination.





Moreover, the Group continues to update and compile investor database to expand the Group's investors network and provide them with the latest corporation information and discloseable financial information on a regular basis. The Group has also rolled out interactive investor relations activities to establish a smooth dual communication channel and platform for investors' long-term communication.

5. SITE VISITS

During the year under review, the Group actively invited investors, analysts and fund managers for site visits. The Group organized a number of site visits to Xiamen and Quanzhou to gain a better understanding of the industry development and the business operations and operating conditions of the Group. The Group's senior management attended the site visits and answered enquiries from the attendees on the business and development of the Group. The Group received very positive response from these site visits.

6. MEDIA RELATIONS

The Group endeavours to maintain a close relationship with the overseas and local media. In 2009, the Group actively organised interviews with a number of local media agencies including financial magazines and radio stations, which reinforced the Group's publicity and recognition in Hong Kong.

PROSPECTS

The foundation of investor relations is based on the seamless integration of advanced communication strategies and the dedicated involvement by the senior management of the Group. Looking forward into the year 2010, the Group will continue to maintain highly transparent communication with investors on a timely and accurate manner.

In 2010, the Group will continue to disclose regular operating and financial information to increase the Group's transparency and plan to issue monthly corporate newsletters to strengthen communications with the public. The Group will also continue to strengthen the relationship with the media and the investment community through various means of communications, organising regular site visits and meetings with senior management. In conclusion, the Group will endeavour to consolidate and foster the timely and accurate dissemination of corporate information and enhance further the investor relationships.



INVESTOR INFORMATION

1. SHARE PARTICULARS

Listing date	3 June 2008
Board lot	500 Shares
No. of issued shares	2,173,645,000 Shares (as at 31 December 2009)
Stock code	1368

2. FINANCIAL CALENDAR

2009 interim results announcement	7 September 2009
2009 annual results announcement	29 March 2010
Closure of register of members	29 April 2010 – 5 May 2010 (both dates inclusive)
Annual general meeting	5 May 2010
Payment of 2009 final and special dividend	17 May 2010
Financial year end	31 December

3. 2009 DIVIDEND

Interim dividend	HK 7.0 cents
Final dividend	HK10.0 cents
Special dividend	HK 5.0 cents

4. INVESTOR RELATIONS CONTACT

For any queries, please contact:

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Investor Relations Department

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Company website:	www.xtep.com.hk
Brand website:	www.xtep.com.cn



Directors and Senior Management



DIRECTORS

EXECUTIVE DIRECTORS

Mr. Ding Shui Po (丁水波), aged 39, is the founder, chairman and chief executive officer of the Group. He has over 21 years of experience in the sportswear industry and is primarily responsible for the overall corporate strategies, planning and business development of the Group. Mr. Ding founded the Group in 1999 and is currently also the chairman of the Board of Directors and president of various subsidiaries of the Group.

Mr. Ding personally obtained the following awards:

Year	Awards
2002	Outstanding Young Entrepreneur in Quanzhou
2003	Top 100 Individuals in PRC's Economic Development
2004	Top 10 Most Influential Entrepreneurs in China
2005	Fujian Young Entrepreneurs Achievement Award
2007	Fujian May 4th Youth Medal
2008	CAPITAL Leaders of Excellence in China 2008
2008	Outstanding Young Entrepreneur in Fujian
2008	Top 30 Quanzhou Outstanding Economic Figures in 30 Years of China's Reform
2009	Ernst & Young Entrepreneur of the Year China 2009

Mr. Ding held the following public offices:

Year	Public Offices
2003	The 9th Quanzhou City Fujian Provincial Committee of the Chinese People's Political Consultative Conference
2006	Chairman of the 3rd Executive Committee Quanzhou Footwear Chamber
2008	The 10th Quanzhou City Fujian Provincial Committee of the Chinese People's Political Consultative Conference

Mr. Ding participated in entrepreneurship programs offered by Peking University (北京大學) and Tsinghua University (清華大學) in 2004 and 2006, respectively. He is currently enrolled in an EMBA program offered by Xiamen University (廈門大學). He is the son of Mr. Ding Jin Chao (one of our controlling shareholders), a brother of Ms. Ding Mei Qing and Mr. Ding Ming Zhong and a brother-in-law of Mr. Lin Zhang Li.

Ms. Ding Mei Qing (丁美清) · aged 37, is our executive Director and a vice president of the Company. Ms. Ding has over 11 years of experience in the sportswear industry and is primarily responsible for the management of footwear operation of the Group. She is also responsible for the design and technology development of the Group and has led our design team to create a number of special collections of footwear under our Xtep brand that successfully appeal to the trendy and youthful mass market segment. Ms. Ding joined the Group in 1999 and is currently also a deputy general manager, a director and a vice president of various subsidiaries of the Group. Ms. Ding participated in an entrepreneurship program offered by Tsinghua University (清華大學) in 2006. She is the daughter of Mr. Ding Jin Chao, the sister of Mr. Ding Shui Po and Mr. Ding Ming Zhong and the wife of Mr. Lin Zhang Li.

Mr. Lin Zhang Li (林章利) · aged 38, is our executive Director and a vice president of the Company. Mr. Lin has over 11 years of experience in the sportswear industry and is primarily responsible for the management of apparel business of the Group. Mr. Lin joined the Group in 1999 and is currently also a vice president of Xtep (China). He participated in an entrepreneurship program offered by Tsinghua University (清華大學) in 2006. He is the husband of Ms. Ding Mei Qing, the son-in-law of Mr. Ding Jin Chao, a brother-in-law of Mr. Ding Shui Po and Mr. Ding Ming Zhong.

Mr. Ding Ming Zhong (丁明忠) · aged 33, is our executive Director and a vice president of the Company. He has over 11 years of experience in the sportswear industry and is primarily responsible for the management of accessories business of the Group. Mr. Ding joined the Group in 1999 and is currently also a deputy general manager and a vice president of various subsidiaries of the Group. He participated in entrepreneurship programs offered by Peking University (北京大學) and Tsinghua University (清華大學) in 2004 and 2006, respectively. He is the son of Mr. Ding Jin Chao, a brother of Mr. Ding Shui Po and Ms. Ding Mei Qing and a brother-in-law of Mr. Lin Zhang Li.

Mr. Ye Qi (葉齊) · aged 52, is our executive Director and a vice president of Xtep (China). Joining the Group in 2004, Mr. Ye has over 17 years of experience in sales and marketing and is primarily responsible for the overall sales and marketing business of the Group. He also assists our chairman with the overall corporate strategies planning and business development of the Group. He graduated from South West University (西南大學) with a bachelor's degree in chemical science in 1982. He obtained a master's degree in philosophical science from East China Normal University (華東師範大學) in 1988 and a master's degree in business administration from China Europe International Business School (中歐國際工商學院) in 2003.

NON-EXECUTIVE DIRECTOR

Mr. Xiao Feng (肖楓) · aged 37, was appointed as a Director of the Company in 2007 and re-designated as a non-executive Director of the Company in 2008. Mr. Xiao is a managing director of Carlyle Investment Fund focused on growth capital investments in China. Prior to joining Carlyle, he was a vice president at China International Capital Corporation, a leading investment bank in China, where he had involved in the restructuring and listing of a number of leading Chinese companies. He received his MBA from China Europe International Business School (中歐國際工商學院). He holds a B.E. in computer science and a B.A. in English from Tsinghua University (清華大學). He also holds a Lawyer's Qualification Certificate in China since June 1997.

Independent non-executive Directors

Mr. Sin Ka Man (冼家敏) · aged 42, was appointed as our independent non-executive Director on 24 January 2008. Mr. Sin has over 17 years of professional experience in auditing, accounting and financial management for both private and listed corporations. He is an associate member of the HKICPA, a fellow member of the Association of Chartered Certified Accountants and a CPA of the CPA Australia. He is currently a vice president of the Huayu Expressway Group Limited, a company listed on the Main Board of the Hong Kong Stock Exchange mainly engaged in toll road business in the PRC, and is responsible for the accounting and financial management of the Group. He holds a bachelor degree in Social Sciences from the University of Hong Kong, a master degree in Finance from the University of Strathclyde, the United Kingdom and a master degree in accounting from Curtin University of Technology, Australia.

Mr. Sin is an independent non-executive director of LeRoi Holdings Limited, Chinese People Holdings Company Limited and China Motion Telecom International Limited (these companies are listed on the Main Board of the Hong Kong Stock Exchange) and Sino Haijing Holdings Limited (a company listed on the Growth Enterprise Market ("GEM Board") of the Hong Kong Stock Exchange). He was previously an independent non-executive director of Shine Software (Holdings) Limited (a company listed on the GEM Board).





Mr. Xu Peng Xiang (許鵬翔) · aged 62, was appointed as our independent non-executive Director on 24 January 2008. Mr. Xu has over 11 years of industry experience in footwear and apparel industries. He has been the Standing vice chairman of Quanzhou General Chambers of Commerce (泉州市總商會) since 1997 and is responsible for, among others, footwear and apparel industries. He was the Head of Enterprise Department at the Quanzhou Economy Committee (泉州市經濟委員會) from 1991 to 1996, responsible for enterprise re-structuring, capital re-structuring and state-owned enterprises pre-listing matters. He was also responsible for financial and statistical planning in Quanzhou Economy Committee. He graduated from Fuzhou University.

Dr. Gao Xian Feng (高賢峰) · aged 47, was appointed as our independent non-executive Director on 24 January 2008. Dr. Gao is currently the executive officer of Human Resources Management Research Centre at the Peking University (北京大學人本管理研究中心) and a visiting professor of entrepreneurship programs at Peking University (北京大學) Tsinghua University (清華大學) · Party School of the Central Committee of Communist Party of China (中央黨校) and Fudan University (復旦大學). Dr. Gao previously serves as an associate professor at Shandong Economic University (山東經濟學院). He holds a bachelor degree in enterprise management from Shandong Economic University (山東經濟學院) and a doctor of law degree from the Peking University (北京大學).

SENIOR MANAGEMENT

Mr. Ho Yui Pok, Eleutherius (何睿博) · aged 44, is the chief financial officer, investor relations officer and authorized representative of the Company. He is also the company secretary of the Company. He has over 20 years of experience in finance and accounting and is primarily responsible for the Group's overall financial and accounting affairs and investor relations. Mr. Ho graduated from University of Kent at Canterbury, England with a bachelor's degree in accounting in 1987 and a master's degree in

management science in 1989. Prior to joining the Group in 2007, he was a chief financial officer, company secretary and authorized representative of GST Holdings Limited from 2005 to 2007 and a financial controller of EC-Founder (Holdings) Co., Ltd. from 2000 to 2005, a company listed on the Main Board of the Hong Kong Stock Exchange. In addition, he worked for an international accounting firm as a manager from 1994 to 1996. He was an associate member of both the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants.

Mr. Wang Jia Ye (王家業) · aged 34, is a vice president of Xtep (China). He has over 11 years of experience in the apparel industry and is primarily responsible for design, research and development and manufacturing of apparel products in the Group. He joined the Group as a general director of apparel business centre in 2004 and was promoted to be a vice president of Xtep (China) in 2008. Prior to joining the Group, he worked for a domestic apparel company Guangzhou Menten Sports Co., Ltd. (廣州麥特體育用品有限公司). He graduated from Tianjin Polytechnic University (天津工業大學) · previously known as Tianjin Textile Industry College (天津紡織工學院) with a bachelor's degree in apparel in 1996.

Mr. Chen Jian Jun (陳建軍) · aged 46, is the financial controller of Xtep (China). He has over 25 years of experience in finance and accounting and is primarily responsible for the financial management and capital planning of the Group's subsidiaries in the PRC. Prior to joining the Group in 2008, he was the financial controller of Centron Telecom International Holding Limited from 2003 to 2007, a company listed on the Main Board of the Hong Kong Stock Exchange. He completed the courses of master of business administration conducted by Hong Kong International Business College in 2007. He holds a China Certified Public Accountant certificate.



Dr. Wu Lian Yin (吳聯銀) · aged 35, is a vice president of Xtep (China). He has over 9 years of experience in providing consulting services to enterprises of information technology management and is primarily responsible for building up and managing our overall enterprise information resources. Prior to joining the Group in 2007, he worked for a consulting group as a senior manager from 2003 to 2007 with participation in several projects to provide consulting and training services to a number of PRC companies involving information technology management. He worked for HAND Enterprise Solutions Company Ltd. (上海全富漢得軟件技術有限公司) as an Oracle CRM senior consultant from 2001 to 2003. Dr. Wu won the “Outstanding Management Consulting Award” (傑出管理諮詢獎) in 2007. He graduated from Xi’an Jiaotong University (西安交通大學) with a bachelor’s degree in engineering in 1996 and a doctor’s degree in engineering in 2001. In 2009, he was granted the China TOP 50 CIO Award by IT Manager World Magazine and named the “Outstanding Entrepreneur of the Year” (年度貢獻人物獎) by vsharing.com.

Mr. Liu Qing Xian (劉慶先) · aged 42, is a vice president of Xtep (China). Joining the Group in 2005, Mr. Liu has over 18 years of experience in human resources management and is primarily responsible for the overall human resources management of the Group. He is currently a director of the Young Entrepreneurs Association of Fujian Province (福建省青年企業家協會) · a standing director of the Young Politician Association of Quanzhou City (泉州市青年政治家協會) and the Youth Chamber of Commerce of Quanzhou City (泉州市青年商會) · respectively. Mr. Liu graduated from Capital University of Economics and Business (首都對外經濟貿易大學) with a bachelor’s degree in international trade. He also obtained a master’s degree in human resources management from Peking University (北京大學) in 2006. He participated in an entrepreneurship program offered by Tsinghua University (清華大學) in 2006. He is the advisor of the Human Resources Association of Huaqiao University and the chair professor at Xiamen University and Fujian Normal University as well as guest professor at a number of academic institutions including Wuhan University of Science and Engineering.

Mr. Huang Hai Qing (黃海清) · aged 51, is a vice president of Xtep (China). He has over 19 years of experience in administrative management and is primarily responsible for our overall administrative management. He joined as a vice president of a subsidiary company of the Group in 1999 and was appointed as a vice president of Xtep (China) in 2002.

COMPANY SECRETARY

Mr. Ho Yui Pok, Eleutherius (何睿博) · aged 44, is the company secretary as well as the chief financial officer, investor relations officer and authorized representative of the Company. His biographical details are set out above under the paragraph headed “Senior Management”.





CORPORATE SOCIAL RESPONSIBILITIES



CARE FOR THE SOCIETY

The Group's continuous success and development as the world's fashion sportswear leader are attributable to the support from various parties in the community. As such, we strive to promote corporate social responsibilities to enhance the harmonious development with the community and the environment. The Group's efforts were recognised by the community during the year and was granted the "National May 1st Labor Medal" in May 2009 to recognise our sound human resources policies. In the future, we will continue to contribute to community services. Our major social welfare participations in 2009 were as follows:

I. COMMUNITY CARE

1. CHILDREN EDUCATION AND YOUTH'S DEVELOPMENT

Children and the youth are the future leaders of our society and education is crucial to our next generation and their development. The Group actively participates in children and youth's education work and endeavours to improve their learning and development through donations and giving them sportswear products and schooling items. In 2009, our "Xtep Love & Care Fund" made a number of donations to support the education projects in Quanzhou to improve the learning and school environment. The Group also jointly cooperated with www.qzce.com to give free books to citizens in Quanzhou, enabling the citizens to have an additional opportunity to learn. In addition, we sponsored a number of foundations including Fujian Province Youth Development Foundation, Youth Development Foundation of Quanzhou Youth Federation and China Youth Development Foundation last year to improve the learning environment for the youth so as to lay a solid foundation for their future development.



2. CHARITY SUPPORT

To fully support the charity community, the Group participated in a number of charitable and sponsorship events during the year and made donations to the Qianliang Villager Committee of Junjiang City and the Quanzhou Charity Association. In addition, the Group made donations and also initiated its staff to participate in the blood donation campaign organized by the Quanzhou Red Cross in 2009 to make charitable contribution in the local area. The event was well-received by the public.

II. SPORTS INDUSTRY DEVELOPMENT

As a sportswear leader in China, the Group actively promotes development of China's sports product industry. Through sponsoring a wide range of national and other high-profile local sports events, the Group continues to contribute to the development of China's sports product. In 2009, the Group had contributed sports gear to the Administration of Sports, Fujian Province, actively supported the Funding Protection Association under the Sports Affairs Foundation of Fujian Province (福建省體育事務基金保障資金會) and sponsored the sports delegates of Fujian Province for the 11th National Games of China so as to contribute to the development of China's sports product industry.

III. HUMAN RESOURCES TRAINING

The Group regards its staff as its most valuable asset. We believe that the effort of our staff is the key to creating the Group's success. Therefore, the Group places great emphasis to provide on job training programs to enhance the skills and service quality of staff.

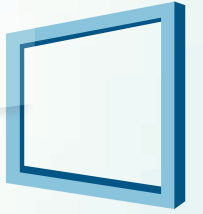
In order to enhance the overall quality of our staff, we have introduced a high-end professional training course and rolled out a 14-cycle senior management-led power train scheme (高管聯盟動力火車計劃). The Group organized various corporate and culture activities in 2009, including an outward bound program named "Breathe together, Grow together" organized jointly with training institutes, Yan'an and Xi'an field trips and a summit forum on corporate culture held in Xiamen. We hope to strengthen the cooperation and communication with them to enhance staff of loyalty and extend their potentials to the full extent.

Our staff is our most valuable asset and we are fully aware of the fact that a sound and strategic human resources management is the key to leading us into the global arena. In 2009, we combined the best practice of multi-national corporations with our corporate culture to further optimise our remuneration and appraisal system and establish a competitive remuneration platform as an incentive to drive our talents. The Group appraised and award the staff with outstanding performance at the annual award presentation ceremony. Through the above measures, our staff will have better understanding of our mission, vision and our core values, which in turn, enhances their cohesion, sense of belonging and team spirit.





Dazzling Winter Flake



Corporate Governance Report



Good corporate governance is conducive to enhancing overall performance and accountability and is essential in modern corporate administration. The Board of Directors continuously observes the principles of good corporate governance in the interests of Shareholders and devotes considerable effort to identifying and formalizing best practice.

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 the Corporate Governance Code during the year ended 31 December 2009 except for the deviation from code provision A.2.1 as disclosed below.

(1) BOARD OF DIRECTORS

The Board takes overall responsibility to oversee all major matters of the Group, including the formulation and approval of all policy matters, overall strategic development of the Group, monitoring and controlling the Group's operation and financial performance, internal control and risk management systems. The Directors have to make decisions objectively in the interests of the Company.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed.

The Board comprises nine Directors, consisting of five executive Directors, one non-executive Director and three independent non-executive Directors. Biographical information of the Directors are set out in the section headed “Directors and Senior Management” of this annual report. Among members of the Board, Mr. Ding Shui Po is the elder brother of Ms. Ding Mei Qing and Mr. Ding Ming Zhong, and Mr. Lin Zhang Li is the husband of Ms. Ding Mei Qing. Save as disclosed herein, to the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

MODEL CODE

The Company has also adopted the Model Code set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors’ securities transactions during the year ended 31 December 2009.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under 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 consisted of five executive Directors, one non-executive Director and three independent non-executive Directors and has a strong independence element in its composition.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent non-executive Directors have played a significant role in the Board by bringing their independent judgment at the Board meeting and scrutinizing the Group’s performance. Their views carry significant weight in the Board’s decision, in particular, they bring an impartial view to bear on issues of the Group’s strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advices to the Board. The independent non-executive Directors provide independent advice on the Group’s business strategy, results and management so that all interests of Shareholders can be taken into account, and the interests of the Company and its Shareholders can be protected.

The Board has three independent non-executive Directors with one of them, Mr. Sin Ka Man, possessing appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rule 3.10(1) and (2) of the Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.





MEETINGS

The Board meets regularly either in person or through electronic means of communications. The number of the meetings held and the attendance of each Director at these meetings for the year ended 31 December 2009 are set out as follows:

	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting
No. of meetings held	4	3	2	1
No. of meetings attended				
Executive Directors				
Mr. Ding Shui Po (chairman)	4	N/A	N/A	1
Ms. Ding Mei Qing	4	N/A	2	N/A
Mr. Lin Zhang Li	4	N/A	N/A	N/A
Mr. Ding Ming Zhong	4	N/A	N/A	N/A
Mr. Ye Qi	4	N/A	N/A	N/A
Non-Executive Director				
Mr. Xiao Feng	4	N/A	N/A	N/A
Independent Non-Executive Directors				
Mr. Sin Ka Man	4	3	N/A	N/A
Mr. Xu Peng Xiang	4	3	2	1
Dr. Gao Xian Feng	4	3	2	1



All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the company secretary of the Company at all time and may seek independent professional advice at the Company's expense. All Directors have the opportunity to include matters in the agenda for Board meetings. Notices of at least 14 days of Board meetings are given to the Directors and Board procedures complied with the articles of association of the Company, as well as relevant rules and regulations.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Directors, non-executive Director and independent non-executive Directors of the Company has entered into a service contract with the Company for a specific term, and is subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the articles of association of the Company. The articles of association of the Company provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

BOARD COMMITTEES

The Board has established (i) audit committee, (ii) remuneration committee; and (iii) nomination committee, with defined terms of reference which are in line with the code provisions of the Corporate Governance Code. The terms of reference of the board committees which explain their respective role and the authority delegated to them by the Board are available upon request. The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance in appropriate circumstances, at the Company's expenses.

AUDIT COMMITTEE

The primary duties of the audit committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company. The audit committee consists of three members, namely, Mr. Sin Ka Man, Mr. Xu Peng Xiang and Dr. Gao Xian Feng, all of whom are independent non-executive Directors. Mr. Sin Ka Man is the chairman of the audit committee.

In accordance with its written terms of reference, the audit committee has held 3 meetings during the year ended 31 December 2009 to discuss the auditing, internal controls and financial reporting matters of the Company, including the review of the annual results of the Group for the year ended 31 December 2008, interim results of the Group for the six months ended 30 June 2009 and for the year ended 31 December 2009 audit planning.



REMUNERATION COMMITTEE

The primary duties of the remuneration committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Company, review performance based remuneration, and ensure none of the Directors determine their own remuneration. The remuneration committee consists of three members, namely, Mr. Xu Peng Xiang, Dr. Gao Xian Feng (both are independent non-executive Directors) and Ms. Ding Mei Qing, an executive Director. Mr. Xu Peng Xiang is the chairman of the remuneration committee.

In accordance with its written terms of reference, the remuneration committee has held 2 meeting during the year ended 31 December 2009 to review and approve the Company's remuneration structure for the directors and senior management of the Company for the year ended 31 December 2009 and the granting of the share options of the Company to eligible persons for the year ended 31 December 2009.

NOMINATION COMMITTEE

The primary duties of the nomination committee are to review the structure, size and composition of the Board on a regular basis and to recommend to the Board the suitable candidates for directors after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. The nomination committee consists of three members, namely, Mr. Ding Shui Po, the Group's chairman and two independent non-executive Directors, namely, Mr. Xu Peng Xiang and Dr. Gao Xian Feng. Mr. Ding Shui Po is the chairman of the nomination committee.

In accordance with its written terms of reference, the nomination committee has held 1 meeting during the year ended 31 December 2009 to review and approve the composition of the Board.

(2) FINANCIAL REPORTING

The Board, supported by the chief financial officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flow of the Company and its subsidiaries for that period. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The responsibilities of Ernst & Young, the Company's external auditors, on the financial statements are set out in the section headed "Independent Auditors' Report" in this annual report.

EXTERNAL AUDITORS' REMUNERATION

The Company has re-appointed Ernst & Young as its external auditors during the year ended 31 December 2009. The external auditor is refrained from engaging in non-audit services except for specific approved items, such as review of interim results of the Group. The audit committee reviews the external auditor's statutory audit scope and non-audit services and approves its fees. Details of the fees paid/payable to Ernst & Young during the year are as follows:

	2009 HK\$	2008 HK\$
Statutory audit services	2,980,000	2,500,000
Non-audit services	528,000	500,000
Initial public offering	–	7,750,000
Total	3,508,000	10,750,000

(3) INTERNAL CONTROLS

The Board is responsible for ensuring the reliabilities and effectiveness of the Group's internal control systems on, among other things, financial, operational and compliance controls. During the year under review, the Board and the audit committee have reviewed the effectiveness of the Group's internal control systems on all major operations of the Group by the Group's internal audit department.

The Group's internal control department has reported major internal control review findings to the Board and audit committee. No major issues but areas for improvement have been identified. All of the recommendations from the Group's internal control department will be properly followed up to ensure that they are implemented within a reasonable period of time. The Board and the audit committee considered that the key areas of the Group's internal control systems, including the adequacy of resources, qualifications and experience of our accounting and financial reporting staff, and their training programs and budget, are reasonably implemented and the Group has fully complied with provisions of the Corporate Governance Code regarding internal control systems in general for the year ended 31 December 2009.

(4) COMMUNICATIONS WITH SHAREHOLDERS

The management endeavours to maintain effective communications with our Shareholders and potential investors.

We meet our Shareholders at the annual general meeting, publish interim and annual reports on the websites of the Company and the Hong Kong Stock Exchange, and release press releases on the Company's website to keep our Shareholders and potential investors abreast of the Group's business and development.

For further details, please refer to the section headed "Investor Relations Report" in this annual report.



Report of the Directors



The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in the design, development, manufacture and marketing of sportswear, including footwear, apparel and accessory products, sold under the Xtep brand and the Koling brand, which are owned by us, and the Disney Sport brand, which is licensed by The Walt Disney Company (Shanghai) Limited to the Group in the PRC and by the Walt Disney Company (Asia Pacific) Limited to the Group in Hong Kong and Macau.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2009 are set out in note 18 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2009 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 78 to 131 of this annual report.

DIVIDENDS

An interim dividend of HK7.0 cents (equivalent to RMB6.2 cents) per Share was paid to our Shareholders during the year. The Board recommended a final dividend of HK10.0 cents (equivalent to RMB8.8 cents) per Share and a special dividend of HK5.0 cents (equivalent to RMB4.4 cents) per Share for the year ended 31 December 2009, subject to approval by the Shareholders at the annual general meeting to be held on 5 May 2010. The total dividends for the year ended 31 December 2009, which include the interim, final and special dividends, amounted to a total dividend of HK22.0 cents (equivalent to RMB19.4 cents) per Share, represented an increase of 22% from last year and represented a payout ratio of 65%.

RESERVES

Details of movements in reserves of the Company and the Group are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2009, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB1,570.0 million. The amount of approximately RMB1,570.0 million includes the Company's share premium account of approximately RMB1,529.8 million and retained profit of approximately RMB40.2 million in aggregate as at 31 December 2009, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to approximately RMB6.4 million (2008: RMB6.7 million).

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group for the year ended 31 December 2009 are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2009 are set out in note 28 to the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2009 were:

EXECUTIVE DIRECTORS

Mr. Ding Shui Po (*Chairman*)
Ms. Ding Mei Qing
Mr. Lin Zhang Li
Mr. Ding Ming Zhong
Mr. Ye Qi

NON-EXECUTIVE DIRECTOR

Mr. Xiao Feng

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sin Ka Man
Mr. Xu Peng Xiang
Dr. Gao Xian Feng

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

Each of the executive, non-executive and independent non-executive Directors on the Board during the year ended 31 December 2009 has entered into a service contract with the Company for an initial term of three, one and two year(s), respectively, commencing from 3 June 2008 and thereafter may be terminated by either party upon a three-month prior written notice.

In accordance with article 87 of the Company's articles of association, Ms. Ding Mei Qing, Mr. Xu Peng Xiang and Dr. Gao Xian Feng will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr. Ho Yui Pok, Eleutherius and Mr. Tan Wee Seng whose appointment as an executive Director and non-executive Director, respectively, with effect from 29 March 2010 will be subject to election by Shareholders of the Company at the forthcoming annual general meeting to be held on 5 May 2010.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out on pages 52 to 55 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed below, there was no contract of significance to which the Company, its holding company, or any of its subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2009.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2009, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been

notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

LONG POSITIONS IN THE COMPANY

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

Notes:

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

Save as disclosed above, as at 31 December 2009, none of the Directors or chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

SHARE OPTION SCHEMES

PRE-IPO SHARE OPTION SCHEME

The Company has adopted the Pre-IPO Share Option Scheme on 7 May 2008 for the purpose of giving its employees an opportunity to have a personal stake in the Company and helping motivate its employees to optimize their performance and efficiency, and retaining its employees whose contributions are important to the long-term growth and profitability of the Group. Options to subscribe for an aggregate of 19,000,000 Shares were granted

to one executive Director, six members of the senior management of the Group and 52 employees on 7 May 2008. The exercise price per Share is HK\$3.24, being a discount of 20% to the global offering price. No further options would be granted under the Pre-IPO Share Option Scheme on or after the Listing Date. All options granted under the Pre-IPO Share Option Scheme may be exercised during the option period commencing from the end of twelve months after the Listing Date to the date falling 10 years from the offer date of the options and can only be exercised in the following manner:

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

Accordingly, there is no exercise of such options granted for the year ended 31 December 2009.

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

SHARE OPTION SCHEME

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

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



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

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotations sheets on the offer date; and

(c) the average closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five Business Days immediately preceding the offer date.

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

Details of the share options granted under the Share Option Scheme as at 31 December 2009 are as follows:

Category of participants	Date of grant	Exercise price per Share	Exercise period	Balance as at 1 January 2009	Granted during 2009	Balance as at 31 December 2009
Senior Management In aggregate	29 July 2009	HK\$4.11	29 July 2010 – 28 July 2020	–	1,500,000	1,500,000
Other Employees In aggregate	29 July 2009	HK\$4.11	29 July 2010 – 28 July 2020	–	8,500,000	8,500,000
Total				–	10,000,000	10,000,000

During the year ended 31 December 2009, no options granted under the Share Option Scheme were exercised, lapsed or cancelled.

Notes:

1. The closing price per Share immediately before 29 July 2009 (the date on which the option were granted) was HK\$4.18.

Share options granted under the Share Option Scheme on 29 July 2009 shall vest in the grantees in accordance with the timetable below with a 10-year exercise period (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "**Vesting Date**"):

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

Further details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 30 to the financial statements.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in “Share Option Schemes” above, at no time during the year were rights to acquire benefits by means of the acquisition of share in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to any Director or chief executive of the Company, as at 31 December 2009, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Nature of Interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company
Group Success	Beneficial interests	1,418,059,500	65.24%
Carlyle Asia Growth Partners III, L.P.	Beneficial interests	201,655,919	9.28%
CAGP III Co-investment, L.P.	Beneficial interests	8,044,581	0.37%
CAGP General Partner, L.P.	Interests of controlled corporation ⁽¹⁾	209,700,500	9.65%
CAGP Ltd	Interests of controlled corporation ⁽¹⁾	209,700,500	9.65%
Wellington Management Company, LLP	Investment manager	110,130,545	5.07%

Note:

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

Save as disclosed above, as at 31 December 2009, the Directors of the Company are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company which would require to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.





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 year ended 31 December 2009.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2009.

NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders has confirmed to the Company of his/her compliance with the non-compete undertakings provided to the Company under the Deed of Non-compete (as defined in the Prospectus). The independent non-executive Directors of the Company have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-compete have been complied with by the controlling shareholders.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2009 and up to and including the date of this annual report.

MANAGEMENT CONTRACTS

No contacts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands where the Company is incorporated applicable to the Company.

EMOLUMENT POLICY

The Group's emolument policies are based on the merit, qualifications and competence of individual employees and are reviewed by the remuneration committee periodically.

The emoluments of the Directors are recommended by the remuneration committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted two share option schemes to motivate and reward its Directors and eligible employees. Details of these schemes are set out in the paragraph headed "Share Option Schemes" above and note 30 to the financial statements.

None of the directors waived any emoluments during the year.

PENSION SCHEME

The Group operates a defined contribution mandatory provident fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for eligible employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statements as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in China are required to participate in defined contribution central pension schemes operated by the local municipal government. The subsidiaries of the Group are required to contribute certain percentages of its payroll costs to the central pension schemes. The contributions are charged to the consolidated income statements as they become payable in accordance with the rules of the central pension scheme.



The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's largest and five largest customers were 10.0% (2008: 6.0%) and 33.4% (2008: 25.1%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 6.6% (2008: 4.9%) and 21.6% (2008: 17.4%) of the Group's total purchases respectively.

At no time during the year ended 31 December 2009, did a Director, his/her associate(s) or a Shareholder, which to the knowledge of the Director owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers and suppliers.

AUDITORS

Ernst & Young will retire and, being eligible, offer themselves for re-appointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

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 annual report, 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 year ended 31 December 2009.

BANK LOANS

Details of bank loans of the Company and the Group as at 31 December 2009 are set out in note 25 to the financial statements.

FIVE-YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 10 and 11 of this annual report.

On behalf of the Board

Ding Shui Po

Chairman

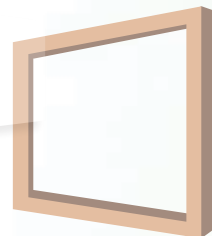
Hong Kong, 29 March 2010







Expand Border
to the World





To the shareholders of Xtep International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Xtep International Holdings Limited set out on pages 78 to 131, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants

Hong Kong

29 March 2010



	Notes	2009 RMB'000	2008 RMB'000
REVENUE	5	3,545,336	2,867,181
Cost of sales		(2,157,549)	(1,802,879)
Gross profit		1,387,787	1,064,302
Other income and gains	5	10,688	5,127
Selling and distribution costs		(522,966)	(350,529)
General and administrative expenses		(174,147)	(128,249)
Operating profit	6	701,362	590,651
Finance income/(costs), net	7	860	(13,232)
PROFIT BEFORE TAX		702,222	577,419
Income tax expense	10	(54,701)	(69,247)
PROFIT FOR THE YEAR		647,521	508,172
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
– Basic (RMB cents)		29.79	26.84
– Diluted (RMB cents)		N/A	25.81

Details of the dividends are disclosed in note 12 to the financial statements.



	2009 RMB'000	2008 RMB'000
PROFIT FOR THE YEAR	647,521	508,172
OTHER COMPREHENSIVE INCOME		
Exchange difference on translation of financial statements of overseas subsidiaries	73,924	(85,399)
Income tax relating to the component of other comprehensive income	–	–
Other comprehensive income for the year, net of tax	73,924	(85,399)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	721,445	422,773



	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	192,969	115,333
Prepaid land lease payments	15	21,345	21,847
Deposit paid for acquisition of land use rights	16	50,079	50,079
Deposits paid for acquisition of items of property, plant and equipment		10,000	10,288
Intangible assets	17	615	791
		275,008	198,338
CURRENT ASSETS			
Inventories	19	265,689	288,287
Trade and bills receivables	20	522,755	526,912
Prepayments, deposits and other receivables	21	79,526	121,740
Pledged deposits	22	–	6,000
Cash and cash equivalents	22	2,497,635	2,136,938
		3,365,605	3,079,877
CURRENT LIABILITIES			
Trade and bills payables	23	439,398	377,989
Deposits received, other payables and accruals	24	165,494	75,392
Interest-bearing bank borrowings	25	–	124,000
Tax payable		24,373	60,234
		629,265	637,615
NET CURRENT ASSETS		2,736,340	2,442,262
TOTAL ASSETS LESS CURRENT LIABILITIES		3,011,348	2,640,600
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	27,268	2,824
		27,268	2,824
NET ASSETS		2,984,080	2,637,776
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	28	19,177	19,177
Reserves	29(a)	2,964,903	2,618,599
TOTAL EQUITY		2,984,080	2,637,776

DING SHUI PO

Director

DING MEI QING

Director





	Attributable to ordinary equity holders of the Company									
	Notes	Issued	Share	Capital	Statutory	Share	Exchange	Retained	Total	Total
		capital	premium	reserve	surplus	option	fluctuation	profits	reserves	equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note 28)	(note 29(b))	(note 29(a))	(note 29(a))	(note 29(b))	(note 29(a))			
At 1 January 2009		19,177	1,913,010	118,600	129,791	3,956	(81,936)	535,178	2,618,599	2,637,776
Total comprehensive income for the year		-	-	-	-	-	73,924	647,521	721,445	721,445
Equity-settled share option transactions		-	-	-	-	8,042	-	-	8,042	8,042
2008 final dividend declared and paid	12	-	(153,286)	-	-	-	-	-	(153,286)	(153,286)
2008 special dividend declared and paid	12	-	(95,803)	-	-	-	-	-	(95,803)	(95,803)
2009 interim dividend	12	-	(134,094)	-	-	-	-	-	(134,094)	(134,094)
Transfer to statutory surplus fund		-	-	-	86,488	-	-	(86,488)	-	-
At 31 December 2009		19,177	1,529,827	118,600	216,279	11,998	(8,012)	1,096,211	2,964,903	2,984,080

	Attributable to ordinary equity holders of the Company									
	Notes	Issued	Share	Capital	Statutory	Share	Exchange	Retained	Total	Total
		capital	premium	reserve	surplus	option	fluctuation	profits	reserves	equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note 28)	(note 29(b))	(note 29(a))	(note 29(a))	(note 29(b))	(note 29(a))			
At 1 January 2008		936	-	118,600	46,116	-	3,463	110,681	278,860	279,796
Total comprehensive income for the year		-	-	-	-	-	(85,399)	508,172	422,773	422,773
Conversion of preferred shares into ordinary shares	28(b)(i),28(b)(ii)	109	216,897	-	-	-	-	-	216,897	217,006
Capitalisation issue	28(b)(iii)	13,526	(13,526)	-	-	-	-	-	(13,526)	-
Issue of Pre-IPO Share Option	30	-	-	-	-	3,956	-	-	3,956	3,956
Issue of shares of the Company	28(b)(iv)	4,838	1,954,693	-	-	-	-	-	1,954,693	1,959,531
Share issue expenses		-	(117,991)	-	-	-	-	-	(117,991)	(117,991)
Repurchase of shares	28(b)(v)	(232)	(30,767)	-	-	-	-	-	(30,767)	(30,999)
2008 interim dividend	12	-	(96,296)	-	-	-	-	-	(96,296)	(96,296)
Transfer to statutory surplus fund		-	-	-	83,675	-	-	(83,675)	-	-
At 31 December 2008		19,177	1,913,010	118,600	129,791	3,956	(81,936)	535,178	2,618,599	2,637,776



	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		702,222	577,419
Adjustments for:			
Depreciation	6	15,383	11,784
Amortisation of prepaid land lease payments	6	502	502
Amortisation of intangible assets	6	176	71
Interest income	7	(15,088)	(27,085)
Interest expense	7	10,598	12,728
Fair value gain on derivative component of preferred shares	7	–	(1,156)
Equity-settled share option expense	6	8,042	3,956
		721,835	578,219
Decrease/(increase) in inventories		22,598	(94,782)
Decrease/(increase) in trade and bills receivables		4,157	(292,529)
Decrease in prepayments, deposits and other receivables		42,214	14,249
Increase in trade and bills payables		61,409	322,130
Increase in deposits received, other payables and accruals		90,102	34,290
Decrease in an amount due to a director		–	(32,874)
Cash generated from operations		942,315	528,703
Interest received		15,088	23,073
Interest paid		(10,598)	(12,489)
Overseas taxes paid		(66,546)	(36,707)
Net cash flows from operating activities		880,259	502,580
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(92,731)	(30,532)
Additions to prepaid land lease payments	15	–	(579)
Increase in deposit paid for acquisition of land use rights		–	(40,079)
Increase in deposits paid for acquisition of items of property, plant and equipment		–	(10,288)
Additions to intangible assets	17	–	(573)
Decrease/(increase) in pledged deposits		6,000	(6,000)
Exchange realignment		–	5,135
Net cash flows used in investing activities		(86,731)	(82,916)



	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		–	196,000
Repayment of bank loans		(124,000)	(188,000)
Net proceeds from issue of ordinary shares	28	–	1,841,540
Shares repurchase expenses		–	(30,999)
Dividends paid		(383,183)	(225,751)
Net cash flows from/(used in) financing activities		(507,183)	1,592,790
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalent at beginning of year		2,136,938	215,018
Effect of foreign exchange rate changes, net		74,352	(90,534)
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,497,635	2,136,938
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		2,497,635	2,136,938



	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	1,247,888	1,136,344
CURRENT ASSETS			
Due from a subsidiary	18	96,296	96,296
Prepayments, deposits and other receivables	21	739	3,790
Cash and cash equivalents	22	243,248	675,397
		340,283	775,483
CURRENT LIABILITIES			
Accruals	24	4,441	5,274
		4,441	5,274
NET CURRENT ASSETS		335,842	770,209
TOTAL ASSETS LESS CURRENT LIABILITIES		1,583,730	1,906,553
NET ASSETS		1,583,730	1,906,553
EQUITY			
Issued capital	28	19,177	19,177
Reserves	29(b)	1,564,553	1,887,376
TOTAL EQUITY		1,583,730	1,906,553

DING SHUI PO
Director

DING MEI QING
Director





1. CORPORATE INFORMATION

Xtep International Holdings Limited is limited liability company incorporated in the Cayman Islands.

The Company's principal place of business in Hong Kong is located at Suite 2401-02, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong. During the year, 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 year.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the derivative component of preferred shares, which has been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all amounts are rounded to the nearest thousand except where otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.



2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments</i>
HKFRS 8	Operating Segments
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 18 Amendment *	Amendments to Appendix to HKAS 18 <i>Revenue – Determining whether an entity is acting as a principal or as an agent</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 <i>Reassessment of Embedded Derivatives</i> and HKAS 39 <i>Financial Instruments: Recognition and Measurement – Embedded Derivatives</i>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
HK(IFRIC)-Int 18	<i>Transfers of Assets from Customers (adopted from 1 July 2009)</i>
Improvements to HKFRSs (October 2008) **	Amendments to a number of HKFRSs

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*, which is effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of HKAS 1 (Revised), the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i> ¹
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i> ²
HKFRS 1 Amendment	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i> ⁴
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i> ²
HKFRS 3 (Revised)	<i>Business Combinations</i> ¹
HKFRS 9	<i>Financial Instruments</i> ⁶
HKAS 24 (Revised)	<i>Related Party Disclosures</i> ⁵
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> ¹
HKAS 32 Amendment	<i>Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues</i> ³
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i> ¹
HK(IFRIC)-Int 14 Amendments	<i>Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement</i> ⁵
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i> ¹
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ⁴
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i> ¹
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i> ²



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.

- ¹ Effective for annual periods beginning on or after 1 July 2009
- ² Effective for annual periods beginning on or after 1 January 2010
- ³ Effective for annual periods beginning on or after 1 February 2010
- ⁴ Effective for annual periods beginning on or after 1 July 2010
- ⁵ Effective for annual periods beginning on or after 1 January 2011
- ⁶ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have significant impact on its results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is a member of the key management personnel of the Group and its holding company;
- (c) the party is a close member of the family of any individual referred to in (a) or (b);
- (d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or
- (e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.



Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditure incurred after the items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant part of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Buildings	Over the shorter of lease terms and 20 years
Leasehold improvements	Over the shorter of lease terms and 5 years
Moulds, plant and machinery	3 to 10 years
Motor vehicles	5 years
Furniture, fixtures and office equipment	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and trademarks

Patents and trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the product so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years/periods. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.



Financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, pledged deposits, trade and bills receivables, and other receivables.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.



If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the futures cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. The Group's financial liabilities include trade and bills payables, interest-bearing bank borrowings and other payables.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow moving items. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.



Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.



Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (c) rental income, on a time proportion basis over the lease terms; and
- (d) dividend income, when the shareholders' rights to receive payment has been established.

Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Employee benefits

Share-based payment transactions

The Company operates two share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external professional qualified valuer using an appropriate pricing model, further details of which are given in note 30 to the financial statements.



The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within in the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal government. The subsidiaries are required to contribute certain percentages of their payroll costs to the central pension schemes. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension schemes.



Other benefits

The Group contributes on a monthly basis to defined contribution housing, medical and other benefit plans organised by the government of the People's Republic of China (the "PRC"). The PRC government undertakes to assume the benefit obligations of all existing and retired employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for benefits for their qualified employees under these plans.

Foreign currencies

These financial statements are presented in RMB, which is the Company's presentation currency. The functional currency of the Company is the Hong Kong dollar which is the currency of the primary environment in which the Company operates. Since the Company does not conduct any substantive operations of its own and conducts its primary business operations through its subsidiaries in the PRC, the Company adopts RMB as the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions recorded by the entities in the Group. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the end of the reporting period and, their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

Preferred shares

Preferred shares with embedded derivative features are split into the liability and derivative components according to their fair values for measurement purposes. On issuance of the preferred shares, the fair value of the derivative component is determined based on valuation; and this amount is carried as a non-current liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The derivative component is remeasured at the end of each reporting period and any gains or losses arising from change in fair value are recognised in the income statement.

Treasury shares

Own equity instruments which are reacquired are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements 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 end of the reporting period. 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.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has an effect on the amounts recognised in the financial statements.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

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 material adjustment to the carrying amount of assets and liabilities within the next financial year, are discussed below.

Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will revise the depreciation charge where useful lives are different to the ones previously estimated and the Group will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of each reporting period.

Impairment allowances for trade and other receivables

The Group estimates the impairment allowances for trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the impairment allowances at the end of each reporting period.

Valuation of share options

As described in note 30 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 year. The fair value of options granted under the share option scheme is determined using the Trinormal 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. As at 31 December 2009, the fair value of the share options granted by the Company was RMB9,540,000, of which share option expense of RMB2,278,000 was recognised during the year.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2009 was RMB56,218,000 (2008: RMB21,685,000). Further details are set out in note 10 to the financial statements.

4. SEGMENT INFORMATION

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

In addition, the Group's revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, the PRC, which is the Group's principal place of business and operation. Therefore, no analysis by geographical regions is presented.

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2009 RMB'000	2008 RMB'000
Revenue		
Manufacture and sale of sportswear:		
Footwear	1,619,132	1,454,596
Apparel	1,874,461	1,350,976
Accessories	51,743	61,609
	3,545,336	2,867,181
Other income and gains		
Rental income	616	570
Subsidy income from the PRC government *	4,932	4,221
Others	5,140	336
	10,688	5,127
	3,556,024	2,872,308

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



6. OPERATING PROFIT

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

	Notes	2009 RMB'000	2008 RMB'000
Cost of inventories sold *		2,157,549	1,802,879
Depreciation	14	15,383	11,784
Amortisation of prepaid land lease payments	15	502	502
Amortisation of intangible assets **	17	176	71
Employee benefit expenses (including directors' remuneration – note 8):			
Wages and salaries		163,178	137,777
Other allowances and benefits		11,046	9,921
Equity-settled share option expense		8,042	3,956
Pension scheme contributions ***		10,209	9,025
		192,475	160,679
Auditors' remuneration		2,627	2,226
Minimum lease payments under operating leases of land and buildings		4,720	1,577
Research and development costs ****		56,735	45,216

* The cost of inventories sold for the year includes RMB121,076,000 (2008: RMB105,214,000), relating to staff costs, depreciation of manufacturing facilities, and minimum lease payments for land and buildings, which are also included in the respective total amounts disclosed above for each of these types of expenses.

** The amortisation of intangible assets for the year is included in "General and administrative expenses" in the consolidated income statement.

*** As at 31 December 2009, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2008: Nil).

**** The research and development costs for the year are included in "General and administrative expenses" in the consolidated income statement.

7. FINANCE INCOME/(COSTS), NET

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

	Notes	Group	
		2009 RMB'000	2008 RMB'000
Interest on bank loans wholly repayable within five years		(10,598)	(12,489)
Interest expense on preferred shares	26	–	(239)
Foreign exchange differences, net		(3,630)	(28,745)
Bank interest income		15,088	27,085
Fair value gain on derivative component of preferred shares	26	–	1,156
		860	(13,232)

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2009 RMB'000	2008 RMB'000
Fees:		
Executive directors	–	–
Non-executive director	–	–
Independent non-executive directors	572	335
	572	335
Other emoluments of executive directors:		
Salaries, other allowances and benefits in kind	2,896	2,146
Equity-settled share option expense	455	312
Pension scheme contributions	48	15
	3,399	2,473
	3,971	2,808



In prior year, a director was granted share options, in respect of his services to the Group, under the pre-initial public offering (“IPO”) share option scheme of the Company, further details of which are set out in note 30(a) to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors’ remuneration disclosure.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

(a) Executive directors

	Salaries, other allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2009					
Ding Shui Po	964	–	–	14	978
Ding Mei Qing	483	–	–	14	497
Lin Zhang Li	483	–	–	14	497
Ding Ming Zhong	483	–	–	3	486
Ye Qi	483	–	455	3	941
	2,896	–	455	48	3,399
2008					
Ding Shui Po	763	–	–	3	766
Ding Mei Qing	381	–	–	3	384
Lin Zhang Li	381	–	–	3	384
Ding Ming Zhong	381	–	–	3	384
Ye Qi	240	–	312	3	555
	2,146	–	312	15	2,473

(b) Non-executive director

There were no emoluments payable to Xiao Feng, the non-executive director, during the year (2008: Nil).

(c) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2009 RMB'000	2008 RMB'000
Sin Ka Man	212	125
Xu Peng Xiang	180	105
Gao Xian Feng	180	105
	572	335

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2008: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2008: one) non-director, highest paid employee for the year are as follows:

	Group	
	2009 RMB'000	2008 RMB'000
Salaries, allowances and benefits in kind	1,190	1,171
Equity-settled share option expense	645	208
Pension scheme contributions	59	54
	1,894	1,433



The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2009	2008
RMB1,000,001 to RMB1,500,000	–	1
RMB1,500,001 to RMB2,000,000	1	–
	1	1

In current year, share options were granted to the non-director, highest paid employee in respect of his services to the Group under the share option scheme of the Company, further details of which are set out in note 30(b) to the financial statements. In prior year, share options were granted to the non-director, highest paid employee in respect of his services to the Group, under the pre-IPO share option scheme of the Company, further details of which are set out in note 30(a) to the financial statements. The fair values of these options, which have been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the year is included in the above non-director, highest paid employees' remuneration disclosure.

10. 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 year (2008: Nil). Taxes on profits assessable elsewhere have been calculated at the prevailing rates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2009 RMB'000	2008 RMB'000
Current tax – Overseas		
Charge for the year	29,475	66,423
Underprovision in prior years	782	–
Deferred (note 27)	24,444	2,824
	54,701	69,247

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 rate of 25% for the years ended 31 December 2008 and 2009. Koling (Fujian) Garment Co., Ltd. ("Koling (Fujian)") and Xtep Sports Goods Co., Ltd. Jinjiang ("Xtep Jinjiang") enjoyed exemption from the PRC corporate income tax for the years ended 31 December 2008 and 2009 and thereafter will be entitled to a 50% reduction in the PRC corporate income tax for the subsequent three years. 廈門特步投資有限公司 ("Xtep Xiamen"), a wholly-owned subsidiary of the Company, has been granted certain tax relief whereby the profit of Xtep Xiamen was taxed at the prevailing tax rate set by the local tax authority of 18% for the year ended 31 December 2008 and at 20% for the year ended 31 December 2009.

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

	Group	
	2009 RMB'000	2008 RMB'000
Profit before tax	702,222	577,419
Tax at the applicable tax rates	180,681	146,995
Lower tax rates for specific provinces or tax holidays	(193,964)	(86,860)
Adjustments in respect of current tax of previous years	782	–
Income not subject to tax	(546)	(5,181)
Expenses not deductible for tax	37,606	7,891
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	24,444	2,824
Tax losses not recognised	5,698	3,578
Tax charge at the Group's effective rate	54,701	69,247

The Group has tax losses arising in Hong Kong of approximately RMB34,533,000 for the year (2008: RMB21,685,000) that are available indefinitely for offsetting against future taxable profits of the companies in which it arose. Deferred tax asset has not been recognised as at 31 December 2009 (2008: Nil) in respect of the tax losses as the directors of the Company consider that it is uncertain that future taxable profits will be available against which the tax losses can be utilised for the respective companies from which the tax losses arose in the foreseeable future.

11. PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to ordinary equity holders of the Company for the year ended 31 December 2009 includes a profit of RMB54,199,000 (2008: loss of RMB13,187,000) which has been dealt with in the financial statements of the Company (note 29(b)).

12. DIVIDENDS

	2009 RMB'000	2008 RMB'000
Dividends paid during the year:		
Final in respect of the financial year ended 31 December 2008 – HK8.0 cents per ordinary share (2008: Nil)	153,286	–
Special in respect of the financial year ended 31 December 2008 – HK5.0 cents per ordinary share (2008: Nil)	95,803	–
Interim – HK7.0 cents (2008: HK5.0 cents) per ordinary share	134,155	96,296
	383,244	96,296
Proposed final and special dividends:		
Final – HK10.0 cents (2008: HK8.0 cents) per ordinary share	191,368	153,286
Special – HK5.0 cents (2008: HK5.0 cents) per ordinary share	95,684	95,803
	287,052	249,089

The proposed final and special dividends for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect the final and special dividends payable.

13. 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 year was based on the profit for the year attributable to ordinary equity holders of the Company of RMB647,521,000 (2008: RMB508,172,000) and the number of ordinary shares in issue during the year of 2,173,645,000 (2008: the weighted average number of shares in issue of 1,893,638,311 as adjusted to reflect the conversion of preferred shares, capitalisation issues and the share offering during the year).

(b) Diluted earnings per share

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2009 in respect of a dilution as the exercise price of the share options of the Company outstanding during the year 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.

The calculations of diluted earnings per share amount for the year ended 31 December 2008 is based on the profit for the year attributable to ordinary equity holders of the Company of RMB508,172,000 adjusted to reflect the imputed interest expense on the preferred shares of RMB239,000 and the fair value gain on derivative component of the preferred shares of RMB1,156,000. The weighted average number of ordinary shares of 1,965,360,022 used in the calculation is the weighted average number of ordinary shares in issue at 31 December 2008, as used in the basic earnings per share amount calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of 12,359,550 preferred shares and the corresponding 169,140,443 ordinary shares to be issued pursuant to the capitalisation issue. The pre-IPO share options outstanding during the year ended 31 December 2008 had no dilutive effect on the basic earnings per share amount for that year.



14. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2009

	Buildings RMB'000	Leasehold improvements RMB'000	Moulds, plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At beginning of year	69,771	5,858	51,007	6,671	20,975	2,270	156,552
Additions	74,225	1,266	4,715	1,697	6,558	4,559	93,020
Transfers	363	–	–	–	–	(363)	–
Exchange realignment	–	(1)	–	–	–	–	(1)
At 31 December 2009	144,359	7,123	55,722	8,368	27,533	6,466	249,571
Accumulated depreciation:							
At beginning of year	12,971	646	19,749	1,802	6,051	–	41,219
Provided during the year	3,611	1,432	5,568	1,113	3,659	–	15,383
At 31 December 2009	16,582	2,078	25,317	2,915	9,710	–	56,602
Net carrying amount:							
At 31 December 2009	127,777	5,045	30,405	5,453	17,823	6,466	192,969

31 December 2008

	Buildings RMB'000	Leasehold improvements RMB'000	Moulds, plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At beginning of year	64,549	977	41,376	5,405	13,713	–	126,020
Additions	5,222	4,881	9,631	1,266	7,262	2,270	30,532
At 31 December 2008	69,771	5,858	51,007	6,671	20,975	2,270	156,552
Accumulated depreciation:							
At beginning of year	9,996	–	15,257	972	3,210	–	29,435
Provided during the year	2,975	646	4,492	830	2,841	–	11,784
At 31 December 2008	12,971	646	19,749	1,802	6,051	–	41,219
Net carrying amount:							
At 31 December 2008	56,800	5,212	31,258	4,869	14,924	2,270	115,333

The Group's buildings were situated in Mainland China and were held under medium term leases.

Included in "Buildings" are certain self-used properties with net book values of approximately RMB83,627,000 at 31 December 2009 (2008: RMB10,224,000), for which the Group has not obtained the building ownership certificates. Up to the date of approval of these financial statements, the Group is still in the process of applying for the building ownership certificates in respect of the aforementioned properties with net book values at 31 December 2009 of RMB80,928,000 out of the total of RMB83,627,000 (2008: RMB7,569,000 out of the total of RMB10,224,000).

At 31 December 2008, certain of the Group's building with net book values of approximately RMB8,891,000 were pledged to secure general banking facilities granted to the Group (note 25).

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2009 RMB'000	2008 RMB'000
Carrying amount at 1 January	22,348	22,271
Additions	–	579
Recognised during the year	(502)	(502)
Carrying amount at 31 December	21,846	22,348
Current portion included in prepayments, deposits and other receivables	(501)	(501)
Non-current portion	21,345	21,847

The Group's prepaid land lease payments were for medium term leasehold land located in Mainland China.

At 31 December 2008, land use rights with carrying values of approximately RMB8,639,000 were pledged to secure general banking facilities to the Group (note 25).

16. DEPOSIT PAID FOR ACQUISITION OF LAND USE RIGHTS

As at 31 December 2009, the Group paid a deposit of RMB50,079,000 (2008: RMB50,079,000) for the acquisition of a parcel of land in Xiamen, Fujian Province, the PRC. The acquisition has not been completed up to the date of these financial statements.

17. INTANGIBLE ASSETS

Patents and trademarks

	Group	
	2009 RMB'000	2008 RMB'000
Cost:		
At beginning of year	991	418
Additions	–	573
At 31 December	991	991
Accumulated amortisation:		
At beginning of year	200	129
Amortisation provided during the year	176	71
At 31 December	376	200
Net carrying amount:		
At 31 December	615	791

18. INTERESTS IN SUBSIDIARIES

	Company	
	2009 RMB'000	2008 RMB'000
Unlisted shares, at cost	–	–
Due from subsidiaries	1,247,888	1,136,344
	1,247,888	1,136,344

The amounts due from subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and have no fixed term of repayment. In the opinion of the directors of the Company, these advances are considered as quasi-equity loans to the subsidiaries.

The amount due from a subsidiary included in the Company's current assets of RMB96,296,000 (2008: RMB96,296,000) is unsecured, interest-free and repayable on demand.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation or establishment/ operation	Issued and fully paid up capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Xtep International Development Limited ("Xtep Development") *	BVI	US\$10,000	100	–	Investment holding
Xtep (China) * (notes (i) and (iii))	PRC	HK\$830,029,801	–	100	Manufacture and sale of sportswear
Koling (Fujian) * (notes (i) and (iii))	PRC	HK\$157,999,900	–	100	Manufacture and sale of sportswear
Xtep Jinjiangs * (notes (i) and (iv))	PRC	US\$6,000,000	–	100	Manufacture and sale of sportswear
Xtep Xiamen * (notes (ii) and (iv))	PRC	RMB50,000,000	–	100	Trading of sportswear

Notes:

- (i) These entities are wholly-foreign-owned enterprises and limited liability companies established in the PRC.
 - (ii) The entity is registered as a limited liability company under the PRC law.
 - (iii) The unpaid registered capitals of these entities as at 31 December 2009 were set out in note 33(a) to the financial statements.
 - (iv) The registered capital of these entities were fully paid up as at 31 December 2009.
- * Ernst & Young Hong Kong or other member firm of the Ernst & Young global network had not been appointed as the statutory auditors of these entities.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INVENTORIES

	Group	
	2009 RMB'000	2008 RMB'000
Raw materials	107,043	117,528
Work in progress	27,170	43,318
Finished goods	131,476	127,441
	265,689	288,287

20. TRADE AND BILLS RECEIVABLES

	Group	
	2009 RMB'000	2008 RMB'000
Trade receivables	521,691	526,912
Bills receivables	1,064	–
	522,755	526,912

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three months. Each customer has a maximum credit limit. The Group seeks to strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group's trade receivables relate to a number of diversified customers and there is certain concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2009 RMB'000	2008 RMB'000
Neither past due nor impaired	274,962	437,854
Less than 3 months past due	185,595	80,233
Past due between 3 to 9 months	59,434	8,782
Past due over 9 months	1,700	43
	521,691	526,912

Receivables that were neither past due nor impaired relate to a number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good repayment record with the Group. Based on past experience, the directors of the Company are of the opinion that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The carrying amounts of trade and bills receivables approximate to their fair values.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Prepayments	22,374	47,488	386	99
Deposits	53,311	69,111	352	353
Other receivables	3,841	5,141	1	3,338
	79,526	121,740	739	3,790

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default. The carrying amounts of other receivables approximate to their fair values.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Time deposits	450,489	870,952	120,592	620,785
Cash and bank balances	2,047,146	1,271,986	122,656	54,612
	2,497,635	2,142,938	243,248	675,397
Less: Pledged deposits for bills payable	–	(6,000)	–	–
Cash and cash equivalents	2,497,635	2,136,938	243,248	675,397

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB1,919,071,000 (2008: RMB1,220,342,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

23. TRADE AND BILLS PAYABLES

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

	Group	
	2009 RMB'000	2008 RMB'000
Within 3 months	365,594	319,730
3 to 6 months	47,749	25,385
6 to 12 months	24,579	2,093
Over 1 year	1,005	781
Trade payables	438,927	347,989
Bills payable	471	30,000
Trade and bills payables	439,398	377,989

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

24. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Deposits received	45,618	8,706	–	–
Accruals	54,231	41,537	4,441	5,274
Value-added tax ("VAT") payables	23,925	23,594	–	–
Other payables	41,720	1,555	–	–
	165,494	75,392	4,441	5,274

All these balances are non-interest-bearing and VAT and other payables have an average term of three months. The carrying amounts of the monetary liabilities included in the deposits received, other payables and accruals category above approximate to their fair values.

25. INTEREST-BEARING BANK BORROWINGS

	Group	
	2009 RMB'000	2008 RMB'000
Current		
Bank loans – secured	–	108,000
Bank loans – unsecured	–	16,000
	–	124,000
Analysed into:		
Bank loans repayable within one year	–	124,000

The above bank loans are all denominated in RMB. The bank loans bore fixed interest rates ranging from 6.32% to 7.47% per annum. Because of the short maturity, the carrying amounts of bank loans approximate to their fair values.

As at 31 December 2008, certain of the Group's bank loans were secured by:

- (i) corporate guarantees from Xtep (China), Sanxing Sports Goods Co. Ltd. Quanzhou and Koling (Fujian), subsidiaries of the Group; and
- (ii) mortgages over certain buildings and land use rights of the Group situated in Mainland China (notes 14 and 15).

26. PREFERRED SHARES

Carlyle Asia Growth Partners III, L.P. and Carlyle Asia Growth Partners III Co-Investment, L.P. (collectively the "Carlyle Investment Funds") entered into a series of convertible loan agreements, investment agreement and two supplemental agreements with the Group (collectively the "Agreements") on 13 June 2007, 24 August 2007 and 17 September 2007, respectively. Pursuant to the Agreements, the Carlyle Investment Funds agreed to subscribe the convertible bonds and preferred shares of the Company at a total consideration of approximately RMB220,000,000, which was injected into the Group by two tranches.

On 13 June 2007, the Carlyle Investment Funds made its first tranche of investment to the Company through the subscription of convertible bonds with principal amount of approximately RMB40,000,000 (the "Convertible Bonds").

On 18 September 2007, the Carlyle Investment Funds made its second tranche of investment by subscribing 10,112,360 preferred shares of the Company at a consideration of approximately RMB180,000,000. In addition, the Carlyle Investment Funds converted the Convertible Bonds into 2,247,190 preferred shares of the Company. In aggregate, the Carlyle Investment Funds held 12,359,550 preferred shares (the "Preferred Shares") as at 18 September 2007, being the issuance date, and as at 31 December 2007.

Details of the terms of the Preferred Shares were set out in the Company's prospectus dated 21 May 2008 (the "Prospectus").

The Preferred Shares issued in prior years had been split as to liability and derivate components.

Movements of the Preferred Shares were as follows:

	Notes	RMB'000
Preferred Shares		
Liability component at 1 January 2008		216,599
Imputed interest expense for the year		239
Conversion of Preferred Shares on 21 March 2008	(a)	(27,447)
Conversion of Preferred Shares on 3 June 2008	(b)	(189,391)
<hr/>		
Liability component at 31 December 2008, 1 January 2009 and 31 December 2009		–
<hr/>		
Derivative component at 1 January 2008		1,324
Conversion of Preferred Shares on 21 March 2008	(a)	(168)
Fair value adjustment		(1,156)
<hr/>		
Derivative component at 31 December 2008, 1 January 2009 and 31 December 2009		–
<hr/>		

Notes:

- (a) On 21 March 2008, the Carlyle Investment Funds converted a total of 1,565,168 Preferred Shares into 1,565,168 ordinary shares of the Company. These ordinary shares were then transferred to Group Success, a company owned by Ding Shui Po and Ding Mei Qing, who are considered as the controlling shareholders of the Company, at a consideration of US\$1. After the conversion, the Carlyle Investment Funds holds a total of 10,794,382 Preferred Shares.
- (b) On 7 May 2008, the Carlyle Investment Funds exercised the conversion rights to the effect that conditional upon satisfaction of the conditions to the Company as set out in Appendix VI to the Prospectus, the remaining 10,794,382 Preferred Shares would be converted into 10,794,382 ordinary shares of the Company. The pre-conditions for the conversion were fulfilled on the date of listing of the shares of the Company and all the Preferred Shares were converted into the ordinary shares of the Company accordingly.

27. DEFERRED TAX LIABILITIES**Group**

	Withholding taxes RMB'000
At 1 January 2008	–
Deferred tax charged to income statement during the year (note 10)	2,824
At 31 December 2008 and 1 January 2009	2,824
Deferred tax charged to the income statement during the year (note 10)	24,444
At 31 December 2009	27,268

Pursuant to the income tax law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate for the withholding tax is 5%. In estimating the withholding taxes on dividends expected to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008, the directors have made assessment based on the factors which included dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future.

At 31 December 2009, there were no significant unrecognised deferred tax liabilities (2008: Nil) for withholding taxes that would be payable on the unremitted earnings of the Company's subsidiaries expected to be distributed, after considering the abovementioned factors, in the foreseeable future.

28. SHARE CAPITAL

	HK\$'000	RMB'000
Authorised:		
100,000,000,000 (2008: 100,000,000,000) ordinary shares of HK\$0.01 each	1,000,000	935,629
Issued and fully paid:		
2,173,645,000 (2008: 2,173,645,000) ordinary shares of HK\$0.01 each	21,736	19,177

A summary of the movements in the Company's share capital from 1 January 2008 to 31 December 2009 is as follows:

(a) Authorised share capital

	Note	Number of ordinary shares of HK\$0.01 each	Nominal value of ordinary shares HK\$'000	Nominal value of ordinary shares RMB'000
Authorised ordinary shares				
At 1 January 2008		99,987,640,450	999,876	935,513
Redesignated as ordinary shares	(i)	12,359,550	124	116
<hr/>				
At 31 December 2008, 1 January 2009 and 31 December 2009		100,000,000,000	1,000,000	935,629
<hr/>				
	Note	Number of preferred shares of HK\$0.01 each	Nominal value of preferred shares HK\$'000	Nominal value of preferred shares RMB'000
Authorised Preferred Shares				
At January 2008		12,359,550	124	116
Redesignated as ordinary shares	(i)	(12,359,550)	(124)	(116)
<hr/>				
At 31 December 2008, 1 January 2009 and 31 December 2009		–	–	–
<hr/>				
		Number of ordinary shares of HK\$0.01 each	Nominal value of ordinary shares	Nominal value of ordinary shares
Total authorised shares:				
At 31 December 2009		100,000,000,000	1,000,000	935,629
<hr/>				
At 31 December 2008		100,000,000,000	1,000,000	935,629
<hr/>				

Notes:

- (i) Pursuant to special resolutions of the shareholders of the Company passed on 9 April 2008 and 7 May 2008, an aggregate of 12,359,550 Preferred Shares of par value HK\$0.01 each were redesignated as ordinary shares of the Company of HK\$0.01 each.

(b) Issued ordinary shares

	Notes	Number of ordinary shares of HK\$0.01 each	Nominal value of ordinary shares HK\$'000	Nominal value of ordinary shares RMB'000
Issued ordinary shares:				
At 1 January 2008		100,000,000	1,000	936
Issued pursuant to conversion of Preferred Shares				
– on 21 March 2008	(i)	1,565,168	16	14
– on 3 June 2008	(ii)	10,794,382	108	95
Capitalisation issue credited as fully paid conditional on the share premium account of the Company, being credited as a result of the issue of the new shares to the public	(iii)	1,537,640,450	15,376	13,526
New issue of shares	(iv)	550,000,000	5,500	4,838
Repurchase of shares	(v)	(26,355,000)	(264)	(232)
At 31 December 2008, 1 January 2009 and 31 December 2009		2,173,645,000	21,736	19,177

Notes:

- (i) On 21 March 2008, the Carlyle Investment Funds converted a total of 1,565,168 Preferred Shares into 1,565,168 ordinary shares of the Company. The conversion resulted in an increase in share capital and share premium account by HK\$16,000 (equivalent to approximately RMB14,000) and HK\$28,478,000 (equivalent to approximately RMB27,601,000), respectively.
- (ii) On 3 June 2008, the Carlyle Investment Funds converted the remaining 10,794,382 Preferred Shares into 10,794,382 ordinary shares of the Company. The conversion resulted in an increase in share capital and share premium account by HK\$108,000 (equivalent to approximately RMB95,000) and HK\$195,255,000 (equivalent to approximately RMB189,296,000), respectively.
- (iii) Pursuant to a resolution passed on 7 May 2008, a total of 1,537,640,450 new ordinary shares of HK\$0.01 each were further allotted and issued, credited as fully paid at par by the Company, by way of capitalisation of the sum of HK\$15,376,000 (equivalent to approximately RMB13,526,000) from the share premium account, to the then existing shareholders of the Company, whose names appeared on the register of the Company on 3 June 2008, in proportion to their respective shareholdings. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the issue of new ordinary shares to the public in connection with the Company's IPO as detailed in (iv) below.



- (iv) In connection with the Company's IPO, 550,000,000 shares of HK\$0.01 each were issued at a price of HK\$4.05 per share for a total cash consideration, before related issuance expenses, of HK\$2,227,500,000 (equivalent to approximately RMB1,959,531,000). Dealings in these shares on the Stock Exchange commenced on 3 June 2008.
- (v) During the year ended 31 December 2008, the Company repurchased and cancelled 26,355,000 of its ordinary shares of HK\$0.01 each from the market at a total amount of HK\$35,181,000 (equivalent to approximately RMB30,999,000). These repurchased ordinary shares were subsequently cancelled by the Company and the premium of approximately RMB30,767,000 paid by the Company over the nominal value of the repurchased ordinary shares was debited to the share premium account, as set out in note 29(b) to the financial statements.

(c) Share option schemes

Details of the Company's share option schemes and the share options issued under the schemes are included in note 30 to the financial statements.

29. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(i) Capital reserve

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

(ii) Statutory surplus fund

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

(iii) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC which is dealt with in accordance with the accounting policy set out in note 2.4 to the financial statements.

(b) Company

	Notes	Share premium account RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profit/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2008		–	–	–	(799)	(799)
Profit for the year		–	–	–	(13,187)	(13,187)
Other comprehensive income						
Exchange realignment		–	–	(15,604)	–	(15,604)
Total comprehensive income for the year		–	–	(15,604)	(13,187)	(28,791)
Conversion of preferred shares into ordinary shares	28(b)(i), 28(b)(ii)	216,897	–	–	–	216,897
Capitalisation issue	28(b)(iii)	(13,526)	–	–	–	(13,526)
Issue of Pre-IPO share option	30(a)	–	3,956	–	–	3,956
Issue of shares	28(b)(iv)	1,954,693	–	–	–	1,954,693
Share issue expenses		(117,991)	–	–	–	(117,991)
Repurchase of shares	28(b)(v)	(30,767)	–	–	–	(30,767)
2008 interim dividend	12	(96,296)	–	–	–	(96,296)
At 31 December 2008 and 1 January 2009		1,913,010	3,956	(15,604)	(13,986)	1,887,376
Profit for the year		–	–	–	54,199	54,199
Other comprehensive income						
Exchange realignment		–	–	(1,881)	–	(1,881)
Total comprehensive income for the year		–	–	(1,881)	54,199	52,318
Equity-settled share option transactions	30(a), (b)	–	8,042	–	–	8,042
2008 final dividend declared and paid	12	(153,286)	–	–	–	(153,286)
2008 special dividend declared and paid	12	(95,803)	–	–	–	(95,803)
2009 interim dividend	12	(134,094)	–	–	–	(134,094)
At 31 December 2009		1,529,827	11,998	(17,485)	40,213	1,564,553

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

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

30. 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”) for the purpose of giving the Group’s employees an opportunity to have a personal stake in the Company and help motivate the Group’s employees to optimise their performance and efficiency, and also to retain the Group’s employees whose contributions are important to the long-term growth and profitability of the Group.

The principal terms of the Pre-IPO Scheme, approved by written resolutions of the Company’s shareholders and the Carlyle Investment Funds passed on 7 May 2008, are as follows:

- (a) the subscription price per share under the Pre-IPO Scheme shall be at a 20% discount to the offer price of the Company’s shares in the IPO;
- (b) the total number of shares which may be issued upon the exercise of all options granted under the Pre-IPO Scheme is 19,000,000;
- (c) all options granted under the Pre-IPO Scheme can only be exercised in the following manner:

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

- (d) each option granted under the Pre-IPO Share Scheme has a 10-year exercise period.
- (e) share options issued under the Pre-IPO Scheme do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

On 7 May 2008, an aggregate of 19,000,000 share options (the “Pre-IPO Share Options”) under the Pre-IPO Scheme were issued to a director of the Company and certain employees of the Group. The exercise prices and exercise periods of the Pre-IPO Share Options outstanding at 31 December 2009 were as follows:

Number of options	Exercise price per share	Exercise period
5,700,000	HK\$3.24*	3 June 2009 to 2 June 2019
5,700,000	HK\$3.24*	3 June 2010 to 2 June 2020
7,600,000	HK\$3.24*	3 June 2011 to 2 June 2021
19,000,000		

* The exercise price of the Pre-IPO Share Options equals to a 20% discount to the offer price of HK\$4.05 of the Company’s ordinary shares in the IPO.

The fair value of the Pre-IPO Share Options granted during the year ended 31 December 2008 was estimated at RMB10,815,000, of which the Company recognised a share option expense of RMB5,764,000 (2008: 3,956,000) during the year.

At the end of the reporting period and up to the date of approval of these financial statements, the Company had outstanding Pre-IPO Share Options for the subscription of 19,000,000 shares under the Pre-IPO Share Scheme, which represented approximately 0.9% of the issued share capital of the Company as at that date. The exercise in full of the outstanding Pre-IPO Share Options would, under the present capital structure of the Company, result in the issue of 19,000,000 additional ordinary shares of the Company and additional share capital of HK\$190,000 (equivalent to RMB167,000) and share premium account of HK\$61,370,000 (equivalent to RMB54,030,000), before related issuance expenses.

(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. The purposes of the Share Option Scheme are to motivate the eligible persons to optimise their future contributions to the Group and/or to reward them for their past contribution; to attract and retain or otherwise maintain ongoing relationships with such eligible persons who are significant to the and/or whose contributions are or will be beneficial to the performance, growth or success of the Group; and to attract and retain individuals with experience and ability.

Eligible persons include the Group’s directors, proposed directors, employees, direct or indirect shareholders, suppliers, customers, consultants, business or joint venture partners, franchisees, contractors, any person or entity that provides design, research, development or other supporting services to the Group; and any associate of the aforementioned eligible persons.

The maximum number of shares that may be granted under the Share Option Scheme and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. No option may be granted to any person such that the total number of shares of the Company issued and to be issued upon exercise of all options granted and to be granted to each participant in any 12-month period up to the date of the latest grant exceeds 1% of the number of shares of the Company in issue.

An option under the Share Option Scheme may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the board of directors of the Company, which must not be more than 10 years from the date of the grant.

The offer of a grant of share options may be accepted within 30 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors or up to the expiry date of the Share Option Scheme, if earlier.

The exercise price of the share options is determinable by the directors in their absolute discretion, but in any event shall not be less than the highest of (1) the nominal value of the Company's ordinary share; (2) the closing price of the Company's shares as stated in the Stock Exchange daily quotation sheet issued on the date of grant of the share options; and (3) the average closing price of the Company's shares stated in the Stock Exchange daily quotation sheets for the five business days immediately preceding the date of grant of share options.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 29 July 2009 ("Date of Grant"), an aggregate of 10,000,000 share options (the "Share Options") under the Share Option Scheme were granted to certain employees of the Group. The exercise prices and exercise periods of the Share Options outstanding at 31 December 2009 were as follows:

Number of options	Exercise per share	Exercise period
3,000,000	HK\$4.11	29 July 2010 to 29 July 2020
3,000,000	HK\$4.11	29 July 2011 to 29 July 2021
4,000,000	HK\$4.11	29 July 2012 to 29 July 2022
10,000,000		

The fair value of the Share Options granted during the year was estimated at RMB9,540,000, of which the Company recognised a share option expense of RMB2,278,000 during the year ended 31 December 2009.

The fair value of the Share Options granted during the year was estimated as at the date of grant by Roma Appraisals Limited, an independent firm of professionally qualified valuers, using the Trinomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Exercise price (HK\$ per share)	4.11
Expected dividend yield (%)	4.879
Expected volatility (%)	54.122 to 65.679
Risk-free interest rate (%)	0.100 to 0.954
Expected life of share options (years)	1 to 3
Weighted average share price at grant date (HK\$ per share)	4.12

The expected life of the Share Options is not necessarily indicative of the exercise patterns that may occur. The expected volatility may not necessarily reflect the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had outstanding Share Options for the subscription of 10,000,000 shares under the Share Option Scheme. The exercise in full of the outstanding Share Options would, under the present capital structure of the Company, result in the issue of 10,000,000 additional ordinary shares of the Company and additional share capital of HK\$100,000 (equivalent to RMB88,000) and share premium account of HK\$41,000,000 (equivalent to RMB36,096,000), before related issuance expenses.

Subsequent to year end, on 28 January 2010, a total of 500,000 share options were granted to certain employees of the Group under the Share Option Scheme.

At the date of approval of these financial statements, the Company had outstanding Share Options for the subscription of 10,500,000 shares under the Share Option Scheme, which represented approximately 0.5% of the issued share capital of the Company as at that date.

31. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities (2008: Nil).

At 31 December 2009, the Company provided corporate guarantee to a bank in connection with banking facilities of RMB471,000 granted to a subsidiary (2008: Nil).

32. OPERATING LEASE ARRANGEMENTS

The Group and the Company leases certain of its production facilities, office premises and retail shops under operating lease arrangements. Leases for these properties are negotiated for terms ranging from two to five years.

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

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Within one year	6,933	4,295	1,206	1,305
In the second to fifth years, inclusive	12,044	12,690	–	1,370
	18,977	16,985	1,206	2,675

33. COMMITMENTS

- (a) In addition to the operating lease commitments detailed in note 32 above, the Group had the following commitments at the end of the reporting period:

	2009 RMB'000	2008 RMB'000
Contracted for commitments in respect of its wholly-foreign-owned subsidiaries in the PRC	651,470	652,284
Contracted for commitments in respect of:		
– construction of new buildings	2,692	5,248
– advertising and promotional expenses	59,973	59,570
	62,665	64,818
	714,135	717,102



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

At 31 December 2009, the Company did not have any significant commitment (2008: Nil).

34. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties:

- (a) Compensation of key management personnel of the Group, including directors' remuneration as detailed in note 8 to the financial statements:

	2009 RMB'000	2008 RMB'000
Short term employee benefits	2,896	2,146
Equity-settled share option expense	455	312
Post-employment benefits	48	15
Total compensation paid to key management personnel	3,399	2,473

35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

Financial assets

Loans and receivables

	2009 RMB'000	2008 RMB'000
Trade and bills receivables	522,755	526,912
Other receivables (note 21)	3,841	5,141
Pledged deposits	–	6,000
Cash and cash equivalents	2,497,635	2,136,938
	3,024,231	2,674,991

Financial liabilities*Financial liabilities at amortised cost*

	2009 RMB'000	2008 RMB'000
Trade and bills payables	439,398	377,989
Other payables (note 24)	41,720	1,555
Interest-bearing bank borrowings	–	124,000
	481,118	503,544

Company**Financial assets***Loans and receivables*

	2009 RMB'000	2008 RMB'000
Due from a subsidiary	96,296	96,296
Other receivables (note 21)	1	3,338
Cash and cash equivalents	243,248	675,397
	339,545	775,031

At the end of the reporting period, the Company did not have any financial liabilities.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, interest rate risk, liquidity risk and commodity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

Foreign currency risk

The Group mainly operates in Mainland China with most of the transactions settled in RMB. Most of the Group's financial instruments such as trade and bills receivables, cash and bank balances are denominated in the same currency or a currency that is pegged to the functional currency of the operations to which transactions relate. The Group has not used any forward contract or currency borrowing to hedge its exposure as foreign currency risk is considered minimal.

Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The credit risk of the Group's other financial assets, which comprise cash and bank balances and other receivables, arise from default of counterparty with a maximum exposure equal to the carrying amounts of these instruments.

Interest rate risk

The Group does not have any significant exposure to risk of changes in market interest rate as the Group's debt obligations were all with fixed interest rates.

Liquidity risk

The Group monitors its risk to a shortage of funds by considering the maturity of both its financial assets and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through use of bank borrowings and other borrowings to meet its working capital requirements.

The table below summarises the maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

On demand and within 1 year

	2009 RMB'000	2008 RMB'000
Interest-bearing bank borrowings	–	124,000
Other payables	41,720	1,555
Trade and bills payables	439,398	377,989
	481,118	503,544



Commodity price risk

The major raw materials used in the production of the Group's products include rubber and plastics. The Group is exposed to fluctuations in the prices of these raw materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of raw materials could adversely affect the Group's financial performance. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratio in order to support its business and maximise shareholders' value. The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes adjustment to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

The Group monitors capital on the basis of the debt-to-capital ratio, which is calculated as the net debt divided by total capital. The debt-to-capital ratio as at the end of the reporting period was as follows:

Group

	2009 RMB'000	2008 RMB'000
Interest-bearing bank borrowings	–	124,000
Less: Cash and cash equivalents	(2,497,635)	(2,136,938)
Net cash	(2,497,635)	(2,012,938)
Total capital	2,984,080	2,637,776
Net cash-to-capital ratio	(0.8)	(0.8)

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2010.



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

“Board”	The Board of Directors of the Company
“Business Day”	Any day on which the Hong Kong Stock Exchange is open for the business of dealing in securities
“Company” or “Xtep”	Xtep International Holdings Limited
“Corporate Governance Code”	Code on corporate governance practices
“Director(s)”	The director(s) of the Company
“GDP”	Gross domestic product
“Group”	The Company and its subsidiaries
“Group Success”	Group Success Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 23 February 2007, the entire issued share capital of which is directly owned as to 63.2% by Mr. Ding Shui Po and 36.8% by Ms. Ding Mei Qing
“HK\$” and “HK cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Date”	3 June 2008, on which dealing in the Shares first commence on the Hong Kong Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
“Macau”	Macau Special Administrative Region of the PRC
“Model Code”	Model code for securities transactions by directors of listed issuers
“OEM”	Acronym for original equipment manufacturer, a business that manufactures goods or equipment for branding and resale by others
“Other brands”	Disney Sport brand and Koling brand collectively
“PRC”	The People’s Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan
“Pre-IPO Share Option Scheme”	The share option scheme for employees of the Group approved and adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed “Pre-IPO Share Option Scheme” in Appendix VI to the Prospectus
“Prospectus”	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
“Shareholder(s)”	Shareholder(s) of the Company
“Xtep (China)”	Xtep (China) Co., Ltd., an indirect wholly-owned subsidiary of the Group





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