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

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1368)**

**ANNOUNCEMENT OF ANNUAL RESULTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

**RESULTS HIGHLIGHTS**

- The Group's revenue increased by 23.7% to RMB3,545.3 million
- The Group's gross profit margin increased by 2.0 percentage points to 39.1%
- The Group's net profit increased by 27.4% to RMB647.5 million
- The Group's net profit margin increased by 0.6 percentage points to 18.3%
- Basic earnings per Share increased by 11.0% to RMB29.79 cents

**FINANCIAL HIGHLIGHTS**

- 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 are proposed, together with interim dividend of HK7.0 cents (equivalent to RMB6.2 cents), representing a total dividend of HK22.0 cents (equivalent to RMB19.4 cents) per Share for the year, represented an increase of 22% compare to last year.
- Dividend payout ratio for the year amounted to 65.0%
- Working capital cycle reduced by 21 days to 32 days
- Cash flows from operating activities increased by 75.1% to RMB880.3 million
- Net cash and bank balance increased by 23.7% to RMB2,497.6 million, representing cash per share RMB1.15 (approximately HK\$1.31\*)

**OPERATIONAL HIGHLIGHTS**

- Xtep brand revenue increased by 27.8% to RMB3,330.8 million
- Xtep brand gross profit margin increased by 2.3 percentage points to 39.0%
- Total number of Xtep brand retail outlets increased by 21% reached 6,103, a net increase of 1,047 outlets
- Total gross sales floor area of Xtep brand retail outlets for the year increased by 32% to 498,000 sq.m
- Average sales floor area per Xtep brand retail outlet increased by 9% to 82 sq.m.
- Xtep brand footwear products
  - Gross profit margin increased by 3.5 percentage points to 39.1%
  - Sales volume increased by 4.5% to 19.1 million pairs
  - Average selling price (wholesale) increased by 8.5% to RMB79.4
- Xtep brand apparel products
  - Gross profit margin increased by 1.0 percentage point to 39.1%
  - Sales volume increased by 33.2% to 28.6 million pieces
  - Average selling price (wholesale) increased by 9.9% to RMB62.0

\* Based on HK\$1 = RMB0.88 as at 31 December 2009.

## **CHAIRMAN'S STATEMENT**

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 cents), 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%.

### **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.

**Ding Shui Po**

*Chairman*

## ANNUAL RESULTS

The Board of Xtep International Holdings Limited is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2009, together with the comparative figures for the year ended 31 December 2008. These results have also been reviewed by the Company's audit committee, comprising solely the independent non-executive Directors, one of whom chairs the committee.

### CONSOLIDATED INCOME STATEMENTS

*Year ended 31 December 2009*

	<i>Notes</i>	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
REVENUE	3	<b>3,545,336</b>	2,867,181
Cost of sales		<u><b>(2,157,549)</b></u>	<u>(1,802,879)</u>
Gross profit		<b>1,387,787</b>	1,064,302
Other income and gains	3	<b>10,688</b>	5,127
Selling and distribution costs		<b>(522,966)</b>	(350,529)
General and administrative expenses		<u><b>(174,147)</b></u>	<u>(128,249)</u>
Operating profit	4	<b>701,362</b>	590,651
Finance income/(costs), net	5	<u><b>860</b></u>	<u>(13,232)</u>
PROFIT BEFORE TAX		<b>702,222</b>	577,419
Income tax expense	6	<u><b>(54,701)</b></u>	<u>(69,247)</u>
PROFIT FOR THE YEAR		<u><b>647,521</b></u>	<u>508,172</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
– Basic (RMB cents)		<u><b>29.79</b></u>	<u>26.84</u>
– Diluted (RMB cents)		<u><b>N/A</b></u>	<u>25.81</u>

Details of the dividends are disclosed in note 7 to the financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

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



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	<i>Notes</i>	<b>2009</b> <b>RMB'000</b>	2008 <b>RMB'000</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>192,969</b>	115,333
Prepaid land lease payments		<b>21,345</b>	21,847
Deposit paid for acquisition of land use rights		<b>50,079</b>	50,079
Deposits paid for acquisition of items of property, plant and equipment		<b>10,000</b>	10,288
Intangible assets		<b>615</b>	791
		<b>275,008</b>	198,338
<b>CURRENT ASSETS</b>			
Inventories		<b>265,689</b>	288,287
Trade and bills receivables	9	<b>522,755</b>	526,912
Prepayments, deposits and other receivables		<b>79,526</b>	121,740
Pledged deposits		–	6,000
Cash and cash equivalents		<b>2,497,635</b>	2,136,938
		<b>3,365,605</b>	3,079,877
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	10	<b>439,398</b>	377,989
Deposits received, other payables and accruals		<b>165,494</b>	75,392
Interest-bearing bank borrowings		–	124,000
Tax payable		<b>24,373</b>	60,234
		<b>629,265</b>	637,615
<b>NET CURRENT ASSETS</b>		<b>2,736,340</b>	2,442,262
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>3,011,348</b>	2,640,600
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>27,268</b>	2,824
		<b>27,268</b>	2,824
<b>NET ASSETS</b>		<b>2,984,080</b>	2,637,776
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital		<b>19,177</b>	19,177
Reserves		<b>2,964,903</b>	2,618,599
<b>TOTAL EQUITY</b>		<b>2,984,080</b>	2,637,776

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. 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	<i>Operating Segments</i>
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. 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 operations. Therefore, no analysis by geographical regions is presented.

## 3. 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:

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

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

#### 4. OPERATING PROFIT

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

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

\* 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.

## 5. FINANCE INCOME/(COSTS), NET

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

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

## 6. 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.

	<b>Group</b>	
	<b>2009</b>	2008
	<b>RMB'000</b>	<b>RMB'000</b>
Current tax – Overseas		
Charge for the year	<b>29,475</b>	66,423
Underprovision in prior years	<b>782</b>	–
Deferred	<b>24,444</b>	2,824
	<u>24,444</u>	<u>2,824</u>
	<b>54,701</b>	<b>69,247</b>

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. 廈門特步投資股份有限公司 (“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:

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

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.

## 7. DIVIDENDS

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
<b>Dividends paid during the year:</b>		
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	<u>134,155</u>	<u>96,296</u>
	<u><b>383,244</b></u>	<u><b>96,296</b></u>
 <b>Proposed final and special dividends:</b>		
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	<u>95,684</u>	<u>95,803</u>
	<u><b>287,052</b></u>	<u><b>249,089</b></u>

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.

## 8. 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 that 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.

**9. TRADE AND BILLS RECEIVABLES**

	<b>Group</b>	
	<b>2009</b>	2008
	<b>RMB'000</b>	<b>RMB'000</b>
Trade receivables	<b>521,691</b>	526,912
Bills receivables	<b>1,064</b>	–
	<u><b>522,755</b></u>	<u>526,912</u>

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, 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:

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

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.

## **10. 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:

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

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.

## FINANCIAL HIGHLIGHTS

<i>For the year ended 31 December</i>	<b>2009</b>	2008
<b>Profitability data (RMB million)</b>		
Revenue	<b>3,545.3</b>	2,867.2
Gross profit	<b>1,387.8</b>	1,064.3
Operating profit	<b>701.4</b>	590.6
Profit for the year	<b>647.5</b>	508.2
Basic earnings per Share (RMB cents) (Note 1)	<b>29.79</b>	26.84
<b>Profitability ratios (%)</b>		
Gross profit margin	<b>39.1</b>	37.1
Operating profit margin	<b>19.8</b>	20.6
Net profit margin	<b>18.3</b>	17.7
Effective tax rate	<b>7.8</b>	12.0
Return on average total equity holders' equity (Note 2)	<b>23.0</b>	34.8
<b>Operating ratios (as a percentage of revenue) (%)</b>		
Advertising and marketing expenses	<b>11.8</b>	9.1
Staff costs	<b>5.3</b>	5.5
Research and development	<b>1.6</b>	1.6
<b>As at 31 December</b>		
	<b>2009</b>	2008
<b>Assets and liabilities data (RMB million)</b>		
Non-current assets	<b>275.0</b>	198.3
Current assets	<b>3,365.6</b>	3,079.9
Current liabilities	<b>629.3</b>	637.6
Non-current liabilities	<b>27.3</b>	2.8
Shareholders' equity	<b>2,984.1</b>	2,637.8
<b>Asset and Working Capital data</b>		
Current asset ratios	<b>5.3</b>	4.8
Gearing ratios (%) (Note 3)	<b>0.0</b>	4.7
Net asset value per Share (RMB) (Note 4)	<b>1.37</b>	1.21
Average inventory turnover days (days) (Note 5)	<b>47</b>	49
Average trade receivables and bills receivables turnover days (days) (Note 6)	<b>54</b>	48
Average trade and bills payables turnover days (days) (Note 7)	<b>69</b>	44

*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).

## **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.

### **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.

### **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 MD 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
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:

<b>Functions</b>	<b>Features</b>
“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

## **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**

<b>Brands</b>	<b>As at 31 December 2009</b>	<b>As at 31 December 2008</b>	<b>Change</b>
<b>Xtep brand</b>	<b>6,103</b>	5,056	+1,047
<b>Other brands</b>	<b>430</b>	476	-46
<b>Total</b>	<b>6,533</b>	<b>5,532</b>	<b>+1,001</b>

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 retails 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	–
<b>Total</b>	<b><u>6,103</u></b>	<b><u>30</u></b>	<b><u>430</u></b>	<b><u>1</u></b>

### 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	<b>6,103</b>	5,056	+20.7%
Total number of flagship stores	<b>30</b>	12	+150.0%
Gross saleable area (square meters)	<b>498,000</b>	377,000	+32.1%
Average saleable area per retail outlet (square meters)	<b><u>82</u></b>	<b><u>75</u></b>	<b><u>+9.3%</u></b>

### 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	<b>3,330,764</b>	2,606,237	+27.8	<b>93.9</b>	90.9	<b>39.0</b>	36.7	+2.3
Other brands	<b>214,572</b>	241,337	-11.1	<b>6.1</b>	8.4	<b>40.7</b>	43.6	-2.9
OEM sales	<u>-</u>	<u>19,607</u>	<u>N/A</u>	<u>-</u>	<u>0.7</u>	<u>-</u>	<u>17.3</u>	<u>N/A</u>
Total	<b><u>3,545,336</u></b>	<b><u>2,867,181</u></b>	<b><u>+23.7</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>	<b><u>39.1</u></b>	<b><u>37.1</u></b>	<b><u>+2.0</u></b>

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	<b>1,520,185</b>	1,340,604	+13.4	<b>45.6</b>	51.4
Apparel	<b>1,773,159</b>	1,215,505	+45.9	<b>53.2</b>	46.6
Accessories	<b><u>37,420</u></b>	<u>50,128</u>	<u>-25.4</u>	<b><u>1.2</u></b>	<u>2.0</u>
Total	<b><u>3,330,764</u></b>	<b><u>2,606,237</u></b>	<b><u>+27.8</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>
Gross profit margin	<b><u>39.0%</u></b>	<b><u>36.7%</u></b>	<b><u>+2.3 pts</u></b>		

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:*

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

*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

	<b>2009</b>	2008	Change (%)
Revenue (RMB million)	<b>1,520.2</b>	1,340.6	+13.4
Sales volume (million)	<b>19.1</b>	18.3	+4.5
Average selling price (RMB)	<b>79.4</b>	73.2	+8.5
Gross profit margin (%)	<b><u>39.1</u></b>	<b><u>35.6</u></b>	<b><u>+3.5 pts</u></b>

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

	<b>2009</b>	2008	Change (%)
Revenue (RMB million)	<b>1,773.2</b>	1,215.5	+45.9
Sales volume (million)	<b>28.6</b>	21.5	+33.2
Average selling price (RMB)	<b>62.0</b>	56.4	+9.9
Gross profit margin (%)	<b><u>39.1</u></b>	<u>38.1</u>	<u>+1.0 pts</u>

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	<b>98,947</b>	94,385	+4.8	<b>46.1</b>	39.1
Apparel	<b>101,302</b>	135,471	-25.2	<b>47.2</b>	56.1
Accessories	<b>14,323</b>	11,481	+24.8	<b>6.7</b>	4.8
Total	<b>214,572</b>	241,337	-11.1	<b>100.0</b>	100.0
Gross profit margin	<b>40.7%</b>	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)	<b>98.9</b>	94.4	+4.8
Sales volume (million)	<b>1.2</b>	1.1	+13.6
Average selling price (RMB)	<b>80.0</b>	86.7	-7.7
Gross profit margin (%)	<b>43.1</b>	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 (%)	<u>39.7</u>	<u>39.5</u>	<u>+0.2 pts</u>

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	<b>1,619,132</b>	1,454,596	+11.3	<b>45.7</b>	50.7
Apparel	<b>1,874,461</b>	1,350,976	+38.7	<b>52.9</b>	47.1
Accessories	<b>51,743</b>	61,609	-16.0	<b>1.4</b>	2.2
Overall	<b><u>3,545,336</u></b>	<b><u>2,867,181</u></b>	<b><u>+23.7</u></b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>
Gross profit margin	<b><u>39.1%</u></b>	<b><u>37.1%</u></b>	<b><u>+2.0 pts</u></b>		

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	<b>1,510,264</b>	<b>42.6</b>	1,023,122	35.7	+47.6
Southern region	<b>876,327</b>	<b>24.7</b>	783,740	27.3	+11.8
Western region	<b>541,570</b>	<b>15.3</b>	414,914	14.5	+30.5
Northern region	<b>402,603</b>	<b>11.3</b>	384,461	13.4	+4.7
Sub-total	<b>3,330,764</b>	<b>93.9</b>	2,606,237	90.9	+27.8
Other brands	<b>214,572</b>	<b>6.1</b>	241,337	8.4	-11.1
OEM	<b>—</b>	<b>—</b>	19,607	0.7	N/A
Total	<b><u>3,545,336</u></b>	<b><u>100.0</u></b>	<b><u>2,867,181</u></b>	<b><u>100.0</u></b>	<b><u>+23.7</u></b>

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	As a	2008	As a	Change
	Cost of	percentage	Cost	percentage	
	sales	of cost	of sales	of cost	
	(RMB'000)	of sales	(RMB'000)	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	<u>2,157,549</u>	<u>100.0</u>	<u>1,802,879</u>	<u>100.0</u>	<u>+19.7</u>

#### 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)

	Available to utilize	Utilized (as at 31 December 2009)	Unutilized (as at 31 December 2009)
<b>Use of proceeds</b>			
<b>Media advertising and brand promotion activities</b>	459	459	–
<b>Expanding and improving distribution network</b>	355	188	167
<b>Expanding production and operating facilities</b>	397	143	254
<b>Acquiring brands</b>	501	–	501
<b>Enhancing design and R&amp;D capabilities</b>	146	116	30
<b>Enhancing IT management system</b>	63	19	44
<b>General working capital</b>	167	167	–
	<hr/>	<hr/>	<hr/>
<b>Total</b>	<b>2,088</b>	<b>1,092</b>	<b>996</b>

## 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.

## **CORPORATE GOVERNANCE CODE**

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

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.

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 Directors and three independent non-executive Directors and has a strong independence element in its composition.

## **MODEL CODE**

The Company has also adopted the Model Code set out in Appendix 10 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.

## **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 meetings 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.

## **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.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this announcement, the Company has maintain 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.

## **PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT**

This annual results announcement is published on the websites of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company (<http://www.xtep.com.hk>). The annual report for the year ended 31 December 2009 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to Shareholders of the Company and available on the same websites in due course.

## **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 a total of HK22.0 cents (equivalent to RMB19.4 cents) per Share, represented an increase of 22.2% from last year and represented a payout ratio of 65.0%.

## **CLOSURE OF REGISTER OF MEMBERS**

The transfer books and register of members of the Company will be closed from Thursday, 29 April 2010 to Wednesday, 5 May 2010, both days inclusive, during which period no transfer of Shares in the Company will be effected. In order to qualify for the final dividend and the special dividend and the right to attend and vote at the forthcoming annual general meeting of the Company to be held on 5 May 2010, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 28 April 2010.

## **ANNUAL GENERAL MEETING**

The annual general meeting of the Company will be held in Hong Kong on Wednesday, 5 May 2010. Notice of the annual general meeting will be issued and disseminated to Shareholders in due course.

## **APPRECIATION**

We would like to take this opportunity to express my thanks and gratitude to the Group's management and staff who dedicated their endless efforts and devoted services, and to our Shareholders, suppliers, customers and bankers for their continuous support.

## DEFINITIONS

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

“Board”	The Board of Directors of the Company
“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
“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 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 announcement, Hong Kong, the Macau and Taiwan
“R&D”	Research and development



“RMB”	Renminbi, the lawful currency of the PRC
“Share(s) “	Ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholders”	Shareholder(s) of the Company
“Xtep (China)”	Xtep (China) Co., Ltd., an indirectly wholly-owned subsidiary of the Group

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

Hong Kong, 29 March 2010

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