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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)

2011 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") of Xtep International Holdings Limited (the "Company") is pleased to announce the audited results of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2011. This announcement, containing the full text of the 2011 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of annual results. The printed version of the Company's 2011 Annual Report will be delivered to the shareholders of the Company and will be available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and of the Company at www.xtep.com.hk.

BORN TO BE UNIQUE

Xtep's fashion sports gene has given the brand its distinctively trendy style, and made it China's leading fashion sportswear brand. We put our running apparel and shoes first and foremost, carefully creating an impressive array of styles and varieties, along with a comfortable and durable design. We have the vision of allowing customers to experience a happy life of healthy exercise through wearing Xtep products. With our passion and every possible ounce of effort, we create sports like no others.

CONTENT

“Unique product and market positioning coupled with execution capabilities are the group’s key success factors.”

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Tan Wee Seng (陳偉成)

Independent non-executive Directors

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

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISER AS TO HONG KONG LAWS

Orrick, Herrington & Sutcliffe

AUDITOR

Ernst & Young

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
shops 1712-1716, 17/F, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of Communications
China Construction Bank
China Merchants Bank
China Minsheng Bank
Hang Seng Bank
Industrial Bank

INVESTOR RELATIONS CONSULTANTS

Porda Havas International Finance
Communications Group
Aries Consulting Limited

COMPANY WEBSITE

www.xtep.com.hk

FINANCIAL HIGHLIGHTS FOR 2011

TOTAL REVENUE
+24% TO APPROXIMATELY RMB5,540 million

GROSS PROFIT MARGIN
+0.2 PERCENTAGE POINT TO APPROXIMATELY 40.8%

OPERATING PROFIT
+25% TO APPROXIMATELY RMB1,219 million

PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS
+19% TO APPROXIMATELY RMB966 million

PROPOSED FINAL DIVIDEND PER SHARE	HK 14.5 CENTS
INTERIM DIVIDEND PER SHARE	HK 13.0 CENTS
TOTAL BASIC DIVIDEND PER SHARE +25%	HK 27.5 CENTS

TOTAL BASIC PAYOUT RATIO APPROXIMATELY
50%

2011 TOTAL REVENUE

APPROXIMATELY

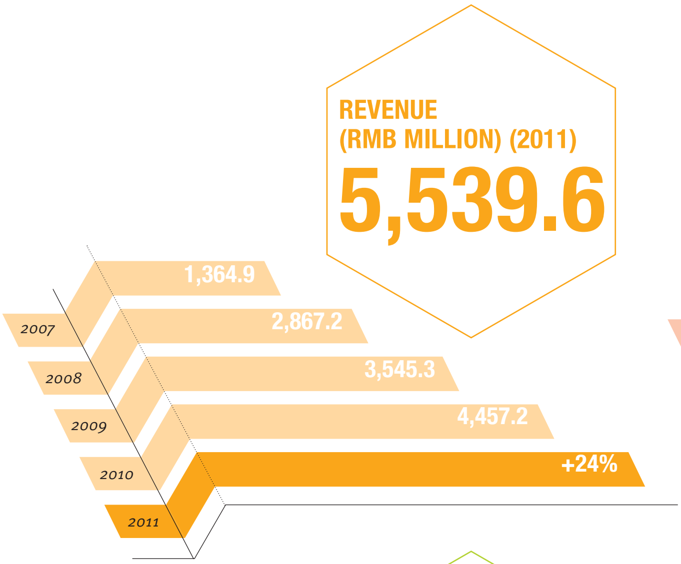
RMB5,540 million

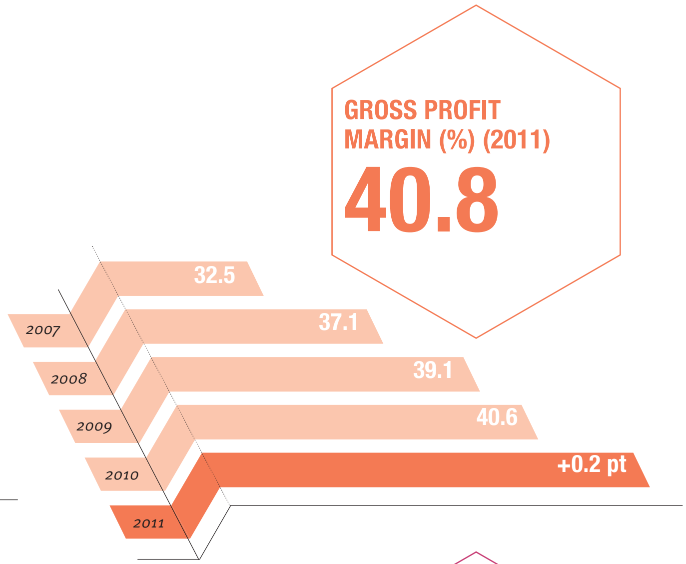
Cautionary Statement Regarding Forward-looking Statements

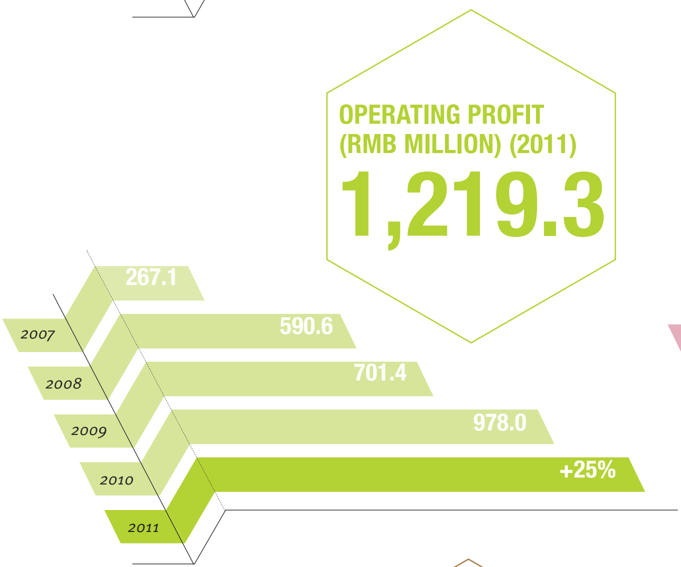
This Annual Report contains certain forward-looking statements with respect to the financial condition, results of operations and business of Xtep International Holdings Limited and its subsidiary (the "Group"). These forward-looking statements represent the Group's expectations or beliefs concerning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

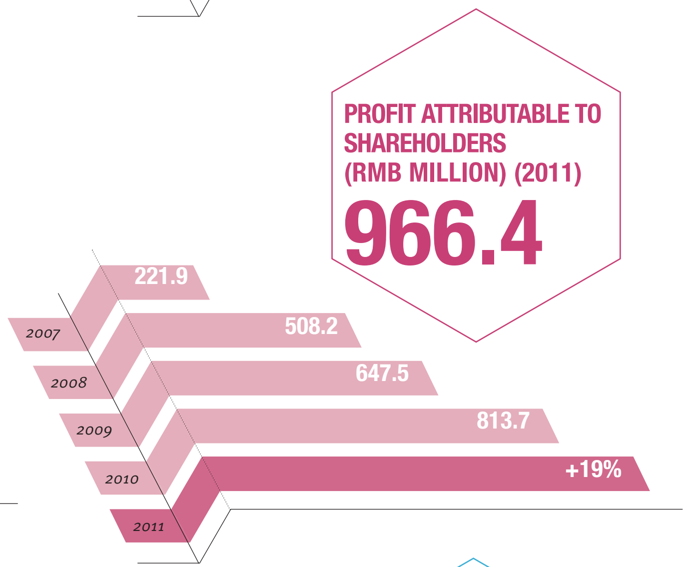
FIVE-YEAR FINANCIAL SUMMARY

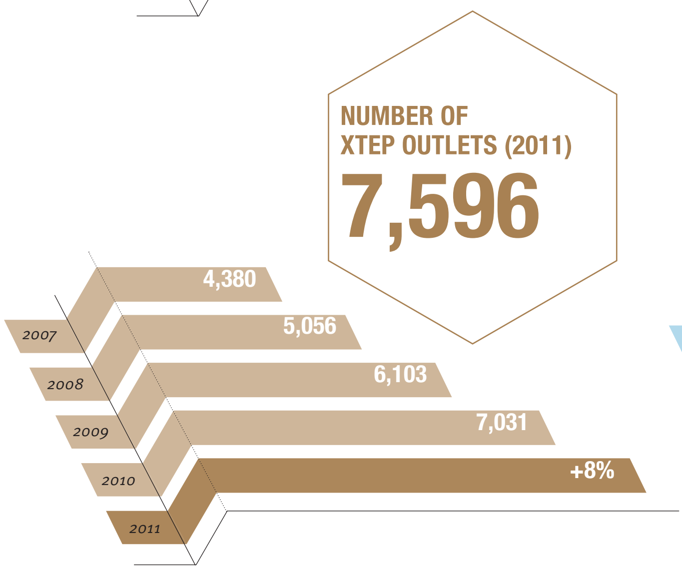
	2011	2010	2009	2008	2007
For the year ended 31 December					
Profitability data (RMB million)					
Revenue	5,539.6	4,457.2	3,545.3	2,867.2	1,364.9
Gross profit	2,257.6	1,811.7	1,387.8	1,064.3	443.1
Operating profit	1,219.3	978.0	701.4	590.6	267.1
Profit attributable to equity shareholders	966.4	813.7	647.5	508.2	221.9
Basic earnings per Share *(RMB cents) (Note 1)*	44.41	37.42	29.79	26.84	15.11
Profitability ratios (%)					
Gross profit margin	40.8	40.6	39.1	37.1	32.5
Operating profit margin	22.0	21.9	19.8	20.6	19.6
Net profit margin	17.4	18.3	18.3	17.7	16.3
Effective tax rate	20.3	16.8	7.8	12.0	13.1
Return on average total equity holders' equity *(Note 2)*	26.6	25.7	23.0	34.8	94.9
Operating ratios (as a percentage of revenue) (%)					
Advertising and promotion costs	11.3	11.7	11.8	9.1	5.6
Staff costs	4.8	4.7	5.3	5.5	8.5
Research and development costs	1.8	1.8	1.6	1.6	1.2
As of 31 December					
Assets and liabilities data (RMB million)					
Non-current assets	495.0	307.6	275.0	198.3	128.6
Current assets	5,000.1	3,976.6	3,365.6	3,079.9	774.9
Current liabilities	1,400.2	892.0	629.3	637.6	405.8
Non-current liabilities	183.6	39.9	27.3	2.8	217.9
Non-controlling interest	3.9	–	–	–	–
Shareholders' equity	3,907.4	3,352.3	2,984.1	2,637.8	279.8
Asset and Working Capital data					
Current asset ratios	3.6	4.5	5.3	4.8	1.9
Gearing ratios *(%) (Note 3)*	12.6	0.0	0.0	4.7	41.5
Net asset value per Share *(RMB) (Note 4)*	1.80	1.54	1.37	1.21	N/A
Average inventory turnover days *(days) (Note 5)*	63	50	47	49	68
Average trade and bills receivables turnover days *(days) (Note 6)*	64	51	54	48	56
Average trade and bills payables turnover days *(days) (Note 7)*	63	74	69	44	30

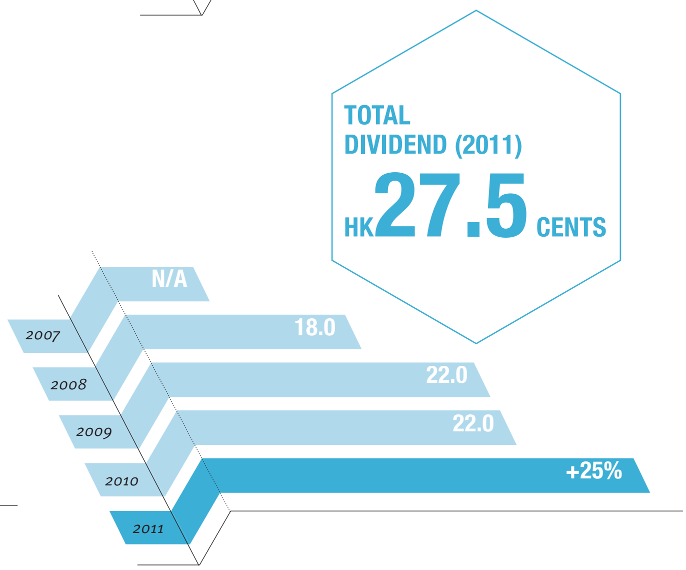












Notes:

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 attributable to equity shareholders 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 Group 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 (or 366 days in 2008).*
6) *Average trade and bills receivables turnover days is equal to the average of opening and closing trade and bills receivables divided by revenue and multiplied by 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).*

XTEP BRAND (2011)

GROSS PROFIT MARGIN 40.8% +0.1PT

XTEP BRAND - REVENUE BREAKDOWN OF XTEP BRAND BY PRODUCT CATEGORY

For the year ended 31 December

	REVENUE (RMB' MILLION)			AS A PERCENTAGE OF REVENUE (%)	
	2011	2010	Change (%)	2011	2010
Footwear	2,424	1,870	+29.6	45.1	44.4
Apparel	2,862	2,270	+26.1	53.2	53.9
Accessories	89	70	+27.0	1.7	1.7
Total	5,375	4,210	+27.7	100.0	100.0

XTEP BRAND (2011)

	Gross profit margin		Sales volume		Average selling price (wholesale price)	
Footwear	41.0% ↑	no change	27.1 mil pairs ↑	21.5%	RMB89.3 ↑	6.7%
Apparel	40.8% ↑	0.2pt	39.1 mil pieces ↑	17.4%	RMB73.2 ↑	7.4%

XTEP BRAND (2011)

REVENUE

RMB5,375 million
+28%

RETAIL OUTLETS OF XTEP BRAND

As at 31 December

“In-depth management controls on retail channel.”

Hefei

Xiamen

Shenyang

Shanxi

EASTERN REGION:
(YEAR 2010 / 2,587 OUTLETS)

2,682

SOUTHERN REGION:
(YEAR 2010 / 1,694 OUTLETS)

1,854

FOUR SEASONAL COLLECTIONS


AUTUMN
WINTER

XTEP IS FASHION SPORT

STYLISH DESIGN

UNIQUE PRODUCT

PRODUCT INNOVATION

STRONG R&D CAPABILITY

RICH VARIETY

2011 AWARDS

ASIA'S 200 BEST
UNDER A BILLION
FORBES ASIA

ANNUAL REPORT AWARDS

Gold Award
2011 22nd International GALAXY Awards for Annual Report 2010

Silver Award
2011 25th International ARC Awards for Interior Design of Annual Report 2010

Silver Award
2011 25th International ARC Awards for Printing & Production of Annual Report 2010

Silver Award
2011 22nd International GALAXY Awards for Overall Design of Annual Report 2010

CORPORATE AWARDS

Asia's 200 Best Under A Billion
Forbes Asia

The most influential China listed Brand in overseas
Golden Bauhinia Award, Ta Kung Pao

National Model Harmonious Labor Relations Enterprise
Ministry of Human Resources and Social Security of the PRC

Enterprise's Innovative Award
The Department of Publicity of Quanzhou Municipal

Award of Charity Contribution
Fujian Provincial People's Government

“Outstanding achievements”

GOLD
AWARD
2011 22ND INTERNATIONAL GALAXY AWARDS FOR ANNUAL REPORT 2010

GOLDEN BAUHINIA
AWARD
THE MOST INFLUENTIAL CHINA LISTED BRAND IN OVERSEAS

DUAL SPORT &
ENTERTAINMENT MARKETING

UNIQUE MANAGEMENT

EFFECTIVE SUPPLY CHAIN

EXCELLENT MANAGEMENT CAPABILITIES ARE AN IMPORTANT CORNERSTONE OF OUR SUCCESS


EXTENSIVE
RETAIL NETWORK
MARATHONS
POPULARITY

CHAIRMAN'S STATEMENT

"Xtep:
We aim to become
a world-class
leading fashion
sportswear brand."

DING SHUI PO
Chairman

DEAR SHAREHOLDERS,

On behalf of the Board, I am pleased to present the audited annual results of the Group for the year ended 31 December 2011.

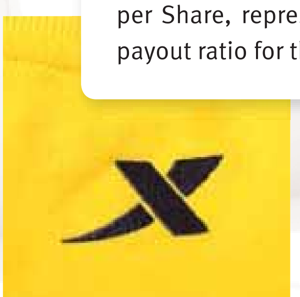
GROWTH HIGHLIGHTS

Steady Market

In 2011, global economy growth was slowing down amidst the European debt crisis and uncertainty on the recovery of the US economy. Under the China's proactive fiscal and monetary policies, China remained one of the fastest growing economies in spite of the continued economic turmoil. According to the National Bureau of Statistics of China as of 31 December 2011, the PRC's GDP and the overall consumption in retail sales of consumer goods recorded a growth of approximately 9% and 17%, respectively. Such growth is driven by ongoing, stable improvements in the economic environment and the steady increase of domestic consumer consumption. We believe that the enduring increase in the total number and wealth of consumers will continue to drive domestic consumption in China, allowing our Group's Xtep brand to continue its business development by leveraging on our differentiated brand equity, in-depth distribution network management and competitive product variety.

Solid Results

I am pleased to announce that we maintained our solid financial performance during the year and we achieved one of the strongest growth rates among our peer group. For the year ended 31 December 2011, the total revenue of the Group was RMB5,539.6 million, (2010: RMB4,457.2 million), representing an increase of approximately 24% over the last year. Revenue from the Xtep brand products increased significantly by approximately 28% to RMB5,374.9 million (2010: RMB4,210.3 million). The overall gross profit margin of the Group also increased by 0.2 percentage point to 40.8% (2010: 40.6%). Profit attributable to equity shareholders was approximately RMB966.4 million (2010: RMB813.7 million), representing an increase of approximately 19% over the last year. Basic earnings per Share increased by about 19% to RMB44.41 cents (2010: RMB37.42 cents). The return on average shareholders' equity increased to 26.6% (2010: 25.7%). In view of the strong financial results, the Board recommended the payment of a final dividend of HK14.5 cents (2010: HK12.0 cents) per Share, which together with an interim dividend of HK13.0 cents (2010: HK10.0 cents) per Share, the total basic dividend for the year amounted to HK27.5 cents (2010: HK22.0 cents) per Share, representing an increase of 25% over the last year. The total basic dividend payout ratio for the year amounted to 50 % (2010: 50%).



TOTAL BASIC
PAYOUT RATIO
APPROXIMATELY
50%

XTEP BRAND REVENUE TO APPROXIMATELY

RMB5,375 MILLION

+28%

BRAND REVOLUTION

Uniqueness

Xtep's branding strategy aims to bring customers the experience of "Sports like no other". It has always differentiated itself from fashionable sportswear with its trendy, sporty, healthy and upbeat lifestyle image. As the economic environment improves, we believe that there will be an elevating living standard during which people will prefer a healthier lifestyle. We also believe that customers in the PRC are adapting into new consumer behaviors that show preference towards brands which offer products with uniqueness and special characteristics. Brands that are unable to accommodate the changes will eventually lose ground in this brand revolution. Xtep initiated a groundbreaking move to be the first brand in delivering such a trendy and sporty image through our unique dual sports and entertainment marketing strategy. Our Xtep brand will outshine its peers in this brand revolution.

China's Choice

During 2011, we carried on with this unique dual-marketing strategy by sponsoring various events and activities such as: the International Horticultural Expo 2011 Xi'an, the China National Women's Synchronized Swimming Team, the US and England teams in the 26th Universiade, international marathons, European football clubs, CX-Games, and China concert tours of Xtep brand's celebrity spokesperson. All of these highly popular and well-attended promotional events have significantly improved the Xtep brand's unique, trendy and sporty image which strengthened our brand equity. As a result, I am very pleased and honored to announce that the Xtep brand will be the sole sportswear apparel sponsor in the 12th China National Games (commonly known as the "PRC Olympic Games") in 2013. This will be our 3rd consecutive sole apparel sponsorship for this national event (we were the sponsor in 2005 and 2009) and is a very significant vote of confidence in the Xtep brand by the China National Games Committee. Winning the 12th China National Games sponsorship proves that the Xtep brand is the preferred brand to represent the top Chinese athletes with a trendy and sporty image.

BRAND REVOLUTION

Runner's Choice

We believe that running is a sport that is not limited by age, time or venue. We launched our "Love Running, Love Xtep" marketing campaign in 2010 and we continued to follow through with this "running" strategy in 2011. We have received overwhelmingly positive responses and wide support from local governments and marathon organizers in China. In 2011, we successfully sponsored the IAAF Shanghai Diamond League as well as a total of nine international marathons (seven in the PRC and two in Taiwan). In addition, Xtep was the first Chinese brand to be honored as the sole apparel sponsor for the Standard Chartered Hong Kong Marathon 2012, which was held on 5 February 2012 with great success and a record-breaking attendance of nearly 70,000 runners.

Running is becoming one of the most popular sports in China, as evidenced by the increasing number of runners and participants in each of these international marathon events. We believe that the Xtep brand's image has gained tremendous attention through these effective promotional campaigns. "Love Running, Love Xtep" has become a very popular and effective slogan among customers who started to make an association between running and the Xtep brand. We will continue to allocate more resources over the next five years to strengthen our reputation in the running sector. Our efforts will include sponsoring more international marathons, investing in international advanced technology and strengthening our professional research committee for running. Our focus will remain on running and we aim to bring the Xtep brand to become the "runner's choice" in the future.

ABOUT
300,000
RUNNERS IN
9 INTERNATIONAL
MARATHONS SPONSORED
BY XTEP

DISTRIBUTION CHANNEL MANAGEMENT

Extensive Coverage

In order to penetrate into the mass retail market in the PRC, it is necessary to have an extensive distribution network. As at 31 December 2011, our Group had a nationwide distribution network of 7,596 (2010: 7,031) Xtep retail outlets in the PRC, of which around 80% were located in tier 2 to 4 cities. We believe that locating our retail network mostly in the emerging and fast growing cities of the PRC, where consumers demand is expanding quickly, is a clear and distinct advantage of our Xtep brand. This early penetration into tier 2 to 4 cities in the PRC provides our Xtep brand with a better choice of premium, high-traffic retail locations and better options of selecting skilled retail operations management.

In-depth Management

We recognize the importance of tight control and management of our distribution channel and thus we have committed significant resources to closely monitor the operational and financial performances of our distributors and retail outlets. As at 31 December 2011, about 70% of Xtep brand's retail outlets were connected to the Group's DRP system. We regularly reviewed the sales performance in the distribution channels, as well as inventory levels and customer consumption patterns. In 2011, the overall performance of the retail outlets was satisfactory. However, due to deep discounting policies and excessive inventories of other sportswear brands, the collective DRP data indicates that there may be an intensive industry-wide competition, which may affect our retail channel performances in 2012. In response, our senior management team has reviewed the industry environment in detail and with great care, and has discussed it thoroughly with our distributors. In long-term, to maintain a healthy performance of our retail channels, we will scale down our expansion plan of the distribution network. Also, we will accept the distributors' sales orders more prudently and leave room for replenishment. On the other hand, we will provide more training (in terms of management, sales techniques and product knowledge) to the retail channels. We will also upgrade the decoration of our retail outlets, improve the interior style and tonality with our new 6th generation display design that caters to consumers at all levels with hardware and software excellence. Last but not least, we will enrich our product range with attractive designs and varieties as well as a competitive pricing mechanism. We believe that our cautious attitude and planning will improve the competitiveness of our retail channels going forward.

TOTAL NUMBER OF XTEP OUTLETS AS AT 31 DECEMBER 2011

7,596

PRODUCT DIFFERENTIATION

Xtep brand's products represent a trendy, sporty, comfortable, healthy and stylish image. We emphasize our products (footwear, apparel and accessories) with innovation. Our sales are targeted at the mass market with competitive pricing. Apart from the running series which emphasizes on light, comfortable and stylish functionality, we also offer urban series, football series, tennis series and integrated training series that can fit comprehensively into everyone's daily life. We believe that customers are infusing sports into their daily lives as they pursue a healthy lifestyle. They are looking for comfortable materials and stylish design, and Xtep's products are created to fulfill these desires. In 2011, we significantly improved the sales volume of running footwear as a result of our successful promotions in international marathon events. In 2012, we will continue to focus on and produce better quality and stylish running footwear, as well as running apparel. We will also expand our product range by offering more urban series products and introducing causal product type through our "X-TOP" series. We will introduce "Xtep 1+1" a new series for the children, to broaden our product line and expand our reach into the children's market as more affluent parents emerge.

MOST DESIRED BRAND

2012 marks the Xtep brand's 10th anniversary. Over the past 10 years, the Xtep brand has created its unique image by being the first fashion sports brand. A brand revolution is currently taking place within the sportswear industry, driven by and paralleling the changing lifestyles and consumer behavior. Customers are pursuing a trendy and healthy lifestyle and Xtep brand products can provide them with their desired unique style and functionality.

We set ourselves the clear goal of becoming the "runner's choice" within the next five years and we believe that the Xtep brand will achieve this objective, as the connection between running and Xtep has already been established. 2012 will be a challenging year but we have planned in advance and will overcome these challenges. We have secured as the sole apparel sponsor for the 12th National Games in 2013, the most important PRC sports event in 2013, ensuring the visibility and promotion of the Xtep brand throughout the PRC. We are set for a healthy performance and we aim to bring the Xtep brand to become a world-class leading fashion sportswear brand in the future.

2013
SOLE APPAREL SPONSOR OF CHINA NATIONAL GAME

ACKNOWLEDGEMENTS

We value and built our team with talent. We have professional and high-caliber management and staff who have extensive knowledge of our industry. I would like to take this opportunity to thank them all for their dedication and commitment over the past year. I would like to express my deep gratitude to our customers, suppliers, business partners and shareholders for their unwavering support of, and faith in Xtep. We trust that the Xtep brand will continue to strengthen its brand equity and deliver solid results for increasing shareholders value in the future.

DING SHUI PO
Chairman
Hong Kong, 21 March 2012

FAVOURABLE GOVERNMENT POLICIES

WE ARE WELL PREPARED TO TACKLE ALL CHALLENGES AHEAD


MARKET
POTENTIAL
UNIQUE
INDUSTRY
INCREASING
DISPOSABLE INCOME

Our Strategies

MARKET REVIEW

Progressive urbanization drives up China's consumption power

Throughout 2011, most of the world's developed economies remained in the throes of economic crisis that threatened the Euro and stalled global growth. China, however, remained as an economic bright spot, having weathered the crisis with the help of central government's economy stimulus measures. China's GDP increased by approximately 9.2% in 2011 to approximately RMB47,156.4 billion and its total retail sales of consumer goods in urban areas increased nearly twice as fast, by about 17.1% to approximately RMB18,122.6 billion. China's stellar growth increases incomes and drives urbanization, which enlarges the middle-class and enhances their purchasing power, especially in Tier-2 to Tier-4 cities. The announced 2011 government income distribution and development policies also target at further improving the quality of life for low- and mid-income earners. These developments in income and quality of life are increasingly reflected in lifestyle changes as consumers focus more on fashion, image, and a healthier way of life.

Xtep is well positioned to leverage on these consumer demographic and behavioral changes. Our unique and trendy product design, supported by our entertainment marketing campaigns, allows us to capture value from the changes wrought by urbanization, to weather short-term market fluctuations, and to achieve continued business growth.

The Prevalent Fast Evolving Sportswear Trend

The sports segment remains a focus of the PRC as a source of national spirit, pride and solidarity. In addition to financial support, the PRC Government promotes health awareness and advocates sports as a healthy way of life through issuing the Guidelines on Accelerating the Development of Sports Industry in 2010. In recent years, marathons have become very popular as more municipalities promote them rigorously. Attracting runners from all walks of life and at all skill levels, marathons embody the Chinese national spirit and are increasingly an indispensible part of the healthier living movement. While "integrating sports into your life" is already a common theme among sports brands, there are signs of consumers showing a preference for creative designs and unique styling as a means of expressing themselves in their pursuit of a healthier lifestyle. Brands that support trends like marathons, and embrace innovation, creativity and fashion, will win the hearts of athletes and consumers, and ultimately have the competitive edge within the marketplace.

BUSINESS REVIEW

Despite the challenges and difficulties in the sportswear industry, the Group maintained satisfactory growth momentum and delivered positive results during the year under review. Apart from our creativity and unique styling, our experienced management team demonstrated an apt control of our supply chain with pre-emptive planning that have helped to overcome the challenges, mitigate the risk-factors and deliver positive results.

Brand of Excellence

Aligned with our vision of "Sports Like No Other", the Group is committed to delivering fashionable, creative, comfortable and durable products. The Group aims to be the leading fashion sports brand, and strives to connect with young consumers by promoting sports with entertainment. Nationwide celebrity endorsements and various event sponsorships were invested to build Xtep's brand equity and increase brand recognition. In 2011, the Group sponsored and participated in a range of marketing activities, the most prominent of which are outlined below.

PROMINENT EVENTS

The 26th Universiade – Shenzhen, China

The 26th Universiade was a multi-sport event of international significance that was held from the 12th to the 23rd of August 2011, attracting 13,000 athletes from more than 180 countries, making it only second in scale to the Olympic Games. Xtep partnered with the US and the England teams to be their sole designated provider of medalist outfits, as well as the sole designated provider of match outfits for the US tennis team. By wearing Xtep products in their matches and during award ceremonies, both of which were televised throughout the world, these teams provided much positive publicity and promoted the Xtep brand image globally.

China National Women's Synchronized Swimming Team

The Group is proud to be the official partner and sole sportswear sponsor for the China National Women's Synchronized Swimming Team, which won 6 silver and 1 bronze medals at the Synchronized Swimming China Open in April 2011. This sponsorship further legitimizes our serious sporting credentials and strengthens the sports image of our brand, while strengthening our alliance with premier events at home and abroad.

International Horticultural Exposition 2011 Xi'an China

The International Horticultural Exposition 2011, held in Xi'an from the 28th of April through the 22nd of October hosted participants from 105 domestic and foreign organizations and attracted with approximately 60,000 to 80,000 visitors daily. Xtep was a global partner of the exposition and sent volunteers wearing trendy outfits specifically designed for the event while adorned with the Xtep logo. This highly visible role within such a popular event provided considerable publicity at home and abroad which further demonstrated our commitment to supporting major events in the PRC.

XI'AN CITY WALL INTERNATIONAL MARATHON

Running

CHINA "ZHENG-KAI" INTERNATIONAL MARATHON

XIAMEN INTERNATIONAL MARATHON

FUBON TAIPEI MARATHON

JIANZHEN INTERNATIONAL HALF MARATHON

ABOUT **300,000** RUNNERS IN 9 INTERNATIONAL MARATHONS SPONSORED BY XTEP

HANGZHOU INTERNATIONAL MARATHON

LOVE RUNNING, LOVE XTEP

During the year, the Group sponsored a number of international marathon events in Mainland China and Taiwan to spread the spirit of "Love Running, Love Xtep" across the Greater China region. As running has become more popular recently in the PRC, marathon events have garnered greater domestic and international media attention, making them excellent opportunities for promoting Xtep's running series products in making the brand the "first choice of runners". They are a cornerstone of the Group's sales and marketing efforts as we expect running to keep growing in popularity, which will become a significant growth driver for running products.

MARATHON

Fubon Taipei Marathon

2011 Fubon Taipei Marathon was held on 18th December attracting a record-high of approximately 100,000 participants, including some top-rated international runners. Xtep was honored to be the first Chinese sports brand to sponsor the event ever since its inception in 1986. The Group is committed to developing Xtep into a world-class sports brand and promoting its concept of "Love Running, Love Xtep" across various regions.

Taipei Freeway Marathon

The Taipei Freeway Marathon garnered thousands of long-distance runners as well as international athletes from 31 countries. As the official partner and sole sportswear sponsor of the event, the Group further strengthened its running sector in Taiwan.

Xiamen International Marathon

The 2011 Xiamen International Marathon, one of the biggest marathon competitions in the PRC, attracted approximately 70,000 participants from 45 countries to its full and half marathon events. The Group's sponsorship allowed it to enjoy wide media exposure as the event was broadcast live by over 40 TV stations worldwide.

Tibet International Half Marathon

The 2011 Tibet International Half Marathon Challenge, known as "the world's highest-altitude marathon" as it is held at about 3,800 meters above sea level, attracted approximately 5,000 runners from various regions in China as well as Hong Kong, Taiwan and Poland. This was the third consecutive year that Xtep was the sole designated sportswear sponsor of the 21km event.

Other Marathon Events

In addition to the above events, the Group also sponsored other marathons during the year, including:

- China "Zheng-Kai" International Marathon
- Jianzhen International Half Marathon (Yangzhou, China)
- Xi'an City Wall International Marathon
- Dalian International Marathon
- Hangzhou International Marathon

All of these are large international marathon events in their respective provinces, and are attended by professional athletes and passionate runners from all over the world. As a leading fashion sports brand in China with its focus on running products, the Group has been keenly supporting these events and promoting its Xtep brand message of "Love Running, Love Xtep".

OTHER RUNNING ACTIVITIES

Beijing International Mountain Walking Festival

The 2nd Beijing International Mountain Walking Festival was held on the 10th and 11th of September 2011, attracting nearly 15,000 amateurs from over 40 countries. As a strategic partner of the event, Xtep provided outfits for all the players, staff and volunteers of the event, promoting a healthy and environmentally friendly lifestyle.

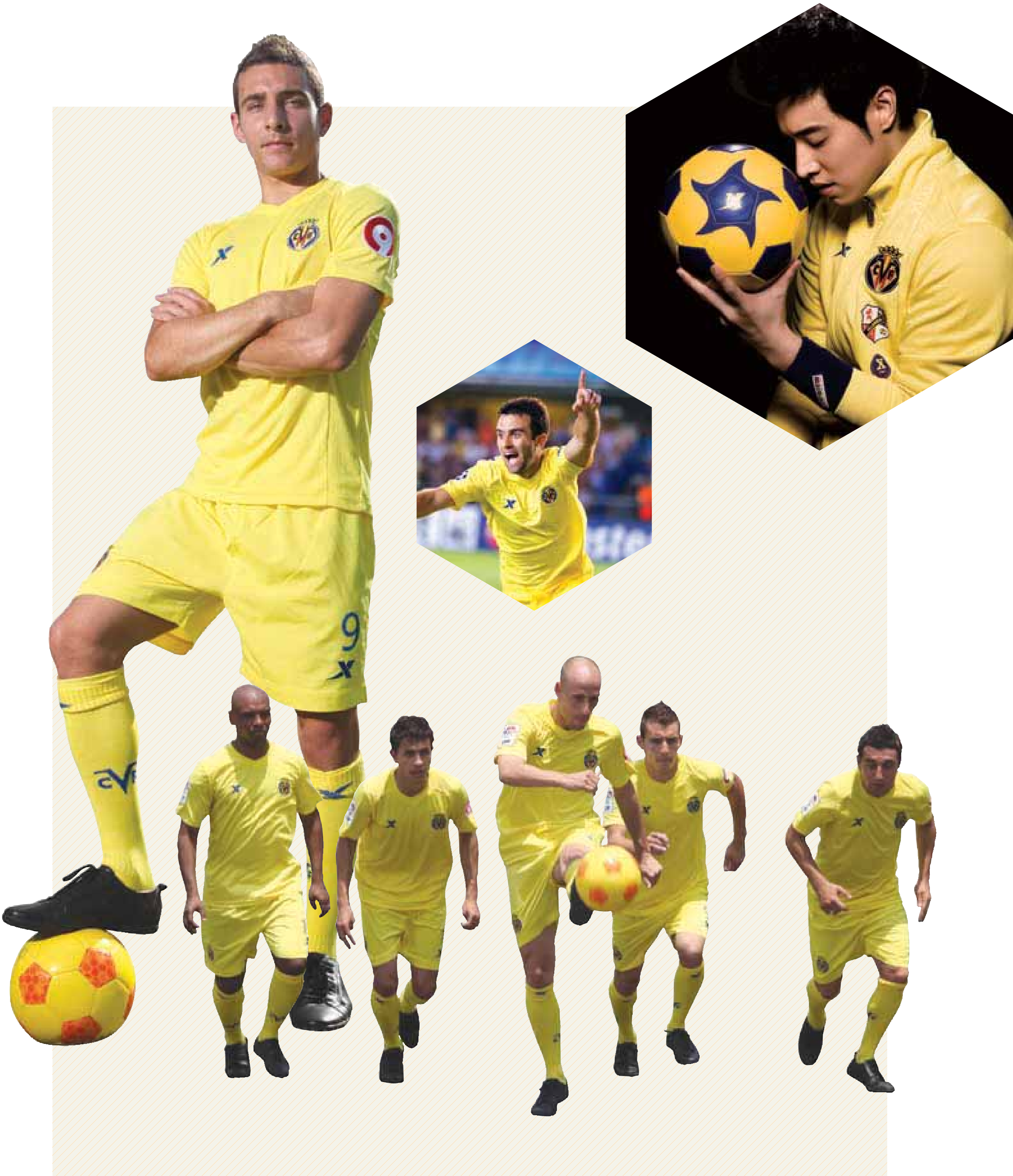
IAAF Shanghai Diamond League

The IAAF Diamond League is a world-renowned, annual series of track and field competitions. The 2011 Shanghai League, which encompassed sixteen events, was held on 15 May before an audience of over 50,000. Xtep received broad media exposure as the event was widely broadcasted on a worldwide scale, bolstering the recognition and reputation of its brand as a key player in PRC track and field products.

2011 Olympic Day Run

Organized by the Sports Federation & Olympic Committee of Hong Kong, China, the 2011 Olympic Day Run was held on 26th June 2011 at Hong Kong Disneyland Resort. Similar to previous years, the Group promoted its brand awareness by sponsoring the event, which attracted over 4,600 participants and 26 corporate teams.

MANAGEMENT DISCUSSION AND ANALYSIS



International Football Events

Football enjoys the largest audience of all professional sports and has an extensive global reach and influence. Sponsorship of renowned football clubs provides a showcase for the quality and functionality of Xtep's football products while parading the Xtep logo before massive audiences around the world. The Group believes that continued sponsorship of international football clubs is a highly effective way of promoting the brand in the international and domestic markets.

Villarreal C.F. of Spanish La Liga

The Group entered into a five-year agreement with Spanish La Liga giant Villarreal C.F. to be the club's official technology sponsor and its exclusive sportswear and accessory provider. During the period, players will conduct all of their various national and international tournaments, training sessions, pre-game preparations and other relevant Club activities wearing sportswear provided by the Group which were adorned with the Xtep logo. The Xtep logo will also appear on the football pitch for all La Liga and Copa del Rey (The King's Cup) games, on the Club TV and on the screen and scoreboard during match breaks. Full page Xtep advertisements will appear in the monthly publication of the Club to further boost brand awareness. Moreover, Xtep plans to release a new series of Villareal-themed sports products in the first quarter of 2012.

Through its sponsorship of such a renowned club, Xtep gains tremendous international exposure for its brand, deepens its brand equity internationally and in China, grows its professional sports image, and creates new product opportunities.

Birmingham City Football Club

In January 2010, the Group commenced a five-year sponsorship agreement with Birmingham International Holdings Limited. Birmingham City Football Club players and staff will wear Xtep logo apparel during matches, training sessions, and all Club activities throughout the season. In the 2011 Football League Cup Final, Birmingham City sealed a 2-1 victory over Arsenal, making Xtep the first Chinese sports brand to sponsor a Football League champion. The sponsorship represents an unparalleled foothold for Xtep to enhance its brand exposure and recognition in a global arena.

ALL STAR SPORTS ASSOCIATION

The Group continued to support the Hong Kong All Star Sports Association (ASSA) by providing customized sportswear, casual wear and accessory products to its members. The ASSA is a renowned charitable organization founded by popular Hong Kong artists to promote sports and raise funds for the needy. During the year, ASSA members participated in a number of charity football games in Hong Kong and the PRC in outfits designed and sponsored by the Group. The sponsorship allows Xtep to assists in the ASSA's charitable activities, enhance its brand awareness, and build its image as a fashionable and trendy sportswear brand.

OTHER SPORTS EVENTS

In addition to running and football, the Group also sponsored many other sports events to promote and strengthen its unique brand in various categories.

2011 Tour of Taihu Lake International Cycling Race

The 600km, five-day 2011 Tour of Taihu Lake International Cycling Race was held from the 1st to the 5th of November in Yixing City, Jiangsu Province, attracting 120 cyclists from 20 international teams. As the designated sole sports apparel sponsor for the event, Xtep provided outfits for all the athletes, as well as apparel for members of the organizing committee, referees, volunteers, media and motorcyclists. As a fashionable and lifestyle sport, cycling fits well with our brand image and race sponsorships like this help to build brand awareness for Xtep within the cycling community.

China X-Games

The Group was the title sponsor of the Xtep 2011 CX-games, a major international extreme sports event, for the fifth consecutive year. The competition toured 10 major cities in the PRC, attracting over 1,000 professional extreme sports athletes from around the globe. The X-games are followed by a younger demographic and as such present a unique opportunity for Xtep to promote its trendy brand within this age group. The sponsorship also fits well with Xtep's image of "Sports Like No Other", which further strengthens the brand's sporty image within the PRC.

Entertainment Marketing And Commercials

The Group employs celebrity spokespeople as a way of reaching out to its trendy, fashion-oriented customer base. Marketing campaigns and promotions that include concerts, media campaigns and the internet are designed to connect our brand with the trendy and fashionable lifestyle to which our consumers aspire. The main entertainment marketing activities for the Group in 2011 were as follows:

CELEBRITY SPOKESPEOPLE

The Xtep brand pioneered the use of celebrities as spokespeople in the PRC. The charm and character of each of our spokespeople captures the attention of hundreds of millions of fans in Asia. Our spokespeople project a youthful and energetic image in their music, movies and TV episodes. Such positive association enhances Xtep's brand image with being trendy and sporty. While the Group traditionally leveraged its spokespeople through concerts and regular media, we believe that micro-blogs and other social media platforms, together with online promotions, will also help us reach a broader and younger customer base more effectively in the future.

XTEP ALL-STAR CONCERT TOUR 2011

The Xtep All-Star Concert Tour 2011 was successfully held on the 27^{th} of August at the Chongqing People's Hall with the performance of Xtep's spokespeople and Chinese pop-stars Nicholas Tse, Wilber Pan, Han Geng and Jolin Tsai. As in past years, tickets for the event were made available with certain purchase levels at Xtep retail shops and we received rigorous customer appreciation. Broad media coverage, animated Internet discussions, and active sharing of photos and videos after the concerts all boosted awareness of Xtep brand and drove sales performance at retail stores.

NEW XTEP HEATWAVE — HAN GENG

During the year, the Group signed up Han Geng, a domestic superstar, as one of our Group's spokesperson. Han Geng was voted as the most popular singer in the PRC by CCTV in 2010 and is one of the most popular stars on Internet websites and blogs. As a reflection of his popularity, a contest held to launch the new sponsorship campaign attracted approximately 10,000 contestants and was widely followed by the media. After joining us, Han Geng will endorse Xtep's urban series, which features distinctive styling and comfort. With his wide popularity, fashionable image and healthy outlook, Han Geng is set to drive the brand image of the urban series to new heights while creating what is sure to be another huge "Xtep Heatwave".

COMMERCIALS

In 2011, Xtep aired a series of thought-provoking and innovative prime-time TV commercials on various mainstream networks. In one such spot, star Villareal players filmed a commercial that was shown during popular football games, while in another, Xtep spokespeople Nicholas Tse, Jolin Tsai, Wilber Pan, and Han Geng appeared in a commercial that proved to be particularly popular among young people. With each appearance, and each new commercial, Xtep not only broadened its brand awareness and image, but also engrained its trendy slogans of "Love Running, Love Xtep" and "Sports Like No Other" within the consumer conscience.

The Group works with several mainstream networks in the PRC to promote its brand as follows, among others:

National: CCTV-1 – China Central Television ("CCTV") is one of China's primary national networks available to both cable and terrestrial viewers. CCTV-1's reach and ubiquity make it the ideal partner for Xtep to enhance brand awareness with TV commercials.

Sports: CCTV-5 – A national sports channel that provides comprehensive coverage of national and international sporting events. The Group is CCTV-5's official broadcast partner for football games and advertises broadly on the network. Optimizing on the congruence of the sports network with Xtep's brand, the Group strengthens its sports image while driving broader brand recognition among sports enthusiasts.

Central China: Hunan Satellite TV – A popular entertainment and information channel. As the sole title sponsor of the highly acclaimed program "Progressing Everyday《天天向上》", the Group heightened its brand visibility significantly.

Southern China: Guangdong Cable TV Sports Channel — The largest professional sports channel in Southern China. The Group aired commercials during some matches of the English Premier League to capitalize on its football sponsorships and drive the brand's growth in Southern China.

Digital: The Group also established partnerships with Sina.com, Sohu.com and YouKu.com to leverage the emerging internet opportunity and further bolster Xtep's affinity among young consumers. By promoting its visibility on the most popular Chinese social media sites, the Group ensures it remains trendy, fashionable and relevant while also taking advantage of new communication channels to reach a wider consumer base.

E-COMMERCE PLATFORM

The Group entered into an agreement in April 2011 that forged a strategic alliance with www.taoxie.cn, one of China's largest sales platforms for footwear. The Group will use the website to communicate product development and release information directly to consumers to test and study their preferences for prices, quality and styles. Such direct consumer input will allow the Group to formulate precise strategies to drive its branding and products on this and other e-commerce platforms.

Innovative Products

INNOVATIVE PRODUCTS

Unique brand equity

Xtep's products emphasize on innovation and evoke a passion for "Sports like no others". We believe that as living standards improve, people will naturally seek to advance their lifestyle. They begin placing greater importance on health, and therefore look to infuse sports into their daily lives. Consumers prefer brands that offer high quality and product differentiation which are of excellent value. Since Xtep has always positioned itself as a trendy and fashionable sportswear brand, its products are differently styled from other more traditional sportswear brands. We target at the mass market and provide sporty, comfortable and stylish products at competitive prices. This unique style and positioning makes the Xtep brand better suited to emerging consumer desires, and provides us with a competitive edge.

International design and technological edge

Our rapidly rising industry status has allowed us to recruit a highly talented in-house research and design team. As at 31 December 2011, the research and design team was comprised of nearly 600 creative designers from not only the PRC, but also Hong Kong, England and South Korea. Our international product design and technology advisors include consultants from England, France, Spain, South Korea and the United States. With such a highly talented pool of domestic and international designers, our Group can provide industry-leading, differentiated and stylish products.

Innovation

We provide performance sports apparel and footwear that emphasize on functionality and style in such categories as running (our core products), tennis, basketball, football and integrated training. We also provide trendy and lifestyle-oriented products such as our football, skateboard, outdoor, casual and urban series. We hold four seasonal sales fairs each year on a quarterly basis. Each year our research and design team creates over 3,000 types of different and newly-designed footwear and apparel products that are uniquely functional and stylish.

We also continuously invest in technology, research and development to improve the quality of our footwear and apparel products. We have an in-house laboratory, equipped with the most advanced and imported equipment, to refine the quality of our existing materials, and to develop new technologies and materials for use in our products. In particular, our achievements are as follows:

Footwear

Running is our core sports category. We place strong emphasis on comfort, lightness, shock absorption and overall balance when developing our products. Since the Group has over ten years of experience in designing and producing footwear, we have a very solid command of the required technologies and know-how, and we lead in detailing techniques, design and materials.

Rich design collection – over 1,000 different styles, mainly in the categories of running (about 300 styles), skateboard, urban, casual, tennis, classic and outdoor.

Comfort – "X-Turbo" with elastic insoles to provide a comfortable fit.

Lightness – marathon super-lightweight material for running shoes that are 30%-40% lighter than the average.

Shock absorption – Double-core / Dual-density "Phylon" / "X-CJ jelly" technology and material to provide shock absorption.

Overall balance – "X-Balance" / "X-Grip" design for mid-inward structure to improve foot balance.

As a result of these innovations and successful marketing sponsorships of various international marathons, the sales volume of Xtep brand footwear has increased significantly by 21.5 % to approximately 27.1 million pairs in 2011 (2010: 22.3 million pairs).

Apparel

We understand that consumers are placing more emphasis on the design, quality and comfort of products. Our in-house laboratory continuously tests our materials to ensure qualities in relation to coloring, dyeing, flexibility, coolness, warmth protection, reaction to ultra-violet light, durability, heat resistance, etc. These rigorous quality assurance processes ensure that all of our products adhere to the highest possible standards.

Design outlook – over 2,000 different styles in the design categories such as football, running, tennis, integrated training, urban and outdoor.

Materials – specially designed for athletes to enable quick drying of perspiration using eco-friendly absorbent fibers with air diffusion.

Comfort – advanced styling to fit body shape combined with use of light weight materials.

As a result of providing attractive, stylish and functional products, the sales volume of Xtep brand apparel products has increased significantly by 17.4% to approximately 39.1 million pieces in 2011 (2010: 33.3 million pieces).

Vertically integrated business model

Through adopting a vertically integrated business model from design, production to sales and distribution management stages, we are able to implement better cost controls, as well as deliver products and respond to market demand in a timely manner. We have maintained full utilization at our production facilities located in Quanzhou, Fujian province in the PRC. The Group's 12 footwear and 20 apparel production lines have annual production capacity of approximately 12 million pairs of footwear and 5 million pieces of apparel, respectively. In terms of sales volume, approximately 44% of footwear and 13% of apparel were produced by the Group during the year under review. Since Fujian province is the manufacturing hub of sports footwear and apparel, we have also utilized the outsourced manufactures in this region to meet the growing demand for our products. To maintain a high quality standard of our products, we sent out our qualified staff to the outsourced manufacturer factories to monitor the output of products and to ensure compliance with our strict requirements. Not only do we inspect the quality of products they produce, but also the factory environment, the manufacturing process progress and adherence to labor laws, environmental rules and regulations.

Nationwide Distribution Network

TOTAL NUMBER OF XTEP OUTLETS:
AS AT 31 DECEMBER 2011

7,596

EXTENSIVE NETWORK COVERAGE

Despite stagnating economies in many developed countries, domestic consumption and development in the PRC provides relatively stable growth prospects and a better industry environment for the retail sector. Focusing business operations on the PRC is therefore in the best interests of the Group. The enormous size of the PRC covers approximately 9.7 million square kilometers, more than 8,000 times the area of Hong Kong. A nationwide distribution network is therefore necessary to cover such a wide area and penetrate the mass market in the PRC. The total number of retail outlets, flagship stores, gross saleable area and average saleable area per retail outlet of the Xtep brand are as follows:

As at 31 December

	2011	2010	Change
Total number of retail outlets	7,596	7,031	+565
Total number of flagship stores	40	38	+2
Gross saleable area (approximate square meters)	700,000	600,000	+16.7%
Average saleable area per retail outlet (approximate square meters)	92	85	+8.2%

The Group operated a wholesale business model and managed its retail outlets through exclusive provincial distributors. We have a total of 28 distributors, each of which has an exclusive right of distribution within a specific geographic location. These exclusive distributors have been with us for ten years and each has very in-depth and regional retail knowledge and experience. The distributors directly operate about 20% to 30% of the retail outlets in their regions, while individual franchisees operate the rest. The location of each retail outlet was carefully chosen and agreed upon by the Group. The Xtep brand targets at the mass market and therefore about 80% of Xtep brand retail outlets are located in high growth potential Tier 2 to Tier 4 cities in the PRC. Also, about 80% of retail outlets are located on pedestrian streets in premium commercial areas, with the remainder locate in department stores. By penetrating into these high growth potential areas early, we gain the advantage of relatively unimpeded access to prime, high-traffic retail areas and the selection of the most skilled retail operations management. Since the internal and external design and decoration of the retail outlets are important factors in attracting customers, we regularly upgrade the decoration and window displays of our retail outlets, averaging a newly overhauled look every two years. We apply a standard design theme to all our retail outlets and are now already in the 6th generation of the design campaign. Also, we are increasing the average size of our retail outlets to provide a more comfortable shopping experience for our customers.

IN-DEPTH OPERATION MANAGEMENT

Growth in revenue from the Xtep brand is summarized as follows:

For the year ended 31 December

	2011	2010	Change
Revenue (RMB million)	5,374.9	4,210.3	+27.7%
Average number of retail outlets for the year	7,314	6,567	+11.4%
Average wholesale revenue per retail outlet for the year (RMB)	734,925	641,123	+14.6%

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

Detailed planning and careful execution allowed the Group to achieve sustainable expansion of its distribution network and improvement in wholesale revenue per retail outlet. Our senior management, continuously observe and study the market condition, allowing them to develop in-depth knowledge and insight. We adopt a cautious network expansion and shrewd approach for new retail outlets that are only found in high-traffic areas. We meticulously study customer purchasing behaviors region by region and apply the knowledge gained to improve procurement by distributors and franchisees. In this way, we can ensure that increases in wholesale revenue are passed down to healthy retail performance.

We implement strict operational controls to manage the retail channel. As at 31 December 2011, approximately 70% of our retail outlets were connected to our centralized DRP system. We can monitor inventory levels, sell-through patterns, turnover rates and customer purchasing behaviors, allowing us to continuously analyze the information and discuss its implications with distributors to form forward-looking strategies. Such valuable analysis assists our distributors and franchisees in determining their product mix and quantities for the quarterly sales fair held by the Group. The analysis is also used by our in-house research and design team to gain timely insights into retail consumption patterns, allowing them to incorporate elements of best selling products into their future designs. As a result, distributors and franchisees can confidently increase their procurement levels based upon solid and timely retail performance data.

Controlling the retail discount rate in the sales channel is an important factor in protecting the image of our brand. As a result, the Group sets and controls the overall retail discount rate within the channel, using data from retail operations as a basis for determining whether or not a retail discount is authorized.

We have a standardized code of operations to which distributors and franchisees must adhere. The Group strictly enforces its guidelines and ensures compliance in such areas as pricing policy, retail display and customers service by carrying out routine inspections in all retail outlets.

OTHER BRANDS

The revenue contributed by Other Brands was only approximately 3.0% (2010: 5.5%) of the Group's total revenue. This revenue was derived mainly from sales of Disney Sports branded products, which are geared towards a higher-priced market segment. Due to fierce competition, the Group decided to reduce its presence in the Other Brands segment. As at 31 December 2011, the number of Other Brands retail outlets was 200 and we will continue to scale down these outlets in the future.

CHANNEL EXPANSION

We understand that interest in online shopping is growing and we co-operate with a number of leading on-line shopping platforms such as taobao.com and paipai.com and we also operate our own official website xtep.com.cn. We have garnered tremendous attention toward these internet sales platforms by leveraging the on-line popularity of our celebrity spokespeople.

Although our focus remains on the PRC, the Xtep brand was also well recognized in overseas markets. After careful consideration, we accepted the request of several overseas distributors to establish and expand overseas sales channels. We have around 50 overseas sales locations which are mainly in the Middle East area. We believe that such expansion can raise our Xtep brand equity in the future.

XTEP BRAND 2011 AVERAGE OUTLET
92 SQ.M
+8%

XTEP BRAND 2011 AVERAGE WHOLESALE REVENUE PER OUTLET
RMB 734,925
+15%

Financial Review

GROUP REVENUE AND GROSS PROFIT MARGIN BREAKDOWN BY BRANDED PRODUCT SALES

For the year ended 31 December

	Revenue (RMB'000)			As a percentage of revenue (%)		Gross profit margin (%)		
	2011	2010	Change (%)	2011	2010	2011	2010	Change (pt)
Xtep brand	5,374,873	4,210,258	+27.7	97.0	94.5	40.8	40.7	+0.1
Other brands	164,765	246,940	-33.3	3.0	5.5	39.2	39.7	-0.5
Total	5,539,638	4,457,198	+24.3	100.0	100.0	40.8	40.6	+0.2

For the year ended 31 December 2011, the total revenue of the Group increased by approximately 24.3% to approximately RMB5.5 billion (2010: RMB4.5 billion). The gross profit margin grew by 0.2 percentage point 40.8% (2010: 40.6%). The increase in overall revenue and gross profit margin was primarily due to the widespread public recognition of the Xtep brand and its products following our effective promotional campaigns, which subsequently led to higher sales performance. The decrease in revenue of Other brands was mainly due to the decrease in revenue of the Disney Sports brand products as a result of the intense competition in the higher end market. Xtep brand products remained the Group's major products contributor, which accounted for approximately 97% of the Group's total revenue. The improvement in the Group's gross profit margin was primarily derived from an increase in the Xtep brand products' gross profit margin.

XTEP BRAND

Revenue Breakdown of Xtep Brand by Product Category

For the year ended 31 December

	Revenue (RMB'000)			As a percentage of revenue (%)	
	2011	2010	Change (%)	2011	2010
Footwear	2,424,009	1,869,738	+29.6	45.1	44.4
Apparel	2,861,980	2,270,511	+26.1	53.2	53.9
Accessories	88,884	70,009	+27.0	1.7	1.7
Total	5,374,873	4,210,258	+27.7	100.0	100.0
Gross profit margin	40.8%	40.7%	+0.1 pt		

For the year ended 31 December 2011, the Group's total revenue from Xtep brand products surged by 27.7% to approximately RMB5.4 billion (2010: RMB4.2 billion) and the gross profit margin increased by 0.1 percentage point to 40.8% (2010: 40.7%). The remarkable results of Xtep brand products were primarily attributed to the popularity of the Xtep trendy and healthy lifestyle products as a result of its unique dual sports and entertainment marketing strategy. In addition, the steady development of sales channels and network, together with Xtep's strengthened brand equity, led to a growing sales performance.

Growth in revenue from the Xtep brand is summarized as follows:

For the year ended 31 December

	2011	2010	Change (%)
Revenue (RMB million)	5,374.9	4,210.3	+27.7
Average number of retail outlets for the year	7,314	6,567	+11.4
Average wholesale revenue per retail outlet for the year (RMB)	734,925	641,123	+14.6

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

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

For the year ended 31 December

	2011	2010	Change (%)
Revenue (RMB million)	2,424.0	1,869.7	+29.6
Sales volume (million pairs)	27.1	22.3	+21.5
Average wholesale selling price (RMB)	89.3	83.7	+6.7
Gross profit margin (%)	41.0	41.0	No change

Revenue from Xtep brand footwear products rose by 29.6% to approximately RMB2.42 billion (2010: RMB1.87 billion), accounting for 45.1% of the revenue from the Xtep brand. The growth in revenue mainly originated from the growing sales volume of 27.1 million pairs of footwear products (2010: 22.3 million pairs), representing an increase of approximately 21.5% and the increased in average wholesale selling price of approximately 6.7% to RMB89.3 (2010: RMB83.7). This was the efforts of our strong promotion in running through sponsoring various high profile international marathons in China. The slogan "Love Running, Love Xtep" has built an association between the Xtep brand and running among customers. As a result of the attractive offer of the comfortable and stylish running footwear, customers are drawn to other lifestyle footwear as well. The rising average wholesale selling price was mainly brought about by the overall increase in retail price. Nevertheless, the increased wholesale selling price has covered the rising cost of sales of footwear and hence the gross profit margin was maintained at 41.0% (2010: 41.0%).

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

For the year ended 31 December

	2011	2010	Change (%)
Revenue (RMB million)	2,862.0	2,270.5	+26.1
Sales volume (million pieces)	39.1	33.3	+17.4
Average wholesale selling price (RMB)	73.2	68.2	+7.4
Gross profit margin (%)	40.8	40.6	+0.2 pt

Revenue from Xtep brand apparel products rose by 26.1% to approximately RMB2.86 billion (2010: RMB2.27 billion). The substantial growth was effected by a significant increase of approximately 17.4% sales volume amounting to 39.1 million pieces (2010: 33.3 million pieces) as well as an approximately 7.4% increase of the average wholesale selling price at RMB73.2 (2010: RMB68.2). Due to the increase in average wholesale selling price and effective cost control, the gross profit margin also rose by 0.2 percentage point to 40.8% (2010: 40.6%). The market also responded well to the brand positioning of the Xtep brand sportswear and casual apparel product to be excellent money for value, and together with an effective marketing strategy, the sales volume experienced substantial growth. As the Xtep brand equity improved, the increase in retail selling price increase also led to an increase in average wholesale selling price.

Notes:

(1) We do not include details of the sales volume, average wholesale selling price and gross profit margin for the accessory products of Xtep brand since 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 wholesale 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 (%)	
	2011	2010	Change (%)	2011	2010
Footwear	65,620	86,141	-23.8	39.8	34.9
Apparel	88,083	150,594	-41.5	53.5	61.0
Accessories	11,062	10,205	+8.4	6.7	4.1
Total	164,765	246,940	-33.3	100.0	100.0
Gross profit margin	39.2%	39.70%	-0.5 pt		

The products which are licensed to the Group, being the main source of revenue for Other brands, only contributed to 3% of the Group's total revenue. For the year ended 31 December 2011, the revenue from Other brands was approximately RMB164.8 million (2010: RMB246.9 million), a decrease of 33.3% over the last year. The gross profit margin was slightly decreased to 39.2% (2010: 39.7%). Due to the intense competition of higher end market, the sales of Disney Sports brand products decreased. Despite the cost pressure in 2011, we managed to maintain the gross profit margin with effective cost control which only resulted in a slight decrease of 0.5 percentage point to 39.2% (2010: 39.7%).

GROUP REVENUE BREAKDOWN BY PRODUCT CATEGORY

For the year ended 31 December

	Revenue (RMB'000)			As a percentage of revenue (%)	
	2011	2010	Change (%)	2011	2010
Footwear	2,489,629	1,955,879	+27.3	44.9	43.9
Apparel	2,950,063	2,421,105	+21.8	53.3	54.3
Accessories	99,946	80,214	+24.6	1.8	1.8
Total	5,539,638	4,457,198	+24.3	100.0	100.0
Gross profit margin	40.8%	40.60%	+0.2 pt		

The total revenue of the Group from footwear products, apparel products and accessories rose by approximately 27.3% to approximately RMB2.5 billion (2010: RMB2.0 billion), approximately 21.8% to approximately RMB3.0 billion (2010: RMB2.4 billion) and approximately 24.6% to approximately RMB100.0 million (2010: RMB80.2 million) respectively. Such increase of revenue in all product segments was mainly attributed to the brand building and marketing efforts of Xtep's high quality and fashionable sports products.

GROUP REVENUE BREAKDOWN BY REGION

For the year ended 31 December

	2011		2010		Change (%)
	Revenue (RMB'000)	As a percentage of product mix (%)	Revenue (RMB'000)	As a percentage of product mix (%)	
Xtep brand					
Eastern	2,399,044	43.3	1,895,272	42.5	+26.6
Southern	1,359,616	24.5	1,094,992	24.6	+24.2
Western and Northern	1,616,213	29.2	1,219,994	27.4	+32.5
Sub-total	5,374,873	97.0	4,210,258	94.5	+27.7
Other brands	164,765	3.0	246,940	5.5	-33.3
Total	5,539,638	100.0	4,457,198	100	+24.3

Eastern region includes Shanghai, Jiangsu, Zhejiang, Anhui, Shandong, Jiangxi and Fujian.

Southern region includes Hubei, Hunan, Henan, Guangxi, Guangdong, Hainan and Hong Kong.

Western and Northern region includes Sichuan, Guizhou, Tibet, Yunnan, Chongqing, Shaanxi, Ningxia, Gansu, Qinghai, Xinjiang, Heilongjiang, Jilin, Liaoning, Tianjin, Hebei, Shanxi, Beijing and Inner Mongolia.

Regarding regional sales, the effective marketing strategies and the expansion of sales network stimulated revenue growth in the Shandong, Zhejiang and Jiangxi province of the eastern region, the Hubei and Henan province of the southern region and the Sichuan and Guizhou province of the western and northern region.

COST OF SALES BREAKDOWN

For the year ended 31 December

	2011		2010		Change (%)
	Cost of sales (RMB'000)	As a percentage of cost of sales (%)	Cost of sales (RMB'000)	As a percentage of cost of sales (%)	
Raw materials	1,542,363	47.0	1,326,110	50.9	+16.3
Outsourced production costs	1,520,365	46.3	1,162,434	43.9	+30.8
Direct staff costs	144,863	4.4	123,187	3.9	+17.6
Others	74,405	2.3	33,732	1.3	+120.6
Total	3,281,996	100.0	2,645,463	100.0	+24.1

During the year under review, the cost of sales of the Group increased by 24.1% as compared to last year, which is mainly due to the increase in cost of raw materials and outsourced production costs. As the relative increase of the Group's total cost of sales was less than that of the Group's total revenue, the Group's gross profit margin recorded steady improvement.

As a result of the Group's significant growth in volume, the Group has increased the subcontracting and outsourced production arrangement and therefore the percentage mix of outsourced production costs increased to 46.3% (2010: 43.9%).

OTHER INCOME AND GAINS

During the year under review, other income and gains of the Group mainly represented subsidy income from government of RMB8.2 million (2010: RMB8.5 million).

SELLING AND DISTRIBUTION COSTS

For the year ended 31 December 2011, the Group's selling and distribution costs amounted to approximately RMB733.7 million (2010: RMB619.8 million), which represented approximately 13.2% (2010: 13.9%) of the Group's total revenue.

Due to the Group's unique positioning as a fashion sports brand, the Group has more flexibility to identify additional marketing channels in dual sports and entertainment media, rather than adhering to a single sports discipline for promotion. The Group has always identified more cost effective ways to sponsoring high-profile sports events with entertainment marketing. During the year under review, the advertising and promotion costs increased to approximately RMB625.4 million, accounting for 11.3% of revenue (2010: RMB519.3 million, accounting for 11.7% of revenue).

GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended 31 December 2011, the Group's general and administrative expenses amounted to approximately RMB320.9 million (2010: RMB229.1 million), which represented approximately 5.8% (2010: 5.1%) of the Group's total revenue.

The Group's research and development costs increased to approximately RMB97.7 million (accounting for 1.8% of revenue) (2010: RMB78.0 million, accounting for 1.8% of revenue) was mainly due to increased expenses in improving running footwear as well as the enhancing apparel quality with respect to its appearance, function and durability. To reward and motivate the senior management and staff of the Group, the issuance costs of share options amounted to approximately RMB38.2 million (2010: RMB10.2 million).

OPERATING PROFIT MARGIN

The operating profit margin for the year under review improved to 22.0% (2010: 21.9%). It was resulted by the Group's improvement on gross profit margin to 40.8% (2010: 40.6%) and reduction on selling and distribution costs to 13.2% (2010: 13.9%) as a ratio to the Group's revenue. However, it was offset by the increase of general and administrative expenses to 5.8% (2010: 5.1%) as a ratio to the Group's revenue.

INCOME TAX EXPENSE

Income tax of the Group for the year under review was approximately RMB246.0 million (2010: RMB164.5 million) while the effective tax rate was 20.3% (2010: 16.8%). Due to different tax arrangements of subsidiary companies in the PRC and the increase of provision of deferred tax in 2011, the effective tax rate for the year under review was higher. Details related to income tax and deferred tax are set out in note 10 and note 25 to the financial statements, respectively.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS AND NET PROFIT MARGIN

For the year ended 31 December 2011, the profit attributable to equity holders of the Company amounted to approximately RMB966.4 million (2010: RMB813.7 million), an increase of approximately 18.8% over the last year. As the Xtep brand gross profit margin which rose to 40.8% (2010: 40.7%), the Group's gross profit margin improved to 40.8% (2010: 40.6%). With tight and effective cost control, the Group's operating margin was slightly increased to 22.0% (2010: 21.9%). Since the Group's effective tax rate increased to 20.3% (2010: 16.8%), the Group's net profit margin was reduced to 17.4% (2010: 18.3%).

DIVIDEND

In view of the satisfactory business growth and the solid cash position of the Group, the Board declared a final dividend of HK14.5 cents (2010: HK12.0 cents) per Share, together with an interim dividend of HK13.0 cents (2010: HK10.0 cents) per Share, the total basic dividend for the year amounted to HK27.5 cents (2010: HK22.0 cents) per Share, representing 25.0% increase as compared to last year. The basic dividend payout ratio for the year under review was approximately 50%.

WORKING CAPITAL CYCLE

The Group closely monitored and maintained an effective control over utilizing the working capital according to its business operation. For the year under review, the Group's turnover and operation increased significantly and therefore the level of inventory, trade and bills receivables and trade and bills payables increased accordingly. During the year under review, the Group's overall working capital cycle was 64 days (2010: 27 days). Although the working capital cycle was 37 days higher than last year, it was 2 days lower from six months period ended 30 June 2011 (66 days).

As at 31 December 2011, the inventory balance of the Group amounted to RMB671.5 million (2010: RMB462.6 million) and the average turnover days of inventory for the year ended 31 December 2011 was 63 days (2010: 50 days). The increase in balance was mainly contributed by an increase of finished goods of RMB100.6 million which was due to production of 2012 spring products for the early Chinese new year in 2012 and the inventory has been sold after the year end date. As compared to the inventory balance of RMB887.0 million as at 30 June 2011 and the inventory turnover days of 81 days for the six months ended 30 June 2011, the Group has made significantly improvement to reduce the inventory level and resulted in a positive cash flow of RMB215.5 million as a result of inventory reduction in the second half of 2011.

As at 31 December 2011, the trade and bills receivables of the Group amounted to RMB1,205.4 million (2010: RMB727.1 million) and the turnover days was 64 days (2010: 51 days). The Group monitored and reviewed the quality of trade receivables closely on a regular basis. The increase mainly related to an increase of RMB256.0 million trade receivables which are not yet due and the increase of RMB114.3 million bills receivables, these balances have low risk of becoming irrecoverable. On the other hand, the amount over due over 3 months was reduced by RMB20.5 million. The Group generally provided credit period of 90 days and therefore the turnover days are well within the credit period policies. Therefore, we considered that the quality of trade receivables of the Group remained healthy and no provision of the balance is necessary.

As at 31 December 2011, the trade and bills payables of the Group amounted to RMB498.9 million (2010: RMB639.1 million) and the turnover days was 63 days (2010: 74 days). In order to gain the benefit of preferential cost of production and raw material, we utilized the cash balance to generate such benefits as a means to speed up the payments to 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 2011, the bank deposits and cash and cash equivalent of the Group amounted to RMB2,589.8 million (2010: RMB2,443.7 million). As at 31 December 2011, the Group's bank loans was RMB446.3 million (2010: nil). As at 31 December 2011, an amount of RMB489.1 million of bank deposits was pledged to secure the bank loans of the Group (2010: no pledge of asset). As at 31 December 2011, the Group's gearing ratio was 12.6% (2010: 0%), which is defined as bank borrowings divided by the Group's net assets.

The net cash inflow from operating activities for the year ended 31 December 2011 was approximately RMB204.2 million (2010: RMB456.1 million).

The Group has made significant improvement of the cash flow from operating activities in the second half of 2011. For the six months ended 30 June 2011, the cash flow from operating activities was a net cash outflow of RMB334.9 million. For the second half of 2011, the cash inflow from operating activities amounted to a net cash inflow of RMB539.1 million, mainly as a result of the reduction in inventory from 30 June 2011 to 31 December 2011.

As at 31 December 2011, the Group's current ratio was 3.6 (2010: 4.5). The Group maintained a net cash position, reflecting its healthy financial condition that paves the way for future development.

INVENTORY PROVISION

For the year ended 31 December 2011, the Group did not have any inventory provision.

DOUBTFUL DEBT PROVISION

For the year ended 31 December 2011, the Group did not have any doubtful debt provision.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Details of the Group's commitments are stated in the note 33 to the financial statements.

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 foreign currency risks. However, the management will continue to monitor foreign currency risks and adopt appropriate and prudent measures.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the year under review, the Group did not have any significant investments, acquisitions or sales of subsidiaries. The Group continued to seek opportunities to expand the business of the Group in order to generate more returns to its Shareholders.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange on 3 June 2008 generating net proceeds from the global offering of approximately HK$2,088 million (after deducting underwriting commissions and related expenses). As at 31 December 2011, HK$1,587 million was fully utilized according to the purpose as stated and RMB501 million relating to brand acquisition was unutilized.

HUMAN RESOURCES

As of 31 December 2011, the Group had 7,658 employees (31 December 2010: 7,433 employees). The Group provides introductory orientation programs and continuous training to enhance the service quality and standard of its staff. These introductory orientation programs and continuous training covered areas which include industry knowledge, technology and product knowledge, industry quality standards and work safety standards. The Group will strive to strengthen human resources management through recruitment initiatives to provide strong support for the development of the Group's business, organizational structure and corporate culture for sustainable development in the future.

Future Prospects

OVERVIEW

The continuing European debt crisis and anemic economic growth among developed countries continue to seed uncertainty throughout the global economy. The PRC government recently forecast GDP growth for 2012 at approximately 7.5%, slightly lower than in previous years. The Group is fully aware of these continued global economic challenges and we are therefore cautious in planning our business development. We believe that the economic fundamentals in the PRC are still very sound. The retail sector in the PRC is expected to grow further as the standard of living continues to improve, while disposable income increases alongside changing consumer behavior that is favorable to Xtep brand products.

There are concerns in the sportswear industry about intense competition by foreign and domestic brands, excessive retail inventories and heavy retail discounting. We believe that in times like these we should stick to our goals. The Group has a talented and experienced management team to guide it through any difficulties ahead. With our clear and distinct brand positioning, we planned ahead to consolidate our distribution channel and we are expanding our variety of products to meet the desires of an increasingly affluent customer base.

BRANDING – DISTINCTIVE MISSION

"X-ceptional" Decade

2012 will be a special year for the Xtep brand as we celebrate our 10th anniversary. Driven by our distinctive mission to evoke feelings of "Sports like no other", Xtep's brand equity has risen tremendously in the past decade. To celebrate, we will organize various exciting promotions, commercial activities and marketing events. In particular, we will organize a grand gala event in April 2012 dubbed "X-ceptional Decade", for which we will invite all of our celebrity spokespeople and other high-profile guests to perform. We will invite government and sports bureau officials of the PRC, important business partners, distributors, franchisees, and other esteemed guests to celebrate and witness this memorable moment. These activities will enhance the stature of Xtep's brand in the PRC sportswear industry and underline our commitment to promoting health through sports activities.

We will continue to deliver Xtep's healthy and fashionable sportswear image through our dual marketing strategy in sports and entertainment, which is unique among traditional sportswear brands. Marketing and promotional activities will include sponsorships of national sports events, international marathons, European football clubs, and China's CX-Games, as well as the continued entertainment-based advertising campaigns of Xtep's celebrity spokespeople – Nicholas Tse, Jolin Tsai, Wilber Pan and Han Geng. All of these exciting promotions will deepen consumer understanding of Xtep's "Sports like no other" mission.

Runner's choice

"Love Running, Love Xtep" is a simple and memorable slogan that clearly connects running with the Xtep brand. Running is becoming increasingly popular in the PRC as the pursuit of healthier lifestyles drives participation in sports. The Group will continue to raise brand awareness among runners in the PRC by sponsoring a large number of international marathons. The major 2012 international marathon sponsorships secured to date are as follows:

PRC

- Xiamen, Fujian province
- Zheng-Kai, Henan province
- Yangzhou, Jiangsu province
- Dalian, Liaoning province
- Tibet province
- Xi'an, Shaanxi province
- Hangzhou, Zhejiang province

Hong Kong

- Standard Chartered Hong Kong Marathon


XTEP
ANNIVERSARY

The Group will establish several "runner clubs" in which professional runners, trainers and other experts will provide discussions, seminars and training to club members. We aim to raise health awareness and enhance our brand's reputation while raising our status among runners. We set ourselves the target of becoming the "Runner's Choice" within five years. While we understand the inherent difficulties in attaining such a status, we are determined to achieve this goal.

2013 PRC National Game

Xtep has always been a leading player with a healthy and fashionable image that stands out clearly from other traditional sportswear brands. Following two consecutive sponsorships of the PRC National Games in 2005 and 2009 that are held once every four years, the Group is honored to again become sole apparel sponsor of the PRC National Games in 2013. This sponsorship will put Xtep's brand in the national spotlight as the PRC National Games is the most important sporting event attended by all of the PRC's top athletes. The PRC National Games will be viewed by millions, all of whom will see top PRC athletes expressing their healthy, trendy and sporting lifestyles with Xtep products.

DISTRIBUTION NETWORK – MICRO-MANAGEMENT

The Group will continue its stringent management of the distribution channel and will also maintain healthy and substantial growth of retail outlet operations while we recognize that this will be in the best interests of the Group, its distributors and franchisees. Our long-term target is to monitor and enhance sales growth of our retail channel as well as retail inventory levels. Recent retail operational data indicates that the industry is facing intensified competition and the Group is responding proactively with action plans as follows:

Network Consolidation

We will tightly control the expansion of our distribution network. Although opportunities exist for new outlets in new commercial areas, we will also consolidate the number of outlets in other areas. We expect the total number of Xtep brand retail outlets to reach about 7,600 – 7,800 by the end of 2012. We believe that this will provide the distribution network with a more sustainable exposure in the mass market to attain a reasonable operational performance.

2012 sales order

The Group will take a more conservative approach in accepting orders from distributors and franchisees and leave room for product replenishment. As responsible stewards of our brand, we have reviewed the retail data carefully with distributors and franchisees. After considering Xtep's brand positioning and retail market performance, the Group has announced that 2012 Q1 and Q2 sales order increase on a year-on-year basis of approximately 9% and 5% respectively. We believe that such a conservative approach takes into consideration the recent retail market conditions and overall inventory levels.

In-depth training

The Group aims to provide the best products and services to customers. We will continue to enhance the management quality and retail skill level of our distributors and franchisees. We view the exclusive distributors as long-term business partners and provide extensive executive training courses to enhance their management skills. The entire distribution channel, including all 28 distributors and over 4,000 retail managers and staff, will attend our product training courses during quarterly sales fairs. We will further select outstanding retail staff, by region and province, to attend in-depth customer service training courses at our headquarters. These training programs will provide continual improvements to customer service performance and a solid and skilled retail channel.

Expand DRP system coverage and Upgrade retail outlet design

We recognize that close monitoring of the retail channel is important for the Group, hence we will increase the DRP system coverage of retail outlets from 70% to 75% in 2012. In order to provide a more comfortable and attractive shopping environment, the Group will continue to upgrade the internal and external decoration of Xtep brand retail outlets to the new 6th generation design. All Xtep retail outlets have a modern exterior design and interiors highlighted by inspiring posters of celebrities, European football players and other models appearing in our latest products.

These decisive pre-emptive actions will consolidate our existing distribution channel and pave way for better results in the future.

PRODUCTS – NEW HORIZON

Running series

It is the Group's target to become the "Runner's Choice" within five years' time. We will be producing more functional running footwear with attractive styling and design. We will invest in more advanced international equipment to design better running footwear. New test equipment will provide advanced technologies and information that helps us enhance protection and shock absorption. Our research team will improve the softness, lightness and comfort of our footwear products. Additionally, we will also introduce more apparel products with advanced materials that cater distance runners.

Fashion sports series

Our creative design directors from South Korea and England will continue to lead our research and designs team to deliver more variety in trendy designs and casual lifestyle sports products. Consumers are aspiring towards healthier lifestyles and prefer products with distinct design, comfortable materials and a sporty outlook. We believe that our fashionable sports products suit healthy lifestyle customers who seek quality casual and sports products with reasonable and affordable prices.

Urban series

We will broaden our Urban series product range and expand the "X-TOP" category, which offers higher-quality lifestyle products. We will leverage on the popularity of Han Geng, our celebrity spokesperson, to promote this series and will also develop a special "Han Geng" series. Han Geng, who was recognized as the most popular PRC male singer in 2010 by CCTV, has a charming character that is sure to draw great attention in the PRC when promoting the new "Han Geng" product series.

Kids series

As the economy of the PRC grows with improving living standards, more affluent parents are expected to increase spending on their children. Therefore, we plan to diversify the Group's product range "Xtep 1+1" into children's wear. We will set up a separate team to manage sales, marketing, research and design for the new range. We initially target to open about 300 retail outlets in second- to fourth- tier cities within two years' time.

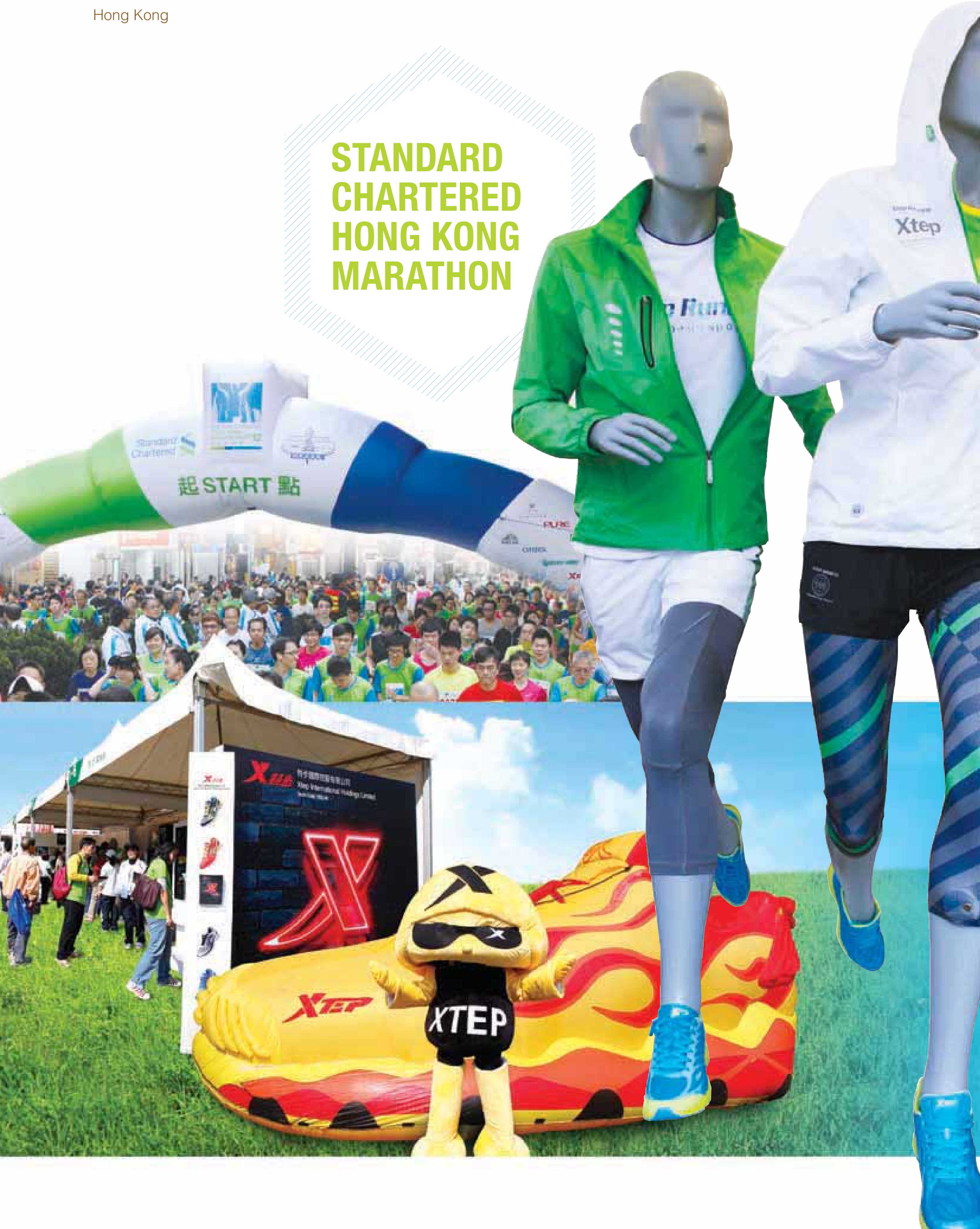
Production facilities expansion

We will further improve production efficiency and exert tight cost control through a mixture of in-house and outsourced manufacturing. The Group's existing manufacturing facilities in Quanzhou, Fujian province have reached their full utilization. We plan to add a new production base in Auhui province within two years, totaling an initial estimated development cost of approximately RMB200 - 300 million. We believe that this facilities expansion will reduce our per unit production cost in the long run.

CONCLUSION

The sportswear industry may be facing fierce competition, but the Group has planned ahead and is prepared to exercise detailed management control to overcome any potential difficulties. The Xtep brand has a distinctive character and image that suit consumer lifestyle choices and behavior. The Group will continue to focus its branding goal on becoming the "Runner's choice" and will remain committed to become a world-class leading fashion sportswear brand.

STANDARD CHARTERED HONG KONG MARATHON



"Life is a marathon, running towards goals continuously!"

DING SHUI PO
Chairman
Xtep International Holdings Limited

The 2012 Standard Chartered Hong Kong Marathon was successfully held on 5th February 2012. The company has been appointed as the event's exclusive Apparel Partner for the first time, joined hands with over 70,000 marathon athletes from around the world in the individual races.

As the first Chinese fashion sportswear brand to be appointed exclusive Apparel Partner, the Company featured its Xtep brand and products at its booths in the Marathon Expo in Hong Kong's Victoria Park on 28th and 29th January 2012. At the same time, Xtep also set up a game booth at the venue, allowing public interaction and fun while jointly supporting the sporting event.

FUBON TAIPEI MARATHON

> “As long as you persevere, you will be able to complete it.”

MR. HAN LUNG-BIN
Mayor of Taipei City
Taiwan

The 2011 Fubon Taipei Marathon was held on 18th December 2011, and Xtep was very honored to serve as the first Chinese sports brand to sponsor the marathon since its inception in 1986. The marathon was held on a grand scale, with a record high 100,000 people participating, some of whom were among the world’s top athletes.

INTERNATIONAL MARATHONS

Xiamen and Zheng-Kai

XIAMEN INTERNATIONAL MARATHON

The Xtep-sponsored 10th Xiamen International Marathon was successfully held on 7th January 2012. The Xiamen International Marathon is known to be an important event since it was the first sporting event in China this year and was named by the International Amateur Athletic Federation (IAAF) as an "IAAF Gold Label Road Race."

The event attracted about 74,000 marathon enthusiasts from 56 countries and regions around the world, including the US, Japan, Taiwan, etc. Xtep's brand spokesperson Han Geng was invited to be the health ambassador of the marathon and became the focus of the activities.

" We will encourage more and more citizen to participate this annual healthy sports event! "

MR. DUAN SHIJIE
Chairman
Chinese Athletic Association

ZHENG-KAI INTERNATIONAL MARATHON

Title-sponsored by Xtep, China Zheng-Kai International Marathon 2011 ended on a high note on 27th March 2011. The competition was well received and attracted approximately 28,000 professional athletes and long-distance runners from over 20 countries and regions. China Zheng-Kai International Marathon is currently the only standing large-scale international sports event in Henan province, and also the largest-scale full marathon competition in the middle-west region.

UNIQUE WINNER

STRONG ENOUGH TO WIN

INVESTOR RELATIONS REPORT

OVERVIEW

The Group attaches great importance to our relations with the investment community. We are committed to deliver a timely, interactive and transparent communication platform that ensures financial analysts, fund managers, stock commentators, the financial media, and the general public are all well informed of the Group's latest business developments, our future plans, as well as the management's view of the macro business environment. Through this high degree of corporate transparency we strive to build a sound, multifaceted understanding among our investor community.

During the year, we organized and participated in a wide range of investor relations activities. We held regular shareholders' general meetings, results press conferences, investor presentations, global roadshows, company and store visits, and small group and one-on-one investor meetings, among others, to enhance communication and information sharing with investors in different sectors, and foster their understanding of the Group's business. Such diversified investor relations activities successfully animated a number of professional investment institutions to publish research reports recognizing the Group's business and investment value.

REVIEW OF INVESTOR RELATIONS ACTIVITIES

Under the leadership of Mr. Ho Yui Pok, Eleutherius, our Executive Director, Chief Financial Officer and Company Secretary, with the full support of the Board and senior management team, Xtep engaged in various investor relations activities for the year ended 31 December, 2011 as follows:

1. **Results announcements and roadshows**

   Results announcements and roadshows are essential tools to update investors and the general public about recent developments in the Group's business. During the year, the Group held press conferences and investor presentations for both its interim and annual results to share an overview of its markets and business strategies. A total of eight roadshows were organized in Hong Kong, Beijing, Singapore, Taiwan, Japan and London, and through which the Group met with around 60 funds.

   In addition, the Group published its latest sales and operating figures on its website after each of four quarterly sales fairs to ensure transparency. The Group also regularly participated in teleconferences with analysts and global fund clients to provide guidance and enhance public understanding and awareness of the Group's future performance.

2. **Investment conferences and seminars**

During the year, the Group participated in 13 large, investment bank-organized conferences and seminars to meet global investors and fund managers. The Group believes that participating in such events enhances its communication and increases its brand recognition with the investment community, and helps broaden its shareholder base.

3. **Company visits and ongoing communication**

The Group believes that responsible companies maintain communications with their investors and the greater public in good times and in bad. In addition to promoting a corporate image via investor relations platforms, responsible businesses need to respond to enquiries and share their management and governance philosophies in a timely and appropriate manner to abate any investor concerns.

During the year, the Group's management communicated continuously with investors in small groups or one-on-one meetings to foster an understanding of the business. Meanwhile, the management also arranged company visits with seminars at a number of our flagship stores, at our production facilities and at our headquarters across various provinces and cities to personally explain the details of our logistics, production, distribution, and risk management processes.

To help the investment community keep pace with forward-looking industry information, the Group invited analysts to attend its quarterly sales fairs, allowing them to experience the upcoming products, interact with distributors and franchisees, and realize for themselves the strengths of the Xtep team. The Group believes that such first-hand interactions help analysts better understand its growth potential, in the coming quarter.

During the year, the Group arranged about 150 one-on-one meetings and teleconferences with global investors and analysts to share financial and operating conditions, as well as management's views on future market prospects. The Group's excellent investor relations performance has gained it recognition from the investment community.

4. **Media relations**

The Group believes that maintaining close relationships with the media is important. The Group participated in numerous interviews arranged by international and local media, and communicated through major newspapers, financial magazines, websites, radio and television to enhance its brand visibility. The Group also disseminated its latest operating results and market information among the media through regular press releases and interviews to share its news with the public.

5. **Release of corporate information**

The Group's investor relations website (www.xtep.com.hk) is one of its main channels for releasing corporate information. In addition to the timely release of the Group's latest news to investors and the public in accordance with the Listing Rules of the Stock Exchange, the Group also uploads related press releases and monthly investor newsletters for public viewing. Furthermore, the Group's investor relations department provides for timely communication with the market by releasing the latest news via email or teleconference if necessary.

The Group welcomes feedback and constructive suggestions regarding our investor relations and communications. The Group is committed to providing the highest quality investor relations services and achieving continuous improvement in the comprehensive disclosure of information and transparency to effectively create value for its shareholders.

INVESTOR INFORMATION

1. **Share information**
   Listing Date: 3 June 2008
   Board lot: 500 Shares
   Number of issued shares as at
   31 December 2011: 2,176,240,000 Shares
   Stock code: 1368

2. **Financial Calendar**
   2011 interim results announcement:
   16 August 2011
   2011 annual results announcement:
   21 March 2012
   Annual General Meeting: 3 May 2012
   Closure of register of members for
   2011 final dividend:
   9 May to 11 May 2012
   (both days inclusive)
   Distribution Date of 2011 final dividend:
   21 May 2012
   Financial year end: 31 December

3. **2011 dividend**
   Interim dividend: HK13.0 cents
   (2010: HK10.0 cents)
   Final dividend: HK14.5 cents
   (2010: HK12.0 cents)

4. **Investor relations contact**
   For any queries, please contact:
   Xtep International Holdings Limited
   Investor Relations Department
   Suite 2401-2, 24/F,
   Shui On Centre, 6-8 Harbour Road,
   Wanchai, Hong Kong

   Telephone: (852) 2152 0333
   Fax: (852) 2153 0330
   E-mail: ir@xtep.com.hk
   Corporate website: www.xtep.com.hk
   Brand website: www.xtep.com

DIRECTORS

Executive Directors

Mr. Ding Shui Po (丁水波), aged 41, is the founder, chairman and chief executive officer of the Group. He has over 23 years of experience in the sportswear industry and is primarily responsible for the overall corporate strategies, planning and business development of the Group. Mr. Ding founded the Group in 1999 and is currently also the chairman of the Board of Directors and president of various subsidiaries of the Group.

Mr. Ding personally obtained the following awards:

Year	*Award*
2002	Outstanding Young Entrepreneur in Quanzhou
2003	Top 100 Individuals in PRC's Economic Development
2004	Top 10 Most Influential Entrepreneurs in China
2005	Fujian Young Entrepreneurs Achievement Award
2007	Fujian May 4th Youth Medal
2008	CAPITAL Leaders of Excellence in China 2008
2008	Outstanding Young Entrepreneur in Fujian
2009	Ernst & Young Entrepreneur of the Year China 2009
2009	May 1st Labor Medal
2009	Top Ten Eminent Young Entrepreneurs of Fujian
2010	Chinese Brands Awards – People of the Year
2010	Chinese Textile and Apparel Industry – Top 10 People of the Year
2011	Most Innovative Entrepreneur of Quanzhou City

Mr. Ding held the following public offices:

Year	*Public Office*
2003	Committee Member of the 9th Fujian Provincial Committee of the Political Consultative Conference
2006	Chairman of the 3rd Executive Committee Quanzhou Footwear Chamber
2008	Committee Member of the 10th Fujian Provincial Committee of the Political Consultative Conference
2009	Honorary Chairman of Fujian Footwear Industry Association
2010	Chairman of the 5th Board of China Young Entrepreneurs Association – Young Chamber of Commerce in Quanzhou
2010	Committee Member of National Youth Committee
2011	Founding Chairman of Hong Kong China Chamber of Commerce

Mr. Ding participated in entrepreneurship programs offered by Peking University (北京大學) and Tsinghua University (清華大學) in 2004 and 2006, respectively. Mr. Ding also studied in the China CEO/Finance CEO Program offered by Cheung Kong Graduate School of Business (長江商學院) from 2010 to August 2011. He is currently participating in the EMBA program offered by Xiamen University (廈門大學). He is the son of Mr. Ding Jin Chao (one of our controlling shareholders), a brother of Ms. Ding Mei Qing and Mr. Ding Ming Zhong and a brother-in-law of Mr. Lin Zhang Li.

Ms. Ding Mei Qing (丁美清), aged 39, is our executive Director and a vice president of the Company. Ms. Ding has over 13 years of experience in the sportswear industry and is primarily responsible for the management of footwear operation of the Group. She is also responsible for the design and technology development of the Group and has led our design team to create a number of special collections of footwear under our Xtep brand that successfully appeal to the trendy and youthful mass market segment. Ms. Ding joined the Group in 1999 and is currently also a deputy general manager, a director and a vice president of various subsidiaries of the Group. Ms. Ding participated in an entrepreneurship program offered by Tsinghua University (清華大學) in 2006. She is the daughter of Mr. Ding Jin Chao, the sister of Mr. Ding Shui Po and Mr. Ding Ming Zhong and the wife of Mr. Lin Zhang Li.

Mr. Lin Zhang Li (林章利), aged 40, is our executive Director and a vice president of the Company. Mr. Lin has over 13 years of experience in the sportswear industry and is primarily responsible for the management of apparel business of the Group. Mr. Lin joined the Group in 1999 and is currently also a vice president of Xtep (China). He participated in an entrepreneurship program offered by Tsinghua University (清華大學) in 2006. He is the husband of Ms. Ding Mei Qing, the son-in-law of Mr. Ding Jin Chao, a brother-in-law of Mr. Ding Shui Po and Mr. Ding Ming Zhong.

Mr. Ding Ming Zhong (丁明忠), aged 35, is our executive Director and a vice president of the Company. He has over 13 years of experience in the sportswear industry and is primarily responsible for the management of accessories business of the Group. Mr. Ding joined the Group in 1999 and is currently also a deputy general manager and a vice president of various subsidiaries of the Group. He participated in entrepreneurship programs offered by Peking University (北京大學) and Tsinghua University (清華大學) in 2004 and 2006, respectively. He is the son of Mr. Ding Jin Chao, a brother of Mr. Ding Shui Po and Ms. Ding Mei Qing and a brother-in-law of Mr. Lin Zhang Li.

Mr. Ye Qi (葉齊), aged 54, is our executive Director and a vice president of Xtep (China). Joining the Group in 2004, Mr. Ye has over 19 years of experience in sales and marketing and is primarily responsible for the overall sales and marketing business of the Group. He also assists our chairman with the overall corporate strategies planning and business development of the Group. He graduated from South West University (西南大學) with a bachelor's degree in chemical science in 1982. He obtained a master's degree in philosophical science from East China Normal University (華東師範大學) in 1988 and a master's degree in business administration from China Europe International Business School (中歐國際工商學院) in 2003. He has been studying in the Doctor of Business Administration program jointly offered by the City University of Hong Kong (香港城市大學) and Fudan University (復旦大學) of China since October 2011.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Ho Yui Pok, Eleutherius (何睿博), aged 46, was appointed as an executive Director of the Company on 29th March 2010. Mr. Ho is also the chief financial officer, investor relations spokesperson and authorized representative of the Company. He is also the company secretary of the Company. He has over 22 years of experience in auditing, accounting and financial management and is primarily responsible for the Group's overall financial and accounting affairs and investor relations. Mr. Ho graduated from University of Kent (肯特大學) at Canterbury, England with a bachelor's degree in accounting in 1987 and a master's degree in management science in 1989. Prior to joining the Group in 2007, he was a chief financial officer, company secretary and authorized representative of GST Holdings Limited from 2005 to 2007 and a financial controller of EC-Founder (Holdings) Co., Ltd. from 2000 to 2005, a company listed on the Main Board of the Hong Kong Stock Exchange ("Main Board"). In addition, he worked for an international accounting firm as a manager from 1994 to 1996. He was a fellow member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Hong Kong Institute of Certified Public Accountants, and an associate member of the Hong Kong Institute of Directors.

Non-Executive Director

Mr. Tan Wee Seng (陳偉成), aged 56, was appointed as a non-executive Director of the Company on 29 March 2010. Mr. Tan is a professional in value and business management consultancy. He is a non-executive director of Sa Sa International Holdings Limited whose shares are listed on the Main Board, and an independent non-executive director of Biostime International Holdings Limited, the shares of which are listed on the Main Board, an independent director of ReneSola Ltd whose shares are listed on the New York Stock Exchange, an independent director of 7 Days Group Holdings Limited whose shares are listed on the New York Stock Exchange, a board member of Beijing City International School and a director of Landgent Group Company Limited. From 2003 to 2008, he was an executive director, chief financial officer and company secretary of Li Ning Company Limited, the shares of which are listed on the Main Board. Mr. Tan has over 32 years of financial, strategic and operation and business management experience and has also held various senior management positions in a number of multi-national corporations. From 1999 to 2002, he was the senior vice president of Reuters for China, Mongolia and North Korea regions, and the chief representative of Reuters in China. Prior to that, he had served as the managing director of AFE Computer Services Limited, a Reuters subsidiary in Hong Kong which was a company mainly engaged in domestic equity and financial information services, and as director of Infocast Pty Limited, a Reuters subsidiary in Australia and as the regional finance manager of Reuters East Asia. Mr. Tan is a fellow member of the Chartered Institute of Management Accountants, United Kingdom, and a fellow member of the Hong Kong Institute of Directors.

Independent Non-Executive Directors

Mr. Sin Ka Man (冼家敏), aged 44, was appointed as our independent non-executive Director on 24 January 2008. Mr. Sin has over 19 years of professional experience in auditing, accounting and financial management for both private and listed corporations. He is an associate member of the HKICPA, a fellow member of the Association of Chartered Certified Accountants and a CPA of the CPA Australia. He is currently a vice president of the Huayu Expressway Group Limited, a company listed on the Main Board of Hong Kong Stock Exchange and mainly engaged in toll road business in the PRC, with responsibilities for the accounting and financial management of that company. He holds a bachelor's degree in Social Sciences from the University of Hong Kong, a master's degree in Finance from the University of Strathclyde, the United Kingdom and a master's degree in accounting from Curtin University of Technology, Australia.

Mr. Sin is currently an independent non-executive director of Fronton Group Limited, PNG Resources Holdings Limited(formerly Leroi Holdings Limited), Chinese People Holdings Company Limited, China Motion Telecom International Limited and Sino Haijing Holdings Limited (all of these companies are listed on the Main Board). Previously he was an independent non-executive director of China Leason CBM & Shale Gas Group Company Limited (formerly Shine Software (Holdings) Limited), a company listed on the Growth Enterprise Market Board of the Hong Kong Stock Exchange.

Mr. Xu Peng Xiang (許鵬翔), aged 64, was appointed as our independent non-executive Director on 24 January 2008. Mr. Xu has over 13 years of industry experience in footwear and apparel industries. He has been the Standing vice chairman of Quanzhou General Chambers of Commerce (泉州市總商會) since 1997 and is responsible for, among others, footwear and apparel industries. He was the Head of Enterprise Department at the Quanzhou Economy Committee (泉州市經濟委員會) from 1991 to 1996, responsible for enterprise re-structuring, capital re-structuring and state-owned enterprises pre-listing matters. He was also responsible for financial and statistical planning in Quanzhou Economy Committee. He graduated from Fuzhou University.

Dr. Gao Xian Feng (高賢峰), aged 49, was appointed as our independent non-executive Director on 24 January 2008. Dr. Gao is currently the executive officer of Human Resources Management Research Centre at the Peking University (北京大學人本管理研究中心) and a guest professor of entrepreneurship programs at Peking University (北京大學) Tsinghua University (清華大學), Party School of the Central Committee of Communist Party of China (中央黨校) and Fudan University (復旦大學). Dr. Gao previously served as an associate professor at Shandong Economic University (山東經濟學院). He holds a bachelor's degree in enterprise management from Shandong Economic University (山東經濟學院) and a doctor of law degree from the Peking University (北京大學).

SENIOR MANAGEMENT

Mr. Wang Jia Ye (王家業), aged 36, is a vice president of Xtep (China). He has over 13 years of experience in the apparel industry and is primarily responsible for design, research and development and manufacturing of apparel products in the Group. He joined the Group as a general director of apparel business centre in 2004 and was promoted to be a vice president of Xtep (China) in 2008. Prior to joining the Group, he worked for Guangzhou Menten Sports Co., Ltd. (廣州麥特體育用品有限公司), a domestic apparel company. He graduated from Tianjin Polytechnic University (天津工業大學), previously known as Tianjin Textile Industry College (天津紡織工學院) with a bachelor's degree in apparel in 1996.

Mr. Yu Shi Yong (余世勇), aged 48, is a vice president of Xtep (China). He has over 29 years of experiences in finance and accounting and is primarily responsible for financial and capital management of the Group's PRC subsidiary companies. Prior to joining the Group in May 2010, he was the chief financial officer for Fujian Mingdong Electric Power Company Limited and Shandong Chenming Paper Holdings Limited. Shares of both companies are listed on the Shenzhen Stock Exchange. Mr. Yu was also the vice president of financial securities in Fangda Group. Mr. Yu obtained a master's degree in Business Administration from University of Hertfordshire in September 2005, and the certificate of advanced financial management in University of Cambridge in January 2007. For the past years, he has achieved numerous awards including the China Top CFO Award in 2005, China Top 10 Outstanding CFO in 2006, and China Top 10 Uprising CFO in 2007.

Dr. Wu Lian Yin (吳聯銀), aged 37, is a vice president of Xtep (China). He has over 11 years of experience in providing consulting services to enterprises of information technology management and is primarily responsible for building up and managing our overall enterprise information resources. Prior to joining the Group in 2007, he worked for a consulting group as a senior manager from 2003 to 2007 with participation in several projects to provide consulting and training services to a number of PRC companies involving information technology management. He worked for HAND Enterprise Solutions Company Ltd. (上海全富漢得軟件技術有限公司) as an Oracle CRM senior consultant from 2001 to 2003. Dr. Wu won the "Outstanding Management Consulting Award" (傑出管理咨詢獎) in 2007. He graduated from Xi'an Jiaotong University (西安交通大學) with a bachelor's degree in engineering in 1996 and a doctor's degree in engineering in 2001. In 2009, he was granted the China TOP 50 CIO Award by IT Manager World Magazine and named the "Outstanding Entrepreneur of the Year" (年度貢獻人物獎) by vsharing.com.

Dr. Liu Qing Xian (劉慶先), aged 44, is a vice president of Xtep (China). Joining the Group in 2005, Dr. Liu has over 20 years of experience in human resources management and is primarily responsible for the overall human resources management of the Group. Dr. Liu graduated from School of Economics Peking University 北京大學經濟學院 with a doctor degree of strategic planning and human resource in September 2011. He is currently a director of the Young Entrepreneurs Association of Fujian Province (福建省青年企業家協會), a standing director of the Young Politician Association of Quanzhou City (泉州市青年政治家協會) and the Youth Chamber of Commerce of Quanzhou City (泉州市青年商會), and the Chairman of the Corporate Talents Association of the Quanzhou Development Zone (泉州開發區企業人

The Annual Senior Management meeting held at Yangshuo, Guilin City, the PRC.

才協會), respectively. Dr. Liu graduated from Capital University of Economics and Business (首都對外經濟貿易大學) with a bachelor's degree in international trade. He also obtained a master's degree in human resources management from Peking University (北京大學) in 2006. He participated in an entrepreneurship program offered by Tsinghua University (清華大學) in 2006. He is currently an advisor of the Human Resources Association of Huaqiao University, a chair professor of Sichuan University, Wuhan University, Xiamen University and Fujian Normal University, a guest professor at a number of academic institutions including Wuhan University of Science and Engineering, Jiangxi Institute of Fashion Technology (江西服裝學院), Hunan College of Physical Education (湖南體育學院) and Fujian College of Physical Education (福建體育學院) and a guest lecturer of Tsinghua University and Peking University. He is currently participating in the Multi-national Company General Manager Program and Finance MBA Program offered by Cheung Kong Graduate School of Business (長江商學院).

Mr. Huang Hai Qing (黃海清), aged 53, is a vice president of Xtep (China). He has over 21 years of experience in administrative management and is primarily responsible for our overall administrative management. He joined as a vice president of a subsidiary of the Group in 1999 and was appointed as a vice president of Xtep (China) in 2002.

COMPANY SECRETARY

Mr. Ho Yui Pok, Eleutherius (何睿博), aged 46, is the company secretary as well as the chief financial officer, investor relations spokesperson and authorized representative of the Company. His biographical details are set out above under the paragraph headed "Directors".

Xtep – Emphasis on social welfare and persistent commitment to people

Xtep aims to be a world-class fashion sportswear brand. While seeking business growth, the Group is also committed to fulfilling social responsibilities within the countries and societies in which it conducts business, as well as to its own individual employees. During the year under review, the Group participated in a broad array of social, environmental and talent nurturing activities that demonstrated its concern for the quality of life of its employees and contributed to the prosperity of society as a whole.

1. XTEP STAFF LIKE NO OTHER

i) Enhancing social harmony and work-life balance

The Group encourages employees to participate in wholesome recreational activities in their spare time to enhance social harmony and work-life balance. During the year, the Group organized various activities that were enthusiastically received such as the outreach activity "Special Forces" in October, and the "Hefei 2 Days 1 Night" outdoor training camp in November. These activities emphasized teamwork, co-operation, and positive thinking, and have successfully improved employees' ability to handle pressure, competition and risk, as well as enhanced teamwork.

In 2011, Xtep launched a number of cultural activities that focused on the three themes of sport, sunshine and sensation.

Sport: Since 2007, Xtep holds an annual "Xtep Staff Sports Day" on 1 May, encouraging employees to enjoy sports and strengthen their minds and bodies, and helping to nurture our vision of "Xtep as fashion sports" within our corporate culture. The 2011 Sports Day attracted a record number of 1,300 participants.

Sunshine: Xtep arranges sunshine tours for the Group's veteran and high-performing employees every autumn since 2007 as an expression of gratitude for their contributions and years of support. These trips to such beautiful and famous attractions as Mount Wuyi, Mount Lushan, Mount Jinggangshan, Thousand Island Lake, and Mount Huangshan, among others, allow participants to clear their minds and foster friendship with one another.

Sensation: During every New Year's Day, the Group holds a company award ceremony to commend excellent employees at all levels. Particularly outstanding employees will receive the "Outstanding Contribution of the Year" award from the Group.

ii) Strengthening staff security

Since the establishment of Xtep, the Group has been greatly concerned with managing safety by setting up a special committee on security. In addition to a comprehensive safety management system, the Group has a special management team to assist the security department in drafting contingency plans and responding to potential situations such as fires, work accidents or other emergencies. We are proud that not a single hazardous incident has occurred since the establishment of Xtep. For the past three years, our annual employee injury rate was less than 2%, far below the PRC government prescribed standard of 6%. This excellent track record is reflected in our attaining national security quality standardization at the corporate level for ten consecutive years.

During the year, the Group performed comprehensive inspections of its plant to ensure that all operations are carried out safely. Meanwhile, in order to comply with international specifications and standards, the Group employed a nationally registered and certified senior consultant to provide ISO9000/14000 and OHSAS18000 system training to plant staff and to align the production processes of the plant.

iii) Immense recognition

Xtep's concerted efforts received immense public and national recognition. In 2011, the Group was awarded the "National Model Harmonized Labor Relations Enterprise Award" demonstrating the broad recognition that it has gained for its enduring efforts to advance staff interests. The Group's success is also reflected in the support and satisfaction of its employees. Over the past few years, this has led the Group to be recognized with numerous awards, including: "National Model Home of Staff", "China Pioneer Workers", "CCTV China Migrant Workers Most Satisfied Employer of the Year", "Top 10 Harmonized Enterprise of Fujian Province", "Top 10 Private Enterprise with Moved Staff of Quanzhou Province" and "Staff Caring Model Enterprise of Quanzhou Province".

During the year, the Group maintained a steady workforce, with a persistently lower staff turnover rate than the general market.

iv) Xtep staff "Love Running, Love Xtep", promoting marathon

The Group pledges to be the runner's preferred choice and holds running as its core sports category. During the year, Xtep sponsored a number of marathons to promote the spirit of uncompromising endurance, mutual support and encouragement, and to spread the "Love Running, Love Xtep" brand philosophy.

The Group's Chairman, Mr. Ding Shui Po, led the senior management team to participate in some of the races. In particular, Mr. Ding led the entire senior management team, together with more than 300 staff, to take part in the Xiamen International Marathon 2012. The fact that the Group's headquarters are situated in Xiamen made this event particularly meaningful for the brand. The Senior Director of the Supply Chain Operations Center, Dr. Xiao Lihua, completed the full marathon in about six hours, while the Group's Vice-President, Dr. Wu Lianyin, finished the half marathon within three hours. Dr. Xiao and Dr. Wu embody the "Love Running, Love Xtep" philosophy by not only demonstrating a high degree of work-life balance and living a healthy lifestyle, but also by setting an example for all of their colleagues and staff.

In addition, every marathon provides an opportunity for the Group to promote its products. Product sponsorships allow runners to experience the strength of Xtep's running products first hand, while pre-race showcases and displays allow the Group to disperse brand information and enhance awareness of Xtep throughout the world.

2. MAKING A DIFFERENCE IN THE COMMUNITY

i) Enhancing social harmony and working for a better environment

While Xtep is committed to pursuing business growth, the Group is also dedicated to conducting itself in a socially responsible manner that protects the environment and preserves natural resources, especially by reducing energy consumption. Through internal multifaceted inspections and management, the Group pledges to fulfill its mission to protect the environment and promote safety processes, and thereby provide a sustainable workplace and system.

On the system management side, the Group's implementation of ISO14000 clearly indicates its intentions to meet environmental goals. The process should allow the Group to fully assess environmental factors and determine appropriate management measures that best reflect environmental changes. From product design and development through to the selection of suppliers, the Group is adapting its concept of environmental management by such means as asking suppliers to provide material substance appraisal reports and commissioning testing authorities. In addition, the waste materials generated by the Group during the production process, such as scrap materials, waste gas, sewage and other debris, have to pass through a stringent management and testing system. Given the continuous efforts over the past years, the Group's products have not only fully complied with the relevant domestic standards and those of importing countries, but also achieved world-class environmental safety standards.

In terms of energy conservation, the Group implemented advanced power saving technologies in its production processes and has largely improved the electricity performance of its manufacturing plant, allowing it to attain an effective and energy saving production process.

Meanwhile, Xtep strives to recycle excess and scrap production materials, such as soles or other plastic materials. The Group utilizes specific material recycling centers to reduce production waste and the potential emissions and damage to the environment caused by waste incineration.

ii) Product safety

Xtep attaches great importance to product risk management and is committed to providing quality products to its customers. The Group has strictly implemented adherence to national, provincial and municipal laws as well as relevant industry regulations throughout its entire value chain, from product design, production to client servicing. The Group also closely monitors its activities and products across various dimensions such as the environment, energy resources, security and public health, to ensure a timely identification of and response to any potential problems.

iii) Actively participating in various charitable activities

During the year, the Group co-organized and participated in numerous charity campaigns and donations in the PRC and Hong Kong to help those in need.

Hong Kong Walkathon for Brightness 2011

Birmingham Xtep Walkathon for Brightness 2011, organized by the Hong Kong Blind Sports Association Limited and sponsored by Xtep, was successfully held in Shatin, Hong Kong, on 16th April. The walkathon attracted more than a thousand participants and raised over HK$900,000.

Hong Kong Xtep Elderly Society Games 2011

Jointly organized by the Salvation Army and the LCH Charitable Foundation, and sponsored by Xtep, the "Xtep Elderly Society Games 2011" was held at the Tseung Kwan O Sports Centre on 14th November. About 500 participants aged 50 or over dedicated their fighting spirit to the event. As the title sponsor of the event, Xtep provided sportswear to the elderly and the event. Mr. Ho Yui Pok, Eleutherius, Executive Director and Chief Financial Officer of Xtep, represented the company and showed his support by joining the event and presenting awards to winning athletes.

Quanzhou Happy Donors

Xtep has always believed in the faith, persistence and commitment of people. As a conscientious company, Xtep is eager to shoulder social responsibility in addition to making monetary donations. In response to an appeal by the Quanzhou government, Xtep called upon a total of 130 of its employees to make blood donation at the Quanzhou Red Cross Blood Centre on 6th September, further demonstrating its wholehearted contribution to the community and reflecting its spirit of fraternity, mutual aid and dedication.

Donations

In an effort to give back to society and to nurture our community, Xtep is committed to making donations to a number of institutions, including: Fujian CSPGP (China Society for Promotion of Guangcai Program), Jinjiang City Charity Federation, Jinjiang First Association of Care for People with Disabilities, and Safety Education Curriculum for Quanzhou Primary and Secondary Schools, among others. The charitable spirit of the Group received commendations from the Fujian government and it was awarded the "Hui Zeng Sang Zi" (traditional saying meaning "made important contributions to the hometown").

3. WORKING CLOSELY WITH DISTRIBUTORS AND FRANCHISEES

Through solid and interactive communications, the Group strives to build up a close cooperation with its distributors and franchisees with an aim to establish a high quality and sustainable retail network. It also helps the Group to response to market challenges on a timely manner.

During the year, the Group implemented the following measures in order to strengthen communications with distributors and franchisees:

i) Store manager training courses

In order to strengthen the professional skills of store managers and improve their operational and sales management capabilities, the Group arranged various training for district managers and staff. During the year, the Group arranged a total of 22 training courses for store managers and staff in different districts.

ii) Gold medal manager incentive scheme

To reward managers with excellent performance, the Group designed a computer system to assess the performance of each district manager. The Group also employed "mystery shoppers" who evaluated individual performance directly in retail stores. In March, the Group arranged a four-day "Gold Medal Manager Club – Hong Kong Trip", with a total of 56 participants.

CORPORATE GOVERNANCE REPORT

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

COMPOSITION OF THE BOARD AND BOARD COMMITTEES

The Board

Executive Directors

Mr. Ding Shui Po *(Chairman)*
Ms. Ding Mei Qing
Mr. Lin Zhang Li
Mr. Ding Ming Zhong
Mr. Ye Qi
Mr. Ho Yui Pok, Eleutherius

Non-Executive Director

Mr. Tan Wee Seng

Independent Non-Executive Directors

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

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

Audit Committee

Mr. Sin Ka Man* *(Chairman)*
Mr. Xu Peng Xiang*
Dr. Gao Xian Feng *

Remuneration Committee

Mr. Xu Peng Xiang* *(Chairman)*
Dr. Gao Xian Feng*
Ms. Ding Mei Qing

Nomination Committee

Mr. Ding Shui Po *(Chairman)*
Mr. Xu Peng Xiang*
Dr. Gao Xian Feng*

* *INEDs*

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has adopted the principles (the **"Principles"**) and code provisions (the **"Code Provisions"**) contained in the Corporate Governance Code set out in Appendix 14 to the Listing Rules effective since its adoption by the Company from 7 May 2008 and throughout the year ended 31 December 2011. The Company has complied with such Principles and Code Provisions during the year ended 31 December 2011 except for the deviation from Code Provision A.2.1 as disclosed below. For the purpose of complying with the new code of corporate governance practice as set out in the Appendix 14 of the Listing Rules, which shall take effect from 1 April 2012, the Board has adopted a revised Corporate Governance Code (**"New Corporate Governance Code"**) on 21 March 2012. Below is a summary of how the Company has complied the Principles and the Code Provisions:–

Code	Principles/Code Provisions	Complied/ Deviated	Explanation
A.1.	**The Board** An issuer should be headed by an effective board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer's affairs. Directors should take decisions objectively in the interests of the issuer.	Complied	The Board takes overall responsibility to oversee all major matters of the Group, including the formulation and approval of all policy matters, overall strategic development of the Group, monitoring and controlling the Group's operation and financial performance, internal control and risk management systems. The Directors have to make decisions objectively in the interests of the Company.
A.1.1	The board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals.	Complied	4 Board meetings were held in during the year ended 31 December 2011.
A.1.2	All directors are given an opportunity to include matters in the agenda for regular board meetings.	Complied	All Directors have the opportunity to include matters in the agenda for Board meetings.
A.1.3	Notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. For all other board meetings, reasonable notice should be given.	Complied	Notices of at least 14 days of Board meetings are given to the Directors and Board procedures complied with the articles of association of the Company, as well as relevant rules and regulations.
A.1.4	All directors should have access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.	Complied	All Directors have separate and independent access to the company secretary of the Company at all times.
A.1.5	Minutes of board meetings and meetings of board committees should be kept by a duly appointed secretary of the meeting and such minutes should be open for inspection at any reasonable time on reasonable notice by any director.	Complied	Minutes of Board meetings and meetings of the audit committee, the remuneration committee and the nomination committee (together, the "**Board Committees**") are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

Code	Principles/Code Provisions	Complied/ Deviated	Explanation
A.1.6	Minutes of board meetings and meetings of board committees should record in sufficient detail the matters considered by the board and decisions reached, including any concerns raised by directors or dissenting views expressed. Minutes of board meetings should be sent to all directors for their comment and records respectively within a reasonable time after the board meeting is held.	Complied	Minutes of Board meetings and meetings of Board Committees record matters considered by the Board, decisions reached, concerns raised by Directors and dissenting views expressed. Draft and final versions of minutes of Board meetings and meetings of the Board Committees are sent to all Directors for their comment and records respectively within a reasonable time after the Board meeting or meeting of the Board Committees is held.
A.1.7	There should be a procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the issuer's expense.	Complied	The Board of Directors may seek independent professional advice at the Company's expense.
A.1.8	If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter should not be dealt with by way of circulation or by a committee (except an appropriate board committee set up for that purpose pursuant to a resolution passed in a board meeting) but a board meeting should be held. Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting.	Complied	Article 102 of the Articles of Association of our Company (the "**Articles**") requires Directors to declare the nature of their interest at the meeting of the Board at which the question of entering into the contract or arrangement is first considered. Besides, Article 103 of the Articles requires Directors not to vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested.

Code	Principles/Code Provisions	Complied/ Deviated	Explanation
A.2.	**Chairman and Chief Executive Officer** There are two key aspects of the management of every issuer – the management of the board and the day-to-day management of the issuer's business. There should be a clear division of these responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual.	Deviated	The Group does not at present separate the roles of the chairman and chief executive officer. Mr. Ding Shui Po is the chairman and chief executive officer of the Group. He has extensive experience in sportswear industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the Board and the senior management, which comprise experienced and high caliber individuals. The Board currently consists of six EDs, one NED and three INEDs and has a strong independence element in its composition.
A.2.1	The roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.		
A.2.2	The chairman should ensure that all directors are properly briefed on issues arising at board meetings.	Complied	The Chairman has properly briefed all issues to all Directors during the Board meetings.
A.2.3	The chairman should be responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner.	Complied	The Chairman should ensure that Directors receive adequate information, which must be complete, reliable and timely.

Code	Principles/Code Provisions	Complied/ Deviated	Explanation
A.3.	**Board Composition** The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should ensure that changes to its composition can be managed without undue disruption. The board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgement. Non-executive directors should be of sufficient calibre and number for their views to carry weight.	Complied	The Board currently has a balanced composition of executive and non-executive Directors (including INEDs) so that there is a strong independent element on the Board, which can effectively exercise independent judgement. The Board has three INEDs with one of them, Mr. Sin Ka Man, possessing appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rule 3.10(1) and (2) of the Listing Rules.
A.3.1	The independent non-executive directors should be expressly identified as such in all corporate communications that disclose the names of directors of the issuer.	Complied	The INEDs of our Company, namely Mr. Sin Ka Man, Mr. Xu Peng Xiang and Dr. Gao Xian Feng, are identified in all corporate communications that disclose the names of the Directors.
A.4.	**Appointments, re-election and removal** There should be a formal, considered and transparent procedure for the appointment of new directors to the board. There should be plans in place for orderly succession for appointments to the board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.	Complied	The Articles has provided procedure for the appointment of new directors, re-election of the Company.
A.4.1	Non-executive directors should be appointed for a specific term, subject to re-election.	Complied	The NED of our Company, Mr. Tan Wee Seng, has entered into a service contract with the Company for a specific term which is set out in the section headed "Report of the Directors" of this annual report.

Code	Principles/Code Provisions	Complied/ Deviated	Explanation
A.4.2	All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.	Complied	Article 86 of the Articles requires all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Article 87 of the Articles requires one-third of the Directors to retire from office by rotation and every Director shall be subject to retirement at an annual general meeting at least once every three years.
A.5.	**Responsibilities of directors** Every director is required to keep abreast of his responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.	Complied	All Directors are required to keep abreast of his responsibilities as a director of the Company and of the conduct, business activities and development of the Company. NEDs (including INEDs) have the same duties of care and skill and fiduciary duties as executive directors.
A.5.1	Every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary.	Complied	Directors newly appointed to the Board would receive a comprehensive, formal and tailored induction on the first occasion of his appointment. In the year of 2011, briefings and professional development has been provided to the Directors.

Code	Principles/Code Provisions	Complied/ Deviated	Explanation
A.5.2	The functions of non-executive directors should include participating in board meetings of the issuer to bring an independent judgement to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct, taking the lead where potential conflicts of interests arise, serving on the audit, remuneration, nomination committees, if invited; and scrutinising the issuer's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.	Complied	INEDs have played a significant role in the Board by bringing their independent judgment at the Board meetings and scrutinizing the Group's performance. Their views carry significant weight in the Board's decisions. In particular, they bring an impartial view to bear on issues of the Group's strategy, performance and control. All INEDs possess extensive academic, professional and industry expertise and management experience and have provided their professional advice to the Board. The INEDs provide independent advice on the Group's business strategy, results and management so that all interests of Shareholders can be taken into account, and the interests of the Company and its Shareholders can be protected.
A.5.3	Every director should ensure that he can give sufficient time and attention to the affairs of the issuer and should not accept the appointment if he cannot do so.	Complied	Details of attendance of the Directors at Board meetings and Board Committees meetings during the year ended 31 December 2011, which is set out in page 97, shows that our Directors can give sufficient time and attention to the affairs of our Company.
A.5.4	Directors must comply with their obligations under the Model Code and the board should establish written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the securities of the issuer.	Complied	The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules effective since its adoption by the Company from 7 May 2008 and throughout the year ended 31 December 2011 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 2011.

Code	Principles/Code Provisions	Complied/ Deviated	Explanation
A.6.	**Supply of and access to information** Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer.	Complied	All Directors are provided with relevant materials relating to the matters brought before the meetings.
A.6.1	In respect of regular board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers should be sent in full to all directors in a timely manner and at least 3 days before the intended date of a board or board committee meeting (or such other period as agreed).	Complied	Agenda and accompanying board papers are generally sent in full to all directors at least 3 days before the intended date of a Board or Board Committee meeting, unless such other period otherwise agreed.
A.6.2	Management has an obligation to supply the board and its committees with adequate information in a timely manner to enable it to make informed decisions. The information supplied must be complete and reliable. To fulfil his duties properly a director may not in all circumstances be able to rely purely on what is volunteered by management and further enquiries may be required. Where any director requires more information than is volunteered by management, he should make further enquiries where necessary. The board and each director should have separate and independent access to the issuer's senior management.	Complied	Management is required to provide relevant materials to the matters to be discussed by the Board before any Board meetings and all Directors have separate and independent access to the senior management of the Company at all times.
A.6.3	All directors are entitled to have access to board papers and related materials.	Complied	Minutes of Board meetings and Board Committees meetings are kept by the Company Secretary and are available for inspection upon the request of any director.

Code	Principles/Code Provisions	Complied/ Deviated	Explanation
B.1.	**The level and make-up of remuneration and disclosure** An issuer should disclose information relating to its directors' remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. Levels of remuneration should be sufficient to attract and retain the directors needed to run the company successfully, but companies should avoid paying more than is necessary for this purpose. No director should be involved in deciding his own remuneration.	Complied	The Board has established the remuneration committee with defined terms of reference which are in line with the code provisions of the Corporate Governance Code since 7 May 2008 and throughout the year ended 31 December 2011. For the purpose of complying with the New Corporate Governance Code adopted by the Company on 21 March 2012, the Board has adopted revised terms of reference for the remuneration committee on 21 March 2012. The remuneration committee consists of three members, namely Mr. Xu Peng Xiang, Dr. Gao Xian Feng and Ms. Ding Mei Qing – the majority of whom are INEDs. The primary duties of the remuneration committee, which are contained in the terms of reference, 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 terms of reference of the remuneration committees which explain their respective roles and the authority delegated to them by the Board are available on the websites of the Company and the Stock Exchange. In accordance with its written terms of reference, the remuneration committee has held 2 meetings during the year ended 31 December 2011 to review and approve the Company's remuneration structure for the directors and senior management of the Company for the year ended 31 December 2011 and the granting of the share options of the Company to eligible persons for the year ended 31 December 2011. The remuneration committee is provided with sufficient resources to discharge their duties and, are able to seek outside legal or other independent professional advice and other assistance in appropriate circumstances, at the Company's expenses.
B.1.1	Issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.		
B.1.2	The remuneration committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.		
B.1.3	The terms of reference of the remuneration committee should include making recommendations on the issuer's policy and structure, to have the delegated responsibility, determining, reviewing and approving the remuneration packages and ensuring that no director or any of his associates is involved in deciding his own remuneration.		
B.1.4	The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.		
B.1.5	The remuneration committee should be provided with sufficient resources to discharge its duties.		

Code	Principles/Code Provisions	Complied/ Deviated	Explanation
C.1.	**Financial reporting** The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.	Complied	The Board has presented the relevant financial information for the assessment of the Company's performance, position and prospects.
C.1.1	Management should provide such explanation and information to the board as will enable the board to make an informed assessment of the financial and other information put before the board for approval.	Complied	All Directors are provided with relevant materials relating to the matters brought before the meetings to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.
C.1.2	The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts, and there should be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements. Material uncertainties relating to events or conditions that may cast significant doubt upon the issuer's ability to continue as a going concern, sufficient information which enables investors to understand the severity and significance of the matters should be clearly and prominently set out and discussed at length in the Corporate Governance Report.	Complied	The Board, supported by the chief financial officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flow of the Company and its subsidiaries for that period. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.
C.1.3	The board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Exchange Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.	Complied	The Board acknowledges its responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Exchange Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

Code	Principles/Code Provisions	Complied/ Deviated	Explanation
C.2.	**Internal Control** The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.	Complied	The Board is responsible for ensuring the reliability and effectiveness of the Group's internal control systems on, among other things, financial, operational and compliance controls. During the year under review, the Board and the audit committee have reviewed the effectiveness of the Group's internal control systems on all major operations of the Group by the Group's internal audit department. The Group's internal control department has reported major internal control review findings to the Board and audit committee. No major issues but areas for improvement have been identified. All of the recommendations from the Group's internal control department will be properly followed up to ensure that they are implemented within a reasonable period of time. The Board and the audit committee considered that the key areas of the Group's internal control systems, including the adequacy of resources, qualifications and experience of our accounting and financial reporting staff, and their training programs and budget, are reasonably implemented and the Group has fully complied with provisions of the Corporate Governance Code regarding internal control systems in general for the year ended 31 December 2011.
C.2.1	The directors should at least annually conduct a review of the effectiveness of the system of internal control of the issuer and its subsidiaries and report to shareholders that they have done so in their Corporate Governance Report.		
C.2.2	The board's annual review should, in particular, consider the adequacy of resources, qualifications and experience of staff of the issuer's accounting and financial reporting function, and their training programmes and budget.		

Code	Principles/Code Provisions	Complied/ Deviated	Explanation
C.3.	**Audit Committee** The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee established by an issuer pursuant to the Exchange Listing Rules should have clear terms of reference.	Complied	The Board has established audit committee with defined terms of reference which are in line with the code provisions of the Corporate Governance Code since 7 May 2008 and throughout the year ended 31 December 2011. For the purpose of complying with the New Corporate Governance Code adopted by the Company on 21 March 2012, the Board has adopted revised terms of reference for the audit committee on 21 March 2012. 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 INEDs. In accordance with its written terms of reference, the audit committee has held 3 meetings during the year ended 31 December 2011 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 2010, interim results of the Group for the six months ended 30 June 2011 and annual results of the Group for the year ended 31 December 2011 audit planning.
C.3.1	Full minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the audit committee meetings should be sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meeting.	Complied	Full minutes of audit committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the audit committee meetings should be sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meeting.
C.3.2	A former partner of the issuer's existing auditing firm should be prohibited from acting as a member of the issuer's audit.	Complied	None of the members of the audit committee is a former partner of our existing auditing firm, Ernst & Young.
C.3.3	The terms of reference of the audit committee should include reviewing and monitoring the relationship with the issuer's auditors, reviewing the financial information of the issuer, overseeing the issuer's financial reporting system and internal control procedures.	Complied	The primary duties of the audit committee, which are stated in the terms of reference 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.

Code	Principles/Code Provisions	Complied/ Deviated	Explanation
C.3.4	The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.	Complied	The terms of reference of the audit committees which explain their respective roles and the authority delegated to them by the Board are available on the websites of the Company and the Stock Exchange.
C.3.5	Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the issuer should include in the Corporate Governance Report a statement from the audit committee explaining its recommendation and also the reason(s) why the board has taken a different view.	Complied	There had been no disagreement between the Board and the audit committee during the financial year ended 31 December 2011.
C.3.6	The audit committee should be provided with sufficient resources to discharge its duties.	Complied	The audit committee is provided with sufficient resources to discharge its duties.
D.1.	**Management Functions** An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.	Complied	The Company has a formal schedule of matters to be discussed at Board meetings. The Board had given clear directions to management of the matters that has been discussed.
D.1.1	When the board delegates aspects of its management and administration functions to management, it must at the same time give clear directions as to the powers of management.	Complied	The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed.
D.1.2	An issuer should formalise the functions reserved to the board and those delegated to management. It should review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the issuer.		

Code	Principles/Code Provisions	Complied/ Deviated	Explanation
D.2.	**Board Committees** Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.	Complied	The terms of reference of the Board Committees had been approved and adopted by the Board when the Board Committees were established on 7 May 2008 to enable such committees to discharge their functions properly. For the purpose of complying with the New Corporate Governance Code adopted by the Company on 21 March 2012, the Board has adopted revised terms of reference for the Board Committees on 21 March 2012. The terms of reference of the Board Committees require the chairman of each of the Board Committee to submit a formal report to the Board in respect of the substance of the meeting.
D.2.1	Where board committees are established to deal with matters, the board should prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.		
D.2.2	The terms of reference of board committees should require such committees to report back to the board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).		
E.1.	**Effective communication** The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.	Complied	The management endeavours to maintain effective communications with our Shareholders and potential investors. We meet our Shareholders at the annual general meeting, publish interim and annual reports on the websites of the Company and the Hong Kong Stock Exchange, and release press releases on the Company's website to keep our Shareholders and potential investors abreast of the Group's business and development. For further details, please refer to the section headed "Investor Relations Report" in this annual report.

Code	Principles/Code Provisions	Complied/ Deviated	Explanation
E.1.1	In respect of each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting.	Complied	The chairman of the annual general meeting ("AGM") convened on 29 April 2011, the only general meeting convened by the Company during the year 2011, proposed a separate resolution in respect of each substantially separate issue.
E.1.2	The chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) to be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.	Complied	Mr. Ding Shui Po (Chairman of the Board), Mr. Sin Ka Man, Mr. Xu Peng Xiang, and the Board Committees, were present and were available to answer questions at the AGM convened on 29 April 2011.
E.1.3	The issuer should arrange for the notice to shareholders to be sent in the case of annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days in the case of all other general meetings.	Complied	Notice of the AGM for the AGM convened on 29 April 2011 was sent on 28 March 2011, i.e. 20 clear days before the meeting.
E.2.	**Voting by poll** The issuer should ensure that shareholders are familiar with the detailed procedures for conducting a poll.	Complied	The Chairman provided detailed procedures for conducting a poll and answered questions from shareholders regarding voting by way of a poll at the AGM convened on 29 April 2011.
E.2.1	The chairman of a meeting should at the commencement of the meeting ensure that an explanation is provided of the detailed procedures for conducting a poll and then answer any questions from shareholders regarding voting by way of a poll.		

COMPLIANCE WITH THE RECOMMENDED BEST PRACTICES CONTAINED IN THE CODE ON CORPORATE GOVERNANCE PRACTICE

In addition to the compliance with the Principles and Code Provisions, the Company also complies with the following recommended best practices (the "**Recommended Best Practices**") set out in the Code on Corporate Governance Practice set out in Appendix 14 to the Listing Rules:–

Code	Recommended Best Practices	Explanation
A.3.3	An issuer should maintain on its website an updated list of its directors identifying their role and function and whether they are independent non-executive directors.	The Company has maintained on its website an updated list of its Directors identifying their role and function and whether they are INEDs, available at: http://www.xtep.com.hk.
A.4.4	Issuers should establish a nomination committee. A majority of the members of the nomination committee should be independent non-executive directors.	The Board has established the nomination committee with defined terms of reference which are in line with the Recommended Best Practices since 7 May 2008. The nomination committee consists of three members, namely, Mr. Ding Shui Po, the Group's chairman and two INEDs, namely, Mr. Xu Peng Xiang and Dr. Gao Xian Feng. The primary duties of the nomination committee, which are set out in the terms of reference, 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. In accordance with its written terms of reference, the nomination committee has held 1 meeting during the year ended 31 December 2011 to review the composition of the Board.
A.4.5	The nomination committee should be established with specific written terms of reference.	
A.4.6	The nomination committee should make available its terms of reference explaining its role and the authority delegated to it by the board.	
A.4.7	The nomination committee should be provided with sufficient resources to discharge its duties.	
C.3.7	The terms of reference of the audit committee should also include reviewing arrangements by which concerns about possible improprieties in financial reporting, internal control or other matters can be raised, and acting as the key representative body for overseeing the issuer's relation with the external auditor.	The terms of reference of the audit committee requires the audit committee act to as the main representative between the Company and the external auditor and be responsible for monitoring the relationship between them and to review the arrangement for which concerns about possible misconduct in financial reporting, internal controls and other respects may be raised by the related employees of the Company.

MEETINGS

The Board meets regularly either in person or through electronic means of communications. The number of the meetings held and the attendance of each Director at these meetings for the year ended 31 December 2011 are set out as follows:

Code	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting
No. of meetings held	4	3	2	1
No. of meetings attended				
Executive Directors				
Mr. Ding Shui Po *(chairman)*	4/4	N/A	N/A	1/1
Ms. Ding Mei Qing	4/4	N/A	2/2	N/A
Mr. Lin Zhang Li	4/4	N/A	N/A	N/A
Mr. Ding Ming Zhong	4/4	N/A	N/A	N/A
Mr. Ye Qi	4/4	N/A	N/A	N/A
Mr. Ho Yui Pok, Eleutherius	4/4	N/A	N/A	N/A
Non-Executive Directors				
Mr. Xiao Feng [Note]	1/1	N/A	N/A	N/A
Mr. Tan Wee Seng	4/4	N/A	N/A	N/A
Independent Non-Executive Directors				
Mr. Sin Ka Man	4/4	3/3	N/A	N/A
Mr. Xu Peng Xiang	4/4	3/3	2/2	1/1
Dr. Gao Xian Feng	4/4	3/3	2/2	1/1

Note: Mr. Xiao Feng had resigned on 17 June 2011.

EXTERNAL AUDITORS' REMUNERATION

The Company has re-appointed Ernst & Young as its external auditors during the year ended 31 December 2011. The external auditor is refrained from engaging in non-audit services except for specific approved items, such as review of interim results of the Group. The audit committee reviews the external auditor's statutory audit scope and non-audit services and approves its fees. Details of the fees paid/payable to Ernst & Young during the year are as follows:

	2011 HK$	2010 HK$
Statutory audit services	3,380,000	3,273,000
Non-audit services	600,000	600,000
Total	3,980,000	3,873,000

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in the design, development, manufacture and marketing of sportswear, including footwear, apparel and accessory products, sold mainly under the self-owned Xtep brand and other licensed brands.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2011 are set out in note 17 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2011 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 111 to 166 of this annual report.

DIVIDENDS

An interim dividend of HK13.0 cents (equivalent to approximately RMB10.6 cents) per Share was paid to our Shareholders during the year. The Board recommended a final dividend of HK14.5 cents (equivalent to approximately RMB11.8 cents) per Share, subject to approval by the Shareholders at the annual general meeting to be held on 3 May 2012. The total dividends for the year ended 31 December 2011, which include the interim and final dividends, amounted to a total dividend of HK27.5 cents (equivalent to approximately RMB22.4 cents) per Share, represented an increase of 25% from last year and represented a payout ratio of 50%. Details of the dividend for the year ended 31 December 2011 are set out in note 12 to the financial statements.

RESERVES

Details of movements in reserves of the Company and the Group are set out in note 28 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2011, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB588.1 million. Details of the reserves of the Company as at 31 December 2011 are set out in note 28 to the financial statements.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2011 amounted to approximately RMB3.2 million (2010: RMB9.2 million).

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group for the year ended 31 December 2011 are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2011 are set out in note 27 to the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2011 were:

Executive Directors

Mr. Ding Shui Po *(Chairman)*
Ms. Ding Mei Qing
Mr. Lin Zhang Li
Mr. Ding Ming Zhong
Mr. Ye Qi
Mr. Ho Yui Pok, Eleutherius

Non-Executive Directors

Mr. Xiao Feng *(resigned on 17 June 2011)*
Mr. Tan Wee Seng

Independent Non-Executive Directors

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

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

Each of the executive, non-executive and independent non-executive Directors on the Board during the year ended 31 December 2011, except Mr. Ho Yui Pok, Eleutherius and Mr. Tan Wee Seng, had entered into a service contract with the Company for an initial term of three, one and two year(s), respectively, commencing from 3 June 2008 and thereafter may be terminated by either party upon a three-month prior written notice. Mr. Ho Yui Pok, Eleutherius and Mr. Tan Wee Seng had been appointed as the Company's director with effective from 29 March 2010. Each of Mr. Ho and Mr. Tan had entered into a service contract with the Company for an initial term of three years commencing from 29 March 2010 which may be terminated by either party upon a three-month prior written notice. All the service contracts of Directors are automatically renewed upon expiration.

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out on pages 70 to 75 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed below, there was no contract of significance to which the Company, its holding company, or any of its subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2011.

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

As at 31 December 2011, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Long Positions in the Company

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company[1]
Mr. Ding Shui Po[2]	Interests of controlled corporation/Beneficial interests	1,316,559,500	60.50%
Ms. Ding Mei Qing[3]	Interests of controlled corporation	1,310,059,500	60.20%
Mr. Lin Zhang Li[4]	Interests of spouse	1,310,059,500	60.20%
Mr. Ye Qi[5]	Beneficial interests	5,500,000	0.25%
Mr. Ho Yui Pok, Eleutherius[6]	Beneficial interests	10,000,000	0.46%
Mr. Tan Wee Seng[7]	Beneficial interests	1,330,000	0.06%

Notes:

(1) It was based on 2,176,240,000 issued Shares of the Company as at 31 December 2011.

(2) Mr. Ding Shui Po is deemed to be interested in 1,310,059,500 Shares of the Company held by Group Success by virtue of it being controlled by Mr. Ding Shui Po. Mr. Ding Shui Po is also beneficially interested in 6,500,000 Shares of the Company.

(3) Ms. Ding Mei Qing is deemed to be interested in the Shares of the Company held by Group Success by virtue of Group Success being controlled by Ms. Ding Mei Qing.

(4) Mr. Lin Zhang Li, the husband of Ms. Ding Mei Qing and an executive Director, is deemed to be interested in his wife's interests in Group Success.

(5) 1,500,000 of these shares are subject to the exercise of options granted on 7 May 2008 under the Pre-IPO Share Option Scheme. Another 1,000,000 of these shares are subject to the exercise of options granted on 28 May 2010 under the Share Option Scheme. The remaining 3,000,000 of these shares are subject to the exercise of options granted on 7 December 2011 under the Share Option Scheme.

(6) 1,000,000 of these shares are subject to the exercise of options granted on 7 May 2008 under the Pre-IPO Share Option Scheme. Another 1,500,000 of these shares are subject to the exercise of options granted on 29 July 2009 under the Share Option Scheme. Another 1,000,000 of these shares are subject to the exercise of options granted on 28 May 2010 under the Share Option Scheme. The remaining 6,500,000 of these shares are subject to the exercise of options granted on 7 December 2011 under the Share Option Scheme.
(7) 600,000 of these shares are subject to the exercise of options granted on 30 March 2010 under the Share Option Scheme. Another 600,000 of these shares are subject to the exercise of options granted on 7 December 2011 under the Share Option Scheme. Mr. Tan Wee Seng is also beneficially interested in 130,000 Shares of the Company.

Save as disclosed above, as at 31 December 2011, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

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

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

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

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

Details of the share options granted under the Pre-IPO Share Option Scheme as at 31 December 2011 are as follows:

Name	Outstanding as at 1 January 2011	Exercised during the year ended 31 December 2011(1)	Outstanding as at 31 December 2011
Directors			
Mr. Ye Qi	1,500,000	–	1,500,000
Mr. Ho Yui Pok, Eleutherius	1,000,000	–	1,000,000
Employees			
In aggregate	14,475,000	210,000	14,265,000
Total	16,975,000	210,000	16,765,000

Notes:

(1) Of the share options granted on 7 May 2008 under the Pre-IPO Share Option Scheme, 210,000 were exercised on 5 July 2011. The closing price immediately before the date on which the share options were exercised was HK$5.45.

Save as disclosed above, no options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2011.

SHARE OPTION SCHEME

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

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

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

(a) the nominal value of a Share;

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

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

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

Details of the share options granted under the Share Option Scheme as at 31 December 2011 are as follows:

Name	Date of Grant	Exercise price per Share[1]	Exercise period[2][3][4][5]	Outstanding as at 1 January 2011	Granted during the year ended 31 December 2011	Replaced during the year ended 31 December 2011	Exercised during the year ended 31 December 2011[6]	Outstanding as at 31 December 2011
Directors								
Mr. Ye Qi	28 May 2010	HK$6.00	28 May 2012 – 27 May 2020	1,000,000	–	–	–	1,000,000
Mr. Ye Qi	14 January 2011	HK$5.50	14 January 2012 – 13 January 2021	–	3,000,000	(3,000,000)	–	–
Mr. Ye Qi	7 December 2011	HK$2.35	14 January 2012 – 13 January 2021	–	–	3,000,000	–	3,000,000
Mr. Ho Yui Pok, Eleutherius	29 July 2009	HK$4.11	29 July 2010 – 28 July 2019	1,500,000	–	–	–	1,500,000
Mr. Ho Yui Pok, Eleutherius	28 May 2010	HK$6.00	28 May 2012 – 27 May 2020	1,000,000	–	–	–	1,000,000
Mr. Ho Yui Pok, Eleutherius	14 January 2011	HK$5.50	14 January 2012 – 13 January 2021	–	6,500,000	(6,500,000)	–	–
Mr. Ho Yui Pok, Eleutherius	7 December 2011	HK$2.35	14 January 2012 – 3 January 2021	–	–	6,500,000	–	6,500,000
Mr. Tan Wee Seng	30 March 2010	HK$6.13	30 March 2011 – 29 March 2020	600,000	–	–	–	600,000
Mr. Tan Wee Seng	14 January 2011	HK$5.50	14 January 2012 – 13 January 2021	–	600,000	(600,000)	–	–
Mr. Tan Wee Seng	7 December 2011	HK$2.35	14 January 2012 – 13 January 2021	–	–	600,000	–	600,000
Employees								
In aggregate	29 July 2009	HK$4.11	29 July 2010 – 28 July 2019	8,170,000	–	–	(30,000)	8,140,000
In aggregate	28 January 2010	HK$5.01	28 January 2011 – 27 January 2020	500,000	–	–	–	500,000
In aggregate	28 May 2010	HK$6.00	28 May 2012 – 27 May 2020	8,000,000	–	–	–	8,000,000
In aggregate	14 January 2011	HK$5.50	14 January 2012 – 13 January 2021	–	49,900,000	(49,900,000)	–	–
In aggregate	7 December 2011	HK$2.35	14 January 2012 – 13 January 2021	–	–	49,900,000	–	49,900,000
Total				**20,770,000**	**60,000,000**	**–**	**(30,000)**	**80,740,000**

Saved as disclosed above, no share options granted under the Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2011.

Notes:

(1) The closing prices per Share immediately before 28 January 2010, 30 March 2010, 28 May 2010, 14 January 2011 and 7 December 2011 (the dates on which the share options were granted) were HK$4.86, HK$5.95, HK$5.67, HK$5.43 and HK$2.31 respectively.

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

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

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

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

(4) Share options granted under the Share Option Scheme on 14 January 2011 shall vest in the grantees in accordance with the timetable below (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a **"Vesting Date"**):

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

(5) Share options granted under the Share Option Scheme on 7 December 2011 shall vest in the grantees in accordance with the timetable below (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a **"Vesting Date"**):

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

(6) Of the share options granted on 29 July 2009 under the Share Option Scheme, 30,000 were exercised on 5 July 2011. The closing price immediately before the date on which the share options were exercised was HK$5.45.

Further details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 29 to the financial statements.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

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

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

So far as is known to any Director or chief executive of the Company, as at 31 December 2011, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Nature of Interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company(1)
Group Success	Beneficial interests	1,310,059,500	60.20%
Carlyle Asia Growth Partners III, L.P.	Beneficial interests	200,769,294	9.23%
CAGP III Co-investment, L.P.	Beneficial interests	8,931,206	0.41%
CAGP General Partner, L.P.(2)	Interests of controlled corporation	209,700,500	9.64%
CAGP Ltd(2)	Interests of controlled corporation	209,700,500	9.64%
Value Partners Limited (3)	Investment manager	111,362,000	5.12%
Value Partners Group Limited (3)	Interests of controlled corporation	111,362,000	5.12%
Cheah Capital Management Limited (3)	Interests of controlled corporation	111,362,000	5.12%
Cheah Company Limited (3)	Interests of controlled corporation	111,362,000	5.12%
Hang Seng Bank Trustee International Limited (3)	Trustee	111,362,000	5.12%
Cheah Cheng Hye (3)	Founder of a discretionary trust	111,362,000	5.12%
To Hau Yin(4)	Interests of spouse	111,362,000	5.12%

Notes:

(1) It was based on 2,176,240,000 issued Shares of the Company as at 31 December 2011.
(2) CAGP General Partner, L.P. is the general partner of Carlyle Asia Growth Partners III, L.P. and CAGP III Co-investment, L.P., both limited partnerships. CAGP Ltd is the general partner of CAGP General Partner, L.P.
(3) Value Partners Limited holds shares of the Company as an investment manager. Value Partners Limited is 100% controlled by Value Partners Hong Kong Limited which in turn is 100% controlled by Value Partners Group Limited, which in turn is 28.47% controlled by Cheah Capital Management Limited, which in turn is 100% controlled by Cheah Company Limited, which in turn is 100% controlled by Hang Seng Bank Trustee International Limited. Hang Seng Bank Trustee International Limited is trustee for a discretionary trust which is interested in the Shares of the Company. Mr. Cheah Cheng Hye is the founder of the discretionary trust. Mr. Cheah Cheng Hye is also a director of Value Partners Limited and Value Partners Group Limited.
(4) Ms. To Hau Yin, the spouse of Mr. Cheah Cheng Hye, is deemed to be interested in Cheah Cheng Hye's interests in the Company.

Save as disclosed above, as at 31 December 2011, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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 2011.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2011.

NON-COMPETE UNDERTAKINGS

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2011 and up to and including the date of this annual report.

MANAGEMENT CONTRACTS

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

PRE-EMPTIVE RIGHTS

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

EMOLUMENT POLICY

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

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

The Company has adopted two share option schemes to motivate and reward its Directors and eligible employees. Details of these schemes are set out in the paragraph headed "Share Option Schemes" above and note 29 to the financial statements.

None of the directors waived any emoluments during the year.

PENSION SCHEME

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

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

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

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's largest and five largest customers were 5.1% (2010: 6.2%) and 19.0% (2010: 22.9%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 5.7% (2010: 8.2%) and 15.7% (2010: 24.4%) of the Group's total purchases respectively.

At no time during the year ended 31 December 2011, did a Director, his/her associate(s) or a Shareholder, which to the knowledge of the Director owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest customers and suppliers.

AUDITORS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the year ended 31 December 2011.

BANK LOANS

Details of bank loans of the Company and the Group as at 31 December 2011 are set out in note 24 to the financial statements.

FIVE-YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 6 to 7 of this annual report.

On behalf of the Board
Ding Shui Po
Chairman

Hong Kong, 21 March 2012

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of Xtep International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 111 to 166, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

21 March 2012

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	5	5,539,638	4,457,198
Cost of sales		(3,281,996)	(2,645,463)
Gross profit		2,257,642	1,811,735
Other income and gains	5	16,269	15,172
Selling and distribution costs		(733,736)	(619,790)
General and administrative expenses		(320,878)	(229,121)
Operating profit	6	1,219,297	977,996
Net finance income/(cost)	7	(7,938)	228
PROFIT BEFORE TAX		1,211,359	978,224
Income tax expense	10	(246,006)	(164,540)
PROFIT FOR THE YEAR		965,353	813,684
Attributable to:			
Ordinary equity holders of the Company	11	966,409	813,684
Non-controlling interest		(1,056)	–
		965,353	813,684
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
– Basic (RMB cents)		44.41	37.42
– Diluted (RMB cents)		44.33	37.30

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
PROFIT FOR THE YEAR		965,353	813,684
OTHER COMPREHENSIVE INCOME/(LOSS)			
Exchange differences on translation of financial statements of overseas subsidiaries		(325)	9,055
Other comprehensive income/(loss) for the year, net of tax		(325)	9,055
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		965,028	822,739
Attributable to:			
Ordinary equity holders of the Company	11	966,084	822,739
Non-controlling interest		(1,056)	–
		965,028	822,739

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	257,463	197,073
Prepaid land lease payments	15	230,376	20,843
Deposits for acquisition of land use rights		6,261	88,699
Intangible assets	16	944	994
Total non-current assets		495,044	307,609
CURRENT ASSETS			
Inventories	18	671,523	462,562
Trade and bills receivables	19	1,205,389	727,056
Prepayments, deposits and other receivables	20	533,380	343,260
Pledged bank deposits	21	521,669	–
Cash and cash equivalents	21	2,068,163	2,443,702
Total current assets		5,000,124	3,976,580
CURRENT LIABILITIES			
Trade and bills payables	22	498,874	639,141
Deposits received, other payables and accruals	23	227,472	164,593
Bank borrowings	24	492,027	–
Tax payable		181,831	88,254
Total current liabilities		1,400,204	891,988
NET CURRENT ASSETS		3,599,920	3,084,592
TOTAL ASSETS LESS CURRENT LIABILITIES		4,094,964	3,392,201
NON-CURRENT LIABILITIES			
Deferred tax liabilities	25	68,751	39,868
Deferred subsidy	26	114,833	–
Total non-current liabilities		183,584	39,868
NET ASSETS		3,911,380	3,352,333
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	27	19,199	19,197
Reserves	28(a)	3,888,237	3,333,136
		3,907,436	3,352,333
Non-controlling interest		3,944	–
Total equity		3,911,380	3,352,333

Ding Shui Po
Director

Ding Mei Qing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Notes	Attributable to ordinary equity holders of the Company										
		Issued capital RMB'000 (note 27)	Share premium account RMB'000 (note 28(b))	Capital reserve RMB'000 (note 28(a))	Statutory surplus fund RMB'000 (note 28(a))	Share option reserve RMB'000 (note 28(b))	Exchange fluctuation reserve RMB'000 (note 28(a))	Retained profits RMB'000	Total reserves RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
At 1 January 2010		**19,177**	**1,529,827**	**118,600**	**216,279**	**11,998**	**(8,012)**	**1,096,211**	**2,964,903**	**2,984,080**	**–**	**2,984,080**
Total comprehensive income for the year		–	–	–	–	–	9,055	813,684	822,739	822,739	–	822,739
Equity-settled share option transactions		–	–	–	–	10,153	–	–	10,153	10,153	–	10,153
2009 final dividend declared and paid	12	–	(189,890)	–	–	–	–	–	(189,890)	(189,890)	–	(189,890)
2009 special dividend declared and paid	12	–	(94,945)	–	–	–	–	–	(94,945)	(94,945)	–	(94,945)
2010 interim dividend declared and paid	12	–	(186,638)	–	–	–	–	–	(186,638)	(186,638)	–	(186,638)
Exercise of share options	29	20	8,342	–	–	(1,528)	–	–	6,814	6,834	–	6,834
Transfer to statutory surplus fund		–	–	–	63,429	–	–	(63,429)	–	–	–	–
At 31 December 2010 and 1 January 2011		**19,197**	**1,066,696**	**118,600**	**279,708**	**20,623**	**1,043**	**1,846,466**	**3,333,136**	**3,352,333**	**–**	**3,352,333**
Total comprehensive income for the year		–	–	–	–	–	(325)	966,409	966,084	966,084	(1,056)	965,028
Equity-settled share option transactions		–	–	–	–	38,168	–	–	38,168	38,168	–	38,168
2010 final dividend declared and paid	12	–	(218,753)	–	–	–	–	–	(218,753)	(218,753)	–	(218,753)
2011 interim dividend declared and paid	12	–	(231,055)	–	–	–	–	–	(231,055)	(231,055)	–	(231,055)
Exercise of share options	29	2	795	–	–	(138)	–	–	657	659	–	659
Capital contribution from a non-controlling interest of a subsidiary		–	–	–	–	–	–	–	–	–	5,000	5,000
Transfer to statutory surplus fund		–	–	–	63,812	–	–	(63,812)	–	–	–	–
At 31 December 2011		**19,199**	**617,683**	**118,600**	**343,520**	**58,653**	**718**	**2,749,063**	**3,888,237**	**3,907,436**	**3,944**	**3,911,380**

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,211,359	978,224
Adjustments for:			
Depreciation	14	24,844	20,706
Amortisation of prepaid land lease payments	15	3,364	502
Amortisation of intangible assets	16	316	263
Loss on disposal of items of property, plant and equipment		73	–
Interest income	7	(25,045)	(17,407)
Interest expense	7	30,077	8,847
Fair value losses, net:			
Derivative financial instruments – transactions not qualified as hedges	7	4,591	–
Equity-settled share option expense	29	38,168	10,153
		1,287,747	1,001,288
Increase in inventories		(208,961)	(196,873)
Increase in trade and bills receivables		(478,333)	(204,301)
Increase in prepayments, deposits and other receivables		(185,733)	(263,734)
Increase/(decrease) in trade and bills payables		(140,267)	199,743
Increase/(decrease) in deposits received, other payables and accruals		58,351	(901)
Cash generated from operations		332,804	535,222
Interest received		25,045	17,407
Interest paid		(30,077)	(8,847)
Overseas taxes paid		(123,546)	(87,647)
Net cash flows from operating activities		204,226	456,135
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(85,358)	(24,870)
Increase in deposits paid for acquisition of land use rights, net		(6,261)	(38,620)
Refund of deposits paid for acquisition of items of property, plant and equipment		–	10,000
Additions to intangible assets	16	(266)	(642)
Purchase of land use rights		(128,585)	–
Receipt of government subsidy	26	114,833	–
Increase in pledged deposits		(521,669)	–
Net cash flows used in investing activities		(627,306)	(54,132)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution by a non-controlling interest of a subsidiary		5,000	–
New bank loans and bank advances for discounted bills	24	492,027	–
Net proceeds from issue of ordinary shares	27	659	6,834
Dividends paid	12	(449,808)	(471,473)
Net cash flows from/(used in) financing activities		47,878	(464,639)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(375,202)	(62,636)
Cash and cash equivalents at beginning of year		2,443,702	2,497,635
Effect of foreign exchange rate changes, net		(337)	8,703
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,068,163	2,443,702
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		2,068,163	2,443,702

STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSET			
Investments in subsidiaries	17	971,550	935,085
CURRENT ASSETS			
Due from a subsidiary	17	96,296	96,296
Prepayments, deposits and other receivables	20	695	4,506
Cash and cash equivalents	21	2,967	63,191
Total current assets		99,958	163,993
CURRENT LIABILITIES			
Other payables and accruals	23	17,941	10,308
Interest-bearing bank borrowings	24	446,277	–
Total current liabilities		464,218	10,308
NET CURRENT ASSETS/(LIABILITIES)		(364,260)	153,685
NET ASSETS		607,290	1,088,770
EQUITY			
Issued capital	27	19,199	19,197
Reserves	28(b)	588,091	1,069,573
Total equity		607,290	1,088,770

Ding Shui Po
Director

Ding Mei Qing
Director

1. CORPORATE INFORMATION

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

The Company's principal place of business in Hong Kong is located at Suite 2401-02, 24/F Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong. During the year, the Company and its subsidiaries (collectively referred to as the "Group") were engaged in the design, development, manufacture and marketing of sportswear, including footwear, apparel and accessory products, sold mainly under the self-owned Xtep brand and other licensed brands. There were no significant changes in the nature of the Group's principal activities during the year.

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in income statement. The Group's share of components previously recognised in other comprehensive income is reclassified to income statement or retained profits, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKAS 1 and HKAS 27 included in Improvements to HKFRSs 2010, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) Related Party Disclosures

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 34 to the consolidated financial statements.

(b) Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adoptors* [1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* [4]
HKFRS 9	*Financial Instruments* [6]
HKFRS 10	*Consolidated Financial Statements* [4]
HKFRS 11	*Joint Arrangements* [4]
HKFRS 12	*Disclosure of Interests in Other Entities* [4]
HKFRS 13	*Fair Value Measurement* [4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* [3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [2]
HKAS 19 (2011)	*Employee Benefits* [4]
HKAS 27 (2011)	*Separate Financial Statements* [4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures* [4]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* [5]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine* [4]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2014
[6] Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies;

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

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

Intangible assets

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

Patents and trademarks

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

Research and development costs

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

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

Impairment of non-financial assets

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

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

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

Financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

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

Subsequent measurement

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Derecognition of financial assets

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective position of cash flow hedges, which is recognised in other comprehensive income.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current or non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current and non-current portions only if a reliable allocation can be made.

Inventories

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

Leases

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

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(c) rental income, on a time proportion basis over the lease terms; and

(d) dividend income, when the shareholders' rights to receive payment has been established.

Borrowing costs

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

Government grants

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

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external professional qualified valuer using an appropriate pricing model, further details of which are given in note 29 to the financial statements.

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

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

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

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

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

Other employee benefits

Pension schemes

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

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

Other benefits

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

Foreign currencies

These financial statements are presented in RMB, which is the Company's presentation currency. The functional currency of the Company is the Hong Kong dollar which is the currency of the primary environment in which the Company operates. Since the Company does not conduct any substantive operations of its own and conducts its primary business operations through its subsidiaries in the PRC, the Company adopts RMB as the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or income statement is also recognised in other comprehensive income or income statement, respectively).

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

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

Classification between investment properties and owner-occupied properties

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

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

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

Estimation uncertainty

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

Useful lives of property, plant and equipment

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

Net realisable value of inventories

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

Impairment allowances for trade and other receivables

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

Valuation of share options

As described in note 29 to the financial statements, the Company has engaged an independent professionally qualified valuer to assist in the valuation of the share options granted during the year. The fair value of options granted under the share option scheme is determined using the Trinomial Option Pricing Model. The significant inputs into the model were the weighted average share price at the grant date, risk-free interest rate, exercise price, expected volatility of the underlying shares, expected dividend yield and expected life of options. When the actual results of the inputs differ from management's estimate, it will have an impact on share option expenses and the related share option reserve of the Company. Further details are set out in note 29 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are set out in note 10 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2011 RMB'000	2010 RMB'000
Revenue		
Manufacture and sale of sportswear:		
Footwear	2,489,629	1,955,879
Apparel	2,950,063	2,421,105
Accessories	99,946	80,214
	5,539,638	4,457,198
Other income and gains		
Rental income	1,703	1,147
Subsidy income from the PRC government *	8,206	8,536
Others	6,360	5,489
	16,269	15,172
	5,555,907	4,472,370

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

6. OPERATING PROFIT

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

	Notes	2011 RMB'000	2010 RMB'000
Cost of inventories sold [(i)]		3,281,996	2,645,463
Depreciation	14	24,844	20,706
Amortisation of prepaid land lease payments	15	3,364	502
Amortisation of intangible assets [(ii)]	16	316	263
Advertising and promotion costs		625,405	519,348
Employee benefit expenses (including directors' remuneration – note 8):			
Wages and salaries		205,543	181,220
Other allowances and benefits		20,949	12,183
Equity-settled share option expense		38,168	10,153
Pension scheme contributions [(iii)]		12,821	9,892
		277,481	213,448
Auditors' remuneration		2,811	2,843
Minimum lease payments under operating leases of land and buildings		9,265	7,229
Research and development costs [(iv)]		97,673	77,959
Fair value losses, net:			
Derivative instruments – transactions not qualified as hedges	7	4,591	–

(i) The cost of inventories sold for the year includes RMB171,598,000 (2010: RMB124,650,000), 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.

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

(iii) As at 31 December 2011, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2010: Nil).

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

7. NET FINANCE INCOME/(COST)

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

	Group	
	2011 RMB'000	2010 RMB'000
Interest on bank loans wholly repayable within five years	(30,077)	(8,847)
Foreign exchange differences, net	1,685	(8,332)
Bank interest income	25,045	17,407
Unrealised loss on interest rate swaps*	(4,591)	–
	(7,938)	228

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

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules on Hong Kong Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2011 RMB'000	2010 RMB'000
Fees:		
Executive directors	–	–
Non-executive director	549	430
Independent non-executive directors	560	568
	1,109	998
Other emoluments of executive directors:		
Salaries, other allowances and benefits in kind	5,643	3,995
Equity-settled share option expense	6,173	1,560
Pension scheme contributions	180	112
	11,996	5,667
Other emoluments of a non-executive director:		
Equity-settled share option expense	606	347
	13,711	7,012

Share options were granted to directors, in respect of their services to the Group, under the share option and pre-initial public offering ("pre-IPO") share option schemes of the Company respectively. Further details of which are set out in notes 29(a) and 29(b) to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting periods, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosure.

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

	Salaries, other allowances and benefit in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share options expenses RMB'000	Pension Scheme Contributions RMB'000	Total remuneration RMB'000
2011					
a) *Executive directors*					
Ding Shui Po	934	–	–	13	947
Ding Mei Qing	467	–	–	13	480
Lin Zhang Li	467	–	–	13	480
Ding Ming Zhong	467	–	–	13	480
Ye Qi	480	–	2,094	3	2,577
Ho Yui Pok, Eleutherius	2,495	333	4,079	125	7,032
	5,310	333	6,173	180	11,996
b) *Non-executive directors*					
Xiao Feng*	–	–	–	–	–
Tan Wee Seng	549	–	606	–	1,155
c) *Independent non-executive directors*					
Sin Ka Man	200	–	–	–	200
Xu Peng Xiang	180	–	–	–	180
Gao Xian Feng	180	–	–	–	180
	560	–	–	–	560
	6,419	333	6,779	180	13,711
2010					
a) *Executive directors*					
Ding Shui Po	954	–	–	13	967
Ding Mei Qing	477	–	–	13	490
Lin Zhang Li	477	–	–	13	490
Ding Ming Zhong	477	–	–	12	489
Ye Qi	480	–	492	3	975
Ho Yui Pok, Eleutherius	869	261	1,068	58	2,256
	3,734	261	1,560	112	5,667
b) *Non-executive directors*					
Xiao Feng	–	–	–	–	–
Tan Wee Seng	430	–	347	–	777
c) *Independent non-executive directors*					
Sin Ka Man	208	–	–	–	208
Xu Peng Xiang	180	–	–	–	180
Gao Xian Feng	180	–	–	–	180
	568	–	–	–	568
	4,732	261	1,907	112	7,012

* On 17 June 2011, Mr Xiao Feng resigned as a non-executive director of the Company.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2010: five) directors, details of whose remuneration are set out in note 8 above.

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2010: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing rates in the jurisdictions in which the Group operates.

	Group	
	2011 RMB'000	2010 RMB'000
Current tax – Overseas		
Charge for the year	215,449	151,940
Underprovision in prior years	1,674	–
	217,123	151,940
Deferred (note 25)	28,883	12,600
	246,006	164,540

Xtep (China) Co., Ltd. ("Xtep China"), a wholly-owned subsidiary of the Company, was taxed at a preferential 15% tax rate for the years ended 31 December 2010 and 2011, and the year ending 31 December 2012 as Xtep China was qualified as a High-New Technology Enterprise (the "HNTE") in PRC and obtain the HNTE certificate in 2010.

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

廈門特步投資有限公司 ("Xtep Xiamen"), a wholly-owned subsidiary of the Company, has been granted certain tax relief whereby the profit of Xtep Xiamen was taxed at the prevailing tax rate set by the local tax authority of 22% for the year ended 31 December 2010 and 24% for the year ended 31 December 2011.

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

	Group	
	2011 RMB'000	2010 RMB'000
Profit before tax	1,211,359	978,224
Tax at the applicable tax rates	325,353	244,233
Lower tax rates for specific provinces or tax holidays	(136,435)	(118,398)
Adjustments in respect of current tax of previous years	1,674	–
Income not subject to tax	(135)	(66)
Expenses not deductible for tax	21,526	21,322
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	28,883	12,600
Tax losses utilised from previous periods	(100)	(153)
Tax losses not recognised	5,240	5,002
Tax charge at the Group's effective rate	246,006	164,540

11. PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to ordinary equity holders of the Company for the year ended 31 December 2011 includes a loss of RMB34,606,000 (2010: RMB3,523,000) which has been dealt with in the financial statements of the Company (note 28(b)).

12. DIVIDENDS

	2011 RMB'000	2010 RMB'000
Dividends paid during the year:		
Final		
– HK12.0 cents per ordinary share (2010: HK10.0 cents)	218,753 (ii)	189,890 (i)
Special		
– Nil (2010: HK5.0 cents)	–	94,945 (i)
Interim – HK13.0 cents (2010: HK10.0 cents) per ordinary share	231,055 (iii)	186,638 (ii)
	449,808	471,473
Proposed final dividends:		
HK14.5 cents (2010: HK12.0 cents) per ordinary share	256,546 (iii)	223,127 (ii)
	256,546	223,127

(i) In respect of financial year ended 31 December 2009
(ii) In respect of financial year ended 31 December 2010
(iii) In respect of financial year ended 31 December 2011

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

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

(a) Basic earnings per share

The calculation of basic earnings per share amount for the year was based on the profit for the year attributable to ordinary equity holders of the Company of RMB966,409,000 (2010: RMB813,684,000) and the weighted average number of ordinary shares in issue during the year of 2,176,118,000 (2010: 2,174,540,000).

(b) Diluted earnings per share

The calculation of diluted earnings per share amounts for the year ended 31 December 2011 is based on the profit for that year attributable to ordinary equity holders of the Company of RMB966,409,000 (2010: RMB813,684,000). The weighted average number of ordinary shares of 2,180,081,000 (2010: 2,181,416,000) used in the calculation is the weighted average of 2,176,118,000 ordinary shares (2010: 2,174,540,000) in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 3,963,00 0 ordinary shares (2010: 6,876,000) assumed to have been issued at no consideration on the deemed exercise of share options into ordinary shares during the year.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Leasehold improvements RMB'000	Moulds, plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011							
Cost:							
At beginning of year	152,228	8,192	57,903	13,144	41,642	1,272	274,381
Additions	–	6,280	26,117	7,892	30,565	14,504	85,358
Disposals	–	–	–	–	(122)	–	(122)
Exchange realignment	–	(60)	–	–	(57)	–	(117)
At 31 December 2011	152,228	14,412	84,020	21,036	72,028	15,776	359,500
Accumulated depreciation:							
At beginning of year	23,044	3,973	30,682	4,533	15,076	–	77,308
Provided during the year	6,887	2,127	5,138	2,631	8,061	–	24,844
Disposals	–	–	–	–	(49)	–	(49)
Exchange realignment	–	(36)	–	–	(30)	–	(66)
At 31 December 2011	29,931	6,064	35,820	7,164	23,058	–	102,037
Net carrying amount:							
At 31 December 2011	122,297	8,348	48,200	13,872	48,970	15,776	257,463
31 December 2010							
Cost:							
At beginning of year	144,359	7,123	55,722	8,368	27,533	6,466	249,571
Additions	1,914	1,102	2,181	4,776	14,136	761	24,870
Transfers	5,955	–	–	–	–	(5,955)	–
Exchange realignment	–	(33)	–	–	(27)	–	(60)
At 31 December 2010	152,228	8,192	57,903	13,144	41,642	1,272	274,381
Accumulated depreciation:							
At beginning of year	16,582	2,078	25,317	2,915	9,710	–	56,602
Provided during the year	6,462	1,895	5,365	1,618	5,366	–	20,706
At 31 December 2010	23,044	3,973	30,682	4,533	15,076	–	77,308
Net carrying amount:							
At 31 December 2010	129,184	4,219	27,221	8,611	26,566	1,272	197,073

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

Included in "Buildings" are certain self-used properties with net carrying amounts of approximately RMB79,976,000 at 31 December 2011 (2010: RMB87,702,000), for which the Group has not obtained the building ownership certificates. Up to the date of approval of these financial statements, the Group is still in the process of applying for the building ownership certificates in respect of the aforementioned properties with net carrying amounts at 31 December 2011 of RMB77,548,000 out of the total of RMB79,976,000 (2010: RMB85,140,000 out of the total of RMB87,702,000).

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2011 RMB'000	2010 RMB'000
Carrying amount at 1 January	21,344	21,846
Additions	217,284	–
Recognised during the year	(3,364)	(502)
Carrying amount at 31 December	235,264	21,344
Current portion included in prepayments, deposits and other receivables	(4,888)	(501)
Non-current portion	230,376	20,843

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

16. INTANGIBLE ASSETS

Patents and trademarks

	Group	
	2011 RMB'000	2010 RMB'000
Cost:		
At beginning of year	1,633	991
Additions	266	642
At 31 December	1,899	1,633
Accumulated amortisation:		
At beginning of year	639	376
Amortisation provided during the year	316	263
At 31 December	955	639
Net carrying amount:		
At 31 December	944	994

17. INVESTMENTS IN SUBSIDIARIES

	Company 2011 RMB'000	Company 2010 RMB'000
Unlisted shares, at cost	–	–
Due from subsidiaries	971,550	935,085
	971,550	935,085

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

The amount due from a subsidiary included in the Company's current assets of RMB96,296,000 (2010: RMB96,296,000) is unsecured, interest-free and repayable on demand.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation or establishment/ operation	Issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Xtep International Development Limited ("Xtep Development") *	BVI	US$10,000	100	–	Investment holding
Xtep (China) * (notes (i) and (iii))	PRC/Mainland China	HK$830 million	–	100	Manufacture and sale of sportswear
Koling (Fujian) * (notes (i) and (iii))	PRC/Mainland China	HK$158 million	–	100	Manufacture and sale of sportswear
Xtep Jinjiang * (notes (i) and (iii))	PRC/Mainland China	US$6 million	–	100	Manufacture and sale of sportswear
Xtep Xiamen * (notes (ii) and (iii))	PRC/Mainland China	RMB50 million	–	100	Trading of sportswear
特步（安徽）有限公司 * ("Xtep Anhui") (notes (ii) and (iii))	PRC/Mainland China	RMB200 million	–	100	Manufacture of sportswear
特步湖南體育用品有限公司 * (notes (ii) and (iii))	PRC/Mainland China	RMB50 million	–	90	Manufacture of sportswear

Notes:

(i) These entities are wholly-foreign-owned enterprises and limited liability companies established in the PRC.

(ii) The entity is registered as a limited liability company under the PRC law.

(iii) The registered capitals of these entities were fully paid up as at 31 December 2011.

* Ernst & Young Hong Kong or other member firm of the Ernst & Young global network had not been appointed as the statutory auditors of these entities.

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

18. INVENTORIES

	Group	
	2011 RMB'000	2010 RMB'000
Raw materials	418,521	327,397
Work in progress	68,317	51,039
Finished goods	184,685	84,126
	671,523	462,562

19. TRADE AND BILLS RECEIVABLES

	Group	
	2011 RMB'000	2010 RMB'000
Trade receivables	1,091,094	727,056
Bills receivables	114,295	–
	1,205,389	727,056

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group's trade receivables relate to a number of diversified customers and there is certain concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	Group	
	2011 RMB'000	2010 RMB'000
Neither past due nor impaired	781,193	525,196
Less than 3 months past due	289,969	161,405
Past due over 3 months	19,932	40,455
	1,091,094	727,056

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.

Included in the Group's bills receivables balance as at 31 December 2011 were bills of RMB67,500,000 (2010: Nil), which were pledged for the bills payables, and amounts totaling RMB45,750,000 (2010: Nil), which were discounted to banks in exchange for cash and included as "Bank advances for discounted bills" in the note 24 of the financial statements.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Prepayments	163,549	105,048	361	4,164
Deposits and advance payments to suppliers	338,958	227,668	–	–
Other deposits	2,866	4,544	–	342
Value added tax ("VAT") recoverable	21,180	–	–	–
Other receivables	6,827	6,000	334	–
	533,380	343,260	695	4,506

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

21. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

		Group		Company	
	Notes	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Time deposits		521,669	42,817	–	42,817
Cash and bank balances		2,068,163	2,400,885	2,967	20,374
		2,589,832	2,443,702	2,967	63,191
Less: Pledged time deposits:					
for short term bank loans	24	(489,100)	–	–	–
for bank guarantees*		(27,558)	–	–	–
for bills payables	22	(5,011)	–	–	–
Cash and cash equivalents		2,068,163	2,443,702	2,967	63,191

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

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB2,058,941,000 (2010: RMB2,372,886,000) and RMB521,669,000 (2010: Nil), respectively. RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

22. TRADE AND BILLS PAYABLES

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

	Group	
	2011 RMB'000	2010 RMB'000
Within 3 months	397,343	585,922
3 to 6 months	14,740	38,911
Over 6 months	14,291	14,308
Trade payables	426,374	639,141
Bills payable	72,500	–
Trade and bills payables	498,874	639,141

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

Bills payables are bills secured by pledge of time deposits of RMB5,011,000 (2010: Nil) and bills receivables of RMB67,500,000 (2010: Nil).

23. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Deposits and advances from customers	70,480	30,865	–	–
Accruals	104,918	83,808	8,846	10,308
VAT payables	29,541	32,871	–	–
Derivative financial instruments	4,528	–	4,528	–
Other payables	18,005	17,049	4,567	–
	227,472	164,593	17,941	10,308

All these balances are non-interest-bearing and other payables have an average term of three months.

The Group has entered into various interest rate swap contracts to manage its interest rate exposures which did not meet the criteria for hedge accounting. Changes in fair value of non-hedging interest derivative amounted to RMB4,591,000 (2010: Nil) were debited to the income statement.

24. BANK BORROWINGS

Group	Effective interest rate per annum (%)	2011 Maturity	RMB'000
Current (repayable within one year and on demand)			
Bank loans – secured	HIBOR+1.5% and HIBOR+2.375%	2012	446,277
Bank advances for discounted bills (note 19)	N/A	2012	45,750
			492,027

Company	Effective interest rate per annum (%)	2011 Maturity	RMB'000
Current (repayable within one year and on demand)			
Bank loans – secured	HIBOR+1.5% and HIBOR+2.375%	2012	446,277
			446,277

The Group did not have any bank borrowings outstanding as at 31 December 2010.

The Group's bank loans are secured by the pledge of certain of the Group's time deposits amounting to RMB489,100,000 (2010: Nil) and corporate guarantee provided by the Company's wholly-owned subsidiary, Xtep China, up to RMB492,180,000 (2010: Nil) as at the end of the reporting period. All bank borrowings are denominated in Hong Kong dollars.

25. DEFERRED TAX LIABILITIES

Group

	Withholding taxes RMB'000
At 1 January 2010	27,268
Deferred tax charged to the income statement during the year (note 10)	12,600
At 31 December 2010 and 1 January 2011	39,868
Deferred tax charged to the income statement during the year (note 10)	28,883
At 31 December 2011	68,751

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

At 31 December 2011, there were no significant unrecognised deferred tax liabilities (2010: Nil) for withholding taxes that would be payable on the unremitted earnings of the Company's subsidiaries expected to be distributed, after considering the abovementioned factors, in the foreseeable future.

26. DEFERRED SUBSIDY

During the year ended 31 December 2011, a subsidy of RMB114,833,000 was received by Xtep Anhui from the People's Government of Bengbu, Auhui Province, the PRC, for the cost of infrastructure to be incurred by the Group on a parcel of land in Bengbu, Anhui Province, the PRC (the "Land") to facilitate the construction of manufacturing facilities on the Land.

27. SHARE CAPITAL

At 31 December 2011

	HK$'000	RMB'000
Authorised:		
100,000,000,000 ordinary shares of HK$0.01 each	1,000,000	935,629
Issued and fully paid:		
2,176,240,000 ordinary shares of HK$0.01 each	21,762	19,199

At 31 December 2010

	HK$'000	RMB'000
Authorised:		
100,000,000,000 ordinary shares of HK$0.01 each	1,000,000	935,629
Issued and fully paid:		
2,176,000,000 ordinary shares of HK$0.01 each	21,760	19,197

The following changes in the Company's issued share capital took place during the current and last years:

	Note	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares HK$'000	Nominal value of ordinary shares RMB'000
Issued ordinary shares				
At 1 January 2010		2,173,645,000	21,736	19,177
Exercise of share options	(i)	2,355,000	24	20
At 31 December 2010 and 1 January 2011		2,176,000,000	21,760	19,197
Exercise of share options	(i)	240,000	2	2
At 31 December 2011		2,176,240,000	21,762	19,199

Note:

(i) The subscription rights attaching to 210,000 (2010: 2,025,000) and 30,000 (2010: 330,000) share options granted under the Pre-IPO Scheme and the Share Option Scheme (as defined in note 29) were exercised at the subscription price of HK$3.24 per share and HK$4.11 per share, respectively, resulting in the issue of 240,000 shares (2010: 2,355,000 shares) of HK$0.01 each for a total cash consideration before expenses of HK$804,000 (2010: HK$7,917,000) (equivalent to RMB659,000 (2010: RMB6,834,000)). An amount of HK$169,000 (2010: HK$1,759,000) (equivalent to RMB138,000 (2010: RMB1,528,000)) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

Share option schemes

Details of the Company's share option schemes and the share options issued under the schemes are included in note 29 to the financial statements.

28. RESERVES

(a) Group

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

(i) *Capital reserve*

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

(ii) *Statutory surplus fund*

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

(iii) *Exchange fluctuation reserve*

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

(b) Company

	Notes	Share premium account RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profit/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2010		1,529,827	11,998	(17,485)	40,213	1,564,553
Loss for the year		–	–	–	(3,523)	(3,523)
Other comprehensive income						
Exchange realignment		–	–	(36,951)	–	(36,951)
Total comprehensive income for the year		–	–	(36,951)	(3,523)	(40,474)
Equity-settled share option transactions	29(a), (b)	–	10,153	–	–	10,153
2009 final dividend declared and paid	12	(189,890)	–	–	–	(189,890)
2009 special dividend declared and paid	12	(94,945)	–	–	–	(94,945)
2010 interim dividend declared and paid	12	(186,638)	–	–	–	(186,638)
Exercise of share options		8,342	(1,528)	–	–	6,814
At 31 December 2010 and 1 January 2011		1,066,696	20,623	(54,436)	36,690	1,069,573
Loss for the year		–	–	–	(34,606)	(34,606)
Other comprehensive income						
Exchange realignment		–	–	(35,893)	–	(35,893)
Total comprehensive income for the year		–	–	(35,893)	(34,606)	(70,499)
Equity-settled share option transactions	29(a), (b)	–	38,168	–	–	38,168
2010 final dividend declared and paid	12	(218,753)	–	–	–	(218,753)
2011 interim dividend declared and paid	12	(231,055)	–	–	–	(231,055)
Exercise of share options		795	(138)	–	–	657
At 31 December 2011		617,683	58,653	(90,329)	2,084	588,091

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

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

29. SHARE OPTION SCHEMES

(a) Pre-IPO share option scheme

The Company has adopted a pre-IPO share option scheme on 7 May 2008 (the "Pre-IPO Scheme") for the purpose of giving the Group's employees an opportunity to have a personal stake in the Company and help motivate the Group's employees to optimise their performance and efficiency, and also to retain the Group's employees whose contributions are important to the long-term growth and profitability of the Group.

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

(a) the subscription price per share under the Pre-IPO Scheme shall be at a 20% discount to the offer price of the Company's shares in the IPO;

(b) the total number of shares which may be issued upon the exercise of all options granted under the Pre-IPO Scheme is 19,000,000;

(c) all options granted under the Pre-IPO Scheme can only be exercised in the following manner:

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

(d) each option granted under the Pre-IPO Scheme has a 10-year exercise period.

(e) share options issued under the Pre-IPO Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 7 May 2008, an aggregate of 19,000,000 share options (the "Pre-IPO Share Options") under the Pre-IPO Scheme were issued to directors of the Company and certain employees of the Group. The exercise prices and exercise periods of the Pre-IPO Share Options outstanding at 31 December 2011 were as follows:

Number of options	Exercise price per share	Exercise period
4,170,000	HK$3.24*	3 June 2009 to 6 May 2018
4,995,000	HK$3.24*	3 June 2010 to 6 May 2018
7,600,000	HK$3.24*	3 June 2011 to 6 May 2018
16,765,000		

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

The fair value of the Pre-IPO Share Options granted during the year ended 31 December 2008 was estimated at RMB10,815,000, of which the Company recognised a share option expense of RMB560,000 (2010: RMB2,035,000) during the year.

The subscription rights attaching to 210,000 (2010: 2,025,000) share options granted under the Pre-IPO Scheme were exercised at the subscription price of HK$3.24 per share during the year, resulting in the issue of 210,000 shares (2010: 2,025,000 shares).

At the end of the reporting period and up to the date of approval of these financial statements, the Company had outstanding Pre-IPO Share Options for the subscription of 16,765,000 shares under the Pre-IPO Scheme, which represented approximately 0.8% of the issued share capital of the Company as at that date. The exercise in full of the outstanding Pre-IPO Share Options would, under the present capital structure of the Company, result in the issue of 16,765,000 additional ordinary shares of the Company and additional share capital of HK$168,000 (equivalent to RMB138,000) and share premium account of HK$54,151,000 (equivalent to RMB44,420,000), before related issuance expenses.

(b) Share option scheme

The Company has also adopted a share option scheme (the "Share Option Scheme") pursuant to the shareholders' written resolution passed on 7 May 2008. The purposes of the Share Option Scheme are to motivate the eligible persons to optimise their future contributions to the Group and/or to reward them for their past contribution; to attract and retain or otherwise maintain ongoing relationships with such eligible persons who are significant to the Group and/or whose contributions are or will be beneficial to the performance, growth or success of the Group; and to attract and retain individuals with experience and ability.

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

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

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

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

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

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

The following share options were outstanding under the Share Option Scheme during the year:

	2011		2010	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	5.10	20,770	4.11	10,000
Granted during the year	5.50	60,000	5.01	500
Cancelled during the year	5.50	(60,000)	–	–
Granted during the year	2.35	60,000	6.13	600
Granted during the year	–	–	6.00	10,000
Exercised during the year	4.11	(30)	4.11	(330)
At 31 December	3.06	80,740	5.10	20,770

The weighted average share price at the date of exercise for share options exercised during the year was HK$5.45 per share.

On 14 January 2011 (the "Date of Grant"), 60,000,000 share options (the "2011 Share Options") under the Share Option Scheme were granted to certain directors of the Company and certain employees of the Group.

The fair value of the 2011 Share Options granted during the year was estimated as at the Date of Grant by Roma Appraisals Limited, an independent firm of professionally qualified valuers, using the Trinomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2011	2010
Exercise price (HK$ per share)	5.50	5.01- 6.13
Expected dividend yield (%)	3.68	3.593 to 4.495
Expected volatility (%)	36.564 to 54.978	49.954 to 61.388
Risk-free interest rate (%)	0.311 to 0.952	0.241 to 1.285
Expected life of share options (years)	1 to 3	1 to 3
Weighted average share price at date of grant (HK$ per Share)	5.43	5.85

The expected life of the 2011 Share Options is not necessarily indicative of the exercise patterns that may occur. The expected volatility may not necessarily reflect the actual outcome.

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

On 7 December 2011, the 2011 Share Options were being replaced with 60,000,000 share options with exercise price of HK$2.35 (the "Replacement Share Options"). Other than the decrease in exercise price, the vesting period and other terms of the 2011 Share Options and the Replacement Share Options are the same.

Details of the Replacement Share Options are as follows:

Date of grant of the Replacement Share Options	7 December 2011
Exercise price (HK$ per share)	2.35
Number of share options granted	60,000,000

The Replacement Share Options were identified, on the date they were granted, as replacement options for the 2011 Share Options. The grant of the Replacement Share Options would not have occurred without the cancellation of the 2011 Share Options and vice versa. Accordingly, the replacement is accounted for as a modification to the terms and conditions on which the 2011 Share Options were granted.

The fair values of the 2011 Share Options of the Company immediately before and after modification on 7 December 2011 were calculated using the Trinomial Option Pricing Model. The following table lists the inputs to the model used:

	The 2011 Share Options	Replacement Share Options
Exercise price (HK$ per share)	5.50	2.35
Expected dividend yield (%)	10.820	10.820
Expected volatility (%)	53.923	53.923
Risk-free interest rate (%)	0.778 to 0.962	0.778 to 0.962
Expected life of share options (years)	4.6 to 5.6	4.6 to 5.6
Weighted average share price at 7 December 2011 (HK$ per Share)	2.31	2.31

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

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

The aggregate fair value of the share options granted under the Share Option Scheme in prior years and during the year were estimated at RMB27,510,000 and RMB55,122,000, respectively, of which the Company recognised a share option expense of RMB8,901,000 and RMB28,707,000, respectively, during the year.

The subscription rights attaching to 30,000 (2010: 330,000) share options granted under the Share Option Scheme were exercised at the subscription price of HK$4.11 per share during the year, resulting in the issue of 30,000 shares (2010: 330,000 shares).

The exercise prices and exercise periods of the share options outstanding at 31 December 2011 and 2010 were as follows:

2011

Number of options	Exercise price per share	Exercise period
2,640,000	HK$4.11	29 July 2010 to 28 July 2019
3,000,000	HK$4.11	29 July 2011 to 28 July 2019
4,000,000	HK$4.11	29 July 2012 to 28 July 2019
150,000	HK$5.01	28 January 2011 to 27 January 2020
150,000	HK$5.01	28 January 2012 to 27 January 2020
200,000	HK$5.01	28 January 2013 to 27 January 2020
180,000	HK$6.13	30 March 2011 to 29 March 2020
180,000	HK$6.13	30 March 2012 to 29 March 2020
240,000	HK$6.13	30 March 2013 to 29 March 2020
3,000,000	HK$6.00	28 May 2012 to 27 May 2020
7,000,000	HK$6.00	28 May 2013 to 27 May 2020
24,000,000	HK$2.35	14 January 2012 to 13 January 2021
18,000,000	HK$2.35	14 January 2013 to 13 January 2021
18,000,000	HK$2.35	14 January 2014 to 13 January 2021
80,740,000		

2010

Number of options	Exercise price per share	Exercise period
2,670,000	HK$4.11	29 July 2010 to 28 July 2019
3,000,000	HK$4.11	29 July 2011 to 28 July 2019
4,000,000	HK$4.11	29 July 2012 to 28 July 2019
150,000	HK$5.01	28 January 2011 to 27 January 2020
150,000	HK$5.01	28 January 2012 to 27 January 2020
200,000	HK$5.01	28 January 2013 to 27 January 2020
180,000	HK$6.13	30 March 2011 to 29 March 2020
180,000	HK$6.13	30 March 2012 to 29 March 2020
240,000	HK$6.13	30 March 2013 to 29 March 2020
3,000,000	HK$6.00	28 May 2012 to 27 May 2020
7,000,000	HK$6.00	28 May 2013 to 27 May 2020
20,770,000		

At the end of the reporting period, the Company had total outstanding share options for the subscription of 80,740,000 shares under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 80,740,000 additional ordinary shares of the Company and additional share capital of HK$807,000 (equivalent to RMB662,000) and share premium account of HK$245,996,000 (equivalent to RMB201,791,000), before related issuance expenses.

At the date of approval of these financial statements, the Company had outstanding share options for the subscription of 80,740,000 shares under the Share Option Scheme, which represented approximately 3.7% of the issued share capital of the Company as at that date.

30. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

The deposits paid for acquisition of land use rights of RMB88,699,000 as at 31 December 2010 was transferred to prepaid land lease payments upon obtaining the respective land use right certificates during the year.

31. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities (2010: Nil).

At 31 December 2011, the banking facilities of RMB4,102,000 granted to a subsidiary subject to corporate guarantee given to a bank by the Company were not utilised (2010: Nil).

32. OPERATING LEASE ARRANGEMENTS

The Group and the Company leases certain of its production facilities, office premises and retail shops under operating lease arrangements. Leases for these properties are negotiated for terms ranging from two to ten years (2010: two to five years).

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

	Group		Company	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Within one year	9,564	7,195	1,178	1,190
In the second to fifth years, inclusive	16,081	15,202	2,409	3,797
After five years	5,178	–	–	–
	30,823	22,397	3,587	4,987

33. COMMITMENTS

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

	Group 2011 RMB'000	Group 2010 RMB'000
Contracted for commitments in respect of:		
– construction of new buildings	2,985	2,117
– advertising and promotional expenses	300,268	170,231
– software	500	–
	303,753	172,348
Authorised, but not contracted for		
– construction of new buildings	85,754	–
– construction of new manufacturing facilities – note (c)	450,000	–
	535,754	–
	839,507	172,348

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

(c) It represented the Group's minimum commitment to construct manufacturing facilities on the Land.

At 31 December 2011, the Company did not have any significant commitment (2010: Nil).

34. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties:

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

	Group 2011 RMB'000	Group 2010 RMB'000
Short term employee benefits	5,643	3,995
Equity-settled share option expense	6,173	1,560
Post-employment benefits	180	112
Total compensation paid to key management personnel	11,996	5,667

35. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

Financial assets

Loans and receivables

	2011 RMB'000	2010 RMB'000
Trade and bills receivables	1,205,389	727,056
Other receivables	6,827	6,000
Pledged bank deposits	521,669	–
Cash and cash equivalents	2,068,163	2,443,702
	3,802,048	3,176,758

Financial liabilities

	2011			2010
	Financial liabilities at fair value through profit or loss – held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000	Financial liabilities at amortised cost RMB'000
Trade and bills payables	–	498,874	498,874	639,141
Financial liabilities included in deposits received, other payables and accruals	4,528	55,130	59,658	56,131
Bank borrowings	–	492,027	492,027	–
	4,528	1,046,031	1,050,559	695,272

Company

Financial assets

Loans and receivables

	2011 RMB'000	2010 RMB'000
Due from a subsidiary	96,296	96,296
Other receivables	334	–
Cash and cash equivalents	2,967	63,191
	99,597	159,487

Financial liabilities

	2011			2010
	Financial liabilities at fair value through profit or loss – held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000	Financial liabilities at amortised cost RMB'000
Financial liabilities included in other payables and accruals	4,528	11,997	16,525	9,254
Bank borrowings	–	446,277	446,277	–
	4,528	458,274	462,802	9,254

36. FAIR VALUE AND FAIR VALUE HIERARCHY

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

The fair values of cash and cash equivalents, pledged bank deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, bank borrowings and an amount due from a subsidiary approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

Fair value hierarchy

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

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

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

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

As at 31 December 2011, the financial instruments measured at fair value held by the Group comprised derivative financial instruments and were classified as Level 2.

During the year ended 31 December 2011, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank borrowings, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations. The Group also enters into interest rate swap transactions. The purpose is to manage the interest rate risk arising from the Group's operation and its sources of financing.

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

Foreign currency risk

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

Credit risk

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

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

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short term debt obligations with floating interest rates.

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

The following table demonstrates the sensitivity to a reasonably possible change in interest rates excluding the effect from interest rate swaps , with all other variables held constant, of the Group's and the Company's profit before tax (through the impact on floating rate borrowings).

Group and Company	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2011		
Hong Kong dollar	100	(4,463)
Hong Kong dollar	(100)	4,463

Liquidity risk

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

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

Group

On demand and within 1 year

	2011 RMB'000	2010 RMB'000
Trade and bills payables	498,874	639,141
Financial liabilities included in deposits received, other payables and accruals	59,658	56,131
Bank borrowings	492,027	–
	1,050,559	695,272

Company

On demand and within 1 year

	2011 RMB'000	2010 RMB'000
Financial liabilities included in deposits received, other payables and accruals	16,525	9,254
Bank borrowings	446,277	–
Guarantee given to a bank in connection with a facility granted to a wholly-owned subsidiary	4,102	4,102
	466,904	13,356

Commodity price risk

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

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratio in order to support its business and maximise shareholders' value. The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 31 December 2010.

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

Group

	2011 RMB'000	2010 RMB'000
Bank borrowings	492,027	–
Less: Cash and cash equivalents	2,068,163	2,443,702
Net cash	1,576,136	2,443,702
Total capital	3,911,380	3,352,333
Net cash-to-capital ratio	0.4	0.7

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 March 2012.

GLOSSARY

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

"Board"	The Board of Directors of the Company
"Business Day"	Any day on which the Hong Kong Stock Exchange is open for the business of dealing in securities
"Company"	Xtep International Holdings Limited
"Director(s)"	The director(s) of the Company
"DRP System"	Distribution Resource Planning System
"GDP"	Gross domestic product
"Group"	The Company and its subsidiaries
"Group Success"	Group Success Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 23 February 2007, the entire issued share capital of which is directly owned as to 63.2% by Mr. Ding Shui Po and 36.8% by Ms. Ding Mei Qing
"HK$" and "HK cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IAAF Shanghai Diamond League"	International Association of Athletics Federations Diamond League Shanghai
"IT"	Information Technology
"Listing Date"	3 June 2008, on which dealing in the Shares first commence on the Hong Kong Stock Exchange
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Model Code"	Model code for securities transactions by directors of listed issuers
"Other brands"	Brands other than Xtep brand
"PRC"	The People's Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan
"Pre-IPO Share Option Scheme"	The share option scheme for employees of the Group approved and adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed "Pre-IPO Share Option Scheme" in Appendix VI to the prospectus of the Company dated 21 May 2008

GLOSSARY

"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	Ordinary share(s) of HK$0.01 each in the share capital of the Company
"Share Option Scheme"	The share option scheme adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed "Share Option Scheme" in Appendix VI to the prospectus of the Company dated 21 May 2008
"Shareholder(s)"	Shareholder(s) of the Company
"US"	United States of America
"Xtep (China)"	Xtep (China) Co., Ltd., an indirect wholly-owned subsidiary of the Group

REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the consolidated financial statements for the year ended 31 December 2011.

DIVIDENDS

An interim dividend of HK13.0 cents (equivalent to RMB10.6 cents) per Share was paid to our Shareholders during the year. The Board recommended a final dividend of HK14.5 cents (equivalent to RMB11.8 cents) per Share for the year ended 31 December 2011, subject to approval by the Shareholders at the annual general meeting ("**AGM**") to be held on 3 May 2012. The total dividends for the year ended 31 December 2011, which include the interim and final dividends, amounted to a total of HK27.5 cents (equivalent to RMB22.4 cents) per Share, represented an increase of 25% from last year and represented a payout ratio of 50%.

BOOK CLOSURE

In order to determine the entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Monday, 30 April 2012 to Thursday, 3 May 2012, both days inclusive, during which period no transfer of Shares in the Company will be effected. The record date for entitlement to attend and vote at the AGM is Wednesday, 2 May 2012. In order to be eligible to attend and vote at the forthcoming AGM of the Company to be held on 3 May 2012, 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 Friday, 27 April 2012.

The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders at the AGM. The record date for entitlement to the proposed final dividend is on Friday, 11 May 2012. The transfer books and register of members of the Company will be closed from Wednesday, 9 May 2012 to Friday, 11 May 2012, both days inclusive, during which period no transfer of Shares in the Company will be effected. In order to determine the entitlement to the proposed final dividend, 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 Tuesday, 8 May 2012. The payment date of the dividends is expected to be on Monday, 21 May 2012.

AGM

The AGM of the Company will be held in Hong Kong on Thursday, 3 May 2012. Notice of the annual general meeting will be issued and disseminated to Shareholders in due course.

PUBLICATION OF RESULTS ANNOUNCEMENT

This annual results announcement is available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company's website at www.xtep.com.hk.

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

Hong Kong, 21 March 2012

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