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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)

2014 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 2014. This announcement, containing the full text of the 2014 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 2014 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.

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ABOUT THE GROUP

The Group established its own sportswear brand XTEP in 2002 and XTEP is now a leading fashion sportswear brand in the PRC. The Group manages an extensive distribution network with exclusive distributors that include over 7,000 stores nationwide covering 31 provinces, autonomous regions and municipalities across the PRC. Over the years, the Group has been engaging in the design, development, manufacturing, sales and marketing and brand management of sports footwear, apparel and accessories. The Company's Shares commenced trading on the Main Board of Hong Kong Stock Exchange on 3 June 2008.

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Tan Wee Seng (陳偉成)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Sin Ka Man (冼家敏)
Xu Peng Xiang (許鵬翔)
Gao Xian Feng (高賢峰)
Bao Ming Xiao (鮑明曉)

BOARD COMMITTEES

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPANY SECRETARY

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

AUTHORIZED REPRESENTATIVES

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

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISER AS TO HONG KONG LAWS

Orrick, Herrington & Sutcliffe

AUDITOR

Ernst & Young

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Bank of China
Bank of East Asia
China Construction Bank
China Minsheng Bank
Hang Seng Bank
HSBC
Industrial Bank

INVESTOR RELATIONS CONSULTANTS

Strategic Financial Relations Limited
Aries Consulting Limited

COMPANY WEBSITE

www.xtep.com.hk

KEY MARKETING EVENTS IN 2014

MARATHON

RUNNING

True to XTEP's "Love Running, Love Xtep" motto, the Group has introduced innovative materials and designs to its latest product line-up delivering a perfect synthesis of functionality and aesthetic appeal that runners of all capabilities appreciate. The Group has also continued to raise brand awareness by sponsoring marathons in the PRC and Hong Kong; for example, it was the first domestic sportswear brand to be the official sports apparel sponsor for the Standard Chartered Hong Kong Marathon in 2012 and it has been sponsoring the event every year since then.

Through its efforts in running events over the years, the Group has fully demonstrated its unique market leading position in promoting and developing the increasingly popular running sports in the PRC.

FOOTBALL

Retaining its focus on the mass market in China, the Group has set football as one of the core sports categories for its branding strategy. With the growing passion in football in China, the Group has strengthened its promotional resources in the sport through various sponsorships at college, university and professional levels, and has introduced the unique concept of "Joyful Football" and "Campus Football" to its branding strategy, promoting mass participation and enjoyment of football games.

In order to strengthen the connection between XTEP and football, the Group has continued its endorsement of a number of domestic and foreign football clubs, including La Liga, Villarreal C.F., Hong Kong Standard Rangers FC, China All Star Football Team and Hong Kong All Star Sports Association etc., and title sponsorships for two top national campus football leagues, namely, the Xtep CUFL and the Xtep CCFL.

FINANICIAL HIGHLIGHTS FOR 2014

Total Revenue
RMB4,777.6 million

Gross Profit Margin
40.8%

Profit Attributable to Equity Shareholders
RMB478.0 million

Total Payout Ratio
60.0%

Dividend per Share
– Final HK5.0 cents
– Special HK3.0 cents

Interim dividend per Share	HK 8.5 cents
Proposed final dividend per Share	HK 5.0 cents
Proposed special dividend per Share	HK 3.0 cents
Total dividend per Share	**HK 16.5 cents**

Cautionary Statement Regarding Forward-looking Statements

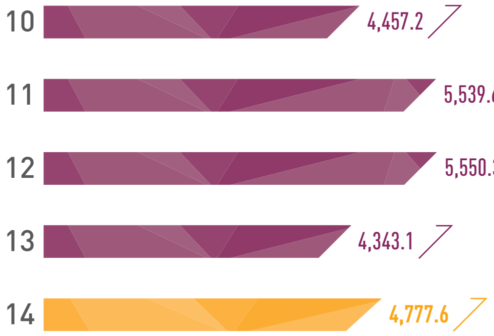
This annual report contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Certain statements, 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 "Chairman's Statement", and "Management Discussion and Analysis".

FIVE-YEAR FINANCIAL SUMMARY

For the year ended 31 December

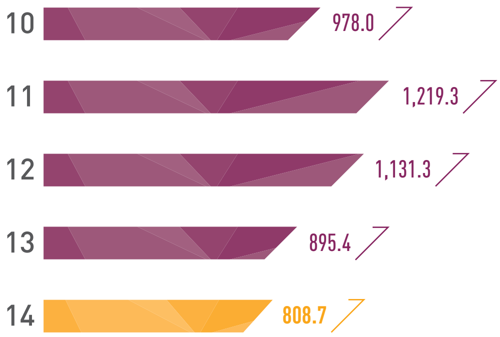
	2014	2013	2012	2011	2010
Profitability data (RMB million)					
Revenue	**4,777.6**	4,343.1	5,550.3	5,539.6	4,457.2
Gross profit	**1,946.9**	1,747.6	2,257.7	2,257.6	1,811.7
Operating profit	**808.7**	895.4	1,131.3	1,219.3	978.0
Profit attributable to equity Shareholders	**478.0**	606.0	810.0	966.4	813.7
Basic earnings per Share (RMB cents) (Note 1)	**21.95**	27.84	37.22	44.41	37.42
Profitability ratios (%)					
Gross profit margin	**40.8**	40.2	40.7	40.8	40.6
Operating profit margin	**16.9**	20.6	20.4	22.0	21.9
Net profit margin	**10.0**	14.0	14.6	17.4	18.3
Effective tax rate	**36.9**	30.1	27.0	20.3	16.8
Return on average total equity holders' equity (Note 2)	**10.4**	13.8	19.8	26.6	25.7
Operating ratios (as a percentage of revenue) (%)					
Advertising and promotional costs	**13.1**	11.2	11.4	11.3	11.7
Staff costs	**9.4**	9.3	7.1	4.8	4.7
Research and development costs	**2.2**	2.6	1.7	1.8	1.8
As of 31 December					
Assets and liabilities data (RMB million)					
Non-current assets	**917.3**	954.6	663.3	495.0	307.6
Current assets	**6,947.1**	6,352.2	5,836.2	5,000.1	3,976.6
Current liabilities	**2,350.3**	2,356.0	1,436.8	1,400.2	892.0
Non-current liabilities	**803.8**	443.2	782.9	183.6	39.9
Non-controlling interest	**9.9**	1.9	5.4	3.9	–
Shareholders' equity	**4,700.4**	4,505.7	4,274.4	3,907.4	3,352.3
Asset and Working Capital data					
Current asset ratios	**3.0**	2.7	4.1	3.6	4.5
Gearing ratios (%) (Note 3)	**23.4**	20.9	16.1	9.0	0.0
Net asset value per Share (RMB) (Note 4)	**2.16**	2.07	1.97	1.80	1.54
Average inventory turnover days (days) (Note 5)	**71**	79	70	63	50
Average trade receivables turnover days (days) (Note 6)	**91**	91	74	64	51
Average trade payables turnover days (days) (Note 7)	**85**	76	54	63	74

REVENUE (RMB MILLION)

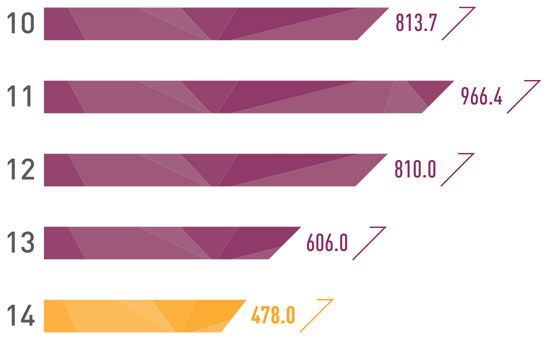


GROSS PROFIT MARGIN (%)

OPERATING PROFIT (RMB MILLION)

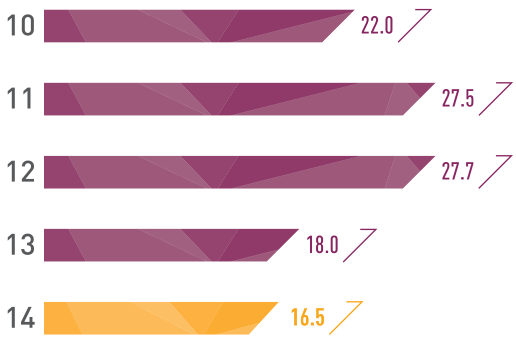


PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS (RMB MILLION)



NUMBER OF XTEP OUTLETS

TOTAL DIVIDEND PER SHARE (HK cents)



NOTES:

1) The calculation of basic earnings per Share is based on the profit attributable to ordinary equity Shareholders of the Company divided by the weighted average number of ordinary shares in issue during the relevant year.
2) Return on average total equity holders' equity is equal to the profit for the year divided by the average of opening and closing total equity holders' equity.
3) The calculation of gearing ratio is based on the total borrowings divided by the total assets 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 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 2012).
6) Average trade receivables turnover days is equal to the average of opening and closing trade receivables divided by revenue and multiplied by 365 days (or 366 days in 2012).
7) Average trade payables turnover days is equal to the average of opening and closing trade payables divided by cost of sales and multiplied by 365 days (or 366 days in 2012).

2014 AWARDS AND ACCREDITATIONS

Asiamoney Corporate Governance Poll 2014
Overall Best Company in China
for Corporate Governance

Mercury Excellence Awards Annual Reports - Overall Presentation (Consumer Goods)

Mercury Excellence Awards Annual Reports - Overall Presentation (Sporting Goods)

International ARC Awards Cover Photo/Design (Retail: Fashion)

CORPORATE AWARDS

OVERALL BEST COMPANY IN CHINA FOR CORPORATE GOVERNANCE

- Best Overall for Corporate Governance
- Best for Disclosure and Transparency
- Best for Shareholders' Rights and Equitable Treatment
- Best for Responsibilities of Management and the Board of Directors
- Best for Investor Relations
- Best for Corporate Social Responsibility

Asiamoney Corporate Governance Poll 2014

12TH IN THE CONSUMER DISCRETIONARY (GREATER CHINA)

45TH IN THE OVERALL GREATER CHINA (SMALL/MID-CAP)

IR Magazine Awards 2014

2014 CHINESE E-COMMERCE BUSINESS MODEL INNOVATION AWARD

4th Session of China Electronic Commerce Business Model Innovation and Development Forum Organizing Committee

2014 OUTSTANDING OPEN PLATFORM FOR E-COMMERCE AWARD

Suning

ANNUAL REPORT AWARDS

SILVER AWARD

Mercury Excellence Awards

Annual Reports – Overall Presentation (Consumer Goods)

SILVER AWARD

Mercury Excellence Awards

Annual Reports – Overall Presentation (Sporting Goods)

HONORS

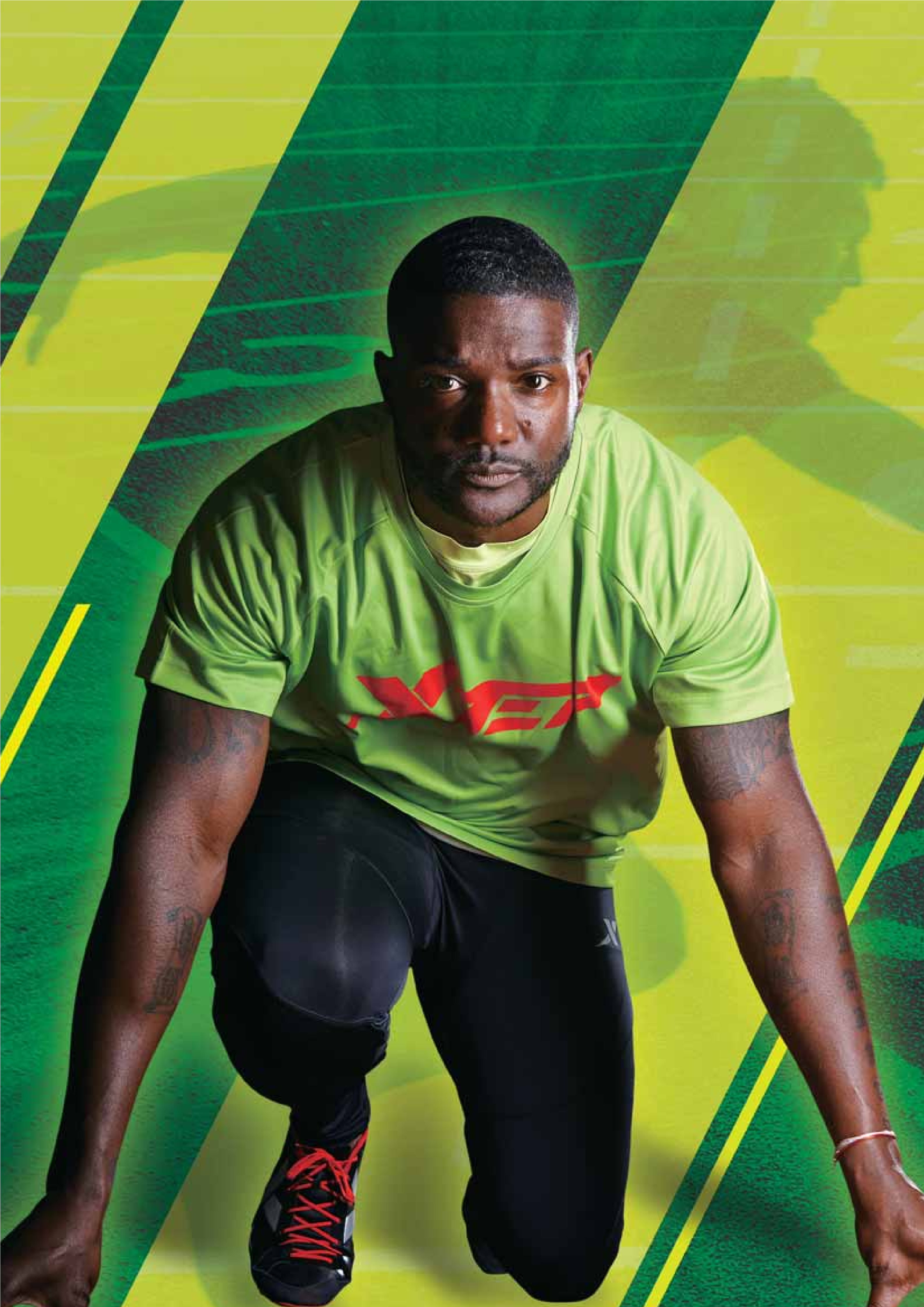
Mercury Excellence Awards

Annual Reports – Interior Design (Artistic/Unique)

HONORS

International ARC Awards

Cover Photo/Design (Retail: Fashion)



ENHANCING PERFORMANCE

CHAIRMAN'S STATEMENT

Dear Shareholders,
On behalf of the Board, I am pleased to present the annual results of the Group for the year ended 31 December 2014.

During the latest financial year, China's retail sportswear market has shown signs of recovery due to the favorable government policies aiming at accelerating the growth of the sports industry and promoting public participation in sports in China. As a result of the consolidation of the sportswear industry due to the exit of smaller and weaker players in the market and our implementation of advanced management control on the retail distribution network channels, the Group continued to maintain its leadership position in the domestic fashion sports segment. Coupled by the Group's successful branding and marketing strategies that focus on the domestic mass market sector and running events, the Group experienced revenue growth for the Year which amounted to approximately RMB4,777.6 million (2013: RMB4,343.1 million), representing an increase of 10.0% compared to 2013. We viewed the advertising and promotional costs as a long-term investment for brand equity and therefore we increased such expenses for the Year by RMB137.9 million to approximately RMB623.7 million (2013: RMB485.8 million), which explains the decrease in the profit attributable to ordinary equity Shareholders of approximately RMB128.0 million to approxiamtely RMB478.0 million (2013: RMB606.0 million).

INCREASED DIVIDEND PAYOUT RATIO

In view of the Group's strong cash balance and improvements on working capital management in the second half year of 2014 (cashflow from operating activities 1H2014: outflow RMB376.7 million; 2H2014: inflow RMB471.3 million), the Board has resolved to declare a final dividend of HK5.0 cents (2013: HK8.0 cents) per Share and a special dividend of HK3.0 cents per Share. Together with the interim dividend of HK8.5 cents (2013: HK10.0 cents) per Share, the total dividend for the year amounted to HK16.5 cents (2013: HK18.0 cents) per Share, representing an increase in the total dividend payout ratio to approximately 60.0% (2013: 51.3%).

XTEP: A DYNAMIC SPORTSWEAR BRAND

The success of XTEP has been built upon our unique brand positioning and differentiated marketing strategy which integrates entertainment elements into sports to create the perception of XTEP as trendy and functional among the general public. During the Year, the Group has continued to focus on the PRC market, the mass market sector and the sport of running.

In sports, we are the pioneer in formulating and implementing a marketing strategy with a focus on marathons and other running events as well as football games, leveraging their tremendously rising popularity in China during the recent years. Since sponsoring its first marathon, the Xi'an City Wall International Marathon, in 2007, the Group has made running the key focus in its sports marketing and product development process. During the Year, we have increased our sports marketing investment and sponsored a total of 13 international marathons, accounting for almost one-third of such races held in the PRC and Hong Kong during the period. In line with PRC President Xi Jinping's call for making football a compulsory part of its national curriculum and further promoting football among youngsters in China, we have also continued to be the title sponsor of two national-grade campus football leagues, on top of some domestic and foreign football clubs endorsement deals.

A key component of the Group's brand building strategy involves sports and entertainment marketing in which sportsman and celebrity endorsements play a prominent role. In addition to the Group's existing famous spokespersons Nicholas Tse (謝霆鋒), Han Geng (韓庚) and Justin Gatlin, we have enlisted Chen Ding (陳定), the first-ever Chinese gold medal winner of the 20 km racewalk event at the 2012 Olympics. Joining him are the "Day Day Brothers" (天天兄弟), comprising Wang Han (汪涵), Ou Hansheng (歐漢聲, aka "Ou Di" (歐弟)), Tian Yuan (田源), Qian Feng (錢楓) and Tanas Kim Ensheng (金恩聖); they are a permanent fixture in the popular Chinese entertainment television program "Day Day Up" (天天向上), of which the Group is a title sponsor.

Riding on such valuable sportsman and celebrity endorsement deals resources, we strategically sponsored some highly popular TV programs during the Year, including the official sportswear sponsor of Tse's high audience rating cooking TV show, Chef Nic (12道峰味). Meanwhile, we conintued to be the title sponsor of the highly popular TV entertainment program "Day Day Up" (天天向上) and the strategic partner of CCTV-5 Sports channel and CCTV Kids Channel, with whom we collaborated a China-Kids-Got-Talent-like selection program across China, named "Hand in Hand" (大手牽小手), to further raise brand awareness of XTEP and Xtep Kids.

WE AIM TO BECOME A WORLD CLASS LEADING FASHION SPORTSWEAR BRAND

DING SHUI PO
Chairman

ENHANCE PRODUCT DESIGN AND FUNCTIONALITY

Spurred by the State Council's plan to promote public participation in sports, which in turn will propel the development of the sports industry and hence the market demand for sportswear products with a balanced combination of fashion and functionality, we have employed both our in-house R&D team, which is comprised of senior designers from Hong Kong, U.S., Germany and South Korea, and other international sports technology consulting firms to leverage their expertise and adopt new technologies while expanding our running product portfolio. Drawing on the professionalism and creativity of the Group's more than 700 talented R&D team members in product planning and marketing, materials research and product design, we have been able to develop some 3,000 SKU products annually, all of which possess the essence of XTEP. On top of our signature running series, "Dual Direction Shock Absorber" and "Xtep Light" Running Series, we have introduced our "X-Helix" 1.0 Running Series with Phylon technologies, which provide an advantage over performance by taking into account the different body types and foot profiles of runners. This series has received strongly favorable customer responses, especially from athletes.

DISTRIBUTION CHANNEL MANAGEMENT OPTIMIZATION

To align with the expected future growth of the sports industry and to further optimize the retail distribution network channels and management, which will in turn lead to greater overall operational efficiency and profitability, we have increased the number of distributorships from 28 to 37 and shaped up our existing portfolio of retail channels by closing down stores with lower profit efficiency. As a result, the total number of XTEP retail stores as at 31 December 2014 was 7,110 (31 December 2013: 7,360). Furthermore, to upgrade and refurbish the decoration of the XTEP retail stores to create a unified and solid XTEP image, starting from late 2014, we have been implementing the "XTEP 7th generation" store image across our retail channels.

To establish a solid and sustainable foundation for the Group as well as our retailers, we have optimized our sales ordering system with our retailers by having proactive controls on the sales fair orders and we recorded a high single digit replenishment orders during the Year, suggesting a healthier retail operations matrix and inventory levels at the retail end.

With the increasing importance of online sales, we have been expanding our online operations. Apart from selling products from our offical website, www.xtep.com.cn, we have been also operating an online store on Tmall, and were one of the site's top athletic shoe retailers in 2014. Similarly we have also leveraged popular online shopping platforms such as JD, Taobao and Dangdang.

GEARING UP FOR THE FUTURE

The Chinese Central Government announced in October 2014 that it aimed at transforming the sports industry in China into a multi-trillion dollar industry by 2025. In light of the State Council's announcement, we have taken every measure to raise the Group's competitiveness, including enhancing our product portfolio and operational efficiency, which will pave the way for capturing new opportunities in the future.

To sustain the growth momentum in 2015, we will continue with XTEP's unique sports and entertainment marketing strategy. The Group will continue to sponsor major international marathons in the PRC and Hong Kong, such as the Xiamen International Marathon and Standard Chartered Hong Kong Marathon. The Group has enlisted young popular celebrities into the stable of "XTEP stars", including Im Jin-ah (林珍娜, aka "Nana"), a South Korean singer and a member of girl group After School. We also signed up with UNIQ, a popular South Korean pop group, and Li Yifeng (李易峰), a famous PRC pop and movie star. With their trendy and stylish image, their addition to XTEP spokespersons family would help to consolidate the image of XTEP as a fashion sportswear brand. Furthermore, in the coming year, we will continue to introduce innovative products with the latest technologies, including Dynamic Foam, X-Helix and Air Mega, which will enhance the functionality of the Group's running shoes. The efforts we have exerted in bolstering our product portfolio are already bearing fruit as sales derived from our core brands have achieved satisfactory growth, and we expect to sustain this growth in the coming year. The Group will continue to apply a prudent approach to the placement of future sales orders to further improve the inventory level in the retail channels. In order to maintain stable and efficient operations across the retail channels, the Group plans to maintain about 7,100-7,200 XTEP stores and expand the Xtep Kids sales network to approximately 600-800 POS in the PRC by the end of 2015. For online sales, we believe that the revenue contributions from e-commerce will grow rapidly as more new products will be introduced and sold through the online platforms.

AWARDS AND RECOGNITION

During the year, the e-commerce business of the Group achieved outstanding performance. The Group was awarded the China E-Commerce Business Model Innovation Award 2014 (2014中國電子商務營運模式創新獎) in the 4th China E-Commerce Business Model Innovation Development Forum (第四屆中國電子商務營運模式創新發展論壇). It was also awarded the 2014 Outstanding Open Platform For E-Commerce Award (2014 開放平台優秀商家獎) by Suning (蘇寧) with its extraordinary sales results.

The Group is fully committed to maintaining the highest level of corporate governance and our efforts have been recognised both within and outside of the sportswear industry. Recently, we were recognised as the "2014 Overall Best Company in China for Corporate Governance" by Asiamoney, a financial publication, which included distinctions in the following categories:

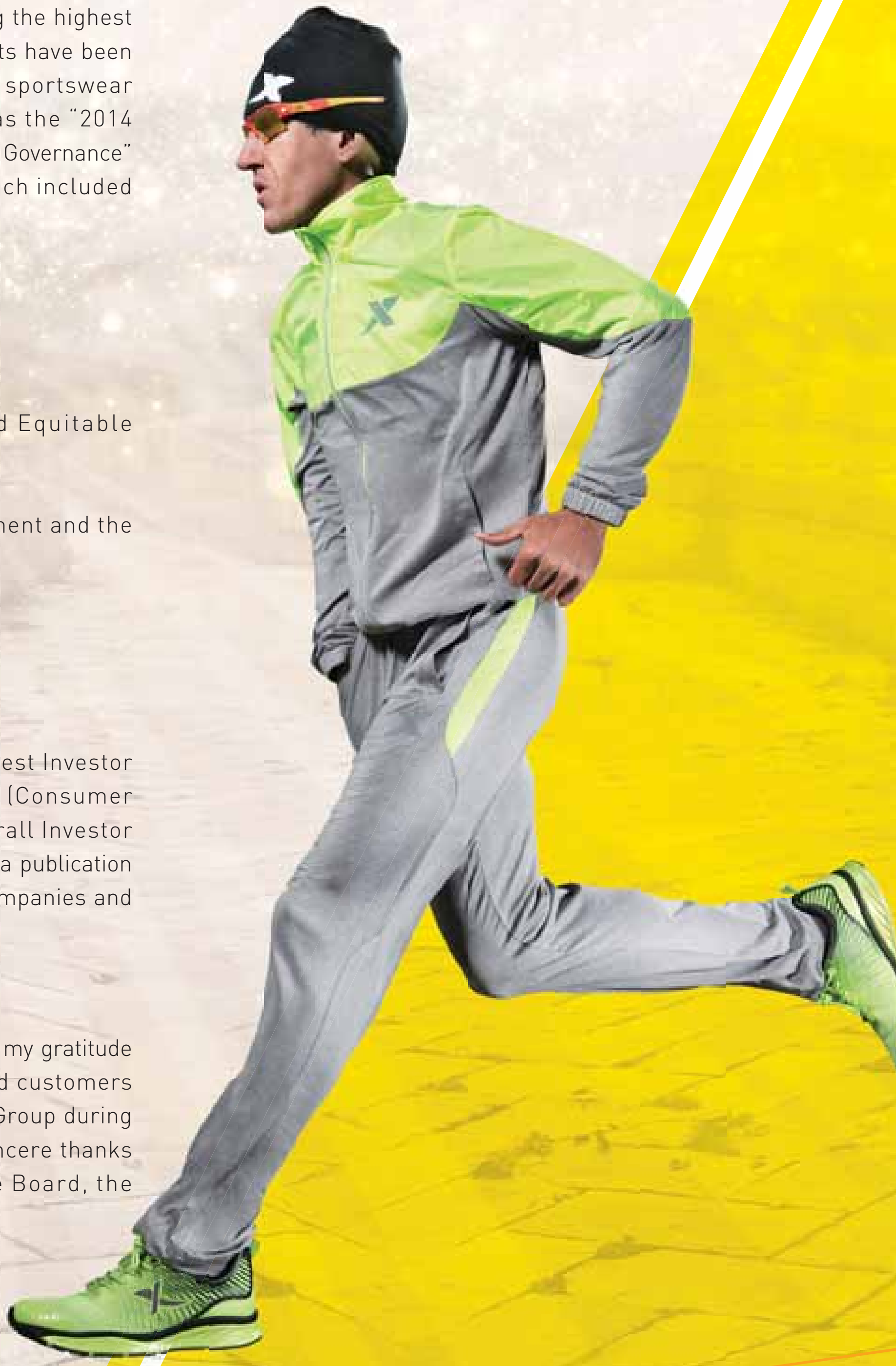
- Best Overall for Corporate Governance
- Best for Disclosure and Transparency
- Best for Shareholders' Rights and Equitable Treatment
- Best for Responsibilities of Management and the Board of Directors
- Best for Investor Relations
- Best for Corporate Social Responsibility

In addition, we were ranked 12th for the "Best Investor Relations Company – Greater China 2014 (Consumer Discretionary)" and 45th for the "Best Overall Investor relations (Small or Mid-cap) by IR Magazine, a publication that focuses on the interactions between companies and their investors.

ACKNOWLEDGEMENTS

I would like to take this opportunity to extend my gratitude to our Shareholders, business partners and customers for their enduring trust and support of the Group during the Year. I would also like to express my sincere thanks and appreciation to every member of the Board, the management team and all of the employees for their diligence, dedication and valuable contribution. Their concerted efforts together with the dynamic strategies in place inspires confidence that the Group has immense potential to advance to new heights and deliver fair returns to its Shareholders.

Ding Shui Po
Chairman
Hong Kong, 12 March 2015




PRODUCT
INNOVATION

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

FAVORABLE POLICIES FOR THE SPORTSWEAR INDUSTRY IN THE LONG RUN

During the Year, China's economy experienced a stable growth with GDP growing steadily by 7.4%, recording an increase of 12% in the total retail sales of consumer goods to RMB26.24 trillion. In addition, the State Council announced some favorable policies in late 2014 that aim to boost the sports industry's contribution to the GDP from about 0.6% in 2014 to at least 1% by 2025. The steadily growing economy and these policies will pave way for a sustainable growth of the sportswear industry in China in the long run.

Nonetheless, 2014 was a challenging year for the Group as the sportswear industry continued to undergo consolidation and rapid changes in terms of the business environment and market taste. Compounding matters, China's sportswear industry during the Year had to grapple with a variety of challenges, including the inventory overhang caused by some less-known brands and products and the challenges posed by the integration of online and offline sales.

However, the Group has implemented several strategic measures in place to stabilize its business performance with respect to the optimization of its retail sales ordering system, distribution channels and its value-for-money products quality and design, on top of its continuous efforts in enhancing the XTEP value, laying a solid foundation for long-term growth and sustainable profitability of the Group and its retailers. As the leading fashion sportswear enterprise in China which focuses on providing the mass market with trendy and comfortable sportswear products, the Group has again proved to grow strong despite the continuing industry headwinds.

BUSINESS REVIEW

XTEP is a unique fashion sportswear brand with immense potential. Supported by its successful branding strategies, an efficient supply chain with its vertically integrated business model and leveraging its well-established and extensive distribution network to distribute sportswear products with a balanced combination of functionality and fashion across China, the Group has promptly overcome the challenges faced and sustained a strong market position during the Year.

ESTABLISHING XTEP IMAGE

As a leading fashion sportswear in China, the Group has pioneered the use of sportsmen and celebrities as brand ambassadors in the early 2000s and successfully differentiated itself through its unique dual-marketing strategy that incorporates sports and entertainment elements. The Group's leading market position has been further strengthened as it has been actively implementing its sports marketing strategy with a focus on marathons/running events and football games, leveraging their rising popularity over the years.

To best align with its strategic growth plans set in place for the coming years and to continue to enhance its brand equity, the Group's advertising and promotional costs for the Year increased to approximately RMB623.7 million (2013: RMB485.8 million), which accounted for 13.1% (2013: 11.2%) of the Group's total revenue.

FASHION SPORTSWEAR

SPORTS MARKETING

SPORTS MARKETING – RUNNING

Consistent with XTEP's "Love Running, Love Xtep" brand manifesto, running has always been a key focus in the Group's sports marketing and product development process, which can be traced back to the Group's first sponsorship of Xi'an City Wall International Marathon in 2007.

The sports marketing initiative of strengthening the tie between XTEP and marathons/running events and hence sports enthusiasts in the mass market has proven successful. The number of marathons/long-distance running events has increased rapidly during the past five years, from about 13 marathons in 2010 to about 50 marathons in 2014. In 2014, the Group has sponsored a total of 13 international marathons in the PRC and Hong Kong, including several internationally recognized marathons such as Xiamen International Marathon, Chongqing International Marathon, Yangzhou Jianzhen International Half Marathon and Standard Chartered Hong Kong Marathon, accounting for almost one third of the total of races hosted in the PRC and Hong Kong during the Year.

MANAGEMENT DISCUSSION AND ANALYSIS

International Marathons Sponsored by XTEP in 2014

- Xiamen International Marathon
- Standard Chartered Hong Kong International Marathon
- Chongqing International Marathon
- China Zheng-kai International Marathon
- Yangzhou Jianzhen International Half Marathon
- Taiyuan International Marathon
- Changshu Shang Lake Half Marathon
- Tianjin International Marathon
- The Pink Run – Xtep Cross-Strait Women's Half Marathon
- Hangzhou International Marathon
- Gui Zhou, Tour of Lei Gong Mountain International 100km Ultra Trail Challenge
- Hefei International Marathon
- Guangzhou Marathon

The Group has further ramped up its sports marketing investment with a focus on running not only through marathon sponsorships, but also through a number of brand- and product-focused and sales-oriented marketing initiatives. For example, to kick start the sponsorship of Xiamen International Marathon, the Group organized a running relay and invited XTEP spokesperson Chen Ding (陳定), the first-ever Chinese Olympic 20km racewalk gold medalist, to participate in a 1,000 km challenge within 96 hours while donning the XTEP "Dual Direction Shock Absorber" 2.0 running shoes launched in the first quarter of 2014.

MARATHON WARM-UP TIPS

STEP 1

Warm-up – Its main purpose is to increase your muscle and body temperature to get ready for exercise both physically and mentally and avoid muscle strain. In general, about 15–20 minutes of low intensity exercise to practise the relevant motions would be sufficient for your body to start sweating and improve coordination.

STEP 2

Stretching – Even if you have done the preliminary warm-up, you should not engage in the running immediately. Instead, you should do some static stretching in order to increase the amplitude of joint motion and avoid injury. You are advised to spend some time to complete 2–3 sets of stretching exercise so that your body can adapt as the situation gets more intense.

XTEP RUNNERS CLUB

To further enhance the association of XTEP with running, the Group formed the Xtep Runners Club in June 2012 and the membership size increased over 50% annually with over 13,000 registered members nationwide as at the end of 2014. The Club serves as one of the best brand communication tools for the Group to its target customers; through the club, members receive regular training and equipment tips and latest information about marathons/running events taking place in Greater China. Xtep Runners Club also serves as a social platform for the Group to maximize its brand story, garner target customers' attentions and build a satisfactory brand and target customer experiences, hence brand loyalty over time. Xtep Runners Club members have become the dominant market influencers to stimulate the sales of XTEP footwear.

During the Year, the Group has organized 11 "Fun Route Xtep Run" (特跑匯) cum training camps across China for Xtep Runners Club members in Beijing, Chongqing, Changsha, Hangzhou, Guangzhou, Jinan, Lanzhou, Nanjing, Shanghai, Shenyang and Xiamen.

Hong Kong Rangers FC

Villarreal C.F.

Hong Kong All Star Sports Association

China All Star Football Team

SPORTS MARKETING – FOOTBALL

As a marketing initiative to continuously develop its brand that focuses on young customers and capture market share in the younger age segment, the Group was the title sponsor of the Xtep CCFL (特步中國大學生五人制足球聯賽), a 5-a-side league, and the Xtep CUFL (特步中國大學生足球聯賽), an 11-a-side league, which are the only two official campus leagues in China. According to the latest "China Sports Market Value Report" (中國體育行業商業價值報告), football is considered one of the most popular sports in China. In 2014, the two aforementioned campus football leagues spanned three seasons of nine months, attracting over 15,000 university and college players from about 800 football teams nationwide, to be fully geared with outfits and football boots sponsored by XTEP. In line with the growing popularity of campus football in China, XTEP has been instilled into in the 'post-90s' millennials in China which the Group has been targeting to.

Catching the wave of The World Cup fever, the Group also ramped up its football sponsorship resources by sponsoring "LFP World Challenge Asia Tour (Hong Kong)" in May 2014 and arranging Villarreal CF and Hong Kong Standard Rangers FC, the two renowned football clubs sponsored by the Group for many years, to participate in the game. The two teams played in a triangular tournament along with Valencia CF in Hong Kong and the matches were available for live streaming via the official LFP website. The global broadcast helped put XTEP under the international spotlight. Also as part of the Group's world cup marketing campaign, the Villarreal CF players were invited to be honourable guests for the grand opening of its first and largest flagship "Fashion Sports Experience" concept store in Changsha in early June 2014, allowing the customers to enjoy a distinctive brand-defining shopping experience. The World Cup thematic T-shirts released during that quarter have been completely sold out resulting from the successful marketing campaign.

Major Football Clubs Sponsored by XTEP in 2014

- La Liga, Villarreal C.F. (西甲維拉利爾足球俱樂部)
- China All Star Football Team (中國明星足球隊)
- Chinese Football Reporter United (中國足球記者聯隊)
- Beijing Institute of Technology FC (北京理工大學足球俱樂部)
- Hong Kong First Division League, Hong Kong Rangers FC (港甲標準流浪足球會)
- Hong Kong All Star Sports Association (香港明星足球隊)

XTEP ENDORSEMENT STARS

SPORTSMAN AND CELEBRITY ENDORSEMENT – XTEP STARS

As a leading fashion sportswear brand in China, XTEP has pioneered the use of sportsmen and celebrities as brand ambassadors and successfully differentiated itself through its unique dual-marketing strategy that incorporates sports and entertainment elements. In 2014, the Group's XTEP spokespersons have continuously yielded brilliant results and further interwoven their public image with XTEP.

The Group signed its first sportsman spokesperson, Justin Gatlin, the renowned U.S. sprinter who was the 2012 London Olympics 100-meter bronze medalist, two years ago. Ever since then, Gatlin, donning XTEP customized spikes and running outfits, broke his season-best year after year and in 2014 and swept up a series of notable champions, he was subsequently crowned the 2014 Diamond Race Winner (100 meter), following the victories in the 2014 IAAF Diamond League, one of the world's most prestigious track and field competitions; 100-meter sprint events in Shanghai, Eugene, Lausanne and Brussels and 200-meter sprint events in Monaco and Brussels; and the 100-meter champions in the 2014 IAAF World Challenge sprint events in Tokyo, Beijing and Rieti.

Also, we have enlisted new talents into the XTEP spokespersons family, including Chen Ding (陳定), the first-ever Chinese gold medal winner of the 20 km racewalk event at the 2012 Olympics. In 2014, Chen won the men's individual champion of the Taihu Lake International Race Walking Championship and he also won the first runner-up of the National Race Walking Championships.

Nicholas Tse, a widely-known artiste and young accomplished entrepreneur, was XTEP's first celebrity spokesperson, and he has maintained solid ties with the brand for over a decade. Such ties have continued to blossom, as XTEP was the official sportswear sponsor of Tse's new celebrity cooking TV show, Chef Nic (12道峰味), which premiered on Zhejiang TV channel in June 2014 and gained overwhelmingly positive response nationwide, and the official apparel sponsor of an event in which Tse and 3,000 Hong Kong teenagers gathered at the Hong Kong Victoria Park to make the Cantonese traditional snack, egg waffle, in an attempt to break the world record of having the most people making egg waffles simultaneously.

To promote our presence among the pop culture generation, the Group signed up with the "Day Day Brothers" (天天兄弟), comprising Wang Han (汪涵), Ou Hansheng (歐漢聲, aka Ou Di (歐弟)), Tian Yuan (田源), Qian Feng (錢楓) and Tanas Kim Ensheng (金恩聖). They are a permanent fixture in the popular Chinese entertainment television program "Day Day Up" (天天向上) of which the Group is a title sponsor. To utilize the endorsement deal resources, the Group invited "Day Day Brothers" to be the honourable guests for the grand opening of its "Fashion Sports Experience" concept store in Changsha in June 2014.

The Group also strengthened its brand awareness and reach across the country through the strategic partnerships with CCTV-5 Sports Channel and CCTV Kids Channel. In line with its sports sponsorships throughout the Year, the Group has also made use of the online platforms such as WeChat and Weibo as the powerful brand communication tools for marketing promotions of XTEP.

INNOVATIVE PRODUCTS

Even though the sportswear industry in China has experienced changes over the past several years, the demand for quality sportswear products has remained stable. To capitalize on the growth of various market segments, the Group continues to introduce a diversity of products that address the needs of both athletes and sports enthusiasts alike.

PRODUCT INNOVATION SUPPORTED BY STRONG R&D CAPABILITIES

With a growing talent pool backed by its strong R&D capabilities, the Group is committed to delivering innovative products, in particular, its popular running series, to the market. During the Year, the Group's R&D efforts included ongoing exploration and development of new materials and products. In line with its commitment to excellence across its full range of products, investment in R&D amounted to approximately RMB107.5 million (2013: RMB111.4 million), representing 2.2% of the Group's revenue (2013: 2.6%).

Drawing on the professionalism and creativity of its over 700 talented in-house R&D team members which are comprised of senior designers from Hong Kong, the U.S., Germany and South Korea, the Group has been at the forefront of product design and technology development. By also leveraging its overseas consultancies that are specialists in design and innovation, the Group has been able to annually develop approximately 3,000 SKU products that capture the essence of XTEP.

DUAL DIRECTION SHOCK ABSORBER 2.0 RUNNING SERIES

To reinforce its strategy with the focus on running, the Group's signature running series, "Dual Direction Shock Absorber", has been thoroughly upgraded, continuing its legacy of addressing the needs of long-distance runners. Already, the Group's appealing shock absorber running series have become clear standouts, receiving widespread acclaim in China. The "Dual Direction Shock Absorber" running series has several appealing features, such as the high rebound compound (HRC) forefoot and the gel cushion, which provide runners a shock-absorbing and heel-protecting running experience which lead to low vibration, great foot stability and, ultimately, a smooth run.

XTEP LIGHT RUNNING SERIES

Another XTEP signature running series, the "Xtep Light" running series, delivers feather-light footwear – the lightest version weighs only 125 gram – to those who are looking for less is more. The Xtep Light 2.0 Running Shoes employ advanced shock absorbent materials with high flexibility, and combined with the free breathing 360° cushion, they assure that athletes are provided with the maximum comfort to achieve exceptional performance.

X-HELIX (減震旋) 1.0 RUNNING SERIES

The innovative X-Helix and Phylon technology features a double layer of air cushions located at the sole of the shoe to provide runners with additional support. As already adopted in the X-Helix 1.0 Running Series, this technology takes into account a variety of body types. Consequently, different types of runners can find equal enjoyment, and with the slip resistant rubber, they can benefit from the increased control and flexibility.

APPEALING BRAND AMONG THE PRC YOUTH

PRODUCT PORTFOLIO DIVERSIFICATION

XTEP has been positioned as a fashion sportswear brand that focuses on the mass market in China. In order to seize the opportunities that may emerge from various market segments as the result of the ongoing economic development, rising disposable income and growing health consciousness among consumers in the PRC, the Group is committed to a careful management of the diversified product portfolio, dividing its product lines into two major categories, Sports Performance Collection and Sports Lifestyle Collection. Moreover, efforts have been made to introduce designs that lead to better mixing and matching, thereby encourage greater cross selling.

The Sports Performance Collection encompasses the running, cross-training, football and outdoor series. The launch of these series is seasonal and in line with the Group's sports marketing campaign. The Group has introduced its running and cross-training series alongside the Group's sponsored marathons, emphasizing the series products' high quality and adaptability to a variety of sporting activities while offering exceptional comfort.

The Sports Lifestyle Collection's fashion-oriented sportswear series contain four main labels, namely, Campus, Classic, Denim and Urban XTOP. Associated with the improving living standards in China, the demand for a greater variety of casual and comfortable sportswear is booming. The Group responded to the booming demand by offering a sports-inspired lifestyle collection which has received much positive attention in the country. Also, by capitalizing on successful sportsman and celebrity endorsements and a high-profile dual sports and entertainment marketing strategy, XTEP has become one of the most appealing brands among the younger age segment in China.

XTEP KIDS

Having established a leading position in the fashion sportswear market for young people and adults in China, the Group has sought to build a strong presence in the high-potential children's segment as well. Given that the PRC Government has recently reformed its one-child policy and there are approximately 380 million children aged 0-16 in China according to the latest population statistics, the Group will seek to further strengthen the kids' sportswear series by bolstering its market presence and product offerings.

MARATHON
RUNNING POSTURE TIPS

UPPER BODY

Bend both of your elbows at right angles and swing them naturally. Hold your fists gently. The swinging of your shoulders during running would help to keep your body balanced while the swinging of your arms would affect the running progress. Relax your shoulders and do not hunch them.

LOWER BODY

Properly flexing your hip muscles and quadriceps helps to improve your hip curve. Pay attention to the amplitude when you lift your legs and kick back, keep your steps as light as possible. For running posture, hit the ground with your heel first and roll it forward to your toe as well as shifting your weight to the front. This is the basic cycle of running and the whole process begins with heel, then sole, and finally toe.

During the Year, the Group also employed popular social networks and activities to promote its brand awareness and market reach to its target customers. The Group remains the strategic partner of CCTV Kids Channel, Jiangsu Youman Cartoon TV and Beijing KaKu TV, as well as the sponsor of the popular children's program "Hand in Hand" (大手牽小手). All of the aforementioned efforts also allow the Group to continuously open markets for Xtep Kids.

The Xtep Kids series represents yet another important means by which the Group is able to cater for the needs of young children and promote an active lifestyle. The products under the Xtep Kids series are available through approximately 500 POS as at 31 December 2014 (31 December 2013: 300 POS). The Group also expanded the line of Xtep Kids products and made them available via its e-commerce platform, thus allowing customers to enjoy a greater flexibility and variety of choice.

DISTRIBUTION CHANNEL MANAGEMENT

EFFECTIVE DISTRIBUTION CHANNEL

During the Year, the Group implemented several strategic measures in respect of distribution, including the proactive control on sales orders to its retailers so as to normalize inventory levels at the retail end. The Group saw a sequential improvement in Q1 to Q4 sales fair orders, with the sell-through rate outpacing the sell-in rate, suggesting a healthier retail operations matrix and improving profitability of its retailers.

Committed to further optimizing the retail distribution network, which in turn will lead to greater overall operational efficiency and profitability, the Group has continued to optimize the retail channels management. During the Year, it has increased the number of distributorships from 28 to 37 and shaped up its existing portfolio of retail channels by closing down stores with lower profit efficiency. The number of XTEP retail stores as at 31 December 2014 was 7,110 (31 December 2013: 7,360). To ensure that the shopping experience is of the highest standard for XTEP targeted customers, the Group continued to upgrade and refurbish the decoration of XTEP retail stores to create a unified XTEP image. Starting from late 2014, the Group has been implementing the 'XTEP 7th generation' store image. Furthermore, a standardization of store quality and product offering mix has been conducted based on market locations and customer traffic.

The Group's DRP System has been upgraded, covering over 85% of the XTEP retail outlets. The advancement of the DRP System enables the Group to have real-time execution monitoring on the retail inventory levels and hence to form detailed control plans for its distributors and retailers in respect to the quarterly sales fair ordering and replenishment ordering. The DRP System, backed by a vertically integrated business and comprising the Group's strong in-house production capacity and an efficient supply chain, have laid a solid foundation for the Group to move toward an omni-channel retailing model. Moreover, the valuable market data generated by the system enables the Group to assess current market trends, which in turn offers direction to the design and marketing teams to shape up their products ideas.

In addition, product and retail skills training has been provided to distributors, retailers, and the retail sales staff, ensuring that customers receive correct and consistent information. In order to uphold the highest quality standards, more retail stores assessment visits were arranged during the Year.

E-COMMERCE

Customers' rising spending power and increasing internet accessibility as well as the influx of mobile devices have led to an upsurge in e-commerce. In line with its offline sales channels, the Group has been improving its online platforms, which have become increasingly sophisticated and successful. At the same time, it has been seizing opportunities to provide consumers with better interactions with XTEP across all of its sales channels, both online and offline. E-commerce is functioning not only as an efficient sales channel but also an extension of the Group's business arm for improving its product mix, bolstering its brand equity and raising customers' satisfaction and loyalty.

During the Year, the Group has further strengthened its online presence as well as its e-commerce management team. Apart from its official website, www.xtep.com.cn, the Group has also operated its official online flagship store on Tmall, and was among the site's top athletic shoes retailer as of 31 December 2014. The Group has also partnered with popular online retail shopping platforms such as JD, Taobao and Dangdang.

Meanwhile, to extend its reach to online sales, the Group conducted business with authorized online retailers through a number of platforms, under the supervision of its e-commerce team. This team possesses its own dedicated product R&D team as well as an independent product supply chain. During the Year, the Group has also bolstered its supply chain, warehouse and logistics management systems in order to help such authorized third-party online retailers to maintain their competitive edge to ensure that online customers enjoy prompt and reliable delivery services. Such practice allows for prompt response to seasonal changes in products and styles, which is essential for operating as an effective e-commerce retailer.

While moving toward an omni-channel retailing model, the Group recognizied the importance of separating the online shopping business from the traditional shopping operation to avoid possible market cannibalism. During the Year, the Group has continued to offer exclusive products through its online platforms.

OVERSEAS MARKET

The overseas market helps the Group to enhance its global exposure and to expand its revenue streams. As of 31 December 2014, the Group has about 200 POS across the Middle East and Central and Western Europe, including some XTEP mono-branded stores in Spain. Moreover, the management team has expanded the Group's presence in emerging markets to seize new opportunities, which helps further raise the Group's international profile, leading to stronger sales performance in overseas markets.

SUPPLY CHAIN MANAGEMENT

In order to support the Group's nationwide retail network in China, the management team has placed significant focus on enhancing supply chain management and, along with product innovation, production capacity, quality control and distribution, they are key elements in a well-developed business model. The DRP System helps the Group to improve its supply chain management by collecting market data, which in turn enables its in-house design team to enhance the Group's products to align with the latest fashion trends. Such data also enables the marketing team to capitalize on the most current developments for marketing new products. And for the management team, the data can be further used to examine production processes, monitor inventory levels more efficiently leading to the reduction in inventory pressure, and provide informed advice to underperforming retail channels, all of which help establish a solid foundation for long-term development.

PRODUCTION CAPACITY

The Group is fully committed to the operation of a seamless, vertically integrated business, which includes an efficiently managed supply chain. As at 31 December 2014, the Group's major production facilities located in Quanzhou and Anhui has maximum total annual production capacity of approximately 20.0 million pairs of footwear and approximately 8.5 million pieces of apparel. The in-house production for the Year of footwear products accounted for 58% of the total production for the Year of footwear products (2013: 64%) and apparel products accounted for 15% (2013: 28%) of the total production for the Year of apparel products. The high in-house production percentage of footwear products has contributed to the improvement of gross profit margin of footwear products from last year 40.9% to this year's 42.1%.

The vertically integrated business model also enabled the Group to have a faster and more cost-effective product development and supply chain processes than before. During the Year, the Group has shortened the inventory turnover days by 8 days by improving both the supplier lead time and delivery schedule to its distributors and retailers. The Group has also streamlined the suppliers portfolio to focus on those who can deliver higher value to its business in terms of quality, cost and performance.

QUALITY CONTROL

With the quality and level of comfort offered by XTEP products being important criteria for winning and retaining customers, the Group has sought to address these concerns through various endeavors, including laboratory testing, continuous research, upgrade of raw materials and careful selection of suppliers.

PROSPECTS

The sports market in China is still undergoing consolidation; however, with the State Council's plan to develop the sports industry to a multi-trillion dollar industry in the coming ten years, together with the ongoing urbanization, rising disposable income and increasing popularity of sports in the country. All of these developments will lead to significant market opportunities for sportswear brands that possess strong brand value.

Two of the most significant direct beneficiaries in terms of sports categories are expected to be running and football. With the increasing health consciousness of people in China, running has become highly popular owing to its high accessibility. Given that there will be even more marathons and running events held in 2015 and beyond, running is expected to become a major national pastime.

In respect of football, with strong support from President Xi Jinping, the Central Government announced that football games will become part of the national curriculum in Chinese schools. Wang Dengfeng, Director of the Physical Education, Health and Art Department at the Ministry of Education, subsequently said that improving football standards in China must start with the children, echoing the Group's sports marketing strategy of focusing on campus football. By 2017, the government's goal is to provide new football pitches and training facilities to 20,000 schools, which again offers another golden opportunity to the Group.

CONTINUE TO EMPLOY DIFFERENTIATED MARKETING STRATEGY TO TAP A BROADER CUSTOMER SEGMENT

The Group will continue to employ its sports and entertainment dual-marketing strategy to both distinguish XTEP from its peers, and to draw public association to the young and dynamic image that it has been vigorously promoting. On the entertainment marketing front, the Group will introduce its new "XTEP spokespersons", which include Im Jin-ah (林珍娜, aka "Nana"), a member of the Korean girl band After School; UNIQ, a popular Chinese-South Korean boy group; and Li Yifeng (李易峰), one of China's brightest young actors. Capitalizing on the young and dynamic image of these new brand ambassadors, the Group is poised to strengthen its fashion sportswear brand and further expand its customer base, especially among the mass market and the younger age segment in China.

Aside from the introduction of the new XTEP spokespersons, the Group will continue to sponsor programs that possess significant sports and entertainment content. For example, the Group is the sponsor of "Let's Go, Boys and Girls" (男生女生向前衝) and "Hurry Up, Brother!" (奔跑吧!兄弟!), dubbed as China's "Running Man", a Chinese variety show broadcast on Anhui Television and Zhejiang Television. While "Let's Go, Boys and Girls" is an reality show in which young participants need to complete a number of exciting outdoor missions, "Hurry Up, Brother!" is a variety game show in which the emcees and celebrity guests have to complete their assigned tasks. These TV programs are popular in Anhui and Zhejiang.

In view of the Group's growing presence in the world of e-commerce, the management team will seek to raise the brand awareness of XTEP. The management team will devote more resources to online media, and enhance marketing/advertising content in the future. The Group will also utilize major online media to raise its exposure among the Post-80's and'90's generations.

The kids market represents yet another segment to which the Group will dedicate greater marketing resources. Xtep Kids has achieved encouraging growth over the past years, and to further increase its market share in this high growth segment, the Group has employed an animated cartoon marketing strategy alongside the launch of the "Dream Corps" cartoon series in China in mid March 2015, the marketing campaign for Xtep Kids and production of a wide range of products featuring the cartoon characters are in the pipeline.

STRENGTHEN PRODUCT PORTFOLIO AND UPGRADE R&D CAPABILITY

As the Group furthers its commitment to promote the joys of running and XTEP to be the "Runners' Choice", it will seek to capitalize on the efforts of the State Council of the PRC to develop the sports industry. In particular, the Group will continue to introduce the highest quality running footwear and apparel, sponsor key sports events nationwide and further develop its Xtep Runners Club.

With regards to the Group's products specifically, the management team has refined its diverse portfolio, consequently streamlining certain collections to sustain growth momentum. The Group will nonetheless increase its investment in R&D in order to incorporate the latest technologies and innovations into its running series, as well as to explore and develop new materials and products. To further innovate, the Group is exploring opportunities to collaborate with some sports technology consultancy firms worldwide. Increased collaboration will also be sought between the Group's in-house design teams, as this will result in more mix and match opportunities for customers, leading to greater cross selling.

Indicative of the Group's ability to remain at the forefront of sports footwear technology, new products incorporating advanced technologies have already been launched with more to come in 2015. These technologies include the following:

DUAL DIRECTION SHOCK ABSORBER TECHNOLOGY

The Dual Direction Shock Absorber 3.0 Running Shoe elevates the running shoe to the next level by incorporating advanced shock absorbent PU materials. In addition to significantly reducing stress on the feet during running and providing maximum protection to the joints, the PU materials also have energy-saving attributes, high flexibility, as well as slip and abrasion resistance, offering maximum comfort with exceptional performance to runners. Dual Direction Shock Absorber 3.0 has enjoyed a highly favorable market response since its launch and is poised to be one of the runners' top choices.

NEW INNOVATIVE TECHNOLOGY

Among the latest technologies and innovations, Dynamic Foam, X-Helix and Air Mega have been introduced and incorporated into the Group's newest 2015 Q3 running shoes. Dynamic Foam is a new product design which offers soft rebound in shock absorption while providing resilience as well as protection of runners' joints. X-Helix, with the stability technology and DNA branded hollow loop structure, facilitate recovery from compression deformation and provide shoe sole integrity and foot stability by offering good resilience. Air Mega cushioning applies air cushion technology, through a multiple-segment attached cushion around the entire sole which essentially forms an air cushion system, provides protection in the process of foot impact through a flexible range of soft cushioning.

A STRONGER SALES AND DISTRIBUTION NETWORK TO CAPTURE BOTH ONLINE AND OFFLINE SALES

Aside from optimizing the product mix, the management team will closely monitor the retail channels and determine the best course of action for bolstering efficiency, including adjusting the number of distributorships and POS. The Group expects the number of XTEP outlets to remain at approximately 7,100–7,200 and the number of Xtep Kids sales network to increase to approximately 600–800 POS in the country by the end of 2015. It will also capitalize on the DRP System to examine the performance of its retail channels, and take the necessary measures to raise profitability.

With regards to the e-commerce business, being Tmall's top athletic shoe retailer at the end of 2014 demonstrates the success of the management team's online business strategy. The Group will consequently introduce more exclusively online items and in-season products to satisfy the needs of its online customers. The Group is poised to maintain one of the top athletic sports retailers' position in China's e-commerce realm in the coming year.

Through the implementation of various measures to further raise its competitiveness, including the enhancement of its product portfolio and operational efficiency, the Group is well poised to seize the opportunities that may emerge in the future.

FINANCIAL REVIEW

GROUP REVENUE BREAKDOWN BY PRODUCT CATEGORY

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

For the year ended 31 December

	2014		2013		
	Revenue (RMB Million)	(% of Revenue)	Revenue (RMB Million)	(% of Revenue)	Changes In Revenue (%)
Footwear	3,042.9	63.7	2,246.9	51.7	+35.4
Apparel	1,687.5	35.3	2,011.9	46.3	-16.1
Accessories	47.2	1.0	84.3	2.0	-44.0
Total	4,777.6	100.0	4,343.1	100.0	+10.0

Total Revenue (2014)

RMB 4,777.6 million +10.0%

Gross Profit Margin (2014)

40.8% +0.6% points

As a result of the consolidation of the sportswear industry due to the exit of smaller and weaker players in the market, the Group's revenue has regained growth in 2014 as compared to a decline in 2013. The Group's total revenue for the year ended 31 December 2014 amounted to approximately RMB4.78 billion (2013: RMB4.34 billion), representing an increase of approximately 10.0% compared to last year (2013: decline of 21.8%). This significant improvement in revenue was mainly due to:

1. prudent sales order management to minimize the risk of excessive stock in the distribution channels;

2. high single digit replenishment orders for new products;

3. leadership among domestic fashion sportswear brands; and

4. focused branding and marketing promotion in running events resulting in strong growth of footwear products.

During the Year, the Group has consistently applied a prudent sales order approach in each quarterly sales fair. We have carefully analysed the past quarterly retail inventory levels in distribution channels before the quarterly sales orders were made and communicated clearly with the distributors in order to maintain a prudent order level. As a result, we recorded a better-than-expected revenue as compared to the sales order results due to a high single digit of replenishment. This prudent approach to sales orders minimized the risk of excess delivery of products to retail channels and the possibility of excessive production of stock remaining unsold in the channels.

We believe XTEP has a clear and unique brand image as fashion sportswear which stands out in comparison to our peers. This, together with a high number of international marathons in the PRC and Hong Kong sponsored by the Group, enabled us to regain the confidence and products preference by the consumers and hence we recorded a significant increase in the revenue of the Group's footwear products. On the other hand, the Group continued to reduce the output of apparel and accessory products in order to further lower retail channel inventory level.

GROSS PROFIT AND GROSS PROFIT MARGIN BREAKDOWN BY PRODUCT CATEGORY

The following table sets out the gross profit and the gross profit margin by product category for the Year:

For the year ended 31 December

	2014		2013		
	Gross profit (RMB million)	Gross profit margin (%)	Gross profit (RMB million)	Gross profit margin (%)	Changes in gross profit margin (% point)
Footwear	1,280.3	42.1	918.6	40.9	+1.2
Apparel	649.2	38.5	800.3	39.8	-1.3
Accessories	17.4	36.9	28.7	34.0	+2.9
Total	1,946.9	40.8	1,747.6	40.2	+0.6

The Group's overall gross profit margin increased by 0.6 percentage point to 40.8% (2013: 40.2%). The increase in the overall gross profit margin was mainly due to:

1. increase in the product mix of higher gross profit margin products (i.e., footwear products) which accounted for 63.7% (2013: 51.7%) of revenue; and

2. improvements in the gross profit margin of footwear products to 42.1% (2013: 40.9%).

The increased percentage of footwear products in the product mix was due to better brand recognition by consumers following the continuity of running events promotions such as sponsoring the highest number of international marathons in the PRC by XTEP and our running spokesperson Justin Gatlin winning several prestigious international sports events.

The improvements in the gross profit margin of footwear and accessories products were mainly due to the effective cost controls and improvements in managing the supply chain. The slight decrease in the gross profit margin of apparel products was mainly due to the decrease in scale as the volume of products sold declined.

OTHER INCOME AND GAINS

For the year ended 31 December 2014, other income and gains of the Group mainly represented the subsidized income from the PRC Government, which amounted to approximately RMB29.7 million (2013: RMB55.8 million); and the income derived from available-for-sale financial assets was approximately RMB115.3 million (2013: RMB99.7 million), which was mainly derived from the interest income from treasury deposit products.

SELLING AND DISTRIBUTION EXPENSES

For the year ended 31 December 2014, the Group's selling and distribution expenses amounted to approximately RMB798.6 million (2013: RMB594.8 million), representing approximately 16.7% (2013: 13.7%) of the Group's total revenue. The increase in selling and distribution expenses was mainly due to the increase in advertising and promotional costs.

The advertising and promotional costs for the Year amounted to approximately RMB623.7 million (2013: RMB485.8 million), represented approximately 13.1% (2013: 11.2%) of the Group's total revenue and the expenses were mainly related to:

1. sponsorships of various national sports and entertainment TV channels and media platforms;

2. sole apparel sponsorships of major international marathons in the PRC and Hong Kong;

3. sponsorships of various domestic running events;

4. domestic and overseas football club and domestic college and university football league sponsorships;

5. improvements on retails stores to upgrade the decoration to fit the new store image ("XTEP 7th generation stores"); and

6. sponsorships of spokespersons.

All the marketing and promotional activities and sponsored events have been carefully selected to promote XTEP image with a clear and unique fashion sportswear brand image which stands out from our peers.

GENERAL AND ADMINISTRATIVE EXPENSES

For the year ended 31 December 2014, the Group's general and administrative expenses amounted to approximately RMB488.4 million (2013: RMB415.6 million), which represented approximately 10.2% (2013: 9.6%) of the Group's total revenue. The R&D costs for the Year amounted to approximately RMB107.5 million (2013: RMB111.4 million), representing approximately 2.2% (2013: 2.6%) of the Group's total revenue. The R&D costs were mainly related to the improvement of product design and functionality, as well as material enhancement.

Maintaining a prudent approach towards financial management, the Group made a net provision for doubtful debt for the long outstanding account receivables for the Year, which amounted to approximately RMB127.6 million (2013: RMB51.2 million).

NET FINANCE COSTS

The total net finance cost of the Group for the year ended 31 December 2014 amounted to approximately RMB38.4 million (2013: RMB32.4 million). The increase was mainly due to the decrease in interest income to RMB41.3 million (2013: RMB46.3 million) while the interest expenses increased to approximately RMB69.1 million (2013: RMB64.7 million) primarily as a result of the increase in bank loans.

OPERATING PROFIT MARGIN

The operating profit margin for the year ended 31 December 2014 decreased by 3.7 percentage points to 16.9% (2013: 20.6%). This was mainly due to the increase in advertising and promotional costs.

INCOME TAX EXPENSES

Income tax provision of the Group for the year ended 31 December 2014 was approximately RMB284.3 million (2013: RMB259.7 million). The income tax provision included profit tax provision relating to operating companies which amounted to approximately RMB250.9 million (2013: RMB234.1 million). The profit tax provision was recorded according to the profit derived from the underlying operating companies. However, certain provisions and interest expenses incurred by the Group were not subject to income tax deduction. Also, there was an underprovision of income tax of approximately RMB11.5 million (2013: RMB5.6 million). The Company holds certain PRC subsidiary companies which have retained profits that can be distributed to the Company in the future. Therefore, the Company has made a provision of withholding tax amounted to approximately RMB22.0 million (2013: RMB20.0 million).

PROFIT ATTRIBUTABLE TO ORDINARY EQUITY SHAREHOLDERS AND NET PROFIT MARGIN

For the year ended 31 December 2014, the profit attributable to ordinary equity Shareholders was approximately RMB478.0 million (2013: RMB606.0 million), representing a decrease of approximately RMB128.0 million over the same period last year. The decrease was mainly due to the increase in advertising and promotional costs for the Year by approximately RMB137.9 million as compared to the same period last year and the advertising and promotional costs accounted for 13.1% (2013: 11.2%) of the Group's revenue. The Group's net profit margin decreased to 10.0% (2013: 14.0%).

DIVIDEND

The Group maintained a high level of cash and bank balances. The Board continued to improve Shareholders' dividend return and therefore recommended a final dividend of HK5.0 cents per Share (2013: HK8.0 cents per Share) and a special dividend of HK3.0 cents (2013: nil). Including the interim dividend of HK8.5 cents per Share (2013: HK 10.0 cents per Share), the Group increased the total payout ratio for the Year to 60.0% (2013: 51.3%).

WORKING CAPITAL CYCLE

For the year ended 31 December 2014, the Group has improved the overall working capital turnover days by 17 days to 77 days (2013: 94 days).

For the year ended 31 December:

WORKING CAPITAL TURNOVER DAYS	2014 Days	2013 Days	Changes Days
Inventories	71	79	-8
Trade receivables	91	91	–
Trade payables	85	76	-9
Overall working capital turnover days	77	94	-17

INVENTORIES

INVENTORIES	2014 RMB million	2013 RMB million
Balance at 1 January	536.8	582.7
Balance at 31 December	569.0	536.8
Average balance (note 1)	552.9	559.8
Cost of sales for the year ended 31 December	2,830.7	2,595.5
Average turnover days (note 2)	71 days	79 days

As at 31 December 2014, the Group's balance of inventory was approximately RMB569.0 million (2013: RMB536.8 million). The turnover days of inventories for the year ended 31 December 2014 improved by 8 days to 71 days (2013: 79 days). This improvement was mainly due to the prudent sales order of products and improvements in supply chain management that enables timely delivery schedules of products.

TRADE RECEIVABLES

TRADE RECEIVABLES	2014 RMB million	2013 RMB million
Balance at 1 January	1,137.9	1,035.9
Balance at 31 December	1,231.4	1,137.9
Average balance (note 1)	1,184.7	1,086.9
Revenue for the year ended 31 December	4,777.6	4,343.1
Average turnover days (note 2)	91 days	91 days

As of 31 December 2014, the Group's net balance of trade receivables was approximately RMB1,231.4 million (2013: RMB1,137.9 million). While the Group provided temporary support to assist its retail channels in a progressive recovery across these retail channels, the turnover days of trade receivables remained stable at 91 days (2013: 91 days).

TRADE PAYABLES

TRADE PAYABLES	2014 RMB million	2013 RMB million
Balance at 1 January	597.5	482.5
Balance at 31 December	719.1	597.5
Average balance (note 1)	658.3	540.0
Cost of sales for the year ended 31 December	2,830.7	2,595.5
Average turnover days (note 2)	85 days	76 days

As at 31 December 2014, the Group's trade payables balance was approximately RMB719.1 million (2013: RMB597.5 million). The increase was due to the Group having utilized the credit period of suppliers and extending the payment days in order to improve the working capital cycle of the Group. The average trade payable turnover days for the Year improved by 9 days to 85 days (2013: 76 days).

Note 1: The average balance is equal to the average of balance as at 1 January and 31 December of the relevant year.

Note 2: The average turnover days is equal to the average balance divided by the corresponding cost of sales or revenue and multiplied by 365 days.

BILLS RECEIVABLES AND BILLS PAYABLES

In order to have more flexibilities in utilising working capital facilities, the Group increased the acceptance and usage of bills receivables and bills payables, respectively. As of 31 December 2014, the bills receivables amounted to approximately RMB258.5 million (31 December 2013: RMB13.0 million) and the bills payables were RMB9.9 million (31 December 2013: RMB3.5 million). For the year ended 31 December 2014, the number of turnover days of bills receivables was 10 days (2013: 1 day) and the number of turnover days of bills payables was 1 day (2013: Nil).

LIQUIDITY AND CAPITAL RESOURCES

As of 31 December 2014, the Group's cash and cash equivalents amounted to approximately RMB3,137.1 million (31 December 2013: RMB3,563.4 million), representing a decrease of approximately RMB426.3 million. The net cash and cash equivalents (including fixed deposits held at banks with maturity dates of over three months, pledged deposits and other current financial assets, minus bank loans) were approximately RMB2,604.2 million as of 31 December 2014 (as of 31 December 2013: RMB2,863.1 million). This was mainly attributable to:

(a) Net cash inflow from operating activities that amounted to RMB94.6 million, which was due to the payment of income and withholding tax amounting to RMB332.3 million and cash used in operating activities mainly due to the increase in trade and bills receivables, and offset by the increase in trade and bills payables. On the other hand, the cashflow from operating activities in the second half year of 2014 was significantly improved to net cash inflow of approximately RMB471.3 million compared of net cash outflow of approximately RMB376.7 million in the first half year of 2014. The major reason was the decrease in inventory level in the second half year of 2014.

(b) Net cash outflow from investing activities that amounted to RMB538.1 million, and was mainly due to the capital expenditure amounting to RMB106.4 million, the increase in available-for-sale investment amounting to RMB465.0 million and the deposit for acquisition of land use rights amounting to RMB49.5 million; and

(c) Net cash inflow from financing activities that amounted to RMB17.2 million, mainly due to the payment of dividends amounting to RMB287.7 million and offset by the net increase in bank borrowings amounting to RMB300.7 million.

As of 31 December 2014, the Group's gearing ratio was 23.4% (31 December 2013: 20.9%), which is defined as the total bank borrowings divided by the Group's total assets.

As of 31 December 2014, the total assets of the Group amounted to RMB7,864.4 million (31 December 2013: RMB7,306.8 million), represented by non-current assets of RMB917.3 million (31 December 2013: RMB954.6 million) and current assets of RMB6,947.1 million (31 December 2013: RMB6,352.2 million). The total liabilities of the Group amounted to RMB3,154.1 million (31 December 2013: RMB2,799.2 million), represented by non-current liabilities of RMB803.8 million (31 December 2013: RMB443.2 million) and current liabilities of RMB2,350.3 million (31 December 2013: RMB2,356.0 million). The total non-controlling interests of the Group amounted to RMB9.9 million (31 December 2013: RMB1.9 million). Hence, the total net assets of the Group amounted to RMB4,710.3 million (31 December 2013: RMB4,507.6 million), representing an increase of 4.5%. Net assets per Share as at 31 December 2014 were approximately RMB2.16 (31 December 2013: RMB2.07), representing an increase of 4.5%.

INVENTORY PROVISION

For the year ended 31 December 2014, the Group did not have any inventory provisions.

IMPAIRMENT PROVISION FOR TRADE RECEIVABLES

For the year ended 31 December 2014, the Group recorded a net impairment provision for trade receivables amounting to approximately RMB127.6 million (2013: RMB51.2 million).

COMMITMENTS

Details of the Group's commitments are stated in note 36 of the financial statements.

CONTINGENT LIABILITIES

As of 31 December 2014, the Group did not have any material contingent liabilities.

CHARGE OF ASSETS

Save as disclosed in notes 23 and 26 of the financial statements relating to certain amounts of bank deposits pledged to secure the banking facilities, none of the Group's assets were pledged as of 31 December 2014.

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 that would affect its operation. The Group has not used any forward contracts or currency borrowings to hedge its foreign currency risks. However, the management team will continue to monitor foreign currency risks and adopt prudent measures as appropriate.

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the Year, the Group did not have any significant investments or acquisitions or sales of subsidiaries. The Group will continue to seek opportunities to acquire and work with international sportswear brands in order to generate more returns to its Shareholders. No plans have been authorized by the Board for any material investments or additions of capital assets as at the date of this annual report.

HUMAN RESOURCES

As of 31 December 2014, the Group has approximately 8,000 employees (31 December 2013: 8,180 employees). The Group provides introductory orientation programs and continuous training to its employees. Topics covered include industry knowledge, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and standards of its staff. The Group will strive to strengthen human resources management to provide strong support for the development of its business through staff recruitment initiatives, optimization of the organizational structure and promotion of its corporate culture to ensure that it can maintain sustainable development in the future.


FASHION
SPORTSWEAR


CULTURE

INVESTOR RELATIONS REPORT

Underpinned by transparency, accuracy and timeliness – the three main pillars of investor relations – the Group is fully committed to effective communications that lead to the establishment of long-term relationships with Shareholders, investors and the public. For the Group's commitment and dedication over the years, the Company has been recognised and named the "Overall Best Company in China for Corporate Governance" in the Asiamoney Corporate Governance Poll 2014. And for the first time, the Company was ranked among the Top 100 companies in Greater China, and being 12th in the Consumer Discretionary sector and 45th overall in Greater China in the Small/Mid-Cap category in the investor perception survey for the IR Magazine Awards 2014.

UPHOLDING SHAREHOLDER VALUE

Over the past year, the Group has endeavored to enhance its long-term market value by directing considerable resources toward brand promotion and product development, with the ultimate goal of consolidating its place as a market leader in the domestic sportswear industry. To acknowledge the support of its Shareholders, the management team has maintained a stable and substantial dividend stream, despite fluctuations in earnings during recent years. In fact, the Group's dividend payout ratio has remained at a level of more than 50% since it was listed in 2008 – a solid track record of delivering sustainable and reliable returns to Shareholders. Furthermore, as the operating cashflow improved in the second half of 2014, on top of the normal dividend payout ratio of 50%, the Board proposed a special dividend for the Year. Hence, the total payout ratio for the Year increased to 60.0%.

ACCURATE, CONSISTENT AND TIMELY INFORMATION FLOW

The Group recognises the importance of accurate, consistent, and timely dissemination of information to the public as a key part of building shareholder value and enhancing investor confidence. In the past year, in addition to the required disclosures pursuant to the Listing Rules and other regulatory requirements, the Group has established different channels of communications to ensure that all interested parties have open and fair access to its corporate information. These instruments of communications include briefing presentations for its bi-annual and annual financial results, a teleconference for investors/analysts on its fourth quarter sales orders as a yearly round up, quarterly announcements of its sales fair order results and updates on business operations and distribution of its press releases about its latest corporate developments. In view of the emerging importance of social media, the Group has also set up official accounts on Facebook, Wechat and Weibo to further engage the public, while all the above information as well as webcast of associated events can be easily accessed via the Group's corporate website, www.xtep.com.hk.

PROACTIVE INVESTORS RELATIONSHIP

By actively engaging the financial community, and thereby raise public awareness of the Group's business strategies and prospects, the management team aims to enhance the investors relationship. During the Year under review, the Group proactively reached out to its Shareholders and potential investors and analysts by organizing about 90 face-to-face investor meetings, teleconferences and small group analyst/investor luncheons, attending 15 local/overseas corporate conferences and roadshows and arranging more than ten factory and/or store visits. Through these efforts, the Group's management team was able to engage over 300 Shareholders, potential investors and analysts, providing the financial community comprehensive and in-depth understanding of the Group and discussions with the team.

INVESTOR INFORMATION

1. SHARE INFORMATION

Listing Date: 3 June 2008
Board lot: 500 Shares
Number of issued shares as at
31 December 2014: 2,178,085,000 Shares
Stock code: 1368

2. 2014 DIVIDEND

2014 Interim dividend: HK8.5 cents per Share
(2013: HK10.0 cents per Share)
2014 Final dividend: HK5.0 cents per Share*
(2013: HK8.0 cents per Share)
2014 Special dividend: HK3.0 cents per Share*
(2013: Nil)

* Expected to be payable on or about 26 June 2015.

3. INVESTOR RELATIONS 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

KEY INVESTOR RELATIONS EVENTS HELD IN 2014

Event	Date
2013 Annual Results Announcement • Press Conference • Analysts and Investors Presentation	12 March 2014
Investor Teleconference on 2014 Fourth Quarter Sales Fair Results	2 May 2014
2013 Annual General Meeting	15 May 2014
2014 Interim Results Announcement • Press Conference • Analysts and Investors Presentation	21 August 2014
Year-end Analyst Luncheon	29 December 2014

KEY INVESTOR RELATIONS MEETINGS ATTENDED IN 2014

Events	Date	Organizer	Location
Post-results Non-deal Roadshow	1 April 2014	Merrill Lynch	Singapore
Daiwa Consumer and Gaming Conference	17 April 2014	Daiwa	Hong Kong
Non-deal Roadshow	26 April – 1 May 2014	Jefferies	Beijing and Shanghai
Investor Teleconference	12 May 2014	First Shanghai	Hong Kong
Morgan Stanley Fifth Annual Hong Kong Investor Summit	13 May 2014	Morgan Stanley	Hong Kong
Non-deal Roadshow	16 May 2014	Jefferies	Hong Kong
HSBC 2nd Annual China Discovery Forum	6 June 2014	HSBC	Hong Kong
J.P. Morgan Global China Summit	10-11 June 2014	J.P. Morgan	Beijing
Guangfa Securities China Concept Stocks Summer Summit	19 June 2014	Guangfa Securities	Shenzhen
Post-results Non-deal Roadshow	22 & 26 August 2014	HSBC	Hong Kong
HSBC China Conference	20-21 October 2014	HSBC	Shanghai
Jefferies 4th Annual Asia Corporate Access Summit	29 October 2014	Jefferies	Hong Kong
HSBC 6th Annual Asia Investor Forum	18-19 November 2014	HSBC	New York
Investor Tele-conference on 2015 Second Quarter Sales Fair Results	25 November 2014	First Shanghai	Hong Kong
Macquarie North Asia Corporate Day	28 November 2014	Macquarie	Hong Kong

CORPORATE SOCIAL RESPONSIBILITY

XTEP – CARING FOR THE SOCIETY AND STRIVING FOR PEOPLE'S WELL-BEING

XTEP aims to be a world-leading fashion sportswear brand. While committed to seeking continuous business growth, the Group is also committed to fulfilling social responsibilities, caring for its employees and the community, promoting harmonious development of the society and endeavoring to become a respected national brand operator.

PROMOTING SPORTS PARTICIPATION

As a leading fashion sportswear enterprise in China, the Group has been keen in promoting public participation in sports and is actively devoted to the promotion of two healthy and popular physical activities, namely running and football, by sponsoring various prominent national and local sporting events. During the Year, the Group has organized 13 marathons and four parent-child running events in several major cities in China, such as Hong Kong, Xiamen, Chongqing, Zhengzhou, Yangzhou, Guangzhou and Hangzhou. Meanwhile, the Group has also organized 11 running training camps through its XTEP Runners Club with an aim to promote the spirit of sports.

CARING FOR EMPLOYEES AND DEVELOPING PEOPLE

Currently, the number of employees of the Group reached more than 8,000 and most of them have been working for the Group over three years. XTEP has achieved outstanding results in retaining human resources and was awarded the "National Model Harmonious Labor Relations Enterprise" and "May 1st Labor Medal" for four consecutive years from 2011 to 2014. The Group considers its employees as its most valuable assets and is committed to providing benefits for them. With regards to human resources training, a series of on-the-job training programs were put in place to promote the personal growth of employees. Meanwhile, a system for selecting appropriate talent has been established to provide a good platform for employees' career development. In addition, as the Group places great

emphasis on the quality of life of employees, it has provided free accommodation, meals and social insurance for its permanent employees and also has organized diversified recreational activities including monthly birthday parties, annual "Sunshine Cultural Tours", outdoor leadership training and team building workshops, in order to promote both the physical and mental wellness of employees.

FOCUSING ON QUALITY ENHANCEMENT AND STRENGTHENING ENVIRONMENTAL PROTECTION

The Group is equipped with the most advanced shoe manufacturing equipments in the country and puts great emphasis on product risk management. In each production process, the Group strictly complies with the relevant laws and regulations and implemented industry standards in strict compliance with the ISO quality management system in order to provide XTEP products with outstanding quality. During the Year, the Group has deepened its cooperation relationship and communications with the China National Institution of Standardization, China Association for Quality and AQSIQ, greatly contributing to the enhancement of product quality management and product safety.

The Group has been committed to implementing various energy-saving and environmental protection measures, including unified sewage treatment and solid waste separation and collection. In addition, XTEP encouraged suppliers to establish environmental-friendly and energy-saving production management systems and encouraged them to participate in the ISO14001 environmental management system and commence clean production while providing relevant training to them. The Group also cooperated with government environmental authorities and professional environmental monitoring institutions as we conducted inspections on the production of major material suppliers and working environment and provided guidance on compliance management. In compliance with industry requirements, we have conducted inspections and provided guidance on the discharge of dangerous wastes by major suppliers. Regarding the occupational health and safety of the supply chains, the Group has also conducted evaluation and provided guidance to major suppliers on their work related to labor rights and occupational health and safety.

CONTRIBUTING TO CHARITY AND SOCIETY

The Group pledged to serve the community by participating in and organizing charity events in various sectors such as education, cultural and sports in past years with donations amounting to over tens of millions of Renminbi. On 14 November 2014, our chairman, Ding Shui Po, led the team of "XTEP Kids" to participate in a charity visit at Jinjiang Chendai Town Xibian Primary School together with CCTV Kids Channel and donated uniforms with a total value of RMB400,000 to the school. The Group intends to continue its efforts in supporting charity events and devote its best efforts to the society.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Ding Shui Po (丁水波), aged 44, is the founder, chairman and chief executive officer of the Group. He has over 26 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
2013	Quanzhou Top Talent
2013	Outstanding Contribution Award on Community Donation by a Businessman in the Private Sector in Fujian Province
2013	Outstanding Contribution Award on Western Taiwan Straits Economic Zone Construction
2013	Top Ten Outstanding Young Persons in Quanzhou

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 the 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 the National Youth Committee
2011	Founding Chairman of the Hong Kong China Chamber of Commerce
2013	Committee Member of the 11th Fujian Provincial Committee of the Political Consultative Conference
2013	Executive Vice President of the 4th Congress of the China Federation of Overseas Chinese Entrepreneurs
2014	Chairman of the 2nd World Quanzhou Youth Friendship Association

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, and studied in the China CEO/Finance CEO Program offered by Cheung Kong Graduate School of Business (長江商學院) in 2011. He also completed the CEO Program of the China Europe International Business School (中歐國際工商學院) and the EMBA program offered by Xiamen University (廈門大學) in 2014. 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 42, is our executive Director and a vice president of the Company. Ms. Ding has over 16 years of experience in the sportswear industry and is primarily responsible for the management of the footwear operation of the Group. She is also responsible for the design and technology development of the Group and has led our design team in creating 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 43, is our executive Director and a vice president of the Company. Mr. Lin has over 16 years of experience in the sportswear industry and is primarily responsible for the management of the 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 38, is our executive Director and a vice president of the Company. He has over 16 years of experience in the sportswear industry and is primarily responsible for the management of the 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 57, is our executive Director and a vice president of Xtep (China). Joining the Group in 2004, Mr. Ye has over 22 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) and a master's degree in business administration from China Europe International Business School (中歐國際工商學院) in 1988 and 2003, respectively. He studied and completed 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 from 2011 to 2014. He has been studying the MBA program of the Peking University HSBC Business School since September 2014.

Mr. Ho Yui Pok, Eleutherius (何睿博), aged 49, joined the Group in 2007 and was later appointed as an executive Director of the Company on 29 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 25 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 the 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, he was a chief financial officer, company secretary and authorized representative of GST Holdings Limited from 2005 to 2007, and a financial controller of EC-Founder (Holdings) Co., Ltd. from 2000 to 2005, a company listed on the Main Board of the Hong Kong Stock Exchange. In addition, he worked for an international accounting firm as a manager from 1994 to 1996. He was 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.

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Mr. Tan Wee Seng (陳偉成), aged 59, 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 an independent non-executive director of Sa Sa International Holdings Limited, an independent non-executive director and chairman of the remuneration committee of Biostime International Holdings Limited and Sinopharm Group Company Limited, and an independent non-executive director and chairman of the audit committee of CIFI Holdings (Group) Company Limited, all of these companies are listed on the Main Board of Hong Kong Stock Exchange. He is also an independent director and a member of the audit committee of ReneSola Ltd. whose shares are listed on the NYSE, and a board member and chairman of the finance and operation committee of Beijing City International School, an academic institution in Beijing. Mr. Tan has been an independent director and chairman of audit committee for 7 Days Group Holdings Limited listed in the NYSE from November 2009 to July 2013 on which it was privatized. Mr. Tan was also the chairman of special committee for privatization of the 7 Days Group Holdings Limited from October 2012 to July 2013.

Mr. Tan has over 35 years of experience in financial management, corporate finance, merger and acquisition, business management and strategy development. He has also held various management and senior management positions in a number of multi-national and Chinese corporations. 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 of Hong Kong Stock Exchange. 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 mainly engaged in domestic equity and financial information services, and as the director of Infocast Pty Limited, a Reuters subsidiary in Australia and as the regional finance manager of Reuters East Asia. Mr. Tan is a professional accountant and a fellow member of both the Chartered Institute of Management Accountants in the United Kingdom and the Hong Kong Institute of Directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sin Ka Man (冼家敏), aged 47, was appointed as our independent non-executive Director on 24 January 2008. Mr. Sin has over 22 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 Infinity Financial Group (Holdings) Limited (formerly Fronton Group Limited), PNG Resources Holdings Limited (formerly Leroi Holdings Limited), Chinese People Holdings Company Limited and Sino Haijing Holdings Limited (all of these companies are listed on the Main Board of Hong Kong Stock Exchange). Previously he was an independent non-executive director of China Motion Telecom International Limited, a company listed on the Main Board of Hong Kong Stock Exchange and 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 67, was appointed as our independent non-executive Director on 24 January 2008. Mr. Xu has over 16 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 the 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 prelisting matters. He was also responsible for financial and statistical planning in the Quanzhou Economy Committee. He graduated from Fuzhou University.

Dr. Gao Xian Feng (高賢峰), aged 52, was appointed as our independent non-executive Director on 24 January 2008. Dr. Gao is currently the executive officer of the Human Resources Management Research Centre at 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).

Dr. Bao Ming Xiao (鮑明曉), aged 52, was appointed as our independent non-executive Director on 21 December 2012. Dr. Bao has over 22 years of experience in physical education. Dr. Bao was a professor of physical education theory at the Capital Institute of Physical Education from 1998 to 2000. He has been a researcher and the chairman of the Research Center of Physical Education Sociology and Science at the Research Institute of Physical Education and Science (體育科學研究所體育社會科學研究中心) of the General Administration of Sport of China (國家體育總局) since 2001. In 2011, Dr. Bao was appointed as deputy chairman of the Second Sport Committee of China Sport Science Society (中國體育科學學會). Dr. Bao graduated from Anhui Normal University (安徽師範大學) with a bachelor's degree in physical education in 1983. Dr. Bao then obtained a master's degree in education and a doctorial degree in education from Shanghai University of Sport (上海體育學院) in 1988 and 2005, respectively.

SENIOR MANAGEMENT

The senior management of the Company is composed of all the executive Directors of the Company, namely, 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. Please refer to the above section headed "Executive Directors" for their biographical details.

COMPANY SECRETARY

Mr. Ho Yui Pok, Eleutherius (何睿博), aged 49, 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".

CORPORATE GOVERNANCE REPORT

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization that is open and accountable to the Shareholders. The Board strives to adhere to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor for creating more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board, in order to optimize the returns for Shareholders.

The Group's effort in corporate governance has been recognized as Overall Best Company in China for Corporate Governance in the Asiamoney Corporate Governance Poll 2014. The Corporate Governance Poll is conducted annually by *Asiamoney*, an authoritative regional financial publication, to evaluate the corporate governance standards of companies in Asia-Pacific. CEOs, CIOs and senior executives from fund management and hedge fund companies, as well as heads of research and senior analysts at brokerages across the Asia-Pacific region are invited to participate in the poll.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2014, the Company complied with all code provisions and, where appropriate, adopted the recommended best practices as set out in the Corporate Governance Code, with the exception of code provision A.2.1 (chairman and chief executive).

Under code provision A.2.1 of the Corporate Governance Code, the roles of the chairman and chief executive should be separate and should not be performed by the same individual. The Group does not at present separate the roles of the chairman and the chief executive. Mr. Ding Shui Po is the chairman and chief executive officer of the Group. He has extensive experience in the sportswear industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board believes 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 is comprised of experienced and high caliber individuals. The Board currently consists of six executive Directors, one non-executive Director and four independent non-executive Directors and has a strong independence element in its composition.

COMPLIANCE WITH MODEL CODE

The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding directors' securities transactions for the year ended 31 December 2014.

BOARD OF DIRECTORS

Board Composition

As at 31 December 2014 and the date of this annual report, the Board is comprised of six executive Directors, one non – executive Director and four independent non-executive Directors.

The followings are the members of the Board:

Executive Directors

Mr. Ding Shui Po *(Chairman and Chief Executive Officer)*
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
Dr. Bao Ming Xiao

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.

All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director is suitably qualified for his position, and has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Biographical information of the Directors are set out in the section headed "Directors and Senior Management" of this annual report.

Meetings of the Board

Board meetings were held from time to time to discuss the business strategies of the Group, to monitor financial and operational performance, to approve the annual and interim results of the Group, and to discuss the corporate governance functions of the Board.

Directors may participate either in person or through electronic means of communications. The individual attendance record of each Director at the meetings of the Board and the general meetings during the year ended 31 December 2014 is set out below:

Name of Director	Attendance/Number of Board Meeting(s)	Attendance/Number of General Meeting
Executive Directors		
Mr. Ding Shui Po	4/4	1/1
Ms. Ding Mei Qing	4/4	1/1
Mr. Lin Zhang Li	4/4	1/1
Mr. Ding Ming Zhong	4/4	1/1
Mr. Ye Qi	4/4	1/1
Mr. Ho Yui Pok, Eleutherius	4/4	1/1
Non-Executive Director		
Mr. Tan Wee Seng	4/4	1/1
Independent Non-Executive Directors		
Mr. Sin Ka Man	4/4	1/1
Mr. Xu Peng Xiang	4/4	1/1
Dr. Gao Xian Feng	4/4	1/1
Dr. Bao Ming Xiao	4/4	1/1

All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the company secretary of the Company at all times and may seek independent professional advice at the Company's expense. When queries are raised by Directors, steps would be taken to respond as promptly and as fully as possible. All Directors have the opportunity to include matters in the agenda of Board meetings. Notices of at least 14 days of Board meetings are given to the Directors and Board procedures comply with the articles of association of the Company, as well as relevant rules and regulations.

Functions and Duties of the Board

The overall management of the Company's operation is vested in the Board. The Board carries out its functions according to the powers conferred upon it by the Memorandum and Articles of Association of the Company which is uploaded onto the websites of the Hong Kong Stock Exchange and the Company, and since the date of uploading, has no significant changes have been made.

The main functions and duties conferred on the Board include:

- management of the overall business and strategic development;
- deciding business plans and investment plans;
- convening general meetings and reporting to the Shareholders; and
- exercising other powers, functions and duties conferred by Shareholders in general meetings.

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. Approvals must be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

The Directors may have access to the advice and services of the company secretary of the Company to ensure that the board procedures, and all applicable rules and regulations, are followed. In addition, the Directors may, upon reasonable request, seek independent professional advice under appropriate circumstance at the Company's expenses. The Board shall resolve to provide separate, appropriate, independent and professional advice to the Directors to assist the relevant Directors in discharging their duties.

Independent Non-Executive Directors

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

The Board has four independent non-executive Directors, in compliance with Rule 3.10(1) of the Listing Rules, which requires that every board of directors of a listed issuer must include at least three independent non-executive Directors. In addition, at least one independent non-executive Director, namely, Mr. Sin Ka Man, possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 3.10(2) of the Listing Rules. The Company has appointed four independent non-executive Directors, representing more than one-third of the Board, in compliance with Rule 3.10A of the Listing Rules.

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. Based on the contents of such confirmations, the Company considers that all the independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

Training and Support for Directors

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company.

The Directors have been informed of the requirement under code provision A.6.5 of the Corporate Governance Code regarding continuous professional development. According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the requirement of the Corporate Governance Code on continuous professional development during the year ended 31 December 2014:

	Corporate Governance/Updates on Laws, Rules and Regulations		Accounting/Financial/Management or Other Professional Skills	
Name of Director	Read materials	Attended Seminars/ Briefings	Read materials	Attended Seminars/ Briefings
Executive Directors				
Mr. Ding Shui Po	✓	✓	✓	✓
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	✓	✓	✓	✓
Dr. Bao Ming Xiao	✓	✓	✓	✓

Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Appointments and Re-Election of Directors

Each of the executive Directors, non-executive Directors and independent non-executive Directors has entered into a service contract with the Company for a specific term, and is subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the articles of association of the Company.

The articles of association of the Company provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Board Diversity Policy

Pursuant to code provisions of the Corporate Governance Code, the Board approved a new board diversity policy (the "Board Diversity Policy") in August 2013. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

CHAIRMAN AND CHIEF EXECUTIVE

Mr. Ding Shui Po is the chairman and chief executive officer of the Group. He has extensive experience in the sportswear industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board believes 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 is comprised of experienced and high caliber individuals. The Board currently consists of six executive Directors, one non-executive Director and four independent non-executive Directors and has a strong independence element in its composition.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

The non-executive Director, Mr. Tan Wee Seng, had entered into a service contract with the Company for an initial term of three years commencing on 29 March 2010.

Each of the independent non-executive Directors, except Dr. Bao Ming Xiao, had entered into a service contract with the Company for an initial term of two years commencing on 3 June 2008. Dr. Bao Ming Xiao had been appointed as a Director effective from 21 December 2012 and had entered into a service contract with the Company for an initial term of two years commencing on the same date.

All the service contracts of non-executive Directors and independent non-executive Directors are automatically renewed upon expiration and may be terminated by either party with a three-month's prior written notice.

BOARD COMMITTEES

The Board has established (i) Audit Committee, (ii) Remuneration Committee, and (iii) Nomination Committee with defined terms of reference. The terms of reference of the board committees, which explain their respective role and the authority delegated to them by the Board, are available on the websites of the Company and the Hong Kong Stock Exchange. The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance under appropriate circumstances, at the Company's expenses.

Audit Committee

The Audit Committee was established on 7 May 2008, in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the Code on Corporate Governance Code. The Audit Committee consists of three members, namely, Mr. Sin Ka Man, Mr. Xu Peng Xiang and Dr. Gao Xian Feng, all of whom are independent non-executive Directors. The chairman of the Audit Committee is Mr. Sin Ka Man, who has appropriate professional qualifications and experience in accounting matters. None of the members of the Audit Committee is a former partner of the existing external auditors of the Company, Ernst & Young.

The primary duties of the Audit Committee are to make recommendation to the Board on the appointment, re-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.

During the year ended 31 December 2014, the Audit Committee mainly performed the following duties:

– reviewed the Group's unaudited interim results for the six months ended 30 June 2014 and the audited annual results for the year ended 31 December 2014, met with the external auditors to discuss such interim results and annual results without the presence of the Company's management, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made;

– reviewed the accounting principles and practices adopted by the Group, and recommended the appointment of the external auditors; and

– assisted the Board in meeting its responsibilities for maintaining an effective system of internal control and risk management.

During the year ended 31 December 2014, 3 meetings were held by the Audit Committee. The attendance record of each member of the Audit Committee at the meetings of the Audit Committee is set out below:

Name of Director	Attendance/Number of Audit Committee Meeting(s)
Mr. Sin Ka Man	3/3
Mr. Xu Peng Xiang	3/3
Dr. Gao Xian Feng	3/3

There had been no disagreement between the Board and the Audit Committee during the financial year ended 31 December 2014.

Remuneration Committee

The Remuneration Committee was established on 7 May 2008, with written terms of reference in compliance with the Corporate Governance Code. 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 independent non-executive Directors. Mr. Xu Peng Xiang is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board on the remuneration of non-executive Directors.

During the year ended 31 December 2014, the Remuneration Committee mainly performed the following duties:

– reviewed the Group's remuneration policy and reviewed the remuneration package of the executive Directors and senior management for the year of 2014.

During the year ended 31 December 2014, one meeting was held by the Remuneration Committee. The attendance record of each member of the Remuneration Committee at the meetings of the Remuneration Committee is set out below:

Name of Director	Attendance/Number of Remuneration Committee Meeting
Mr. Xu Peng Xiang	1/1
Dr. Gao Xian Feng	1/1
Ms. Ding Mei Qing	1/1

Nomination Committee

The Nomination Committee was established on 7 May 2008, with written terms of reference in compliance with the Corporate Governance Code. The Nomination Committee consists of three members, namely, Mr. Ding Shui Po, an executive Director and the chairman of the Board, and two independent non-executive Directors, namely, Mr. Xu Peng Xiang and Dr. Gao Xian Feng. Mr. Ding Shui Po is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board at least once a year and to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships. In identifying suitable director candidates and making such recommendations to the Board, the Nomination Committee would also take into account various aspects of a candidate, including but not limited to his/her education background, professional experience, experience with the relevant industry and past directorships.

During the year ended 31 December 2014, the Nomination Committee mainly performed the following duties:

– reviewed the annual confirmation of independence submitted by the independent non-executive Directors and assessed their independence; and

– reviewed the structure, size and composition of the Board during the year of 2014.

The Nomination committee will also give consideration to the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy on a regular basis to ensure its effectiveness.

During the year ended 31 December 2014, one meeting was held by the Nomination Committee. The attendance record of each member of the Nomination Committee at the meetings of the Nomination Committee is set out below:

Name of Director	Attendance/Number of Nomination Committee Meeting
Mr. Ding Shui Po	1/1
Mr. Xu Peng Xiang	1/1
Dr. Gao Xian Feng	1/1

AUDITORS' REMUNERATION

The Company has re-appointed Ernst & Young as its external auditors during the year ended 31 December 2014. The external auditors are 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:

	HK$
Review of interim results	600,000
Audit services	3,685,000
	4,285,000

FINANCIAL REPORTING

The Board, supported by the chief financial officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flow of the Company and its subsidiaries for that period. The directors acknowledge their responsibilities for preparing the accounts of the Company. As at 31 December 2014, the Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

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

INTERNAL CONTROLS

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.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks, and to safeguard assets of the Group. The senior management reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures taken to address such variances and identified risks. The Company has established policies and procedures applicable to all operating units to ensure the effectiveness of internal controls. The Company also has a process for identifying, evaluating, and managing the significant risks associate with the achievement of its operational objective. This process is subject to continuous improvement and was in place throughout 2014. The day-to-day operation is entrusted to the individual department, which is accountable for its own conduct and performance, and is required to strictly adhere to the policies set by the Board. The Company carries out reviews of the effectiveness of the internal control systems from time to time in order to ensure that they are able to meet and deal with the dynamic and ever changing business environment.

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, with assistance from the Group's internal control 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 2014.

COMPANY SECRETARY

The secretary of the Company is Mr. Ho Yui Pok, Eleutherius, whose biography details are set out in the section headed "Directors and Senior Management" in this annual report.

Mr. Ho has been informed of the requirement of the Rule 3.29 of the Listing Rules, and he confirmed that he had attained no less than 15 hours of relevant professional training during the year ended 31 December 2014.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene an Extraordinary General Meeting and to Put Forward Proposals at Shareholders' Meeting

Pursuant to the Article 58 of the articles of association of the Company, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company by mail at Suite 2401–2, 24/F, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by Which Enquiries May Be Put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the secretary of the Company by mail at Suite 2401–2, 24/F, Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the chief executive officer of the Company.

INVESTOR RELATIONS

Constitutional Documents

There has been no significant change in the Company's constitutional documents during the year ended 31 December 2014.

Communication With Shareholders

The Board recognizes the importance of maintaining clear, timely and effective communication with Shareholders of the Company and its investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the investors and the Shareholders receive accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, announcements and circular. The Company also publishes all corporate correspondence on the Company's website www.xtep.com.hk. The Board maintains regular dialogues with institutional investors and analysts to keep them informed of the Group's strategy, operations, management and plans. Members of the Board and of the various board committees will attend the annual general meeting of the Company and answer questions raised during the meeting. At the general meeting, separate resolutions are proposed to resolve each substantially separate issue.

The chairman of the general meetings of the Company would explain the procedures for conducting poll before putting a resolution to vote. The results of the voting by poll will be declared at the meeting and published on the websites of the Hong Kong Stock Exchange and the Company.

REPORT OF THE DIRECTORS

The Directors are pleased to present their report together with the audited financial statements for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in the design, development, manufacturing, sales and marketing and brand management of sportswear, including footwear, apparel and accessories, sold mainly under XTEP.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2014 are set out in note 19 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2014 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 85 to 144 of this annual report.

DIVIDENDS

An interim dividend of HK8.5 cents (equivalent to approximately RMB6.7 cents) per Share was paid to our Shareholders during the year. The Board recommended a final dividend of HK5.0 cents (equivalent to approximately RMB4.0 cents) per Share and a special dividend of HK3.0 cents (equivalent to approximately RMB2.4 cents) per Share for the year ended 31 December 2014, subject to approval by the Shareholders at the annual general meeting to be held on 15 May 2015. The total dividends for the year ended 31 December 2014, which include the interim dividend, final dividend and special dividend, amounted to a total dividend of HK16.5 cents (equivalent to approximately RMB13.1 cents) per Share, represented a payout ratio of approximately 60.0%. Details of the dividend for the year ended 31 December 2014 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 30 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2014, 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 RMB299.9 million (2013: RMB177.1 million). Details of the reserves of the Company as at 31 December 2014 are set out in note 30 to the financial statements.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2014 amounted to approximately RMB8.0 million (2013: RMB9.8 million).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group for the year ended 31 December 2014 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 2014 are set out in note 29 to the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2014 were:

Executive Directors

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

Non-Executive Director

Tan Wee Seng

Independent Non-Executive Directors

Sin Ka Man
Xu Peng Xiang
Gao Xian Feng
Bao Ming Xiao

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 Directors on the Board, except Mr. Ho Yui Pok, Eleutherius, had entered into a service contract with the Company for an initial term of three years commencing on 3 June 2008. Mr. Ho Yui Pok, Eleutherius had entered into a service contract with the Company for an initial term of three years commencing on 29 March 2010.

The non-executive Director, Mr. Tan Wee Seng, had entered into a service contract with the Company for an initial term of three years commencing on 29 March 2010.

Each of the independent non-executive Directors, except Dr. Bao Ming Xiao, had entered into a service contract with the Company for an initial term of two years commencing from 3 June 2008. Dr. Bao Ming Xiao had been appointed as a Director effective from 21 December 2012 and had entered into a service contract with the Company for an initial term of two years commencing on the same date.

All the service contracts of Directors are automatically renewed upon expiration and may be terminated by either party with a three-month's prior written notice.

In accordance with article 87 of the Company's articles of association, Mr. Lin Zhang Li, Mr. Ding Ming Zhong, Mr. Xu Peng Xiang and Dr. Gao Xian Feng will retire from the Board by rotation at the forthcoming annual general meeting and, Mr. Lin Zhang Li, Mr. Ding Ming Zhong and Dr. Gao Xian Feng, being eligible, offer themselves for re-election. Mr. Xu Peng Xiang will not offer himself for re-election due to his personal retirement plan.

None of the Directors 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 56 to 59 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed below, there was no contract of significance to which the Company, or any of its holding companies, and 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 2014.

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

As at 31 December 2014, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Long Positions in the Company

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company[1]
Mr. Ding Shui Po[2]	Interests of controlled corporation/Beneficial interests	1,321,375,000	60.67%
Ms. Ding Mei Qing[3]	Interests of controlled corporation	1,310,059,500	60.15%
Mr. Lin Zhang Li[4]	Interests of spouse	1,310,059,500	60.15%
Mr. Ye Qi[5]	Beneficial interests	5,500,000	0.25%
Mr. Ho Yui Pok, Eleutherius[6]	Beneficial interests	10,000,000	0.46%
Mr. Tan Wee Seng[7]	Beneficial interests	1,380,000	0.06%

Notes:

(1) It was based on 2,178,085,000 issued Shares of the Company as at 31 December 2014.

(2) Mr. Ding Shui Po is deemed to be interested in 1,310,059,500 Shares of the Company held by Group Success by virtue of Group Success being controlled by Wan Xing International Holdings Limited which is in turn controlled by Mr. Ding Shui Po. Mr. Ding Shui Po is also beneficially interested in 11,315,500 Shares of the Company.

(3) Ms. Ding Mei Qing is deemed to be interested in the Shares of the Company held by Group Success by virtue of Group Success being controlled by Wan Xing International Holdings Limited which is in turn controlled by Ms. Ding Mei Qing.

(4) Mr. Lin Zhang Li, the husband of Ms. Ding Mei Qing and an executive Director, is deemed to be interested in his wife's interests in 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. The remaining 180,000 shares of these shares were acquired by Mr. Tan Wee Seng on the Hong Kong Stock Exchange.

Long Positions in Associated Corporation Xtep International E-Commerce Investment Limited

Name of Director	Nature of interest	Number of shares interested	Approximate percentage of interest in the issued share capital of associated corporation
Mr. Ho Yui Pok, Eleutherius[1]	Interests of controlled corporation and interests of spouse	1,750	3.5%

Note:

(1) Such interests are held by a company which is equally owned by Mr. Ho Yui Pok, Eleutherius and his spouse.

Save as disclosed above, as at 31 December 2014, 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 Hong Kong Stock Exchange pursuant to the Model Code.

At no time was the Company, or any of its holding companies and 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 2014 are as follows:

Name	Outstanding as at 1 January 2014	Exercised during the year ended 31 December 2014[1]	Outstanding as at 31 December 2014
Directors			
Mr. Ye Qi	1,500,000	–	1,500,000
Mr. Ho Yui Pok, Eleutherius	1,000,000	–	1,000,000
Employees			
In aggregate	14,265,000	–	14,265,000
Total	16,765,000	–	16,765,000

The total number of shares available for issue under the Pre-IPO Share Option Scheme is 16,765,000, representing approximately 0.77% of the Company's issued share capital as at the date of this annual report.

No options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2014.

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 that 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 2014 are as follows:

Name	Date of Grant	Exercise price per Share[1]	Exercise period[2][3][4]	Outstanding as at 1 January 2014	Granted during the year ended 31 December 2014	Cancelled during the year ended 31 December 2014	Exercised during the year ended 31 December 2014	Outstanding as at 31 December 2014
Directors								
Mr. Ye Qi	28 May 2010	HK$6.00	28 May 2012– 27 May 2020	1,000,000	–	–	–	1,000,000
Mr. Ye Qi	7 December 2011	HK$2.35	14 January 2012– 13 January 2021	3,000,000	–	–	–	3,000,000
Mr. Ho Yui Pok, Eleutherius	29 July 2009	HK$4.11	29 July 2010– 28 July 2019	1,500,000	–	–	–	1,500,000
Mr. Ho Yui Pok, Eleutherius	28 May 2010	HK$6.00	28 May 2012– 27 May 2020	1,000,000	–	–	–	1,000,000
Mr. Ho Yui Pok, Eleutherius	7 December 2011	HK$2.35	14 January 2012– 13 January 2021	6,500,000	–	–	–	6,500,000
Mr. Tan Wee Seng	30 March 2010	HK$6.13	30 March 2011– 29 March 2020	600,000	–	–	–	600,000
Mr. Tan Wee Seng	7 December 2011	HK$2.35	14 January 2012– 13 January 2021	600,000	–	–	–	600,000
Employees								
In aggregate	29 July 2009	HK$4.11	29 July 2010– 28 July 2019	8,140,000	–	–	–	8,140,000
In aggregate	28 January 2010	HK$5.01	28 January 2011– 27 January 2020	500,000	–	–	–	500,000
In aggregate	28 May 2010	HK$6.00	28 May 2012– 27 May 2020	8,000,000	–	–	–	8,000,000
In aggregate	7 December 2011	HK$2.35	14 January 2012– 13 January 2021	49,375,000	–	–	(1,320,000)[5]	48,055,000
Total				80,215,000	–	–	(1,320,000)	78,895,000

The total number of shares available for issue under the Share Option Scheme is 78,895,000, representing 3.62% of the Company's issued share capital as at the date of this annual report.

Saved as disclosed above, no share options granted under the Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2014.

Notes:

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

(5) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$3.65.

Further details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 31 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, or any of its holding companies and 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 2014, 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	60.15%
Wan Xing International Holdings Limited[2]	Interests of controlled corporation	1,310,059,500	60.15%
Carlyle Asia Growth Partners III, L.P.	Beneficial interests	200,769,294	9.22%
CAGP III Co-investment, L.P.	Beneficial interests	8,931,206	0.41%
CAGP General Partner, L.P.[2]	Interests of controlled corporation	209,700,500	9.63%
CAGP Ltd[2]	Interests of controlled corporation	209,700,500	9.63%

Notes:

(1) It was based on 2,178,085,000 issued Shares of the Company as at 31 December 2014.

(2) Wan Xing International Holdings Limited is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing International Holdings Limited.

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

Save as disclosed above, as at 31 December 2014, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE AWARD SCHEME

On 1 August 2014, the Company has adopted the Share Award Scheme ("Scheme") in which the Group's employees, executives, officers or directors will be entitled to participate.

Details of the Scheme are set out in the Company's announcement dated 1 August 2014.

As at the date of this report, the Board neither granted any awards nor caused to pay the trustee the trust fund for purchase nor subscription of Shares.

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 2014.

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 2014.

SPECIFIC PERFORMANCE OBLIGATIONS ON CERTAIN CONTROLLING SHAREHOLDERS

On 25 April 2012, the Company as borrower entered into a facility agreement (the "2012 Facility Agreement") with a syndicate of eight banks arranged by Hang Seng Bank Limited ("HASE") as mandated co-ordinating arranger and facility agent, pursuant to which a 3-year dual currency term loan facility in the principal amount of HK$140,400,000 and US$82,000,000 (equivalent to approximately HK$780,000,000 in aggregate) (the "2012 Facility") was made available to the Company on the terms and conditions stated therein.

On 9 January 2014, the Company as borrower entered into another facility agreement (together with the 2012 Facility Agreement, the "Facility Agreements") with a consortium of 11 banks arranged by HASE as co-ordinator, a mandated lead arranger and facility agent in the principal amount of US$92,000,000 and HK$452,400,000 (equivalent to approximately HK$1,170,000,000 in aggregate) (together with the 2012 Facility, the "Facilities") was made available to the Company on the terms and conditions stated therein.

The Facilities are guaranteed by certain subsidiaries of the Company.

It is provided in the Facility Agreements, among other things, that an event of default will occur if:

(a) Mr. Ding Shui Po is not or ceases to be the chairman of the Board;

(b) Mr. Ding Shui Po does not or ceases to maintain control over the management and business of the Group;

(c) Mr. Ding Shui Po and Ms. Ding Mei Qing (the "Majority Shareholders") collectively do not or cease to own, directly or indirectly, at least 40% of the beneficial shareholding, carrying at least 40% of the voting rights in the Company, free from any security; or

(d) the Majority Shareholders collectively are not or cease to be the single largest shareholder of the Company.

In case of occurrence of an event of default which is continuing, HASE may by notice to the Company (a) cancel the whole or any part of the Facilities whereupon the whole or relevant part of the Facility shall immediately be cancelled; (b) declare that all or part of the Facilities, together with accrued interest, and all other amounts accrued or outstanding under the Facility Agreements and related documents be immediately due and payable, whereupon they shall become immediately due and payable; and/or (c) declare that all or part of the Facilities be payable on demand, whereupon they shall immediately become payable on demand by HASE on the instructions of the majority lenders.

As at the date of this report, Mr. Ding Shui Po was an executive director, the chairman and a controlling shareholder of the Company. Ms. Ding Mei Qing was an executive director and a controlling shareholder of the Company. Mr. Ding Shui Po and Ms. Ding Mei Qing owned Wan Xing International Holdings Limited as to 63.2% and 36.8%, respectively, and Wan Xing International Holdings Limited wholly owned Group Success Investments Limited which in turn held representing approximately 60.15% of the issued share capital of the Company. Mr. Ding Shui Po also had personal beneficial interests in approximately 0.52% of the issued share capital of the Company.

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 of the Company.

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 2014 and up to and including the date of this annual report.

MANAGEMENT CONTRACTS

No contracts 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 31 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.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's largest and five largest customers were 5.7% (2013: 3.2%) and 18.1% (2013: 14.5%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 3.0% (2013: 3.2%) and 9.7% (2013: 13.3%) of the Group's total purchases respectively.

At no time during the year ended 31 December 2014, 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 2014.

BANK LOANS

Details of bank loans of the Company and the Group as at 31 December 2014 are set out in note 26 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 8 to 9 of this annual report.

On behalf of the Board
Ding Shui Po
Chairman

Hong Kong, 12 March 2015

INDEPENDENT AUDITORS' REPORT

EY 安永

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 85 to 144, which comprise the consolidated and company statements of financial position as at 31 December 2014, 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' judgement, 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.

INDEPENDENT AUDITORS' REPORT

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 2014, 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

12 March 2015

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
REVENUE	5	**4,777,648**	4,343,105
Cost of sales		**(2,830,730)**	(2,595,502)
Gross profit		**1,946,918**	1,747,603
Other income and gains	5	**148,778**	158,218
Selling and distribution expenses		**(798,619)**	(594,819)
General and administrative expenses		**(488,391)**	(415,607)
Operating profit	6	**808,686**	895,395
Net finance cost	7	**(38,352)**	(32,440)
PROFIT BEFORE TAX		**770,334**	862,955
Income tax expense	10	**(284,338)**	(259,692)
PROFIT FOR THE YEAR		**485,996**	603,263
Attributable to:			
Ordinary equity holders of the Company	11	**478,005**	605,966
Non-controlling interests		**7,991**	(2,703)
		485,996	603,263
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
– Basic		**RMB21.95 cents**	RMB27.84 cents
– Diluted		**RMB21.77 cents**	RMB27.60 cents

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
PROFIT FOR THE YEAR		**485,996**	603,263
OTHER COMPREHENSIVE INCOME			
Other comprehensive income may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements of operations outside Mainland China		**1,543**	33,726
Other comprehensive income for the year, net of tax		**1,543**	33,726
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**487,539**	636,989
Attributable to:			
Ordinary equity holders of the Company	11	**479,550**	639,692
Non-controlling interests		**7,989**	(2,703)
		487,539	636,989

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**585,350**	544,711
Prepaid land lease payments	15	**215,836**	220,672
Deposits for acquisition of land use rights	16	**55,751**	6,261
Intangible assets	17	**2,172**	1,066
Available-for-sale investments	18	**48,000**	33,000
Deposits	22	**10,206**	38,871
Non-current time deposits	23	**–**	110,000
Total non-current assets		**917,315**	954,581
CURRENT ASSETS			
Inventories	20	**568,984**	536,799
Trade receivables	21	**1,231,419**	1,137,943
Bills receivables	21	**258,520**	13,000
Prepayments, deposits and other receivables	22	**423,695**	385,508
Tax recoverable		**21,258**	355
Available-for-sale investments	18	**450,000**	–
Pledged bank deposits	23	**746,159**	715,203
Time deposits	23	**110,000**	–
Cash and cash equivalents	23	**3,137,110**	3,563,387
Total current assets		**6,947,145**	6,352,195
CURRENT LIABILITIES			
Trade and bills payables	24	**728,926**	601,018
Deposits received, other payables and accruals	25	**322,950**	332,687
Interest-bearing bank borrowings	26	**1,221,662**	1,350,637
Tax payable		**76,749**	71,625
Total current liabilities		**2,350,287**	2,355,967
NET CURRENT ASSETS		**4,596,858**	3,996,228
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,514,173**	4,950,809
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	26	**617,367**	174,884
Deferred tax liabilities	27	**121,248**	153,453
Deferred subsidy	28	**65,210**	114,833
Total non-current liabilities		**803,825**	443,170
NET ASSETS		**4,710,348**	4,507,639
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Share capital	29	**19,214**	19,204
Reserves	30(a)	**4,681,241**	4,486,531
		4,700,455	4,505,735
Non-controlling interests		**9,893**	1,904
Total equity		**4,710,348**	4,507,639

Ding Shui Po
Director

Ding Mei Qing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

		Attributable to ordinary equity holders of the Company										
			Reserves									
	Notes	Share capital RMB'000 (note 29)	Share premium account RMB'000 (note 30(b))	Capital reserve RMB'000 (note 30(a))	Statutory surplus fund RMB'000 (note 30(a))	Share option reserve RMB'000 (note 30(b))	Exchange fluctuation reserve RMB'000 (note 30(a))	Retained profits RMB'000	Total reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2013		19,200	128,094	118,600	389,471	99,982	5,888	3,513,127	4,255,162	4,274,362	5,419	4,279,781
Total comprehensive income for the year		–	–	–	–	–	33,726	605,966	639,692	639,692	(2,703)	636,989
Disposal of interests in subsidiaries		–	–	–	–	–	–	4,811	4,811	4,811	(812)	3,999
Equity-settled share option arrangements	31	–	–	–	–	14,376	–	–	14,376	14,376	–	14,376
2012 final dividend declared and paid	12	–	–	–	–	–	–	(175,253)	(175,253)	(175,253)	–	(175,253)
2012 special dividend declared and paid	12	–	–	–	–	–	–	(78,658)	(78,658)	(78,658)	–	(78,658)
2013 interim dividend declared and paid	12	–	–	–	–	–	–	(174,441)	(174,441)	(174,441)	–	(174,441)
Exercise of share options	29(i)	4	1,078	–	–	(236)	–	–	842	846	–	846
Transfer to statutory surplus fund		–	–	–	28,747	–	–	(28,747)	–	–	–	–
At 31 December 2013 and 1 January 2014		**19,204**	**129,172**	**118,600**	**418,218**	**114,122**	**39,614**	**3,666,805**	**4,486,531**	**4,505,735**	**1,904**	**4,507,639**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**1,545**	**478,005**	**479,550**	**479,550**	**7,989**	**487,539**
Equity-settled share option arrangements	31	**–**	**–**	**–**	**–**	**449**	**–**	**–**	**449**	**449**	**–**	**449**
2013 final dividend declared and paid	12	**–**	**–**	**–**	**–**	**–**	**–**	**(139,597)**	**(139,597)**	**(139,597)**	**–**	**(139,597)**
2014 interim dividend declared and paid	12	**–**	**–**	**–**	**–**	**–**	**–**	**(148,137)**	**(148,137)**	**(148,137)**	**–**	**(148,137)**
Exercise of share options	29(i)	**10**	**3,128**	**–**	**–**	**(683)**	**–**	**–**	**2,445**	**2,455**	**–**	**2,455**
Transfer to statutory surplus fund		**–**	**–**	**–**	**63,104**	**–**	**–**	**(63,104)**	**–**	**–**	**–**	**–**
At 31 December 2014		**19,214**	**132,300**	**118,600**	**481,322**	**113,888**	**41,159**	**3,793,972**	**4,681,241**	**4,700,455**	**9,893**	**4,710,348**

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**770,334**	862,955
Adjustments for:			
Depreciation	14	**40,269**	43,460
Amortisation of prepaid land lease payments	15	**4,836**	4,847
Amortisation of intangible assets	17	**367**	344
Loss on write-off of items of property, plant and equipment	6	**4,614**	–
Interest income	7	**(41,342)**	(46,322)
Interest expense on bank loans wholly repayable within five years	7	**38,280**	34,664
Interest expense on discounted bills receivables	7	**30,795**	30,067
Amortisation of bank charges on a syndicated loan	7	**12,557**	8,792
Fair value losses/(gains), net:			
Derivative financial instruments – transactions not qualified as hedges	7	**(2,221)**	4,574
Equity-settled share option expense	31	**449**	14,376
Provision for impaired trade receivables, net	6	**127,628**	51,241
Income derived from available-for-sale investments	5	**(115,340)**	(99,676)
		871,226	909,322
Decrease/(increase) in inventories		**(32,185)**	45,908
Increase in trade and bills receivables		**(466,624)**	(166,307)
Decrease/(increase) in prepayments, deposits and other receivables		**(38,187)**	35,864
Increase in trade and bills payables		**127,908**	118,501
Increase/(decrease) in deposits received, other payables and accruals		**(7,524)**	41,107
Cash generated from operations		**454,614**	984,395
Interest received		**41,342**	46,322
Interest paid		**(69,075)**	(64,731)
Overseas taxes paid		**(332,322)**	(308,298)
Net cash flows from operating activities		**94,559**	657,688
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	33(i)	**(106,383)**	(201,242)
Additions of intangible assets	17	**(1,473)**	(784)
Increase in deposits for purchase of items of property, plant and equipment		**(95)**	(27,880)
Increase in deposits for acquisition of land use rights, net		**(49,490)**	–
Increase in pledged deposits		**(30,956)**	(157,992)
Decrease/(increase) in available-for-sale investments		**(465,000)**	100,000
Increase in time deposits with original maturity more than three months when acquired		**–**	(110,000)
Income derived from available-for-sale investments	5	**115,340**	99,676
Disposal of interests in subsidiaries		**–**	3,999
Net cash flows used in investing activities		**(538,057)**	(294,223)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans, net of bank charges on syndicated loans		**1,256,561**	655,857
Repayment of bank loans		**(955,832)**	(152,695)
Net proceeds from issue of ordinary shares	29	**2,455**	846
Dividends paid	12	**(287,734)**	(428,352)
Exchange realignment		**1,760**	2,561
Net cash flows from financing activities		**17,210**	78,217
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(426,288)**	441,682
Cash and cash equivalents at beginning of year		**3,563,387**	3,122,801
Effect of foreign exchange rate changes, net		**11**	(1,096)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**3,137,110**	3,563,387
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		**3,137,110**	3,563,387

STATEMENT OF FINANCIAL POSITION

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSET			
Investments in subsidiaries	19	**1,100,241**	1,066,889
CURRENT ASSETS			
Due from a subsidiary	19	**1,070,235**	670,703
Prepayments	22	**716**	429
Cash and cash equivalents	23	**35,719**	25,561
Total current assets		**1,106,670**	696,693
CURRENT LIABILITIES			
Due to subsidiaries	19	**3,472**	581
Other payables and accruals	25	**45,270**	41,200
Interest-bearing bank borrowings	26	**1,221,662**	1,350,637
Total current liabilities		**1,270,404**	1,392,418
NET CURRENT LIABILITIES		**(163,734)**	(695,725)
TOTAL ASSETS LESS CURRENT LIABILITIES		**936,507**	371,164
NON-CURRENT LIABILITY			
Interest-bearing bank borrowings	26	**617,367**	174,884
NET ASSETS		**319,140**	196,280
EQUITY			
Share capital	29	**19,214**	19,204
Reserves	30(b)	**299,926**	177,076
Total equity		**319,140**	196,280

Ding Shui Po
Director

Ding Mei Qing
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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, 24th floor, 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. 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 Wan Xing International Holdings Limited, which is a limited liability company incorporated in the British Virgin Islands ("BVI").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with 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 ("HKICPA"), and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements 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 2014. 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 on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. 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, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	*Investment Entities*
Amendments to HKAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to HKAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*
Amendment to HKFRS 2 included in *Annual Improvements 2010-2012 Cycle*	*Definition of Vesting Condition*[1]
Amendment to HKFRS 3 included in *Annual Improvements 2010-2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendment to HKFRS 13 included in *Annual Improvements 2010-2012 Cycle*	*Short-term Receivables and Payables*
Amendment to HKFRS 1 included in *Annual Improvements 2011-2013 Cycle*	*Meaning of Effective HKFRSs*

1 Effective from 1 July 2014

The adoption of the above revised standards and interpretation has had no significant financial effect on these financial statements.

2.3 NEW AND REVISED HKFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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 9	*Financial Instruments*[4]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to HKFRS10, HKFRS12 and HKAS28	*Investment Entities: Applying the Consolidation Exception*[2]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
HKFRS 14	*Regulatory Deferral Accounts*[5]
HKFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to HKAS1	*Disclosure Initiative*[2]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[2]
Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs[1]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs[2]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018
5 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

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

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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).

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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 including 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 of disposal, 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 an 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.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, 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, available-for-sale financial investments and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

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.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 whether impairment exists individually 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.

The amount of any impairment loss identified 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).

The carrying amount of the asset is reduced through the use of an allowance account and 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 future 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 write-off is later recovered, the recovery is credited to the income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- 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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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 amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of 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 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

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 and later reclassified to the income statement when the hedged item affects the income statement.

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 current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to 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 over 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 directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. 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 payments

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 payments, 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 professionally qualified valuer using an appropriate pricing model.

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 in employee benefit expense. 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 payments, 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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in 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 measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the 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 subsidiaries operate outside Mainland China 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 prevailing 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 an operation outside Mainland China, the component of other comprehensive income relating to that particular operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and its subsidiaries operate outside Mainland China are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and its subsidiaries operate outside Mainland China 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 their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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 provision for trade and other receivables

The Group estimates the impairment provision 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. Provision 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 provision at the end of each reporting period.

Deferred tax assets

Deferred tax assets are recognised for 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.

4. OPERATING SEGMENT INFORMATION

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

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

Information about major customers

For the years ended 31 December 2014 and 2013, no revenue derived from a single customers of the Group accounted for over 10% of the Group's total revenue.

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:

	2014 RMB'000	2013 RMB'000
Revenue		
Manufacture and sale of sportswear:		
Footwear	3,042,857	2,246,851
Apparel	1,687,552	2,011,947
Accessories	47,239	84,307
	4,777,648	4,343,105
Other income and gains		
Subsidy income from the PRC government*	29,723	55,789
Rental income	2,813	2,203
Income derived from available-for-sale investments	115,340	99,676
Others	902	550
	148,778	158,218
	4,926,426	4,501,323

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

6. OPERATING PROFIT

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

	Notes	2014 RMB'000	2013 RMB'000
Cost of inventories sold[1]		**2,830,730**	2,595,502
Depreciation	14	**40,269**	43,460
Amortisation of prepaid land lease payments	15	**4,836**	4,847
Amortisation of intangible assets[2]	17	**367**	344
Advertising and promotional costs		**623,701**	485,752
Employee benefit expenses (including directors' remuneration – note 8):			
Wages and salaries		**395,883**	331,888
Other allowances and benefits		**45,951**	51,235
Equity-settled share option expense		**449**	14,376
Pension scheme contributions[3]		**13,045**	15,150
		455,328	412,649
Auditors' remuneration		**2,920**	2,784
Loss on write-off of items of property, plant and equipment		**4,614**	–
Minimum lease payments under operating leases of land and buildings		**11,079**	9,018
Provision for impaired trade receivables, net[2]	21	**127,628**	51,241
Research and development costs[4]		**107,496**	111,380
Fair value losses/(gains), net:			
Derivative instruments – transactions not qualified as hedges	7	**(2,221)**	4,574

1 The cost of inventories sold for the year includes RMB280,113,000 (2013: RMB228,785,000), 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.

2 The amortisation of intangible assets and provision for impaired trade receivables, net for the year are included in "General and administrative expenses" in the consolidated income statement.

3 As at 31 December 2014, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2013: Nil).

4 The research and development costs for the year includes RMB58,836,000 (2013: RMB67,434,000) relating to depreciation of research and development centres and staff costs for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses.

7. NET FINANCE COST

An analysis of net finance cost is as follows:

	Group 2014 RMB'000	Group 2013 RMB'000
Interest expense on bank loans wholly repayable within five years	(38,280)	(34,664)
Interest expense on discounted bills receivable	(30,795)	(30,067)
Amortisation of bank charges on syndicated loans	(12,557)	(8,792)
Foreign exchange differences, net	(283)	(665)
Bank interest income	41,342	46,322
Fair value gain/(loss) on interest rate swaps*	2,221	(4,574)
	(38,352)	(32,440)

* 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 and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	Group 2014 RMB'000	Group 2013 RMB'000
Fees:		
Executive directors	–	–
Non-executive director	523	528
Independent non-executive directors	730	732
	1,253	1,260
Other emoluments of executive directors:		
Salaries, other allowances and benefits in kind	6,325	6,370
Equity-settled share option expense	–	2,276
Pension scheme contributions	193	162
	6,518	8,808
Other emoluments of a non-executive director:		
Equity-settled share option expense	–	144
	7,771	10,212

Share options were granted to directors, in respect of their services to the Group, under the pre-initial public offering ("pre-IPO") share option and share option schemes of the Company, respectively. Further details of which are set out in notes 31(a) and 31(b) to the financial statements, respectively. 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 last year was 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 benefits in kind RMB'000	Performance-related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2014						
a)	*Executive directors*					
	Ding Shui Po^	912	–	–	16	928
	Ding Mei Qing	456	–	–	14	470
	Lin Zhang Li	456	–	–	14	470
	Ding Ming Zhong	456	–	–	14	470
	Ye Qi	1,668	–	–	16	1,684
	Ho Yui Pok, Eleutherius	2,377	–	–	119	2,496
		6,325	–	–	193	6,518
b)	*Non-executive director*					
	Tan Wee Seng	523	–	–	–	523
c)	*Independent non-executive directors*					
	Sin Ka Man	190	–	–	–	190
	Xu Peng Xiang	180	–	–	–	180
	Gao Xian Feng	180	–	–	–	180
	Bao Ming Xiao	180	–	–	–	180
		730	–	–	–	730
		7,578	–	–	193	7,771

		Salaries, other allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2013						
a)	*Executive directors*					
	Ding Shui Po^	916	–	–	15	931
	Ding Mei Qing	458	–	–	12	470
	Lin Zhang Li	458	–	–	12	470
	Ding Ming Zhong	458	–	–	12	470
	Ye Qi	1,680	–	719	15	2,414
	Ho Yui Pok, Eleutherius	2,400	–	1,557	96	4,053
		6,370	–	2,276	162	8,808
b)	*Non-executive director*					
	Tan Wee Seng	528	–	144	–	672
c)	*Independent non-executive directors*					
	Sin Ka Man	192	–	–	–	192
	Xu Peng Xiang	180	–	–	–	180
	Gao Xian Feng	180	–	–	–	180
	Bao Ming Xiao	180	–	–	–	180
		732	–	–	–	732
		7,630	–	2,420	162	10,212

^ Mr. Ding Shui Po is also the chief executive officer of the Group.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2013: three) directors, details of whose remuneration are set out in note 8 above.

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees 2014	2013
RMB500,000 – RMB1,000,000	2	2

Details of the remuneration for the year of the remaining two (2013: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Group	
	2014 RMB'000	2013 RMB'000
Salaries, other allowances and benefits in kind	1,527	1,417
Performance-related bonuses	129	–
Pension scheme contributions	27	15
	1,683	1,432

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 (2013: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Group	
	2014 RMB'000	2013 RMB'000
Current tax – Overseas		
Charge for the year	250,878	234,077
Underprovision in prior years	11,460	5,615
	262,338	239,692
Deferred (note 27)	22,000	20,000
	284,338	259,692

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 2013 and 2014 as Xtep China was qualified as a High-New Technology Enterprise (the "HNTE") in the PRC and obtained the HNTE certificate in 2013.

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	
	2014	2013
	RMB'000	RMB'000
Profit before tax	**770,334**	862,955
Tax at the applicable tax rates	**202,001**	221,284
Lower tax rates for specific provinces or tax holidays	**(25,659)**	(22,163)
Adjustments in respect of current tax of previous years	**11,460**	5,615
Income not subject to tax	**(2,975)**	(2,409)
Expenses not deductible for tax	**71,242**	32,574
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**22,000**	20,000
Tax losses utilised from previous periods	**(1,381)**	(184)
Tax losses not recognised	**7,650**	4,975
Tax charge at the Group's effective rate	**284,338**	259,692

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 2014 includes a loss of RMB71,964,000 (2013: RMB65,260,000) which has been dealt with in the financial statements of the Company (note 30(b)).

12. DIVIDENDS

	2014 RMB'000	2013 RMB'000
Dividends paid during the year:		
Final – HK8.0 cents (2013: HK10.0 cents) per ordinary share	139,597[2]	175,253[1]
Special – Nil (2013: HK4.5 cents) per ordinary share	–	78,658[1]
Interim – HK8.5 cents (2013: HK10.0 cents) per ordinary share	148,137[3]	174,441[2]
	287,734	428,352
Proposed final dividend:		
HK5.0 cents (2013: HK8.0 cents) per ordinary share	87,668[3]	137,572[2]
Proposed special dividend:		
HK3.0 cents (2013: Nil) per ordinary share	52,601[3]	–
	140,269	137,572

(1) In respect of the financial year ended 31 December 2012
(2) In respect of the financial year ended 31 December 2013
(3) In respect of the financial year ended 31 December 2014

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 the 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 RMB478,005,000 (2013: RMB605,966,000) and the weighted average number of ordinary shares in issue during the year of 2,177,346,000 (2013: 2,176,547,000).

(b) Diluted earnings per share

The calculation of the diluted earnings per share amount for the year ended 31 December 2014 is based on the profit for that year attributable to ordinary equity holders of the Company of RMB478,005,000 (2013: RMB605,966,000). The weighted average number of ordinary shares of 2,196,073,000 (2013: 2,195,797,000) used in the calculation is the weighted average number of 2,177,346,000 ordinary shares (2013: 2,176,547,000) in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options into 18,727,000 ordinary shares (2013: 19,250,000) 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 2014							
Cost:							
At beginning of year	154,213	34,141	100,626	32,939	94,945	306,172	723,036
Additions	250	–	11,967	36,399	15,236	71,291	135,143
Transfer	246,062	–	256	–	437	(246,755)	–
Release of deferred subsidy	(49,623)	–	–	–	–	–	(49,623)
Write-off	–	(5,113)	(172)	(831)	(16)	–	(6,132)
Exchange realignment	–	–	–	–	1	–	1
At 31 December 2014	350,902	29,028	112,677	68,507	110,603	130,708	802,425
Accumulated depreciation:							
At beginning of year	43,885	26,827	48,134	15,371	44,108	–	178,325
Provided during the year	11,111	1,216	7,307	7,583	13,052	–	40,269
Write-off	–	(686)	(104)	(723)	(5)	–	(1,518)
Exchange realignment	–	–	–	–	(1)	–	(1)
At 31 December 2014	54,996	27,357	55,337	22,231	57,154	–	217,075
Net carrying amount:							
At 31 December 2014	295,906	1,671	57,340	46,276	53,449	130,708	585,350
31 December 2013							
Cost:							
At beginning of year	154,213	28,165	91,157	28,908	79,627	139,768	521,838
Additions	–	5,988	9,469	4,031	15,350	166,404	201,242
Exchange realignment	–	(12)	–	–	(32)	–	(44)
At 31 December 2013	154,213	34,141	100,626	32,939	94,945	306,172	723,036
Accumulated depreciation:							
At beginning of year	36,900	12,250	41,767	10,516	33,473	–	134,906
Provided during the year	6,985	14,590	6,367	4,855	10,663	–	43,460
Exchange realignment	–	(13)	–	–	(28)	–	(41)
At 31 December 2013	43,885	26,827	48,134	15,371	44,108	–	178,325
Net carrying amount:							
At 31 December 2013	110,328	7,314	52,492	17,568	50,837	306,172	544,711

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 RMB148,080,000 at 31 December 2014 (2013: RMB9,277,000), for which the Group has not obtained the building ownership certificates. Up to the date of approval of these financial statements, the Group has obtained the building ownership certificates in respect of the aforementioned properties with net carrying amounts at 31 December 2014 of RMB72,069,000. 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 2014 of RMB73,988,000 out of the total of RMB148,080,000 (2013: RMB7,121,000 out of the total of RMB9,277,000).

15. PREPAID LAND LEASE PAYMENTS

	Group 2014 RMB'000	Group 2013 RMB'000
Carrying amount at 1 January	225,570	230,417
Recognised during the year	(4,836)	(4,847)
Carrying amount at 31 December	220,734	225,570
Current portion included in prepayments, deposits and other receivables	(4,898)	(4,898)
Non-current portion	215,836	220,672

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

16. DEPOSITS FOR ACQUISITION OF LAND USE RIGHTS

Pursuant to agreements entered into between the Group and local government authorities on 22 July 2011 and 9 February 2014, the Group has paid RMB6,261,000 (the "First Deposit") (31 December 2013: RMB6,261,000) and RMB55,751,000 (the "Second Deposit") (31 December 2013: Nil), respectively, in connection with the acquisition in progress with respect to two parcels of land in Fujian Province, the PRC.

During the year ended 31 December 2014, the First Deposit was refunded to the Group after the Group has withdrawn its intention to bid for the related parcel of land. In relation to the Second Deposit, should the bidding of that parcel of land become unsuccessful, the corresponding agreement would be cancelled. At the end of the reporting period, the bidding of that parcel of land has not yet been arranged by the corresponding PRC government.

17. INTANGIBLE ASSETS

Patents and trademarks

	Group 2014 RMB'000	Group 2013 RMB'000
Cost:		
At beginning of year	2,683	1,899
Additions	1,473	784
At 31 December	4,156	2,683
Accumulated amortisation:		
At beginning of year	1,617	1,273
Amortisation provided during the year	367	344
At 31 December	1,984	1,617
Net carrying amount:		
At 31 December	2,172	1,066

18. AVAILABLE-FOR-SALE INVESTMENTS

		Group	
		2014	2013
	Notes	**RMB'000**	RMB'000
Non-current:			
Unlisted equity investments, at cost	(i)	**48,000**	33,000
Current:			
Unlisted investment funds, at cost	(ii)	**450,000**	–

Notes:

(i) As at 31 December 2014, the unlisted equity investment with carrying values of RMB33,000,000 (2013: RMB33,000,000) and RMB15,000,000 (2013: Nil) represented 11% equity interests and 5% equity interests in two corporate entities, which were established in the PRC on 22 October 2012 and 22 December 2014 with registered and fully paid-up capital of RMB300,000,000 and RMB300,000,000, respectively.

(ii) It represents treasury products offered by a bank in the PRC.

The above investments were stated at cost less impairment because the unlisted investments do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

19. INVESTMENTS IN SUBSIDIARIES

	Company	
	2014	2013
	RMB'000	RMB'000
Unlisted shares, at cost	**849**	540
Due from subsidiaries	**1,099,392**	1,066,349
	1,100,241	1,066,889

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 part of the Company's investments in its subsidiaries.

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB1,070,235,000 (2013: RMB670,703,000) and RMB3,472,000 (2013: RMB581,000), respectively, are unsecured, interest-free and repayable on demand.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation or establishment/ business	Issued ordinary share/ registered and paid-up capital	Percentage of equity attributable to the Company Direct	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 trading of sportswear
Koling (Fujian) Garment Co., Ltd * (notes (i) and (iii))	PRC/Mainland China	HK$158 million	–	100	Manufacture and trading of sportswear
Xtep Sports Goods Co., Ltd. Jinjiang * (notes (i) and (iii))	PRC/Mainland China	US$6 million	–	100	Manufacture and trading of sportswear
Xiamen Xtep Investment Company Limited ("Xtep Xiamen") * (notes (i) and (iii))	PRC/Mainland China	RMB50 million	–	100	Trading of sportswear
特步(安徽)有限公司* ("Xtep Anhui") (notes (ii) and (iv))	PRC/Mainland China	RMB200 million	–	100	Manufacture and trading 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
晉江特步貿易有限公司* ("Jinjiang Trading") (notes (ii) and (iii))	PRC/Mainland China	RMB10 million	–	100	Trading of sportswear
廈門市特步兒童用品有限公司* ("Xtep Children") (notes (i) and (iii))	PRC/Mainland China	HK$30 million	–	82	Trading of sportswear
Xtep International E-Commerce Investment Limited ("E-Commerce") (note (v))	BVI	US$50,000	–	75	Investment holding
廈門特興貿易有限公司* ("Texing") (notes (ii) and (iii))	PRC/Mainland China	RMB30 million	–	100	Trading of sportswear
江西天鄰商貿有限公司* ("Jiangxi TL") (notes (i) and (vi))	PRC/Mainland China	–	–	100	Trading of sportswear

Notes:

(i) The entity is a wholly-foreign-owned enterprise and a limited liability company established in the PRC.

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

(iii) The registered capital of these entities was fully paid up as at 31 December 2014.

(iv) The registered capital of Xtep Anhui increased to RMB450,000,000 (2013: RMB200,000,000) during the year. As at 31 December 2014, RMB200,000,000 of the registered capital had been paid-up.

(v) During the year ended 31 December 2013, the Group disposed of its 25% equity interests in E-Commence, a wholly-owned subsidiary and its subsidiaries, to an executive director of the Company and his spouse, and certain employees of the Group for consideration of HK$700,000 (equivalent to approximately RMB560,000) and HK$4,300,000 (equivalent to approximately RMB3,439,000), respectively. The difference of RMB3,999,000 between the considerations and the non-controlling interests' share of net liabilities of interests in the subsidiaries was credited to the Group's retained profits.

(vi) Jiangxi TL was established on 18 September 2014 of which its registered capital of RMB5,000,000 was not yet paid up as at 31 December 2014.

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

Save for the establishment of Jiangxi TL as mentioned in note (vi) above, there were no changes in the percentage of equity of the above subsidiaries attributable to the Company during the year.

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.

20. INVENTORIES

	Group	
	2014	2013
	RMB'000	RMB'000
Raw materials	**89,942**	230,396
Work in progress	**42,659**	55,364
Finished goods	**436,383**	251,039
	568,984	536,799

21. TRADE AND BILLS RECEIVABLES

		Group	
		2014	2013
	Notes	**RMB'000**	RMB'000
Trade receivables		**1,487,466**	1,266,362
Less: provision for impaired receivables	(a)	**(256,047)**	(128,419)
	(b), (c)	**1,231,419**	1,137,943
Bills receivables	(d)	**258,520**	13,000

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.

(a) The movements in provision for impairment of trade receivables are as follows:

		Group	
		2014	2013
	Note	**RMB'000**	RMB'000
At 1 January		**128,419**	77,178
Provision for impaired receivables, net	6	**127,628**	51,241
At 31 December		**256,047**	128,419

Included in the above provision for impairment of trade receivables is provisions for individually impaired trade receivables of RMB256,047,000 (2013: RMB128,419,000) with aggregate carrying amounts before provision of RMB530,421,000 (2013: RMB173,971,000). The individually impaired trade receivables relate to customers that were in default or delinquency in payments and only a portion of the receivables is expected to be recovered.

(b) An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Within 3 months	**858,755**	727,910
4 to 6 months	**266,096**	297,626
Over 6 months	**106,568**	112,407
At 31 December	**1,231,419**	1,137,943

(c) An aged analysis of the trade receivables as at the end of the reporting period, based on the payment due date, that are not considered to be impaired is as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Neither past due nor impaired	**858,755**	727,910
Less than 3 months past due	**266,096**	297,626
Past due over 3 months	**106,568**	112,407
	1,231,419	1,137,943

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 or relate to portion of the receivables expected to be recovered from independent customers. 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.

(d) The maturity dates of the Group's bills receivables as at the end of the reporting period are as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Within 3 months	**15,020**	–
3 to 6 months	**243,500**	13,000
	258,520	13,000

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**152,051**	153,097	**716**	429
Deposits and advance payments to suppliers	**168,330**	102,084	**–**	–
Deposits for construction contracts	**10,206**	10,111	**–**	–
Deposits for acquisition of items of property, plant and equipment	**–**	28,760	**–**	–
Other deposits	**669**	1,568	**–**	–
Value added tax ("VAT") recoverable	**95,138**	125,818	**–**	–
Other receivables	**7,507**	2,941	**–**	–
	433,901	424,379	**716**	429
Less: Non-current portion	**(10,206)**	(38,871)	**–**	–
	423,695	385,508	**716**	429

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.

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

		Group		Company	
		2014	2013	**2014**	2013
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Time deposits		**1,351,240**	1,060,762	**–**	–
Cash and bank balances*		**2,642,029**	3,327,828	**35,719**	25,561
		3,993,269	4,388,590	**35,719**	25,561
Less: Pledged deposits:					
for short term bank loans	26	**(715,505)**	(686,445)	**–**	–
for bank guarantees**		**(28,455)**	(28,455)	**–**	–
for bills payable	24	**(2,199)**	(303)	**–**	–
		(746,159)	(715,203)	**–**	–
Less: Time deposits with original maturity of more than three months when acquired*		**(110,000)**	(110,000)	**–**	–
Cash and cash equivalents		**3,137,110**	3,563,387	**35,719**	25,561

* The time deposits of RMB110,000,000 (2013: non-current time deposits of RMB110,000,000) and bank balance of RMB48,280,000 (2013: RMB48,220,000) were capital guaranteed funds undertaken by a wholly-owned subsidiary of the Company to maintain in PRC bank accounts pursuant to the terms of the Group's short term revolving banking facilities.

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

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB2,600,366,000 (2013: RMB3,297,077,000) and RMB1,351,240,000 (2013: RMB1,060,762,000), respectively. RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day to two years (2013: one day to two years) depending on the immediate cash requirements of the Group, and earn interest at the respective deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

24. 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:

	2014 RMB'000	2013 RMB'000
Within 3 months	**590,129**	513,113
3 to 6 months	**81,869**	45,539
Over 6 months	**47,078**	38,854
Trade payables	**719,076**	597,506
Bills payable	**9,850**	3,512
Trade and bills payables	**728,926**	601,018

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

As at 31 December 2014, bills payables of RMB9,850,000 (2013: RMB3,512,000) are secured by pledge of time deposits of RMB2,199,000 (2013: RMB303,000).

25. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Deposits and advances from customers	**66,240**	71,429	**–**	–
Other payables	**46,878**	51,575	**1,425**	1,345
VAT payables	**417**	13,002	**–**	–
Derivative financial instruments	**13,981**	16,194	**13,981**	16,194
Accruals	**195,434**	180,487	**29,864**	23,661
	322,950	332,687	**45,270**	41,200

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

The Group has entered into 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 instruments amounting to RMB2,221,000 (2013: a debit of RMB4,574,000) were credited to the income statement.

26. INTEREST-BEARING BANK BORROWINGS

Group and Company	Notes	Effective interest rate per annum (%)	Maturity	2014 RMB'000
Current:				
Current portion of syndicated loans	(a)	HIBOR/LIBOR +2.2%	2015	**291,767**
Other bank loans	(b)	HIBOR+1.5% to 2.25%	2015	**929,895**
				1,221,662
Non-current:				
Syndicated loans	(a)	HIBOR/LIBOR +2.2%	2017	**617,367**
				1,839,029

Group and Company	Notes	Effective interest rate per annum (%)	Maturity	2013 RMB'000
Current:				
Current portion of syndicated loans	(a)	HIBOR/LIBOR +3%	2014	345,940
Other bank loans	(b)	HIBOR+1.5% to 2.25%	2014	1,004,697
				1,350,637
Non-current:				
Syndicated loans	(a)	HIBOR/LIBOR +3%	2015	174,884
				1,525,521

	Group and Company	
	2014 RMB'000	2013 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year and on demand	**1,221,662**	1,350,637
In the second year	**539,198**	174,884
In the third to fifth years, inclusive	**78,169**	–
	1,839,029	1,525,521

Notes:

(a) The bank loans are supported by a corporate guarantee provided by certain of the Company's wholly-owned subsidiaries, to the extent of HK$452,400,000 (equivalent to approximately RMB358,029,000) (2013: HK$140,400,000, equivalent to approximately RMB111,070,000) and US$92,000,000 (equivalent to approximately RMB564,409,000) (2013: US$82,000,000, equivalent to approximately RMB502,660,000) as at the end of the reporting period.

(b) The bank loans are supported by:

(i) the pledge of certain of the Group's time deposits amounting to RMB715,505,000 (2013: RMB686,445,000);

(ii) corporate guarantees provided by two wholly-owned subsidiaries of the Company to the extent of HK$700,000,000 (equivalent to approximately RMB553,980,000) (2013: HK$700,000,000 (equivalent to approximately RMB553,770,000) as at the end of the reporting period; and

(iii) time deposits of RMB110,000,000 (2013: non-current time deposits of RMB110,000,000) and bank balance of RMB48,280,000 (2013: RMB48,220,000), which were capital guaranteed funds undertaken by a wholly-owned subsidiary of the Company to maintain in PRC bank accounts pursuant to the terms of the Group's short term revolving loan facilities (note 23).

As at 31 December 2014, except for the bank loan of RMB556,356,000 (2013: RMB426,583,000) which was denominated in the United States dollars ("US$"), all bank borrowings are denominated in Hong Kong dollars.

27. DEFERRED TAX LIABILITIES

Group

	Withholding taxes RMB'000
At 1 January 2013	133,453
Deferred tax charged to the income statement during the year (note 10)	20,000
At 31 December 2013 and 1 January 2014	153,453
Withholding tax paid on repatriation of earnings from a PRC subsidiary	(54,205)
Deferred tax charged to the income statement during the year (note 10)	22,000
At 31 December 2014	121,248

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

At 31 December 2014, there were no significant unrecognised deferred tax liabilities (2013: 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.

The Company has no significant unprovided deferred tax in respect of the reporting period and at the end of the reporting period.

28. DEFERRED SUBSIDY

	Group 2014 RMB'000	2013 RMB'000
Carrying amount at 1 January	**114,833**	114,833
Release to property, plant and equipment	**(49,623)**	–
Carrying amount at 31 December	**65,210**	114,833

A subsidy of RMB114,833,000 was received by Xtep Anhui from the People's Government of Bengbu, Anhui 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.

During the year, deferred subsidy of RMB49,623,000 was released to property, plant and equipment to offset the construction costs incurred by the Group upon the completion of certain buildings in Anhui.

29. SHARE CAPITAL

At 31 December 2014

	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:		
2,178,085,000 ordinary shares of HK$0.01 each	**21,781**	**19,214**

At 31 December 2013

	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:		
2,176,765,000 ordinary shares of HK$0.01 each	21,768	19,204

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

	Note	Number of ordinary shares of HK$0.01 each	Share capital HK$'000	Share capital RMB'000
Issued ordinary shares				
At 1 January 2013		2,176,315,000	21,763	19,200
Exercise of share options	(i)	450,000	5	4
At 31 December 2013 and 1 January 2014		2,176,765,000	21,768	19,204
Exercise of share options	(i)	1,320,000	13	10
At 31 December 2014		2,178,085,000	21,781	19,214

Note:

(i) During the year ended 31 December 2014, the subscription rights attaching to 1,320,000 (2013: 450,000) share options granted under the Share Option Scheme (as defined in note 31) were exercised at the subscription price of HK$2.35 per share (2013: HK$2.35 per share), resulting in the issue of 1,320,000 shares (2013: 450,000 shares) of HK$0.01 each for a total cash consideration before expenses of approximately HK$3,102,000 (equivalent to approximately RMB2,455,000) (2013: approximately HK$1,058,000 (equivalent to approximately RMB846,000) representing the nominal value of ordinary shares RMB10,000 (2013: RMB4,000) and share premium of RMB2,445,000 (2013: RMB842,000).

An amount of HK$862,000 (equivalent to approximately RMB683,000) (2013: HK$295,000 (equivalent to approximately RMB236,000)) 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 31 to the financial statements.

30. 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 profits RMB'000	Total RMB'000
At 1 January 2013		128,094	99,982	(100,447)	540,978	668,607
Loss for the year		–	–	–	(65,260)	(65,260)
Other comprehensive income						
Exchange realignment		–	–	(13,137)	–	(13,137)
Total comprehensive loss for the year		–	–	(13,137)	(65,260)	(78,397)
Equity-settled share option arrangements	31(b)	–	14,376	–	–	14,376
2012 final dividend declared and paid	12	–	–	–	(175,253)	(175,253)
2012 special dividend declared and paid	12	–	–	–	(78,658)	(78,658)
2013 interim dividend declared and paid	12	–	–	–	(174,441)	(174,441)
Exercise of share options		1,078	(236)	–	–	842
At 31 December 2013 and 1 January 2014		129,172	114,122	(113,584)	47,366	177,076
Profit for the year		–	–	–	408,329*	408,329
Other comprehensive income						
Exchange realignment		–	–	(639)	–	(639)
Total comprehensive income for the year		–	–	(639)	408,329	407,690
Equity-settled share option arrangements	31(b)	–	449	–	–	449
2013 final dividend declared and paid	12	–	–	–	(139,597)	(139,597)
2014 interim dividend declared and paid	12	–	–	–	(148,137)	(148,137)
Exercise of share options		3,128	(683)	–	–	2,445
At 31 December 2014		132,300	113,888	(114,223)	167,961	299,926

* The balance included a dividend from a subsidiary of RMB480,293,000.

Any excess of the appropriation over the retained profits of the Company will be replenished by dividends declared by its subsidiaries to the Company when they are approved subsequent to the end of the reporting period. The director of the Company anticipates that the approval of such dividends from subsidiaries will be obtained in the near future.

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 payments 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.

31. 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 exerciseable
Anytime after the first anniversary of 3 June 2008 ("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; and

(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 2014 and 2013 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 per share 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.

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 approximately HK$168,000 (equivalent to approximately RMB133,000) and share premium account of approximately HK$54,151,000 (equivalent to approximately RMB42,855,000), 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 within 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors or up to the expiry date of the Share Option Scheme, if earlier.

The exercise price of the share options is determinable by the directors in their absolute discretion, but in any event shall not be less than the highest of (1) the nominal value of an ordinary share of the Company; (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 of the closing prices 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:

	2014		2013	
	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	**3.07**	**80,215**	3.06	80,665
Granted during the year		**–**	–	–
Cancelled during the year		**–**	–	–
Exercised during the year	**2.35**	**(1,320)**	2.35	(450)
At 31 December	**3.07**	**78,895**	3.07	80,215

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.5 (2013: HK$3.3) per share.

The Company recognised a share option expense of RMB449,000 (2013: RMB14,376,000) during the year.

The subscription rights attaching to 1,320,000 (2013: 450,000) share options granted under the Share Option Scheme were exercised at the subscription price of HK$2.35 per share during the year, resulting in the issue of 1,320,000 shares (2013: 450,000 shares).

The exercise prices and exercise periods of the share options outstanding at 31 December 2014 and 2013 were as follows:

2014

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
22,155,000	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
78,895,000		

2013

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
23,475,000	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
80,215,000		

At the end of the reporting period, the Company had total outstanding share options for the subscription of 78,895,000 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 78,895,000 additional ordinary shares of the Company and additional share capital of approximately HK$789,000 (equivalent to approximately RMB624,000) and share premium of HK$241,679,000 (equivalent to approximately RMB191,265,000), before related issuance expenses.

At the date of approval of these financial statements, the Company had outstanding share options for the subscription of 78,895,000 shares under the Share Option Scheme, which represented approximately 3.6% of the issued share capital of the Company as at that date.

32. SHARE AWARD SCHEME

The Group adopted a share award scheme in August 2014. During the year and up to the end of the reporting period, no share awards were granted under the share award scheme.

Details on the Group's share award scheme were set out in the Company's announcement dated 1 August 2014.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions:

(i) During the year, the deposits paid for acquisition of items of property, plant and equipment of RMB28,760,000 as at 31 December 2013 were applied to partly satisfy the consideration for purchases of certain items of property, plant and equipment.

(ii) During the year, deferred subsidy of RMB49,623,000 (note 28) was released to reduce the carrying amount of the buildings.

34. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities (2013: Nil).

At 31 December 2014, the banking facilities of RMB3,957,000 (2013: RMB3,956,000) granted to a subsidiary subject to a corporate guarantee given to a bank by the Company were not utilised (2013: Nil).

35. OPERATING LEASE ARRANGEMENTS

The Group and the Company leases certain of its production facilities, office premises and staff quarters under operating lease arrangements. Leases for these properties are negotiated for terms ranging from two to ten years (2013: two to ten 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	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**8,156**	7,566	**1,265**	1,187
In the second to fifth years, inclusive	**10,790**	10,951	**2,685**	–
After five years	**3,124**	3,060	**–**	–
	22,070	21,577	**3,950**	1,187

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group had the following commitments at the end of the reporting period:

	2014	2013
	RMB'000	RMB'000
Contracted for commitments in respect of:		
– construction of new buildings	**52,732**	40,040
– construction of new manufacturing facilities	**35,281**	42,729
– advertising and promotional expenses	**221,947**	203,246
– acquisition of property, plant and equipment	**–**	11,997
– software	**100**	100
	310,060	298,112
Authorised, but not contracted for:		
– construction of new manufacturing facilities	**218,994**	244,389
	529,054	542,501

At 31 December 2014, the Company did not have any significant commitments (2013: Nil).

37. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, 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:

	2014 RMB'000	2013 RMB'000
Short term employee benefits	6,325	6,370
Equity-settled share option expense	–	2,276
Post-employment benefits	193	162
Total compensation paid to key management personnel	6,518	8,808

38. 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

	2014 RMB'000	2013 RMB'000
Available-for-sale investments	498,000	33,000
Loans and receivables:		
Trade receivables	1,231,419	1,137,943
Bills receivables	258,520	13,000
Other receivables	7,507	2,941
Pledged bank deposits	746,159	715,203
Time deposits	110,000	110,000
Cash and cash equivalents	3,137,110	3,563,387
	5,490,715	5,542,474
Total	5,988,715	5,575,474

Financial liabilities

	2014		
	Financial liabilities at fair value through profit or loss – held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	728,926	728,926
Financial liabilities included in deposits received, other payables and accruals	13,981	109,061	123,042
Interest-bearing bank borrowings	–	1,839,029	1,839,029
	13,981	2,677,016	2,690,997

	2013		
	Financial liabilities at fair value through profit or loss – held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	601,018	601,018
Financial liabilities included in deposits received, other payables and accruals	16,194	129,331	145,525
Interest-bearing bank borrowings	–	1,525,521	1,525,521
	16,194	2,255,870	2,272,064

Company

Financial assets

Loans and receivables

	2014 RMB'000	2013 RMB'000
Due from a subsidiary	1,070,235	670,703
Cash and cash equivalents	35,719	25,561
	1,105,954	696,264

Financial liabilities

	2014		
	Financial liabilities at fair value through profit or loss – held for trading RMB'000	**Financial liabilities at amortised cost RMB'000**	**Total RMB'000**
Due to subsidiaries	**–**	**3,472**	**3,472**
Financial liabilities included in deposits received, other payables and accruals	**13,981**	**29,573**	**43,554**
Interest-bearing bank borrowings	**–**	**1,839,029**	**1,839,029**
	13,981	**1,872,074**	**1,886,055**

	2013		
	Financial liabilities at fair value through profit or loss – held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Due to subsidiaries	–	581	581
Financial liabilities included in deposits received, other payables and accruals	16,194	23,940	40,134
Interest-bearing bank borrowings	–	1,525,521	1,525,521
	16,194	1,550,042	1,566,236

39. FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY

At 31 December 2014, the Group discounted certain commercial bills receivable with a carrying amount in aggregate of approximately RMB918,140,000 (2013: commercial bills receivable of RMB610,330,000) to a bank in the PRC (the "Derecognised Bills") for cash. The Derecognised Bills had a remaining maturity from forty-nine days to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC bank and/or the issuers of bills receivable default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair value of the Group's Continuing Involvement in the Derecognised Bills is not significant.

During the year ended 31 December 2014, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills (2013: Nil). No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The discount of bills receivable of RMB197,380,000 (30 June 2013: RMB479,000,000) and RMB918,140,000 (31 December 2013: RMB610,330,000) have been made near the period ended 30 June 2014 and the year ended 31 December 2014, respectively.

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, time deposits, of pledged bank deposits, trade and bills receivables, trade and bills payables, financial assets included in other receivables, financial liabilities included in deposits received, other payables and accruals, interest-bearing bank borrowings and balances with subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments. For the Group's unlisted available-for-sale equity investments, they were stated at cost less impairment because the unlisted investments do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

The Group's finance department is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

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 method and assumptions were used to estimate the fair values:

The fair values of the non-current time deposits and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2014 was assessed to be insignificant.

Fair value hierarchy

As at 31 December 2014 and 2013, the financial instruments measured at fair value held by the Group and the Company comprised derivative financial instruments and were classified as Level 2.

During the year ended 31 December 2014, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2013: Nil).

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise available-for-sale investments, interest-bearing bank borrowings, cash and bank balances. 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, other receivables, trade and bills payables and financial liabilities included in other payables and accruals, 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 the 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 at the end of each reporting period, the Group reviews the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made.

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, deposits, available-for-sale investments 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
2014		
Hong Kong dollar and US$	100	(18,525)
Hong Kong dollar and US$	(100)	18,525
2013		
Hong Kong dollar and US$	100	(15,310)
Hong Kong dollar and US$	(100)	15,310

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 tables below summarise 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:

Group

	2014		
	On demand and within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade and bills payables	728,926	–	728,926
Financial liabilities included in deposits received, other payables and accruals	123,042	–	123,042
Interest-bearing bank borrowings	1,222,642	667,294	1,889,936
	2,074,610	667,294	2,741,904

	2013		
	On demand and within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade and bills payables	601,018	–	601,018
Financial liabilities included in deposits received, other payables and accruals	145,525	–	145,525
Interest-bearing bank borrowings	1,375,871	176,620	1,552,491
	2,122,414	176,620	2,299,034

Company

	2014		
	On demand and within 1 year RMB'000	**Over 1 year RMB'000**	**Total RMB'000**
Due to subsidiaries	**3,472**	**–**	**3,472**
Financial liabilities included in deposits received, other payables and accruals	**43,554**	**–**	**43,554**
Interest-bearing bank borrowings	**1,222,642**	**667,294**	**1,889,936**
Guarantee given to a bank in connection with a facility granted to a wholly-owned subsidiary	**3,957**	**–**	**3,957**
	1,273,625	**667,294**	**1,940,919**

	2013		
	On demand and within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Due to subsidiaries	581	–	581
Financial liabilities included in deposits received, other payables and accruals	40,134	–	40,134
Interest-bearing bank borrowings	1,375,871	176,620	1,552,491
Guarantee given to a bank in connection with a facility granted to a wholly-owned subsidiary	3,956	–	3,956
	1,420,542	176,620	1,597,162

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 2014 and 31 December 2013.

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

	2014 **RMB'000**	2013 RMB'000
Cash and cash equivalents	**3,137,110**	3,563,387
Less: Interest-bearing bank borrowings	**1,839,029**	1,525,521
Net cash	**1,298,081**	2,037,866
Total equity	**4,710,348**	4,507,639
Net cash-to-capital ratio	**0.275**	0.452

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 12 March 2015.

GLOSSARY

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

"AQSIQ"	General Administration of Quality Supervision, Inspection and Quantitative of the PRC
"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
"CCFL"	China College Futsal League
"Company"	Xtep International Holdings Limited
"Corporate Governance Code"	The Corporate Governance Code as set out in Appendix 14 of the Listing Rules
"CUFL"	China University Football League
"Director(s)"	The director(s) of the Company
"DRP System"	Distribution Resource Planning System
"GDP"	Gross domestic product
"Group"	The Company and its subsidiaries
"Group Success"	Group Success Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 23 February 2007, and is wholly owned by Wan Xing International Holdings Limited, which is in turn owned as to 63.2% by Mr. Ding Shui Po and 36.8% by Ms. Ding Mei Qing
"HK$" and "HK cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange" and "HKSE"	The Stock Exchange of Hong Kong Limited
"Listing Date"	3 June 2008, on which dealing in the Shares first commenced 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"	The Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"POS"	Points of sale
"PRC" or "China"	The People's Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan

GLOSSARY

"Pre-IPO Share Option Scheme"	The share option scheme for employees of the Group approved and adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed "Pre-IPO Share Option Scheme" in Appendix VI to the prospectus of the Company dated 21 May 2008
"R&D"	Research and development
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	Ordinary share(s) of HK$0.01 each in the share capital of the Company
"Share Option Scheme"	The share option scheme adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed "Share Option Scheme" in Appendix VI to the prospectus of the Company dated 21 May 2008
"Shareholder(s)"	Shareholder(s) of the Company
"SKU"	Stock Keeping Unit
"U.S."	United States of America
"US$"	U.S. dollars, the lawful currency of the U.S.
"Xtep (China)"	Xtep (China) Co., Ltd., an indirect wholly-owned subsidiary of the Company
"XTEP"	Xtep brand
"Year"	For the year ended 31 December 2014

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 2014.

DIVIDENDS

An interim dividend of HK8.5 cents (equivalent to RMB6.7 cents) per Share was paid to our Shareholders during the year. The Board recommended a final dividend of HK5.0 cents (equivalent to RMB4.0 cents) per Share and a special dividend of HK3.0 cents (equivalent to RMB2.4 cents) per Share for the year ended 31 December 2014, subject to approval by the Shareholders at the annual general meeting ("**AGM**") to be held on 15 May 2015. The total dividends for the year ended 31 December 2014, which include the interim, final and special dividends, amounted to a total of HK16.5 cents (equivalent to RMB13.1 cents) per Share, represented a payout ratio of 60.0%.

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 Wednesday, 13 May 2015 to Friday, 15 May 2015, 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 Friday, 15 May 2015. In order to be eligible to attend and vote at the forthcoming AGM of the Company to be held on 15 May 2015, 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, 12 May 2015.

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 Wednesday, 27 May 2015. The transfer books and register of members of the Company will be closed from Tuesday, 26 May 2015 to Wednesday, 27 May 2015, 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 Friday, 22 May 2015. The payment date of the dividends is expected to be on Friday, 26 June 2015.

AGM

The AGM of the Company will be held in Hong Kong on Friday, 15 May 2015. 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, 12 March 2015

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, Dr. Gao Xian Feng and Dr. Bao Ming Xiao.