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

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1368

Annual Report 2008


Sports like no other

Contents

2008 MILESTONES

FEB "Driving through 2008", the 2008 Xtep and Disney Sport Autumn Product Sales Fair was held in Beijing, with all five brand representatives attended.

APR Nationwide trainings were launched, aiming to enhance the Group's overall service quality.

MAY Quanzhou, Fujian province welcomed the Olympic Flame and Chairman Ding was selected as one of the torchbearers for the Quanzhou leg of the Olympic torch relay.

JUN Xtep was successfully listed on the Main Board of the Hong Kong Stock Exchange.

AUG Xtep launched numerous promotional activities during the Olympics, including being the sole sponsor of the Xtep Olympic Train and the sportswear sponsor for the Belarusian Olympic delegation.

The largest Xtep brand flagship store was opened in Changsha, Hunan province, with a total floor area of 3,000 sq. m..

SEP The 2009 Xtep and Disney Sport Summer Product Sales Fair with the theme “Beyond the Possible” was held in Hunan Province with over 3,300 distributors and third-party retailers attended.

NOV Xtep was selected as a constituent stock of MSCI Global Small Cap Index.

Chairman Ding was named as one of the “CAPITAL Leaders of Excellence in China 2008”.

DEC Xtep was awarded the “Chinese Brand of the Year 2008” in Sporting Goods Category by World Brand Laboratory.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Xiao Feng (肖楓)

Independent non-executive Directors

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

BOARD COMMITTEES

Audit committee

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

Remuneration committee

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

Nomination committee

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

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

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

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

Economic and Technical Development Zone
Quanzhou City
Fujian Province
PRC 362000

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISER AS TO HONG KONG LAWS

Coudert Brothers in association with
Orrick, Herrington & Sutcliffe LLP

AUDITORS

Ernst & Young

COMPLIANCE ADVISER

Shenyin Wanguo Capital (H.K.) Limited

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

China Construction Bank
(Quanzhou Qingmeng Sub-branch)
Agricultural Bank of China
(Quanzhou Economic and Technical Development Zone Sub-branch)
China Merchants Bank
(Quanzhou Quanxiu Sub-branch)
Industrial Bank Co., Ltd.
(Jinjiang Chen Geng Sub-branch)
Bank of Communications (Quanzhou Branch)
Industrial Bank Co., Ltd. (Xiamen Branch)
Hang Seng Bank Limited
China Construction Bank
(Hong Kong Branch)

INVESTOR RELATIONS CONSULTANT

Porda International (Finance) P.R. Group

COMPANY WEBSITE

www.xtep.com.hk

FINANCIAL HIGHLIGHTS

Proposed Final dividend per Share	: HK 8.0 cents
Proposed Special dividend per Share	: HK 5.0 cents
Interim dividend per Share	: HK 5.0 cents
Total payout ratio	: 68%

FINANCIAL PERFORMANCE

- Net profit margin: **17.7% ⬆ 1.4 % points**
- Basic earnings per Share: **RMB 26.84 cents ⬆ 78%**
- Working capital cycle reduced by 41 days to **53 days**

OPERATIONAL HIGHLIGHTS – XTEP BRAND

- Total number of retail outlets: **5,056 ⬆ 676**
- Average retail outlets floor area for the year: **341,709 sq.m. ⬆ 73%**
- Average wholesale revenue per retail outlet: **RMB 552,403 ⬆ 37%**
- Gross profit margin: **36.7% ⬆ 2.2% points**

	Gross profit margin	*Sales Volume*	*Average selling price (wholesale price)*
Footwear	35.6% ⬆1.1% pts	18.3 mil pairs ⬆76%	RMB 73.2 ⬆5%
Apparel	38.1% ⬆3.7% pts	21.5 mil pieces ⬆145%	RMB 56.4 ⬆7%

Cautionary Statement Regarding Forward-looking Statements

This Annual Report 2008 contains certain forward-looking statements with respect to the financial condition, results of operations and business of Xtep International Holdings Limited ("Xtep"). These forward-looking statements represent Xtep's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Certain statements, that include wordings like "potential", "estimated", "expects", "anticipates", "objective", "intends", "plans", "believes", "estimates", and similar expressions or variations on such expressions may be considered "forward-looking statements". Forward-looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ in some instances materially, from those anticipated or implied in any forward-looking statement. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been reviewed or updated in the light of new information or future events. Trends and factors that are expected to affect Xtep's results of operations are described in the sections of "Business Review" and "Financial Review".

FOUR-YEAR FINANCIAL SUMMARY

For the year ended 31 December

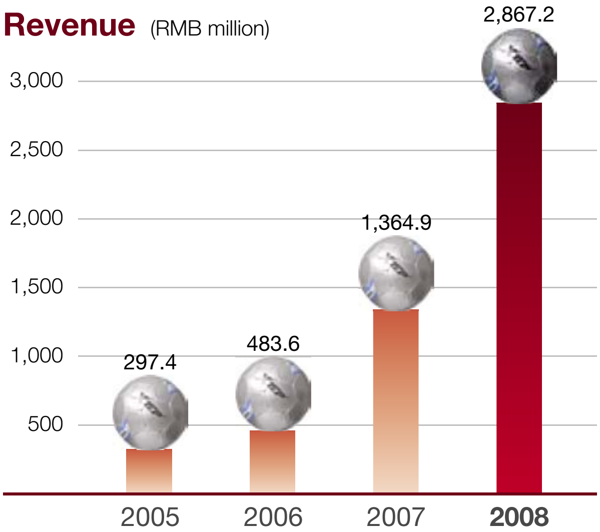
	2008	2007	2006	2005
Profitability data		(RMB million)		
Revenue	2,867.2	1,364.9	483.6	297.4
Gross Profit	1,064.3	443.1	136.1	59.7
Operating profit	590.6	267.1	56.8	14.3
Profit for the year	508.2	221.9	50.1	8.2
Basic earnings per Share (RMB cents) (Note 1)	26.84	15.11	3.41	0.56
Profitability ratios		(%)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

As at 31 December

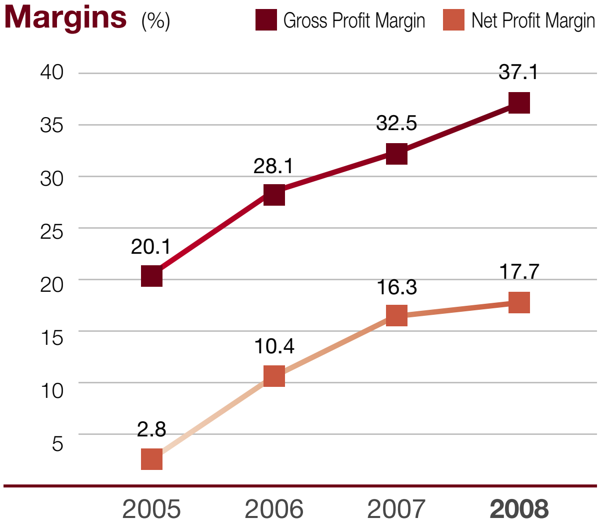
	2008	2007	2006	2005
Assets and liabilities data		(RMB million)		
Non-current assets	198.3	128.6	107.5	81.9
Current assets	3,079.9	774.9	414.9	234.0
Current liabilities	637.6	405.8	335.0	183.8
Non-current liabilities	2.8	217.9	–	–
Shareholders' equity	2,637.8	279.8	187.4	132.1
Asset and Working Capital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

Notes:
1) The calculation of basic earnings per Share is based on the profit attributable to equity Shareholders of the Company divided by the weighted average number of ordinary shares in issue during the relevant period.
2) Return on average total equity holders' equity is equal to the profit for the period divided by the average opening and closing total equity holders' equity.
3) The calculation of gearing ratio is based on the total borrowings divided by the sum of share capital and reserves of the Company at the end of the year.
4) The calculation of net asset value per Share is based on the total number of Shares in issue after the Company's listing and at the end of the year.
5) Average inventory turnover days is equal to the average opening and closing inventory divided by costs of sales and multiplied by 365 days.
6) Average trade receivables turnover days is equal to the average opening and closing trade receivables divided by revenue and multiplied by 365 days.
7) Average trade and bills payables turnover days is equal to the average opening and closing trade and bills payables divided by cost of sales and multiplied by 365 days.

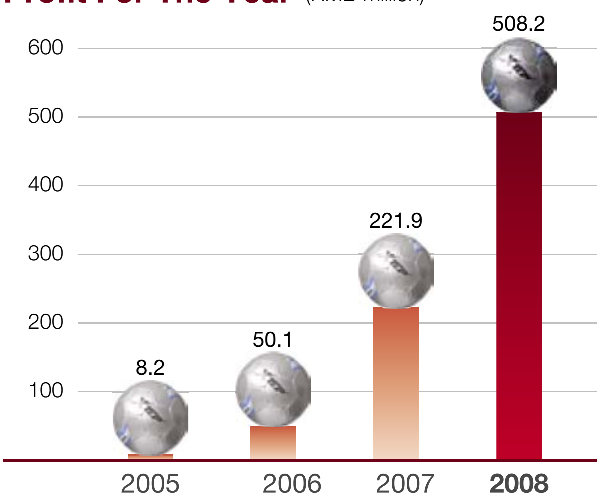
Revenue (RMB million)



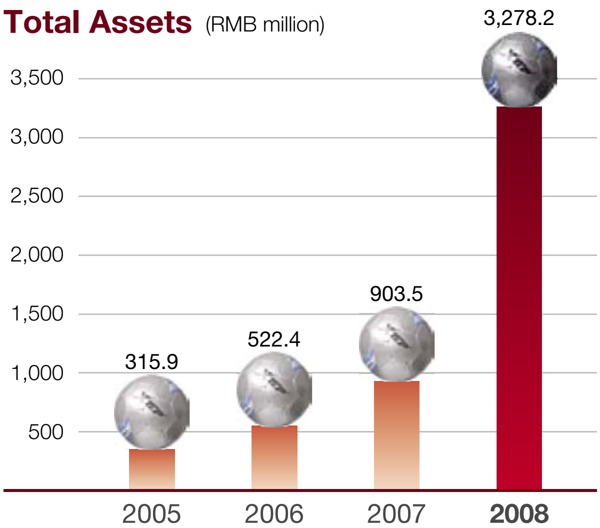
Margins (%)



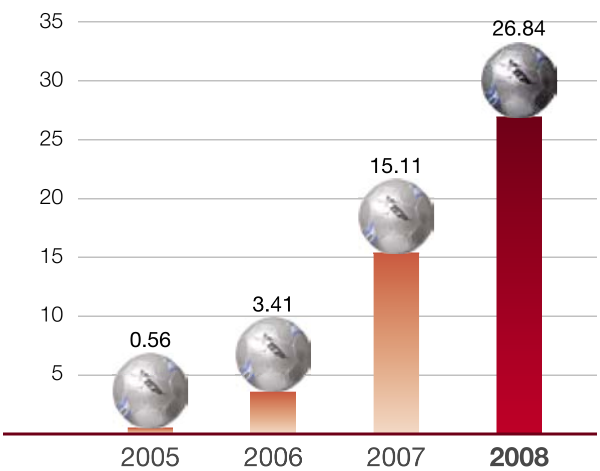
Profit For The Year (RMB million)



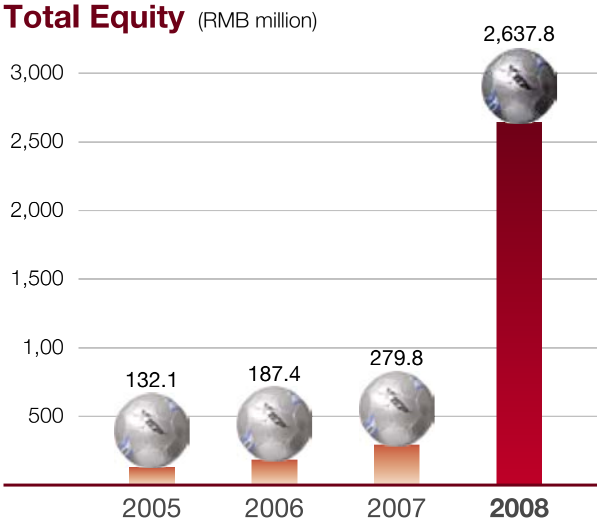
Total Assets (RMB million)



Basic Earnings Per Share (RMB cents)



Total Equity (RMB million)



We

Stay Focused On Our Goals

CHAIRMAN'S STATEMENT

LEVERAGING ON OUR DIFFERENTIATED BRAND STRENGTHS, WE ARE GEARING UP FOR VARIOUS CHALLENGES IN THE FUTURE AND ARE DETERMINED TO FORGE AHEAD. WE WILL FOCUS ON ENHANCING OUR BRAND VALUE, FURTHER STRENGTHEN OUR BRAND MANAGEMENT, EXPAND AND OPTIMISE OUR RETAIL NETWORK, STRIVING TO BECOME ONE OF THE LEADING FASHION SPORTSWEAR ENTERPRISES IN THE WORLD.

Dear Shareholders,

On behalf of the Board of Xtep International Holdings Limited, I am pleased to present the audited annual results for the year ended 31 December 2008. The Group's successful listing on the Main Board of the Hong Kong Stock Exchange on 3 June 2008 marks an important milestone of the Group. In addition, the Group's inclusion in the Morgan Stanley Capital International (MSCI) Global Small Cap Index has further enhanced its position in the global capital markets.

BUSINESS OVERVIEW

During the year under review, the Group achieved outstanding results performance with its continuous efforts in enhancing Xtep brand promotion and expanding the retail network. Revenue of the Group surged to approximately RMB2,867.2 million, representing an increase of 110.0% over last year (2007: RMB1,364.9 million). Profit for the year grew by 129.0% over last year to approximately RMB508.2 million (2007: RMB221.9 million). Basic earnings per Share were RMB26.84 cents, representing an increase of 77.6%. To share the success with our Shareholders, the Board recommended the payment of a final dividend and a special dividend of HK8.0 cents and HK5.0 cents per Share respectively. Together with an interim dividend of HK5.0 cents per Share, the total payout dividend for the year amounted to approximately RMB345.4 million and the total dividend payout ratio for the year amounted to approximately 68%.

MARKET REVIEW

China's urbanization in various regions continues to accelerate, together with a host of stimulus packages to drive domestic demand implemented by the PRC government, the China's GDP in 2008 grew by approximately 9% over last year to approximately RMB30,067 billion. The total retail sales of consumer products for the year also increased by approximately 21.6% over last year to approximately RMB10,849 billion, representing a growth of approximately 4.8 percentage points over last year.

The success of hosting the Beijing 2008 Olympic Games by China has impressed the whole world and boosted the Chinese citizens' passion and participation for sports. As more major international sporting events are to be held in the Asia-Pacific region, coupled with increasing health awareness among citizens, sports has become an essential part of life, thus significantly driving the demand for sportswear products from the general public. With sportswear becoming an integral item of a person's daily wardrobe, consumers not only address on its functionality, but also yearn for stylish and fashionable designs.

BUSINESS DEVELOPMENT

During the year under review, the Group devoted more resources in marketing and R&D, and proactively strengthened the market presence of its brands. The number of Xtep brand retail outlets operated by distributors and third-party retailers grew from 4,380 outlets as at 31 December 2007 to 5,056 outlets as at 31 December 2008. In order to further enhance and consolidate the brand image, the Group established a total of 12 Xtep brand flagship stores in cities namely Changsha, Wuhan, Hefei, Jinan, Shenyang, Jilin, Taiyuan and Xiamen, which are operated and managed by distributors of Xtep brand. With a more spacious environment, the revamped 5th generation image stores feature a brand new design and decoration, bringing the customers with superior shopping experience.

Our innovatively designed Disney Sport brand products, which are licensed by The Walt Disney Company (Shanghai) Limited to the Group, were well-received among youngsters. The number of retail outlets for Disney Sport brand and the Group's Koling brand, together increased from 267 outlets as at 31 December 2007 to 476 outlets as at 31 December 2008.

Moreover, the Group proactively developed differentiated marketing strategies that combine sports and entertainment, and continued to strengthen Xtep brand's leading position in the fashion sportswear sector. The Group maximized the effectiveness of its marketing strategies through leveraging on Xtep's unique brand image, coupled with the widespread popularity of its image and brand representatives. The Group also strategically sponsored the favorite programs among youngsters through selected high rating entertainment media in different regions as well as bolstered its promotion and marketing efforts on key sporting events, enhancing the Group's reputation among consumers.

SOCIETY CONTRIBUTIONS

Apart from driving business development, the Group endeavors to implement the corporate social responsibility practices and actively supports various charitable activities by adhering to the spirit of "from society, for society". In response to the snowstorms in February 2008 and Sichuan earthquake in May 2008, the Group made cash and goods donations to the affected areas, and organized a number of fund-raising activities with staff across its departments and business partners to provide immediate relief to the victims.

FUTURE PROSPECTS

2009 will be a year surrounded with both opportunities and challenges, and an important year for cementing a solid foundation for the Group's future development. In spite of the global financial crisis and its effect upon the PRC's economy, it is believed that the impact on the Group is relatively small with the enormous growth potential available in the fast growing medium and high-end consuming sector which are currently the Group's targeted markets.

The Group's outstanding brand positioning in the sportswear sector in the PRC has gained wide recognition in the industry. The Group has been granted the Chinese Brand of the Year 2008 in the sporting goods category by World Brand Laboratory, an international brand research institution three years in a row. Looking ahead, we will continue to focus on enhancing our brand building efforts, and further strengthen the management of our brand, operations and retail outlets. The distribution resource planning (DRP) system will be fully implemented among our distributors in 2009.

In addition, we will continue to leverage on the multi-faceted marketing strategies that combine sports and entertainment to bring Xtep's unique fashionable experience to more consumers. The Group has successfully formed strategic partnerships with popular entertainment channels in the PRC such as Hunan Satellite TV and Anhui Satellite TV, and a highly influential channel, CCTV Sports. The Group will air commercials or sponsor programs on these popular channels to extend the impact and coverage of its brands. Meanwhile, in order to further enhance our brand name and recognition, the Group will also actively participate in various major sporting events and activities. For instance, Xtep acted as the sole sportswear provider for the first time for Xiamen International Marathon in January 2009 and will be the sole sports product partner for

the 11th National Games of China to be held in October 2009. The National Games of China is the largest national sporting event in the PRC, which is comparable to the Olympics and is therefore named as the "PRC Olympics" and the Group is honored to be the sponsor of this prime sporting event for the second time.

Innovative product design and R&D are also the crucial elements for the Group's overall success. In this regard, we will engage more international designers with worldwide exposure to enhance our own design and development capabilities. The Group will further enhance the expansion strategies of retail network, and establish more impressive flagship stores to strength our branding position and market influence. In addition, the Group strives to expand its business to the overseas markets with an aim of becoming one of the leading fashion sportswear enterprises in the world.

APPRECIATION

Over the years, the Group's success in achieving distinguished results is attributed to the relentless efforts of the management and the staff, who join hands with me, in adherence to the corporate principle of "Achieving remarkable results through our unique step". On behalf of the Board, I would like to take this opportunity to extend my heartfelt thanks to all of our staff for their loyalty and contributions to the Group during the year. I would also like to express my sincere gratitude to our Shareholders and business partners for their long-term support and trust. The Group will continue to escalate our brand's status and strengthen our leading position in the sportswear market while striving for excellence, so as to achieve better results for our Shareholders.

Ding Shui Po
Chairman
Hong Kong, 31 March 2009

We Are

In Pursuit Of Excellence

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

Xtep is the leading domestic fashion sportswear enterprise in the PRC. Listed on the Main Board of the Hong Kong Stock Exchange on 3 June 2008, the Group is principally engaged in the design, development, manufacture and marketing of sportswear including footwear, apparel and accessory products. Xtep adopts a multi-brand strategy with possession of the Xtep brand and Koling brand in addition to the Disney Sport brand, which is licensed by The Walt Disney Company (Shanghai) Limited to us in the PRC. Each brand has its unique market positioning, aiming at different target markets. Our products combine both sports functions, fashion tastes and trends, which fully exemplify the elements of vitality and fashion and are popular among fashion conscious consumers.

MARKET REVIEW

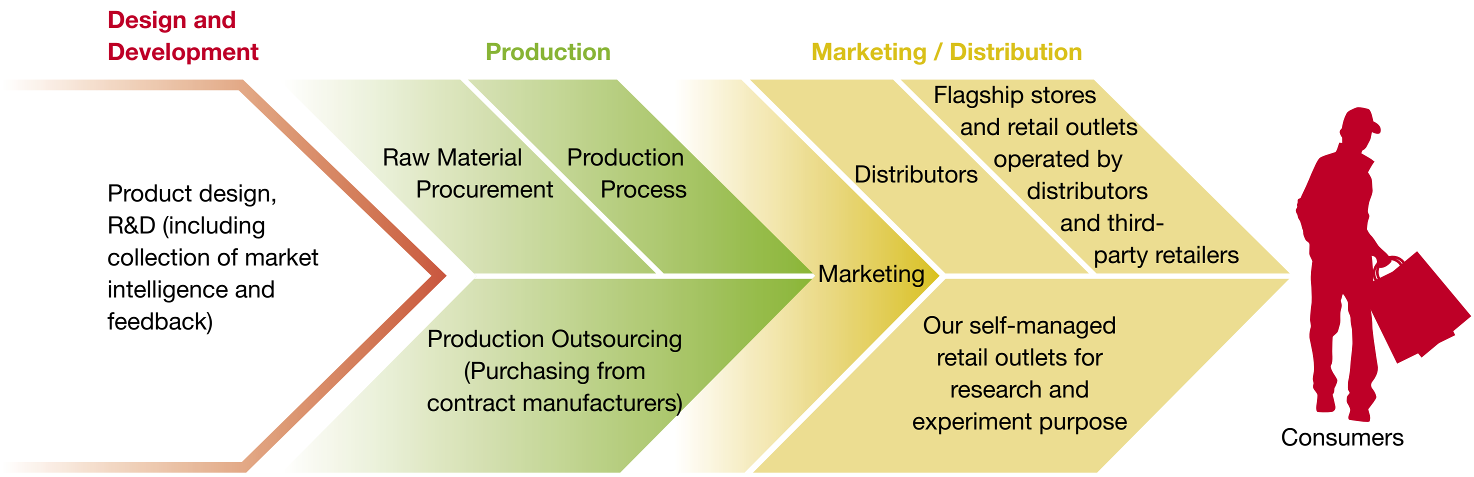
2008 was a year of challenges. The remarkable success of hosting the Beijing 2008 Olympic Games by China has engraved its world class leadership position to the world. Even though China has faced the devastated snowstorms and earthquake as well as the downturn of global financial crisis, the PRC government has promulgated a series of measures to boost domestic demand and stimulate consumption. The overall economy and consumption of the PRC maintained steady growth and the GDP increased by approximately 9% over last year to approximately RMB30,067 billion. While the urbanization in various cities continued to accelerate, the increasing income of the PRC citizens has led to the corresponding increase in the living standard, resulting in the increasing demand for consumables. The total annual social consumables rose by approximately 21.6% over last year to approximately RMB10,850 billion, representing an increase of approximately 4.8 percentage points over last year. In particular, the retail sales of consumer products in urban areas grew by approximately 20.7% to approximately RMB7,380 billion, representing an increase of approximately 4.9 percentage points over last year.

The sports frenzy bred in the PRC as a result of the successfully hosted Beijing 2008 Olympic Games with the PRC athletes conquered the championship in the global sphere of sports, together with the increasing health awareness among the PRC citizens have driven the continuous promotion and development of sports. It has also helped to stimulate the demand for sportswear products from consumers. Sports apparel has become one of the casual apparels for daily wear and mix & match among the PRC citizens. Besides, consumers have become increasingly conscious of the taste for living and seek stylish apparels to reflect their personalities. In this regard, stylish and trendy sportswear products are well-received by the market, thus creating tremendous growth potential for the fashion sportswear products in the PRC.

BUSINESS REVIEW

Optimized and Integrated Business Model

The Group endeavored to differentiate its brand image, product design and marketing strategy so as to consolidate its unique market positioning and to distinguish itself from its peers in the PRC sportswear market. The Group tied in its product design and R&D with innovative and multi-faceted marketing strategies to offer its branded products through the nationwide distribution network in an effort to penetrate into the mass consumption market in the PRC. Moreover, its own production capacity also enabled the Group to effectively control the costs of production and product quality, and to swiftly respond to the consumers' needs.



Retail channel expansion and management

Strong distribution and retail network

During the year under review, the Group captured opportunities arose from the PRC's fast growing economy and actively expanded the distribution network by opening up more retail outlets in the regions with high consumption growth. For the year ended 31 December 2008, the retail network of the Xtep, Disney Sport and Koling brands operated by our distributors and third-party retailers covered 31 provinces, autonomous regions and municipalities in the PRC. The following table sets out the number of retail outlets operated by our distributors and third-party retailers in the PRC under Xtep brand as well as Other brands, namely Disney Sport brand and Koling brand, as at 31 December 2008:

Number of retail outlets

Brands	As at 31 December 2007	Addition	Consolidated	As at 31 December 2008
Xtep brand	4,380	856	(180)	5,056
Other brands	267	239	(30)	476
Total	4,647	1,095	(210)	5,532

The following map illustrates the geographical distribution of Xtep brand flagship stores as at 31 December 2008:

The following tables set out the number of retail outlets operated by our distributors and third-party retailers in the PRC as at 31 December 2008 by geographical location:

Number of retail outlets

Regions	Xtep brand		Other brands	
	Number	%	Number	%
Eastern region	1,922	38	131	28
Southern region	1,241	25	125	26
Western region	891	18	68	14
Northern region	1,002	19	152	32
Total	5,056	100	476	100

Eastern region

	Number of retail outlets	
	Xtep brand	Other brands
Shanghai	110	36
Jiangsu	543	32
Zhejiang	372	34
Anhui	261	14
Shandong	311	10
Jiangxi	115	1
Fujian	210	4

Southern region

	Number of retail outlets	
	Xtep brand	Other brands
Hubei	250	35
Hunan	423	40
Henan	188	21
Guangxi	141	6
Guangdong	213	22
Hainan	26	1

Western region

	Number of retail outlets	
	Xtep brand	Other brands
Sichuan	261	29
Guizhou	115	7
Tibet	11	0
Yunnan	141	15
Chongqing	108	9
Shaanxi	111	6
Ningxia	15	0
Gansu	56	1
Qinghai	9	0
Xinjiang	64	1

Northern region

	Number of retail outlets	
	Xtep brand	Other brands
Heilongjiang	120	6
Jilin	134	15
Liaoning	191	47
Tianjin	85	37
Hebei	100	9
Shanxi	113	15
Beijing	211	22
Inner Mongolia	48	1

The Eastern and Southern regions are the key development areas of the Group. In particular, Hunan and Hubei Provinces in the Southern region and Jiangsu, Zhejiang, Anhui and Shandong Provinces in the Eastern region represent the key expansion provinces and the main driver for the Group's revenue. According to the latest figures released by the National Bureau of Statistics of China, in 2008, the GDP in Jiangsu, Zhejiang, Anhui, Shandong, Hunan and Hubei Provinces grew by approximately 12.5%, 10.1%, 12.7%, 12.1%, 12.8% and 13.4% respectively over last year. Their growth are higher than the overall PRC's GDP growth of 9%, which implies their underlying tremendous growth potentials. The figures also reflect that the Group has adopted the right growth strategies to develop such provinces as their key expansion areas. As at 31 December 2008, the Group had a total of 2,160 Xtep brand retail outlets in these six provinces, accounting for approximately 42.7% of the Xtep brand nationwide retail network.

In addition, the Group also operates and manages retail outlets where it offers Xtep brand and Disney Sport brand products directly to consumers. As at 31 December 2008, the Group had one self-managed retail outlet for each Xtep brand and Disney Sport brand, both of which are located adjacent to the Group's headquarters in Quanzhou, Fujian Province. These retail outlets primarily serve the purposes of facilitating research and experimentation with various store designs and layouts, as well as allowing us to conduct consumer preference surveys.

Outlet image upgrade

During the year under review, the Group actively marketed the 5th generation image store to generate a brand new experience for the customers, and further strengthened the brand image. The Group established a total of 12 Xtep brand flagship stores in the key expansion cities of the Group including Hunan (Changsha), Hubei (Wuhan), Anhui (Hefei), Shandong (Jinan), Beijing, Liaoning (Shenyang), Jilin (Jilin city), Shanxi (Taiyuan) and Fujian (Xiamen), which are operated and managed by distributors of Xtep brand. These flagship stores are strategically located in the prime locations in the areas with high consumption growth. In addition to providing superior shopping environment for the customers, the flagship stores also enable the customers to experience the vitality and dynamics of the brand ideology. This helps to enhance customers' loyalty and thereby increase the brand competitiveness and overall profitability.

Seasonal sales fair

During 2008, the Group has organized 4 seasonal sales fair namely:

2008 Autumn Product Sales Fair "Driving through 2008" Beijing (Held in February 2008)

2008 Winter Product Sales Fair Xiamen (Held in May 2008)

2009 Spring Product Sales Fair "Be Myself" Xiamen (Held in July 2008)

2009 Summer Product Sales Fair "Beyond the Possible" Changsha (Held in September 2008)

Among these 4 sales fairs, a total of approximately 2,000 types of footwear designs, 2,600 types of apparel designs and 2,100 types of accessories designs were displayed, and over approximately 3,300 distributors and third-party retailers attended each sales fairs.

Effective management and training

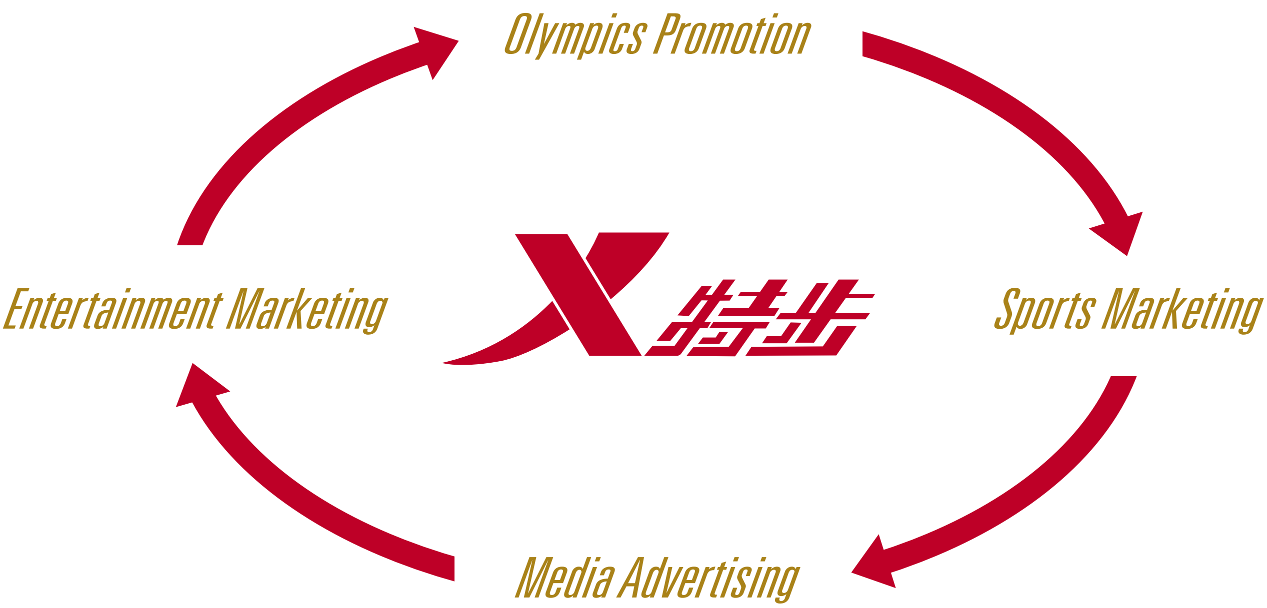
As the location of the retail outlets of our distributors and third-party retailers are distributed throughout the PRC, a stringent distribution management system is crucial to the success of the Group. During the year under review, the Group endeavored to strengthen the retail network management and has implemented the distribution resource planning ("DRP") system allowing it to record and track inventory levels of products at certain retail outlets operated by the distributors and third-party retailers. As at 31 December 2008, the DRP system covered approximately 50% of the Group's distributors.

Maintaining a unified brand image is the key to success. Apart from the provision of marketing guidelines, the Group issued operational guidelines for the retail outlets, which mainly included the specifications on retail outlet design and layouts, customer services and retail outlet management policies so as to ensure that the Group's brand image as the leading fashion sportswear player is maintained. In addition, the Group also organized training programs for its distributors and third-party retailers for their staff working at the retail outlets to enhance the quality of services. For the year ended 31 December 2008, the Group organized a number of training sessions in Guangzhou, Wenzhou, Changsha, Anhui, Chongqing, Beijing, Guiyang, Shanxi, Shanghai, Henan and Xinjiang respectively for over 2,000 staff of our distributors and third-party retailers.

Brand Value Strengthening

Multi-faceted marketing

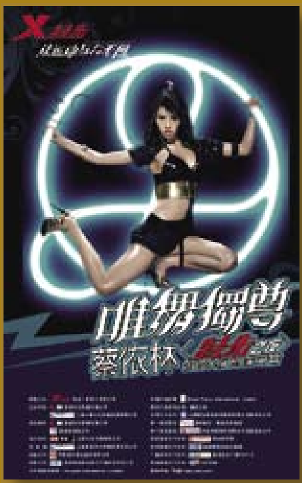
Since its establishment, the Group has positioned itself as a leading fashion sportswear player and adopted an innovative and multi-faceted marketing strategy that combines entertainment and sports. The Group has designed a number of effective and comprehensive marketing strategies, including promotion by entertainment celebrities, sponsorships of sports events and entertainment events, participation in a variety of media advertising, and other retail sales promotion and marketing activities.



Entertainment Marketing

2008 – Nicholas Tse, Jolin Tsai, Wilber Pan, Charlene Choi and Gillian Chung were selected as the image and brand representatives of the Xtep brand

April 2008 – Wilber Pan, one of Xtep's brand representatives, attended the 22nd China Sports Show



August 2008 – Sponsor of the 2008 "Xtep Night Jolin Tsai Dancing Forever Concert"

October 2008 – Sponsor of the 6th Xtep Southeast Music Chart Awards

December 2008 – Sponsor of the Tencent 2008 Star Grand Ceremony

Sports Marketing

2008 – Sole title sponsor of the Women's Chinese Basketball Association (WCBA)

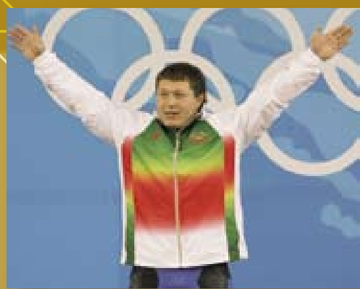
2008 – Sole title sponsor of the National Basketball League (NBL)

April to October 2008 – Sole title sponsor of the CX-Games organised by the Chinese X Games Association

April 2008 – Sponsor of "Xtep Cup" of the Yangzhou Jianzhen International Marathon

Olympics Promotion

2008 – Sole sponsor of Xtep Olympic Train



August 2008 – Designer and provider of sportswear to the Belarusian Olympic delegation at the Beijing 2008 Olympic Games

April to October 2008 – Sportswear sponsor of "Amway Nutrilite Healthy Run" in 21 cities in the PRC

November 2008 – Sponsor of the 2008 Xian International Marathon

November 2008 – Sole title sponsor of the 2008 Xtep Pingpang Carnival and the 3rd World Table Tennis Championship 2008

For the year ended 31 December 2008, the major marketing and promotion activities of the Group included:

1 Entertainment marketing

The target consumers of the Group are fashion conscious youngsters who are keen on popular entertainment. Accordingly, the Group engaged entertainment celebrities to promote and strengthen the fashion elements of the brand image. During the year under review, the Group selected the beloved entertainment celebrities among youngsters such as Nicholas Tse, Jolin Tsai, Wilber Pan, Charlene Choi and Gillian Chung as image and brand representatives for the Xtep brand, with a view to enhance and consolidate the recognition and acceptance of Xtep brand as a trend-setting fashion sportswear brand.

The promotion activities attended by Xtep image and brand representatives in 2008 included: the 22nd China Sports Show, the 6th Southeast Music Chart Awards and the 2008 Autumn Product Sales Fair. Moreover, the Group also promoted the brands and products of the Group through sponsoring concerts, new album release promotions and autograph sessions for such image and brand representatives, including the sponsorship of the 2008 "Xtep Night Dancing Forever Concert by Jolin Tsai".

On the other hand, the Group strategically sponsored some of the teen favorite programs such as the 6th Southeast Music Chart Awards and Tencent 2008 Star Grand Ceremony (featuring a number of celebrity artists from China, Hong Kong, Taiwan, Japan and Korea), so as to increase the recognition of the Group's image among our target consumers.

2 Sports marketing

In order to further increase the exposure and position of Xtep brand in the sportswear market, the Group strategically sponsored a variety of national sports events and sports teams.

The Group's sports-related sponsorships for the year ended 31 December 2008 included:

- Sole title sponsor of the Women's Chinese Basketball Association (WCBA);
- Sole title sponsor of the National Basketball League (NBL);
- Sponsor of "Xtep Cup" of the Yangzhou Jianzhen International Marathon;
- Sole title sponsor of the CX-Games organised by the Chinese X Games Association;
- Sportswear sponsor of "Amway Nutrilite Healthy Run" in 21 cities in the PRC;
- Jiangsu Youth Sunshine Sports Competition;
- Zhejiang Secondary Student Basketball League;
- Sole title sponsor of the 2008 Xtep Pingpang Carnival and the 3rd World Table Tennis Championship 2008; and
- Sponsor of the 2008 Xian International Marathon.

3 Multi-dimensional Olympics marketing

In 2008, the hosting of the Beijing 2008 Olympic Games was a dream come true for China. The Group also seized the highlight of this global spotlight sports event to launch numerous Olympics-related marketing activities so as to market Xtep brand to the media and consumers all over the world. The Group was, among others:

- Designer and provider of footwear, apparel and accessory products to the Belarusian Olympic delegation, which were worn at awards ceremonies and other ceremonial and social events, as well as press conferences and celebration dinners at the Beijing 2008 Olympic Games;
- Sole sponsor of Xtep Olympic Train, which has been decorated with various Xtep logos, trademarks and images in relation to the Beijing 2008 Olympic Games, in order to enhance Xtep's brand position through the popularity of the Olympics; and
- Sole PRC sportswear enterprise that has successfully secured television commercial airtime during all finals of the Beijing 2008 Olympic Games on the CCTV Sports Channel, which is the official television channel in the PRC authorized to broadcast the Beijing 2008 Olympic Games.

4 All-round media advertising

During the year under review, through a variety of media advertising and promotion channels set out below to market the brands, the Group strengthened the interaction with the consumers so as to attract the target consumers, and enhanced the exposure of the three brands in the PRC market:

- Launched the brand promotion advertisements for 4 seasonal collections;
- Launched apparel collections on a quarterly basis, and invited the image and brand representatives of Xtep brand to shoot printed and TV advertisements to strengthen marketing effects;
- Placed advertisements in major TV media channels during high rating airtime, including CCTV Sports, Hunan Satellite TV, Anhui Satellite TV, Hubei General Channel, South East Satellite and Fujian TV8;
- Selectively placed advertisements of Xtep image and brand representatives and promotional materials of Xtep brand products in popular fashion and beauty magazines, including the "Rayli Fashion Pioneer", a nationwide monthly fashion magazine for women; "Size", a domestic footwear magazine offering professional and comprehensive footwear related information; "So Cool", a popular domestic fashion magazine for sportswear products; and
- Advertised Xtep brand on the internet through various websites such as www.sportschina.com and www.mop.com, as well as on billboards, buses and bus stops.

The Group invested more resources on advertising and promotion in order to increase brand recognition and penetration. The advertising and promotional expenses for the year under review amounted to approximately RMB260.0 million, representing an increase of 2.4 times over last year (2007: RMB75.8 million) and accounting for approximately 9.1% of the Group's revenue for the year (2007: approximately 5.6%).

Enhancing product R&D and design

Amid such intense market competition, the Group maintained its core competitiveness through its unparalleled product design and R&D capabilities. The Group endeavored to research and develop innovative product designs and technologies to cater for consumer preferences and respond to market needs. The Group has three product design teams and two R&D teams consisting of 500 staff. Of which, there are designers from South Korea and Japan who possess international exposure and fashion sense. Moreover, the Group also worked with other world renowned fashion and trend research and design institutions such as the South Korean-based C&T Fashion Planning and Branding Consultancy Company and the UK-based Worth Global Style Network Ltd., a new partner in 2008 to keep abreast of the latest fashion trends so as to formulate suitable design proposals.

During the year under review, the Group introduced 4 seasonal collections, each has 4 to 5 different fashion series and in aggregate amounted to approximately 2,000 types of footwear designs, 2,600 types of apparel designs and 2,100 types of accessories designs to fulfill different customer demands. As a result of devoting more resources to design and R&D to improve the appearance and quality of our products, the Group's total design and R&D expenses increased to approximately RMB45.2 million for the year ended 31 December 2008 (2007: RMB16.6 million) representing approximately 1.6% of the Group's revenue for the year (2007: approximately 1.2%).

During the year under review, the Group continued to apply the following R&D initiatives on product development:

Strengthening production efficiency

The Group was able to meet its fast growing business and to respond quickly to changing market demands and fashion trends through its own production facilities. During the year under review, the Group had 12 footwear production lines with an annual production capacity of approximately 10.7 million pairs of footwear products and 14 apparel production lines with an annual production capacity of approximately 1.2 million pieces of apparel products. The utilization rate of the production facilities was close to approximately 100%. The Group adhered to the comprehensive quality control system to effectively monitor various processes from design, raw materials procurement and production to delivery, so as to enable the Group to continue to maintain a very high standard and competitive quality control level among its peers.

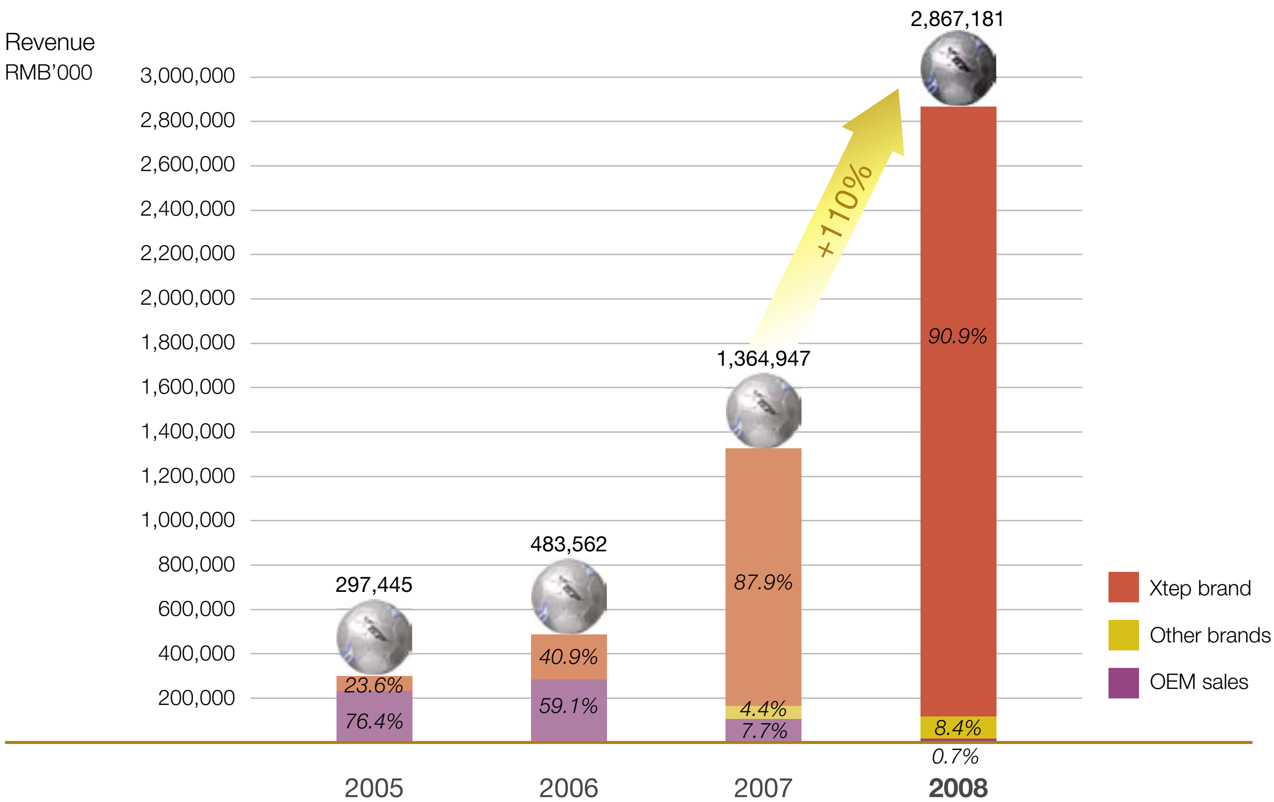
FINANCIAL REVIEW

Revenue Breakdown

• ***Revenue and gross profit margin breakdown by branded product sales and OEM sales***

For the year ended 31 December

	2008		2007	
	Revenue (RMB'000)	*Gross profit margin (%)*	Revenue (RMB'000)	*Gross profit margin (%)*
Xtep brand	2,606,237	*36.7*	1,199,231	*34.5*
Other brands	241,337	*43.6*	59,908	*28.7*
Sub-total	2,847,574	–	1,259,139	–
OEM sales	19,607	*17.3*	105,808	*11.2*
Overall	2,867,181	*37.1*	1,364,947	*32.5*



During the year under review, the total revenue of the Group surged by 110% to approximately RMB2.87 billion (2007: RMB1.36 billion). Xtep brand remained the main driver for the Group's revenue and its sales increased substantially by 117% to approximately RMB2.6 billion (2007: approximately RMB1.2 billion, mainly due to the rapid expansion of Xtep brand retail network operated by our distributors and third-party retailers which increased to 5,056 retails outlets as at 31 December 2008 (as at 31 December 2007: 4,380).

On the other hand, the successful marketing of Xtep brand apparel products were well-accepted by the trendy youthful customers and therefore significantly increased the income derived from Xtep brand products. The gross profit margin of Xtep brand products improved by 2.2 percentage points to 36.7% (2007: 34.5%) mainly due to the increase in average selling prices of footwear and apparel products, and an improvement of 3.7 percentage points in gross profit margin of Xtep apparel products.

The revenue from Other brands' products increased to approximately RMB241.3 million (2007: RMB59.9 million) mainly due to the increase in the number of Other brands' retail outlets to a total of 476 outlets as at 31 December 2008 (as at 31 December 2007: 267). The higher average selling price and tighter cost control improved the gross profit margin of Other brands' products significantly by 14.9 percentage points to 43.6% (2007: 28.7%).

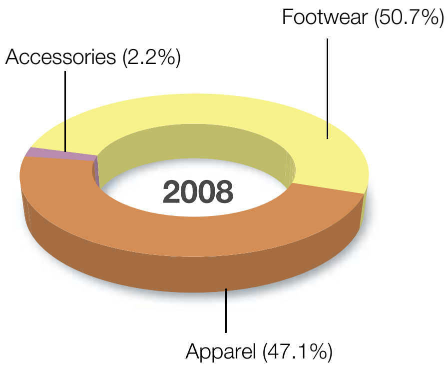
As the Group mainly focused on branded products, the OEM sales reduced to only 0.7% of the Group's total revenue (2007: 7.7%).

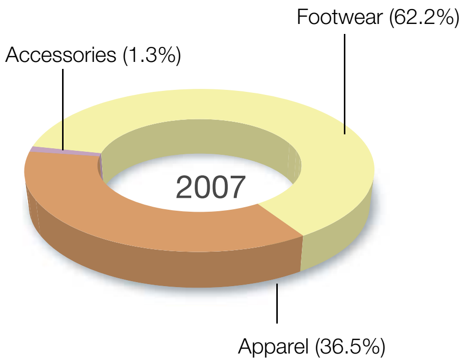
• ***Revenue and gross profit margin breakdown by product category***

For the year ended 31 December

	2008		2007	
	Revenue (RMB'000)	*Gross profit margin (%)*	Revenue (RMB'000)	*Gross profit margin (%)*
Footwear	1,454,596	*36.2*	849,135	*31.7*
Apparel	1,350,976	*38.2*	497,635	*33.7*
Accessories	61,609	*34.3*	18,177	*35.5*
Overall	2,867,181	*37.1*	1,364,947	*32.5*

REVENUE BREAKDOWN BY PRODUCT CATEGORY





The Group has successfully introduced fashionable and trendy apparel products and therefore improved the balance of product mix. During the year under review, footwear and apparel products accounted for 50.7% (2007: 62.2%) and 47.1% (2007: 36.5%) of the Group's total revenue respectively. Our product mix shifted towards apparel products mainly due to the increase in sales of both Xtep brand and Other brands' apparel products.

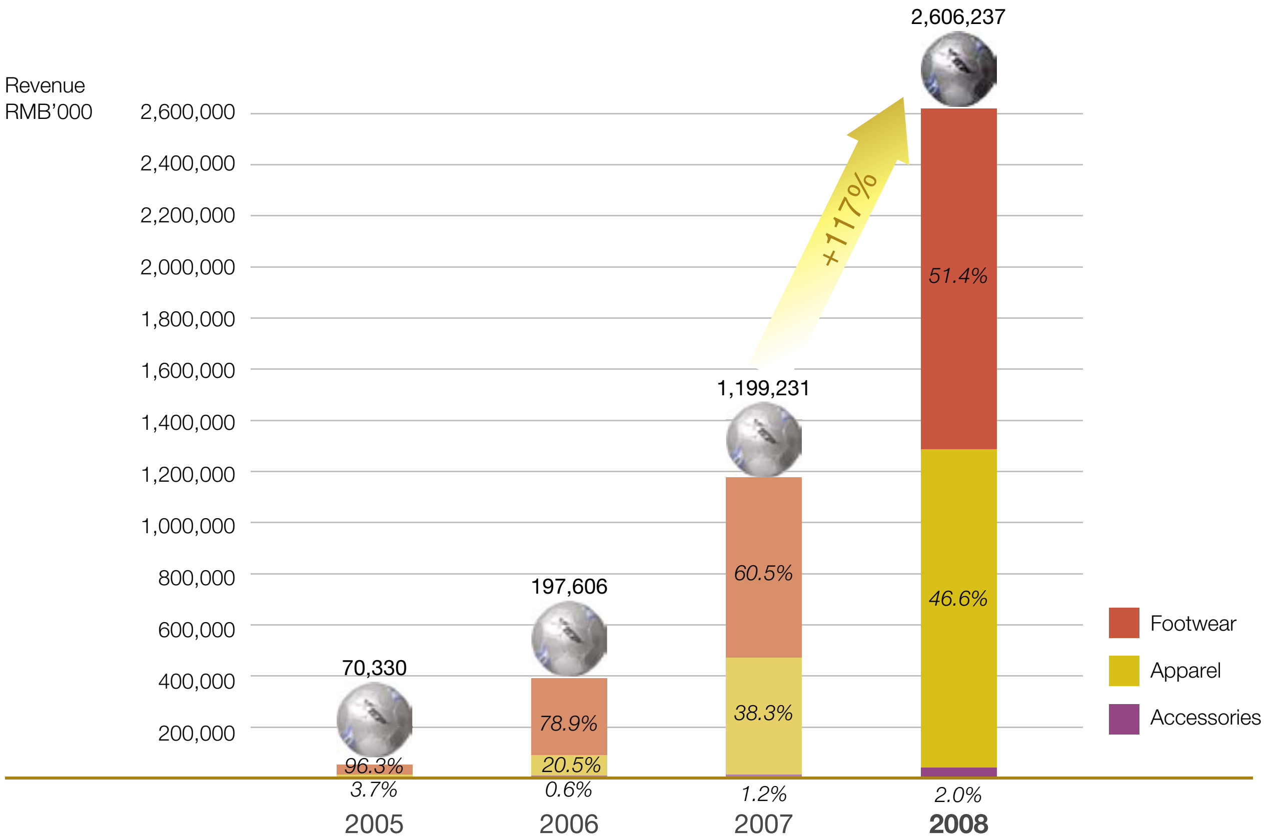
The gross profit margin of footwear products improved by 4.5 percentage points to 36.2% (2007: 31.7%) mainly due to the increase in average selling price of Xtep brand products, the higher gross profit margin of Other brands' products and the reduction in sales of OEM products which have lower gross profit margin.

The gross profit margin of apparel products improved by 4.5 percentage points to 38.2% (2007: 33.7%) mainly due to the increase in average selling price of Xtep brand products and the higher gross profit margin of Other brands' products.

• ***Revenue and gross profit margin breakdown of Xtep brand products***

For the year ended 31 December

	2008		2007	
	Revenue (RMB'000)	*Gross profit margin (%)*	Revenue (RMB'000)	*Gross profit margin (%)*
Footwear	1,340,604	*35.6*	725,347	*34.5*
Apparel	1,215,505	*38.1*	459,580	*34.4*
Accessories	50,128	*32.4*	14,304	*39.1*
Overall	2,606,237	*36.7*	1,199,231	*34.5*



The revenue from Xtep brand footwear products increased by 84.8% to approximately RMB1,340.6 million (2007: RMB725.3 million) mainly due to the increase in sales volume by approximately 76% to approximately 18.3 million pairs (2007: 10.4 million pairs) which was driven mainly by the increase in number of Xtep brand retail outlets.

The average selling price of Xtep brand footwear products also improved by 5% to RMB73.2 (2007: RMB69.6) mainly due to the successful marketing and promotion campaigns and brand recognition by the customers.

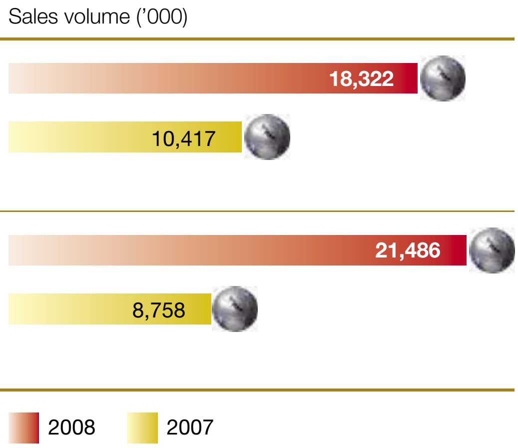
The revenue from apparel products increased significantly by 1.6 times to approximately RMB1,215.5 million (2007: RMB459.6 million) mainly due to the significant increase of 1.5 times in sales volume to approximately 21.5 million pieces (2007: 8.7 million pieces), which was mainly due to the increased number of retail outlets and product mix balancing.

The average selling price of apparel products also increased by 7% to RMB56.4 (2007: RMB52.5) mainly due to Xtep brand recognition by the trendy and youthful customers.

• ***Sales volume, average selling price and gross profit margin breakdown of Xtep brand products***

For the year ended 31 December

	2008	2007	*Change*
Footwear			
Sales volume ('000)	18,322	10,417	*76%*
Average selling price (RMB)	73.2	69.6	*5%*
Gross profit margin	*35.6%*	*34.5%*	
Apparel			
Sales volume ('000)	21,486	8,758	*145%*
Average selling price (RMB)	56.4	52.5	*7%*
Gross profit margin	*38.1%*	*34.4%*	



Through enhancing brand recognition and design of retail outlets, the product design of Xtep brand became more popular among the fashion conscious youngsters. Better recognition of Xtep brand has led to the increase in retail price and average selling prices of Xtep brand footwear and apparel products. In addition, economies of scale and effective cost control enabled us to maintain costs at a stable level. Accordingly, the gross profit margin of Xtep brand footwear and apparel products rose by 1.1 percentage points and 3.7 percentage points respectively.

• ***Average wholesale revenue per retail outlet of Xtep brand***

	As at 31 December			For the year ended 31 December					
	No. of retail outlets	Gross area	Average area per retail outlet	Revenue	Average no. of retail outlets	Average wholesale revenue per retail outlet	Average gross area	Average area per retail outlet	Average wholesale revenue per Sq. m.
		Sq. m.	Sq. m.	(RMB'000)		RMB	Sq. m.	Sq. m.	(RMB)
2008	5,056	377,315	75	2,606,237	4,718	552,403	341,709	72	7,627
2007	4,380	306,104	70	1,199,231	2,983	402,022	197,588	66	6,069
Growth	*15%*	*23%*	*7%*	*117%*	*58%*	*37%*	*73%*	*9%*	*26%*

• ***Revenue and gross profit margin breakdown of Other brands' products***

For the year ended 31 December

	2008		2007	
	Revenue (RMB'000)	*Gross profit margin (%)*	Revenue (RMB'000)	*Gross profit margin (%)*
Footwear	94,385	*49.6*	17,980	*35.8*
Apparel	135,471	*39.5*	38,055	*26.0*
Accessories	11,481	*42.5*	3,873	*22.5*
Overall	241,337	*43.6*	59,908	*28.7*

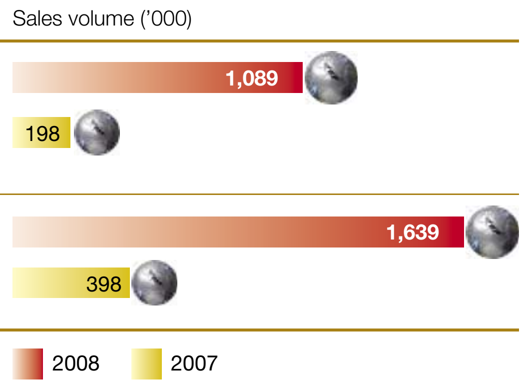
The revenue of Other brands' products increased significantly in 2008 because Other brands, namely Disney Sport brand and Koling brand, were only launched in the second half of 2007 and the number of Other brands' retail outlets increased significantly to a total of 476 as at 31 December 2008 (as at 31 December 2007: 267 outlets).

The sales volume growth for both footwear and apparel products were significant as 4 seasonal products were launched in 2008 to increase the product range and variety. As a result, the average selling price for both footwear and apparel decreased slightly.

• Sales volume, average selling price and gross profit margin breakdown of Other brands' products

For the year ended 31 December

	2008	2007
Footwear		
Sales volume ('000)	1,089	198
Average selling price (RMB)	86.7	90.7
Gross profit margin	*49.6%*	*35.8%*
Apparel		
Sales volume ('000)	1,639	398
Average selling price (RMB)	82.6	95.6
Gross profit margin	*39.5%*	*26.0%*

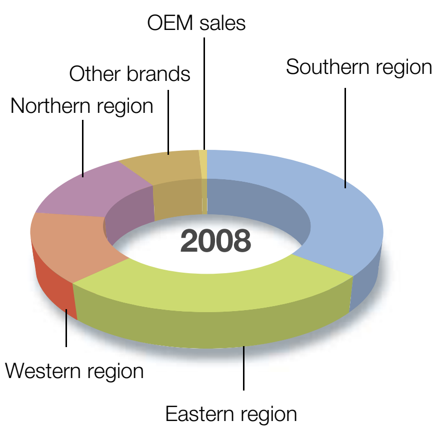


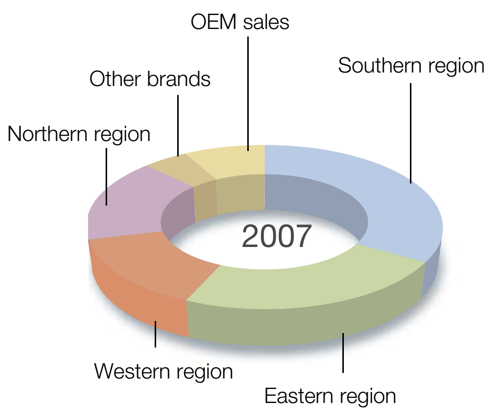
The higher gross profit margin of Other brands' products increased mainly because sales volume of Other brands' footwear and apparel products increased significant by 4.5 times and 3.1 times respectively as they were only launched is the second half of 2007, and such increase in sales volumes resulted in economies of scale with respect to cost of sales.

• Revenue breakdown by region

For the year ended 31 December

	2008		2007	
	Revenue (RMB'000)	*% mix*	Revenue (RMB'000)	*% mix*
Xtep brand				
Eastern region	1,023,122	*35.7*	484,226	*35.5*
Southern region	783,740	*27.3*	308,902	*22.6*
Western region	414,914	*14.5*	190,107	*13.9*
Northern region	384,461	*13.4*	215,996	*15.9*
Sub-total	2,606,237	*90.9*	1,199,231	*87.9*
Other brands	241,337	*8.4*	59,908	*4.3*
OEM sales	19,607	*0.7*	105,808	*7.8*
Total	2,867,181	*100.0*	1,364,947	*100.0*



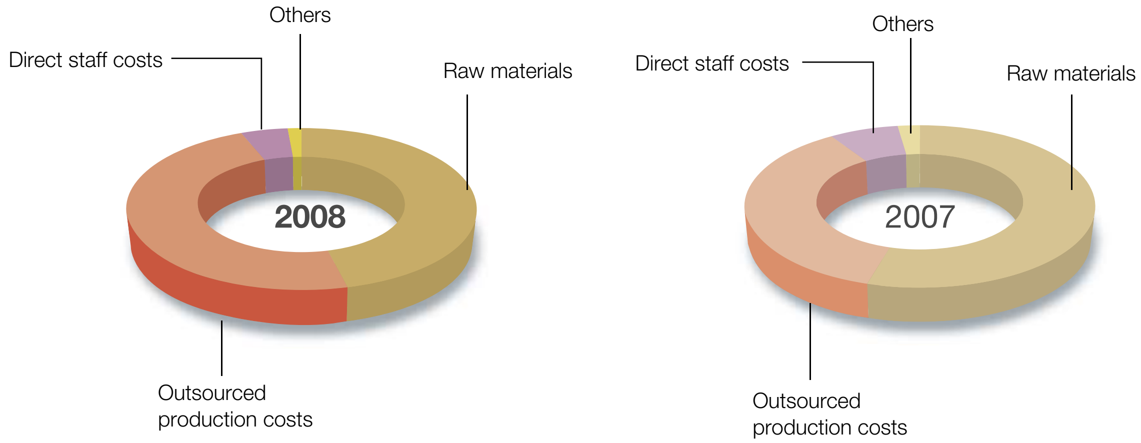


The Eastern and Southern regions are the key development areas of the Group. They remained the main driver of the Group's revenue and their sales represented 35.7% (2007: 35.5%) and 27.3% (2007: 22.6%) of the Group's total revenue respectively. As the number of retail outlets and total floor area of retail outlets expanded substantially, the revenue of each region experienced significant growth for the year under review, particularly in the Eastern and Southern regions where the revenue increased by approximately 111.3% and 153.7%, respectively over last year.

• ***Cost of sales breakdown***

For the year ended 31 December

	2008		2007	
	Cost of sales (RMB'000)	*% mix*	Cost of sales (RMB'000)	*% mix*
Raw materials	834,266	*46.3*	503,986	*54.7*
Outsourced production costs	857,289	*47.6*	333,583	*36.2*
Direct staff costs	87,505	*4.8*	65,009	*7.1*
Others	23,819	*1.3*	19,226	*2.0*
Total	1,802,879	*100.0*	921,804	*100.0*



During the year under review, the cost of sales represented 63.0% of the Group's total revenue (2007: 67.5%). Tighter cost control was placed on raw materials supplier selection to produce high quality products with low and efficient cost of materials. Moreover, as sales volume grew significantly, the Group increased the proportion of outsourced production accordingly to effectively lower cost and control the capital expenditure of its production facilities.

Income tax expense

In 2008, the income tax of the Group was approximately RMB69.2 million (2007: RMB33.3 million). The effective tax rate for the year decreased to 12.0% (2007: 13.1%) primarily because the Group utilise effectively the tax arrangement of its subsidiary companies which enjoyed full PRC enterprise income tax reduction in 2008.

Profits attributable to equity holders and net profit margin

For the year ended 31 December 2008, the profits attributable to equity holders of the Group amounted to approximately RMB508.2 million (2007: RMB221.9 million), an increase of approximately 129% over last year mainly due to the significant increase of 110% in revenue which was driven by the remarkable results of Xtep brand. In addition, the Group's net profit margin rose by 1.4 percentage points to 17.7% over last year (2007: 16.3%) mainly due to the increase in gross profit margins which improved to 37.1% (2007: 32.5%) because of the increase in branded product sales and increases in average selling price and sales volume, while costs of sales remained at stable level.

Dividend

As the Group's profit increased significantly and there were sufficient cash on hand during the year under review, the Board recommended payment of a final dividend of HK8.0 cents (equivalent to approximately RMB7.1 cents) per Share and a special dividend of HK5.0 cents (equivalent to approximately RMB4.4 cents) per Share, in addition to the interim dividend of HK5.0 cents per Share (equivalent to approximately RMB4.4 cents), which was declared in the interim results, a total dividend of approximately RMB345.4 million for the year ended 31 December 2008 was declared and proposed. The total dividend payout ratio for the year was 68%.

Other income and gains

Other income and gains for the year increased to approximately RMB5.1 million (2007: RMB2.1 million). The increase was primarily as a result of the increase in subsidy income received from PRC local government in recognition of the Company's successful listing in Hong Kong.

Selling and distribution costs and administrative expenses

For the year ended 31 December 2008, the Group's selling and distribution costs amounted to approximately RMB350.5 million (2007: RMB119.4 million), which represented approximately 12.2% (2007: 8.7%) of the Group's total revenue. The increase was primarily as a result of the strengthening of Xtep brand marketing during the Olympics to enhance the Group's brand recognition and increased investment in various media channels and advertising. Accordingly, the Group's advertising and promotion expenses increased to approximately RMB260.0 million for 2008 (2007: 75.8 million) which represented approximately 9.1% of revenue (2007: 5.6%). General and administrative expenses increased to RMB128.2 million for 2008 (2007: RMB58.7 million), primarily as a result of the increase in professional and legal fees subsequent to the Group's listing and the increased in the Group's design and R&D expenses to approximately RMB45.2 million for 2008 (2007: RMB16.6 million) which represented approximately 1.6% of the Group's total revenue (2007: 1.2%), mainly due to the investment in the improvement of footwear and apparel products quality, as well as appearance, function and durability.

Working capital ratio

The Group's average inventory turnover days significantly reduced by 19 days to 49 days (2007: 68 days), primarily as a result of the increased use of contract manufacturers, which carried the raw materials and work in progress as their inventories and our improved production planning, procurement control and logistics management, thus reducing the inventory level of the Group.

The Group's average trade receivables turnover days significantly reduced by 8 days to 48 days during the year under review (2007: 56 days), predominantly due to the strengthening of credit control and debt collection process that enabled us to shorten the debt collection cycle.

The Group's average trade payables turnover days increased by 14 days to 44 days (2007: 30 days), primarily as a result of the improved cash management control and extended credit payment terms from suppliers.

As a result, the Group's total overall working capital cycle reduced by 41 days to 53 days in 2008 (2007: 94 days).

Liquidity and capital resources

The Group's primary sources of operating funds are cash flow from operating activities and bank borrowings. As at 31 December 2008, the Group's current ratio was 4.8 (31 December 2007: 1.9). The Group maintained a net cash position, reflecting its healthy financial condition, paving the way for future development. As at 31 December 2008, the Group's gearing ratio was 4.7% (31 December 2007: 41.5%), which is defined as total borrowings divided by the sum of share capital and reserves of the Group.

Due to significant improvement of working capital management by reducing the total average working capital cycle days, the net cash inflow from operating activities for the year ended 31 December 2008 was approximately RMB502.6 million (2007: RMB12.9 million). On the other hand, the Group successfully raised approximately RMB1,841.5 million (net proceeds) from its listing and as at 31 December 2008, the Group's total cash and cash equivalents amounted to approximately RMB2,136.9 million (31 December 2007: RMB215.0 million).

Inventory provision

For the year ended 31 December 2008, the Group did not have any inventory provision.

Doubtful debt provision

For the year ended 31 December 2008, the Group did not have any doubtful debt provision.

Capital commitments and contingent liabilities

Details of capital commitments as at 31 December 2008 are set out in note 35 to the financial statement. As at 31 December 2008, the Group did not have any material contingent liabilities.

Foreign currency risks

The Group mainly operates in the PRC with most of its transactions settled in RMB. Most of the Group's financial instruments such as trade and bills receivables, cash and bank balances are denominated in the same currency or a currency that is pegged to the functional currency of the operations to which transactions relate. Accordingly, it is believed that the Group has minimal foreign currency risks. The Group has not used any forward contract or currency borrowing to hedge its interest rate risks. However, the management will continue to monitor foreign currency risks and adopt prudent measures as appropriate.

Significant investments and acquisitions

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

Use of net proceeds from the global offer

The shares of the Company have been listed on the Main Board of the Hong Kong Stock Exchange since 3 June 2008 with net proceeds from the global offering of approximately HK$2,088 million (approximately RMB1,842 million) (after deducting underwriting commissions and related expenses).

	Net proceeds from the global offer (HK$ million)		
Use of proceeds	Available to utilize	Utilized (as at 31 December 2008)	Unutilized (as at 31 December 2008)
Media advertising and brand promotion activities	459	277	182
Expanding and improving distribution network	355	28	327
Expanding production and operating facilities	397	66	331
Acquiring brands	501	0	501
Enhancing design and R&D capabilities	146	51	95
Enhancing IT management system	63	13	50
General working capital	167	28	139
Total	2,088	463	1,625

Human Resources

As at 31 December 2008, the Group had 6,414 employees (31 December 2007: 5,930 employees)

	As at 31 December 2008	As at 31 December 2007
Sales and marketing	330	316
Product design, research and development	500	371
Management and administrative, finance and quality control	432	455
Production	5,152	4,788
Total	6,414	5,930

The Group provides introductory orientation programs and continuous training to its employees that cover industry overview, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and of its staff. The Group will strive to strengthen human resources management to provide strong support for the development of the Group's business through staff recruitment initiatives and the optimization of the development of its organizational structure and corporate culture to ensure that the Group will be able to maintain sustainable and fast-growing development in the future.

PROSPECTS

Market outlook

Despite global financial crisis in 2008, the Group believes that 2009 will be a year with both opportunities and challenges. The strong policy directives of the PRC government to expand consumption and a series of measures to expand the domestic demand are favorable to boosting consumers' confidence. Leverage on its own state-of-the-art design and R&D capacities, differentiated brand image positioning and innovative marketing strategies, the Group will seize the opportunities, endeavor to enhance the various brand values and the overall competitiveness of the Group with a view to ensure long-term and sustainable business development. The Group believes that 2009 will be an important year for establishing a solid business foundation for the Group.

Enhancing operating efficiency

In the year ahead, the Group will focus on executing "refined retail shop management" policy and endeavor to strengthen the management of the brand, operations and retail outlets. The Group's distribution resource planning (DRP) system will be fully implemented among our distributors during the year such that the sales and logistics are better controlled by the Group. The coverage of the DRP system is expected to cover all the distributors in 31 provinces, autonomous regions and municipalities in the PRC. Besides, the sales and marketing department will be relocated to Xiamen in the second half of 2009 as the headquarters of the Group so as to enhance operational management and create greater efficiency.

Optimizing and expanding retail network

The Group will take a systematic approach to formulate the expansion strategies of retail network, and expand and optimize the retail network in response to the market needs. In 2009, the Group plans to increase the number of Xtep brand and Other brands' retail outlets operated by the Group's distributors and third-party retailers to approximately 800 to 1,000 retail outlets in total. At the same time, the Group plans to consolidate in aggregate approximately 300 to 500 Xtep brand and Other brands' retail outlets mainly due to relocation to prime locations and uplift the decoration designs of retail outlets. New and modernized interior design will enhance and upgrade the shopper's experience in our retail outlets. Meanwhile, the Group plans to establish approximately 15 additional Xtep flagship stores in 2009 in prime and strategic locations in key cities such as Xian, Shandong, Yunnan, Hunan, Beijing, Shanghai and Guangzhou to provide superior shopping experience for consumers.

Consolidating brand strengths

Looking ahead, the Group will continue to capitalize on the benefits of the multi-faceted marketing strategies that combine sports and entertainment marketing to enable more consumers to experience the unique fashion essence of Xtep brand. The Group has entered into strategic partnership agreements with renowned TV channels and organizing committee of major sports events in the PRC so as to further enhance the recognition of Xtep brand nationwide. In order to target at the youngsters, the Group will launch the "Advertisements on Campus Integrated Communication Series" in 2009 to strengthen and market Xtep brand to the young generation nowadays by means of innovative promotion channels.

For entertainment marketing, in 2009, the Group will air commercials in popular entertainment channels in the PRC namely Hunan Satellite TV and Anhui Satellite TV and CCTV Sports, a high profile TV channel; or sponsor high rating TV programs to extend the impact and coverage of its brands. At the same time, the Group will sponsor the Xtep Stars Nationwide Tour Concert in ten cities nationwide in 2009. For sports marketing, the Group will actively participate in a variety of major sports events and sports activities in 2009. For instance, Xtep acted as the sportswear sponsor for the first time for Xiamen International Marathon, the sole title sponsor of the CX-Games, and the sole sports product partner for the most important national sports event in China, the 11th National Games of China. The Group will also sponsor the potential gold medal winning teams of Hong Kong, Hunan, Jiangsu and Shandong and the People's Liberation Army in the 11th National Games of China so as to further enhance the recognition and reputation of Xtep brand.

Strengthening design and R&D capabilities

The Group believes that consumers will have higher requirements on product design, quality and innovation. In order to cater for the consumers' needs and generate new experiences for the customers, the Group will continue to allocate more resources on product design and R&D. Accordingly, the Group will engaged more foreign designers with international exposures to enhance our own design and R&D capabilities. Besides, in order to satisfy the changing needs of the consumers, the Group will develop a range of products with different alternative designs themes and functionality to diversity our product mix.

Expanding overseas markets

Extending our brands to the global sphere is the long-term development objective of the Group. Through expanding our existing business boundaries from the PRC to overseas markets, consumers around the world could experience the unique fashionable Xtep brand products. In this regard, the Group has established an overseas marketing division and will gradually allocate more resources in the year ahead to further expand and strengthen its team. Looking ahead, the Group plans to actively develop the high growth potential and emerging markets including Hong Kong, Macau, Taiwan and South East Asia and seize every expansion opportunity in achieving its ultimate goal of becoming one of the leading fashion sportswear products enterprises worldwide.

Conclusion

Despite the intensifying market competition in the PRC's sportswear products market, our differentiated brand positioning, distinguished management and sound marketing strategies are key elements of success. Following the fast growing business expansion in the past years, Xtep brand has successfully secured a leading position in the fashion sportswear products market in the PRC. Forging ahead, leverage on its leading brand positioning, extensive sales network, distinguished design and R&D capabilities, and superior corporate management, the Group will continue to strengthen its own competitive strengths and endeavor to generate excellent results in this ever-changing market.

We

Forge Ahead With Determination

INVESTOR RELATIONS REPORT

OVERVIEW

The Group strongly believes that investor relations are an integral part of maintaining good corporate governance of a listed company. Since its listing in June 2008, the Group has been actively maintaining contact with investors and keeping them abreast of the latest industry updates, corporate communications and business development in a timely manner, so as to establish a platform for fair, open and transparent information disclosure. The Group's chief financial officer and company secretary, Mr. Ho Yui Pok, Eleutherius is responsible for the investor relations of the Group with the full support from the Board and the senior management. During the year under review, the Group actively participated in various investor relations activities and provided on-time information to investors through its company website.

INVESTOR RELATIONS REVIEW

1. Global Offering and Global Roadshow

The Group's shares have been successfully listed on the Main Board of the Hong Kong Stock Exchange since 3 June 2008. During the time of listing, the Group's first global roadshow was held, involving major international financial markets including Hong Kong, Singapore, London, New York and Boston where one-on-one and group meetings and luncheons were arranged with various fund managers and analysts to explain the strengths and growth strategies of the Group. Since its listing, the Group has continued to actively participate in roadshows and presentations organized by sizable investment banks to provide up-to-date information about the Group and future prospects to the investors so as to increase the investors' understanding of the Group.

2. Investor Forums and Conferences

Since its listing, the Group attended a total of approximately 15 investor forums, roadshows and presentations held by renowned investment and securities firms in Hong Kong, Shanghai, Xiamen, Singapore and New York, and actively organized one-on-one and group meetings with various fund managers and analysts during the year. The Group has met with more than 250 analysts, fund managers and financial commentators and maintained close communications with institutional investors, providing them with up-to-date information about the Group.

3. Ongoing Communications with Shareholders, Investors and Analysts

The Group has adopted an active and progressive approach to provide the Shareholders and investors of the Group with the opportunity to communicate with the senior management of the Group through one-on-one and group meetings and luncheons to share with them the financial performance, business updates and future prospects of the Company.

4. Results Announcement

The Group had prepared detailed results reports upon finalization of interim and annual results of the Group. Investors' presentations and press conferences were also held to provide updates in relation to the market environment, financial performance, operating strategies and future prospects to the public in an accurate and effective manner, so as to maintain the Group's transparent investor relations strategy and strengthen the communications with the public.

5. Seasonal Sales Fair and Store Visit

During the year under review, the Group organized four seasonal sales fairs and actively invited analysts and fund managers of various major investment institutions to visit on-site. In September 2008, they were invited to visit the flagship stores and retail outlets of Xtep brand in Changsha, Hunan to gain a better understanding of the industry development and the business operations of the Group. The Group's senior management also attended the visit and responded to the enquiries from the attendees on the business and development of the Group during their visit.

6. Maintaining Interactive Communications with Media

The Group is endeavored to maintain a close relationship with the overseas and local media, and disseminate the Group's updates to the public through various channels, ranging from organizing press conferences for listing, interim and annual results announcement, issuing regular press releases to arranging media interviews with the management of the Group, and thus increasing the Group's publicity and further strengthening its corporate image and position.

7. Timely Dissemination of Latest Corporate Updates

Company website is considered to be one of the quickest means to communicate with investors. During the year under review, the Group launched its company website *www.xtep.com.hk* as the platform to communicate with the public. The Group regularly updated the website contents, disseminated the latest corporate updates, developments and disclosed financial information of the Group so as to enable the public to obtain such information in a timely manner. In addition, the Group also swiftly responded to different enquiries made by the Shareholders, investors, analysts and media by means of email, facsimile and telephone; and published announcements, press releases and other latest updates on the development of the Group, so as to strengthen the effectiveness of information dissemination.

PROSPECTS

The foundation of investor relations is based on the seamless integration of advanced public communication strategies and the dedicated involvement by the senior management of the Group. In 2009, the Group will continue to maintain highly transparent and effective corporate governance practices and is endeavored to maintain timely and accurate information dissemination in order to strengthen the relationship with investors.

INVESTOR INFORMATION

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

2. Financial Calendar	
2008 interim results announcement	1 September 2008
2008 annual results announcement	31 March 2009
Closure of register of members	30 April 2009
Annual general meeting	11 May 2009
Payment of 2008 final dividend and special dividend	18 May 2009
Financial year end	31 December

3. 2008 Dividends	
Interim dividend	HK5.0 cents (RMB4.4 cents) per Share
Proposed final dividend	HK8.0 cents (RMB7.1 cents) per Share
Proposed special dividend	HK5.0 cents (RMB4.4 cents) per Share

4. Investor Relations Contact

For any queries, please contact:

Xtep International Holdings Limited
Suite 2401-2
24/F, Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong
Investor Relations Department

Phone:	(852) 2152 0333
Fax:	(852) 2153 0330
Email:	ir@xtep.com.hk
Company website:	www.xtep.com.hk
Brand website:	www.xtep.com.cn

We
Put Forth Our Best Efforts

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Ding Shui Po (丁水波), aged 38, is the founder, chairman and chief executive officer of the Group. He has over 20 years of experience in the sportswear industry and is primarily responsible for the overall corporate strategies, planning and business development of the Group. Mr. Ding founded the Group in 1999 and is currently also the chairman of the Board of Directors and president of various subsidiaries of the Group.

Mr. Ding personally obtained the following awards:

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

Mr. Ding held the following public offices:

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

Mr. Ding participated in entrepreneurship programs offered by 北京大學 (Peking University) and 清華大學 (Tsinghua University) in 2004 and 2006, respectively. He is currently enrolled in an EMBA program offered by 廈門大學 (Xiamen University). 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 36, is our executive Director and a vice president of the Company. Ms. Ding has over 10 years of experience in the sportswear industry and is primarily responsible for the management of footwear operation of the Group. She is also responsible for the design and technology development of the Group and has led our design team to create a number of special collections of footwear under our Xtep brand that successfully appeal to the trendy and youthful mass market segment. Ms. Ding joined the Group in 1999 and is currently also a deputy general manager, a director and a vice president of various subsidiaries of the Group. Ms. Ding participated in an entrepreneurship program offered by 清華大學 (Tsinghua University) 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 37, is our executive Director and a vice president of the Company. Mr. Lin has over 10 years of experience in the sportswear industry and is primarily responsible for the management of apparel business of the Group. Mr. Lin joined the Group in 1999 and is currently also a vice president of Xtep (China). He participated in an entrepreneurship program offered by 清華大學 (Tsinghua University) in 2006. He is the husband of Ms. Ding Mei Qing, a 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 32, is our executive Director and a vice president of the Company. He has over 10 years of experience in the sportswear industry and is primarily responsible for the management of accessories business of the Group. Mr. Ding joined the Group in 1999 and is currently also a deputy general manager and a vice president of various subsidiaries of the Group. He participated in entrepreneurship programs offered by 北京大學 (Peking University) and 清華大學 (Tsinghua University) in 2004 and 2006, respectively. He is a 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 51, is our executive Director and a vice president of Xtep (China). Joining the Group in 2004, Mr. Ye has over 16 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 西南大學 (South West University) with a bachelor's degree in chemical science in 1982. He obtained a master's degree in philosophical science from 華東師範大學 (East China Normal University) in 1988 and a master's degree in business administration from 中歐國際工商學院 (China Europe International Business School) in 2003.

Non-executive Director

Mr. Xiao Feng (肖楓), aged 36, was appointed as a Director of the Company in 2007 and re-designated as a non-executive Director of the Company in 2008. Mr. Xiao is a managing director of Carlyle Investment Fund focused on growth capital investments in China. Prior to joining Carlyle, he was a Vice President at China International Capital Corporation, a leading investment bank in China, where he had involved in the restructuring and listing of a number of leading Chinese companies. He received his MBA from 中歐國際工商學院 (China Europe International Business School). He holds a B.E. in computer science and a B.A. in English from 清華大學 (Tsinghua University). He also holds a Lawyer's Qualification Certificate in China since June 1997.

Independent non-executive Directors

Mr. Sin Ka Man (冼家敏), aged 41, was appointed as our independent non-executive Director on 24 January 2008. Mr. Sin has over 16 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 financial controller of the Huayu Group, a private group of companies mainly engaged in toll road business in the PRC, and is responsible for the accounting and financial management of the Group. He holds a bachelor degree in Social Sciences from the University of Hong Kong, a master degree in Finance from the University of Strathclyde, the United Kingdom and a master degree in accounting from Curtin University of Technology, Australia.

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

Mr. Xu Peng Xiang (許鵬翔), aged 61, was appointed as our independent non-executive Director on 24 January 2008. Mr. Xu has over 10 years of industry experience in footwear and apparel industries. He has been the Standing Vice Chairman of 泉州市總商會 (Quanzhou General Chambers of Commerce) since 1997 and is responsible for, among others, footwear and apparel industries. He was the Head of 泉州市經濟委員會 (Enterprise Department at the Quanzhou Economy Committee) from 1991 to 1996, responsible for enterprise re-structuring, capital re-structuring and state-owned enterprises pre-listing matters. He was also responsible for financial and statistical planning in Quanzhou Economy Committee. He graduated from Fuzhou University.

Dr. Gao Xian Feng (高賢峰), aged 46, was appointed as our independent non-executive Director on 24 January 2008. Dr. Gao is currently the executive officer of 北京大學人本管理研究中心 (Human Resources Management Research Centre at the Peking University) and a visiting professor of entrepreneurship programs at 北京大學 (Peking University), 清華大學 (Tsinghua University), 中央黨校 (Party School of the Central Committee of Communist Party of China) and 復旦大學 (Fudan University). Dr. Gao previously serves as an associate professor at 山東經濟學院 (Shandong Economic University). He holds a bachelor degree in enterprise management from 山東經濟學院 (Shandong Economic University) and a doctor of law degree from the 北京大學 (Peking University).

SENIOR MANAGEMENT

Mr. Ho Yui Pok, Eleutherius (何睿博), aged 43, is the chief financial officer, investor relations officer and authorised representative of the Company. He is also the company secretary and qualified accountant of the Company. He has over 18 years of experience in finance and accounting and is primarily responsible for our overall financial and accounting affairs and investor relations. Mr. Ho graduated from University of Kent at Canterbury, England with a bachelor's degree in accounting in 1987 and a master's degree in management science in 1989. Prior to joining the Group in 2007, he was a chief financial officer, company secretary and authorized representative of GST Holdings Limited from 2005 to 2007 and a financial controller of EC-Founder (Holdings) Co., Ltd. from 2000 to 2005, both of which are companies listed on the Main Board of the Hong Kong Stock Exchange. In addition, he worked for an international accounting firm as a manager from 1994 to 1996. He was an associate member of both the institute of Chartered Accountants in England and Wales and the HKICPA.

Mr. Wang Jia Ye (王家業), aged 33, is a vice president of Xtep (China). He has over 10 years of experience in the apparel industry and is primarily responsible for design, research and development and manufacturing of apparel products in the Group. He joined the Group as a general director of apparel business centre in 2004 and was promoted to be a vice president of Xtep (China) in 2008. Prior to joining the Group, he worked for a domestic apparel company 廣州麥特體育用品有限公司 (Guangzhou Menten Sports Co., Ltd.). He graduated from 天津工業大學 (Tianjin Polytechnic University), previously known as 天津紡織工學院 (Tianjin Textile Industry College) with a bachelor's degree in apparel in 1996.

Mr. Chen Jian Jun (陳建軍), aged 45, is the financial controller of Xtep (China). He has over 24 years of experience in finance and accounting and is primarily responsible for the financial management and capital planning of the Group's subsidiaries in the PRC. Prior to joining the Group in 2008, he was the financial controller of Centron Telecom International Holding Limited from 2003 to 2007, a company listed on the Main Board of the Hong Kong Stock Exchange. He completed the courses of master of business administration conducted by Hong Kong International Business College in 2007. He holds a China Certified Public Accountant certificate.

Dr. Wu Lian Yin (吳聯銀), aged 34, is a vice president of Xtep (China). He has over eight years of experience in providing consulting services to enterprises of information technology management and is primarily responsible for building up and managing our overall enterprise information resources. Prior to joining the Group in 2007, he worked for a consulting group as a senior manager from 2003 to 2007 with participation in several projects to provide consulting and training services to a number of PRC companies involving information technology management. He worked for 上海全富漢得軟件技術有限公司 (HAND Enterprise Solutions Company Ltd.) as an Oracle CRM senior consultant from 2001 to 2003. Dr. Wu won 傑出管理咨詢獎 (an Outstanding Management Consulting Award) in 2007. He graduated from 西安交通大學 (Xi'an Jiaotong University) with a bachelor's degree in engineering in 1996 and a doctor's degree in engineering in 2001.

Mr. Liu Qing Xian (劉慶先), aged 41, is a vice president of Xtep (China). Joining the Group in 2005, Mr. Liu has over 17 years of experience in human resources management and is primarily responsible for the overall human resources management of the Group. He is currently a director of 福建省青年企業家協會 (the Young Entrepreneurs Association of Fujian Province), a standing director of 泉州市青年政治家協會 (the Young Politician Association of Quanzhou City) and 泉州市青年商會 (the Youth Chamber of Commerce of Quanzhou City), respectively. Mr. Liu graduated from 首都對外經濟貿易大學 (Capital University of Economics and Business) with a bachelor's degree in international trade. He also obtained a master's degree in human resources management from 北京大學 (Peking University) in 2006. He participated in an entrepreneurship program offered by 清華大學 (Tsinghua University) in 2006.

Mr. Huang Hai Qing (黃海清), aged 50, is a vice president of Xtep (China). He has over 18 years of experience in administrative management and is primarily responsible for our overall administrative management. He joined as a vice president of a subsidiary company of the Group in 1999 and was appointed as a vice president of Xtep (China) in 2002.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Ho Yui Pok, Eleutherius (何睿博), aged 43, is the company secretary and qualified accountant as well as the chief financial officer, investor relations officer and authorized representative of the Company. His biographical details are set out above under the paragraph headed "Senior Management".

CORPORATE SOCIAL RESPONSIBILITIES

OVERVIEW

The Group aims to become one of the leading fashion sportswear enterprises in the world. As a pioneer in the sector, the Group truly recognizes the importance of undertaking corporate social responsibilities and believes its success is attributable to the support from various sectors in society. The Group has thus endeavored to implement the corporate social responsibility practices by adhering to the spirit of “from society, for society”. Meanwhile, the Group has also introduced a sound corporate social responsibilities and corporate governance structure in the course of business management with an aim of contributing to society and achieving the Group’s sustainable development. During the year, the efforts made by the Group had gained wide recognition in the community. It was accredited as one of the award winning enterprises of “Prime Award for Corporate Social Responsibility 2008” in November 2008, granted by Prime Communications Limited and the Hong Kong Institute of Directors, for its contribution towards promoting good corporate citizenship.

CARE FOR CHINA AND HELPING HANDS IN DISASTERS

In 2008, China experienced a number of natural disasters. The Group was actively involved in the fund-raising activities and goods donations, which truly reflects its affection and care for the community. In response to the snowstorms in China in February 2008, in which Hunan, Anhui and Jiangxi Provinces were severely hit, the Group joined hands with JP Morgan Securities (Asia Pacific) Limited to organize the donation campaign named “Sending Down and Warmth to the Greater China”(羽絨送暖到中華). At the event, the Group donated 5,000 down coats, the value of which amounted to more than RMB2 million, to the victims of snowstorms to ease their distress through China Foundation for Poverty Alleviation (CFPA). Besides, following the earthquake happened in Sichuan Province in May 2008, the Group had taken immediate action to donate RMB1 million in cash, and sports footwear and apparel with the value of which amounted to RMB2 million to the affected area. Its staff also volunteered to organize a donation campaign, raising funds of more than approximately RMB300,000.

CARE FOR COMMUNITY AND PROMOTE EDUCATION

The Group is very concerned about child education. Its "Xtep Love & Care Fund" (特步愛心基金會) sponsored the education activities in Quanzhou from time to time and was elected as an active sponsor for the "Jinqui Education"(金秋助學) campaign in 2008 by the campaign organizing committee in Quanzhou.

PEOPLE-ORIENTED TO SHARE THE SUCCESS

The Group regards its staff as its most valuable asset and therefore places great emphasis on training of talents. The Group organizes on-the-job training programs for its distributors and third-party retailers for their staff working at the retail outlets in various provinces and cities so as to enhance the skills and service quality of the staff.

In order to create a harmonious working environment, the Group also organizes a range of corporate culture activities for its staff on a regular basis with an aim of increasing their sense of belonging and cohesiveness to the Group. For instance, the annual sports day, and the party dinners which held three times each year, as well as a variety of cultural and recreational activities including basketball tournament and National Day Choir Contest have enabled the staff to relax in their leisure time. In addition, the Group will appraise and recognize the outstanding performance of the staff over the past year at the award ceremony, which will be held at the end of each year. In April 2008, the Group was granted a number of recognitions including the "National May 1st Labor Medal" and Model Home of Staff by the All China Federation of Trade Unions, recognizing the sound human resources policies adopted by the Group.

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions contained in the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Company has complied with the Corporate Governance Code since the listing of the shares of the Company on the Main Board of the Hong Kong Stock Exchange on 3 June 2008 except for the deviation from code provision A.2.1 as disclosed below.

(A) BOARD OF DIRECTORS

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

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

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

Model Code

The Company has also adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions from the Listing Date to 31 December 2008.

Chairman and Chief Executive Officer

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

Independent Non-Executive Directors

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

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

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

Meetings

The number of the meetings held and the attendance of each Director at these meetings for the year ended 31 December 2008 have been set out as follows:

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

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

Appointments, Re-Election And Removal Of Directors

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

Board Committees

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

Audit Committee

The Company established an audit committee pursuant to a resolution of the Directors passed on 7 May 2008 in compliance with Rule 3.21 of the Listing Rules. The primary duties of the audit committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company. The audit committee consists of three members, namely, Mr. Sin Ka Man, Mr. Xu Peng Xiang and Dr. Gao Xian Feng, all of whom are independent non-executive Directors. Mr. Sin Ka Man is the chairman of the audit committee.

The audit committee has held two meetings since its establishment to 31 December 2008 to discuss the auditing, internal controls and financial reporting matters of the Company, including the review of the interim results of the Group for the six months ended 30 June 2008 and the 2008 audit planning.

Remuneration Committee

The Company established a remuneration committee on 7 May 2008 with written terms of reference. The primary duties of the remuneration committee are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Company, review performance based remuneration, and ensure none of the Directors determine their own remuneration. The remuneration committee consists of three members, namely, Mr. Xu Peng Xiang, Dr. Gao Xian Feng (both are independent non-executive Directors) and Ms. Ding Mei Qing, an executive Director. Mr. Xu Peng Xiang is the chairman of the remuneration committee.

The remuneration committee has held one meeting since its establishment to 31 December 2008 to review and approve the Company's remuneration structure for all staff for the year of 2008.

Nomination Committee

The Company established a nomination committee on 7 May 2008 with written terms of reference. The primary duties of the nomination committee are to review the structure, size and composition of the Board on a regular basis and to recommend to the Board the suitable candidates for directors after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. The nomination committee consists of three members, namely, Mr. Ding Shui Po, the Group's chairman and two independent non-executive Directors, namely, Mr. Xu Peng Xiang and Dr. Gao Xian Feng. Mr. Ding Shui Po is the chairman of the nomination committee.

No meeting was held by the nomination committee during the year ended 31 December 2008 because the Company has just listed in June 2008 and most of the present Directors were appointed in January 2008. Accordingly, the nomination committee considers that it is not necessary to review the structure, size and composition of the Board and identify any new Board member in the first half year after listing.

(B) FINANCIAL REPORTING

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

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

External Auditors' Remuneration
The Company engages Ernst & Young as its external auditors. Details of the fees paid/payable to Ernst & Young during the year are as follows:

Initial public offering	HK$7,750,000
Statutory audit services	HK$2,500,000
Non-audit services	HK$500,000

The above non-audit services include the review of 2008 interim results of the Company.

(C) INTERNAL CONTROLS

The Board is responsible for ensuring the reliabilities and effectiveness of the Group's internal control systems on, among other things, financial, operational and compliance controls. During the year under review, the Board and the audit committee have reviewed the effectiveness of the Group's internal control systems on all major operations of the Group by appointing Protiviti Shanghai Co., Ltd as an independent external consulting firm and the Group's internal audit department.

Protiviti Shanghai Co., Ltd 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 Protiviti Shanghai Co., Ltd 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 2008.

(D) COMMUNICATIONS WITH SHAREHOLDERS

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

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

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

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

CORPORATE REORGANIZATION

The Company was incorporated in Cayman Islands on 10 April 2007 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganization to rationalize the structure of the Group in preparation for the public listing of the Company's shares on the Main Board of the Hong Kong Stock Exchange, the Company became the holding company of the companies now comprising the Group on 19 September 2007.

Details of the corporate reorganization are set out in the section headed "History and Corporate Structure" and in Appendix VI "Statutory and General Information" to the Prospectus. The shares of the Company have been listed on the Hong Kong Stock Exchange since 3 June 2008.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2008 are set out in note 18 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2008 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 69 to 121 of this annual report.

DIVIDENDS

An interim dividend of HK5.0 cents (equivalent to RMB4.4 cents) per Share was paid to our Shareholders during the year. The Board recommended a final dividend of HK8.0 cents (equivalent to RMB7.1 cents) per Share and a special dividend of HK5.0 cents (equivalent to RMB4.4 cents) per Share for the year ended 31 December 2008, subject to approval by the Shareholders at the annual general meeting to be held on 11 May 2009. The total dividends for the year ended 31 December 2008, which include the interim, final and special dividends, amounted to approximately RMB345.4 million and represented approximately 68% of the profit for the year.

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 2008, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB1,899.0 million. The amount of approximately RMB1,899.0

million includes the Company's share premium account of approximately RMB1,913.0 million and accumulated losses of approximately RMB14.0 million in aggregate as at 31 December 2008, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

OPERATING RESULTS AND PUBLISHED PROFIT FORECAST

The Group's profit attributable to Shareholders for the year was approximately RMB508.2 million, being approximately 8.5% higher than the profit forecast as set out in the Prospectus. The main reason is that the revenue and gross profit derived from Xtep brand products are higher than the profit forecast.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to approximately RMB6.7 million (2007: RMB0.5 million).

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group for the year ended 31 December 2008 are set out in note 14 to the financial statements.

CONVERTIBLE BONDS

Details of movements in the Company's convertible bonds during the year are set out in note 27 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 29 to the financial statements. Shares were issued during the year upon incorporation, reorganisation, conversion of the preferred shares completion of the global offering and the capitalisation issue.

DIRECTORS

The Directors during the financial year were:

Executive Directors
Mr. Ding Shui Po (Chairman) (appointed as a Director on 10 April 2007 and re-designated as an executive Director on 24 January 2008)
Ms. Ding Mei Qing (appointed on 24 January 2008)
Mr. Lin Zhang Li (appointed on 24 January 2008)
Mr. Ding Ming Zhong (appointed on 24 January 2008)
Mr. Ye Qi (appointed on 24 January 2008)

Non-Executive Director
Mr. Xiao Feng (appointed as a Director on 18 September 2007 and re-designated as a non-executive Director on 24 January 2008)

Independent Non-Executive Directors
Mr. Sin Ka Man (appointed on 24 January 2008)
Mr. Xu Peng Xiang (appointed on 24 January 2008)
Dr. Gao Xian Feng (appointed on 24 January 2008)

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

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

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out on pages 48 to 51 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed below, there was no contract of significance to which the Company, its holding company, or any of its subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2008.

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

As at 31 December 2008, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Long positions in the Company

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

Notes:

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

Save as disclosed above, as at 31 December 2008, none of the Directors or chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

The Company has adopted the Pre-IPO Share Option Scheme on 7 May 2008 for the purpose of giving its employees an opportunity to have a personal stake in the Company and helping motivate its employees to optimize their performance and efficiency, and retaining its employees whose contributions are important to the long-term growth and profitability of the Group. Options to subscribe for an aggregate of 19,000,000 Shares were granted to one executive Director, six members of the senior management of the Group and 52 employees on 7 May 2008. The exercise price per Share is HK$3.24, being a discount of 20% to the global offering price. No further options would be granted under the Pre-IPO Share Option Scheme on or after the Listing Date. All options granted under the Pre-IPO Share Option Scheme may be exercised during the option period commencing from the end of twelve months after the Listing Date to the date falling 10 years from the offer date of the options and can only be exercised in the following manner:

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

Accordingly, there is no exercise of such options granted for the year ended 31 December 2008.

Name	Number of Shares to be issued upon full exercise of the Pre-IPO Share Option	Approximate percentage of total issued share capital of the Company
Director		
Mr. Ye Qi	1,500,000	0.07%
Senior Management		
Mr. Ho Yui Pok, Eleutherius	1,000,000	0.05%
Mr. Wang Jia Ye	800,000	0.04%
Mr. Chen Jian Jun	700,000	0.03%
Dr. Wu Lian Yin	500,000	0.02%
Mr. Liu Qing Xian	500,000	0.02%
Mr. Huang Hai Qing	500,000	0.02%

Share Option Scheme

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

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

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

(a) the nominal value of a Share;

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

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

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

No options were granted under the Share Option Scheme since its adoption.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

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

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

So far as is known to any Director or chief executive of the Company, as at 31 December 2008, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

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

Note:

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

Save as disclosed above, as at 31 December 2008, the Directors of the Company are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company which would require to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

TRANSACTIONS IN SECURITIES OF THE COMPANY AND ITS SUBSIDIARIES

Details of the exercise of the conversion or subscription rights under series A preferred shares issued during the year by the Company are set out in note 27 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The shares of the Company have been listed on the Hong Kong Stock Exchange since 3 June 2008. During the year ended 31 December 2008, the Company made the following purchases of its own Shares on the Hong Kong Stock Exchange:

Month of repurchase in 2008	Number of Shares repurchased	Purchase consideration per Share		Aggregate consideration paid
		Highest HK$	Lowest HK$	HK$
October	4,000,000	1.02	0.98	3,976,165
November	15,935,000	1.59	0.99	21,368,200
December	6,420,000	1.55	1.38	9,526,705

These Shares were cancelled upon repurchase and the issued share capital of the Company was reduced by the par value thereof.

The purchase of the Company's Shares during the year was effected by the Directors with a view to benefiting Shareholders as a whole by enhancing the net asset value per Share and earnings per Share of the Group.

Save as disclosed above, 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 2008.

EXEMPTED CONTINUING CONNECTED TRANSACTION

The Group had related party transactions as further detailed in note 36 to the financial statements, which included the exempted continuing connected transaction described below and other related party transactions which were discontinued before the listing of the shares of the Company on the Hong Kong Stock Exchange.

As disclosed in the paragraph headed "Exempted Continuing Connected Transaction" under the section headed "Business" of the Prospectus, as part of the Group's corporate reorganisation, our executive Director, Mr. Ding Shui Po and his associate, Ms. Ding Ming Fang, agreed to transfer all of their trademarks and patents (whether registered in the PRC or overseas) relating to the sportswear products to the Group. The transfers of these trademarks and patents were in progress but were not completed before the completion of the global offering and as a transitional arrangement, Mr. Ding Shui Po, Ms. Ding Ming Fang and the Company entered into a trademark and patent license agreement dated 7 May 2008 pursuant to which Mr. Ding Shui Po and Ms. Ding Ming Fang agreed to grant an irrevocable license to the Company and its subsidiaries to use all of their trademarks and patents (whether registered in the PRC or overseas) relating to the sportswear products at nil consideration from 7 May 2008 until the date of completion of the transfer of these trademarks and patents to the Group. Details of these trademarks and patents are set out in the paragraph headed "Intellectual Property Rights of the Group" in the section headed "Statutory and General Information" in Appendix VI to the Prospectus. The license was granted at nil consideration because the costs of registering the relevant trademarks and patents and the promotion of the Xtep and Koling brands had been paid by us.

Apart from certain patents, the registration of which had been expired during the year after the global offering, the transfers of the remaining trademarks and patents to the Group were completed by the year ended 31 December 2008. Accordingly, the Group does not have any connected transactions as defined in the Listing Rules since then and as at the date of this annual report.

The Directors of the Company (including the independent non-executive Directors of the Company) have reviewed the above exempted continuing connected transaction and confirmed that the transaction has been entered into:

(1) in the ordinary and usual course of business of the Group;
(2) on normal commercial terms; and
(3) in accordance with the relevant agreement entered into on terms which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have provided a letter and confirmed that the above exempted continuing connected transaction:

(1) has been approved by the Board of Directors of the Company; and
(2) has been entered into in accordance with the terms of the relevant agreement governing the transaction.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

Save as disclosed in "Exempted Continuing Connected Transaction" above, no contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders.

NON-COMPETE UNDERTAKINGS

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

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2008 and up to and including the date of this annual report.

MANAGEMENT CONTRACTS

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

PRE-EMPTIVE RIGHTS

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

EMOLUMENT POLICY

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

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

The Company has adopted two share option schemes to motivate and reward its Directors and eligible employees. Details of these schemes are set out in the paragraph headed "Share Option Schemes" above and note 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 the PRC are required to participate in defined contribution central pension schemes operated by the local municipal government. The subsidiaries of the Group are required to contribute certain percentages of its payroll costs to the central pension schemes. The contributions are charged to the consolidated income statements as they become payable in accordance with the rules of the central pension scheme.

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

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's largest and five largest customers were 6.0% (2007: 7.1%) and 25.1% (2007: 29.9%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 4.9% (2007: 3.7%) and 17.4% (2007: 16.1%) of the Group's total purchases respectively.

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

AUDITORS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the period from the Listing Date to 31 December 2008.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2008 are set out in note 25 to the financial statements.

FOUR YEAR SUMMARY

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

On behalf of the Board
Ding Shui Po
Chairman

Hong Kong, 31 March 2009

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安永

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

We have audited the financial statements of Xtep International Holdings Limited set out on pages 69 to 121, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 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
Hong Kong
18/F., Two International Finance Centre
8 Finance Street
Central
Hong Kong

31 March 2009

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
REVENUE	5	2,867,181	1,364,947
Cost of sales		(1,802,879)	(921,804)
Gross profit		1,064,302	443,143
Other income and gains	5	5,127	2,114
Selling and distribution costs		(350,529)	(119,414)
General and administrative expenses		(128,249)	(58,707)
Operating profit	6	590,651	267,136
Finance costs, net	7	(13,232)	(11,947)
PROFIT BEFORE TAX		577,419	255,189
Tax	10	(69,247)	(33,311)
PROFIT FOR THE YEAR		508,172	221,878
DIVIDENDS	12	345,385	129,455
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
– Basic (RMB cents)		26.84	15.11
– Diluted (RMB cents)		25.81	14.52

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	115,333	96,585
Prepaid land lease payments	15	21,847	21,763
Deposit paid for acquisition of land use rights	16	50,079	10,000
Deposits paid for acquisition of items of property, plant and equipment		10,288	–
Intangible assets	17	791	289
		198,338	128,637
CURRENT ASSETS			
Inventories	19	288,287	193,505
Trade and bills receivables	20	526,912	234,383
Prepayments, deposits and other receivables	21	121,740	131,984
Pledged deposits	22	6,000	–
Cash and cash equivalents	22	2,136,938	215,018
		3,079,877	774,890
CURRENT LIABILITIES			
Trade and bills payables	23	377,989	55,859
Deposits received, other payables and accruals	24	75,392	41,102
Interest-bearing bank borrowings	25	124,000	116,000
Due to a director	26	–	32,874
Dividend payable		–	129,455
Tax payable		60,234	30,518
		637,615	405,808
NET CURRENT ASSETS		2,442,262	369,082
TOTAL ASSETS LESS CURRENT LIABILITIES		2,640,600	497,719
NON-CURRENT LIABILITIES			
Preferred shares	27	–	216,599
Derivative component of preferred shares	27	–	1,324
Deferred tax liabilities	28	2,824	–
Total non-current liabilities		2,824	217,923
NET ASSETS		2,637,776	279,796
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital	29	19,177	936
Reserves	30(a)	2,618,599	278,860
TOTAL EQUITY		2,637,776	279,796

DING SHUI PO
Director

DING MEI QING
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Notes	Issued 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	Proposed final and special dividend RMB'000	Total reserves RMB'000	Minority interest RMB'000	Total equity RMB'000
		Attributable to equity holders of the Company										
At 1 January 2008		**936**	**–**	**118,600**	**46,116**	**–**	**3,463**	**110,681**	**–**	**278,860**	**–**	**279,796**
Exchange realignment		–	–	–	–	–	(85,399)	–	–	(85,399)	–	(85,399)
Total income and expense for the year directly recognised in equity		–	–	–	–	–	(85,399)	–	–	(85,399)	–	(85,399)
Profit for the year		–	–	–	–	–	–	508,172	–	508,172	–	508,172
Total income and expense for the year		–	–	–	–	–	(85,399)	508,172	–	422,773	–	422,773
Conversion of preferred shares into ordinary shares	29(b)(iv), 29(b)(v)	109	216,897	–	–	–	–	–	–	216,897	–	217,006
Capitalisation issue	29(b)(vi)	13,526	(13,526)	–	–	–	–	–	–	(13,526)	–	–
Issue of Pre-IPO Share Options	31	–	–	–	–	3,956	–	–	–	3,956	–	3,956
Issue of shares of the Company	29(b)(vii)	4,838	1,954,693	–	–	–	–	–	–	1,954,693	–	1,959,531
Share issue expenses		–	(117,991)	–	–	–	–	–	–	(117,991)	–	(117,991)
Repurchase of shares	29(b)(viii)	(232)	(30,767)	–	–	–	–	–	–	(30,767)	–	(30,999)
Transfer to statutory surplus fund		–	–	–	83,675	–	–	(83,675)	–	–	–	–
Interim 2008 dividend	12	–	(96,296)	–	–	–	–	–	–	(96,296)	–	(96,296)
Proposed final dividend	12	–	(153,286)	–	–	–	–	–	153,286	–	–	–
Proposed special dividend	12	–	(95,803)	–	–	–	–	–	95,803	–	–	–
At 31 December 2008		**19,177**	**1,663,921**	**118,600**	**129,791**	**3,956**	**(81,936)**	**535,178**	**249,089**	**2,618,599**	**–**	**2,637,776**
At 1 January 2007		**122,993**	**–**	**–**	**10,719**	**–**	**–**	**53,655**	**–**	**64,374**	**–**	**187,367**
Exchange realignment		–	–	–	–	–	3,463	–	–	3,463	–	3,463
Total income and expense for the year directly recognised in equity		–	–	–	–	–	3,463	–	–	3,463	–	3,463
Profit for the year		–	–	–	–	–	–	221,878	–	221,878	–	221,878
Total income and expense for the year		–	–	–	–	–	3,463	221,878	–	225,341	–	225,341
Increase in paid-in capital of subsidiaries		34,701	–	–	–	–	–	–	–	–	–	34,701
Issue of shares of the Company	29(b)(iii)	936	–	–	–	–	–	–	–	–	–	936
Capital contribution from minority interest		–	–	–	–	–	–	–	–	–	17,500	17,500
Acquisition of minority interest	36(e)	–	–	–	–	–	–	–	–	–	(17,500)	(17,500)
Acquisition of subsidiaries pursuant to the Group Reorganisation		(157,694)	–	157,694	–	–	–	–	–	157,694	–	–
Acquisition of subsidiaries by cash pursuant to the Group Reorganisation		–	–	(39,094)	–	–	–	–	–	(39,094)	–	(39,094)
Transfer to statutory surplus fund		–	–	–	35,397	–	–	(35,397)	–	–	–	–
Pre-Listing dividend	12	–	–	–	–	–	–	(129,455)	–	(129,455)	–	(129,455)
At 31 December 2007		**936**	**–**	**118,600**	**46,116**	**–**	**3,463**	**110,681**	**–**	**278,860**	**–**	**279,796**

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		577,419	255,189
Adjustments for:			
Loss on disposal of items of property, plant and equipment	6	–	1,891
Depreciation	6	11,784	8,017
Amortisation of intangible assets	6	71	74
Amortisation of prepaid land lease payments	6	502	490
Interest income	7	(27,085)	(2,276)
Interest expenses	7	12,728	14,179
Fair value gain on derivative component of preferred shares	7	(1,156)	(27)
Equity-settled share option expense	31	3,956	–
		578,219	277,537
Increase in inventories		(94,782)	(42,143)
Increase in trade and bills receivables		(292,529)	(46,424)
Decrease/(increase) in prepayments, deposits and other receivables		14,249	(101,533)
Increase/(decrease) in trade and bills payables		322,130	(39,712)
Increase in deposits received, other payables and accruals		34,290	10,302
Decrease in amount due to a director		(32,874)	(22,576)
Decrease in amounts due to related parties		–	(8,143)
Cash generated from operations		528,703	27,308
Interest received		23,073	2,276
Interest paid		(12,489)	(13,973)
Overseas taxes paid		(36,707)	(2,719)
Net cash inflow from operating activities		502,580	12,892

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	14	(30,532)	(33,198)
Proceeds from disposal of items of property, plant and equipment		–	1,549
Additions to prepaid land lease payments	15	(579)	–
Increase in deposit paid for acquisition of land use rights		(40,079)	–
Increase in deposits paid for acquisition of items of property, plant and equipment		(10,288)	–
Additions to intangible assets	17	(573)	–
Decrease/(increase) in pledged deposits		(6,000)	7,880
Decrease in loan receivables		–	15,000
Exchange realignment		5,135	(1,202)
Net cash outflow from investing activities		(82,916)	(9,971)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in paid-in capital of subsidiaries		–	34,701
Capital contribution from a minority shareholder		–	17,500
New bank loans		196,000	–
Repayment of bank loans		(188,000)	(81,000)
Proceeds from issue of convertible bonds	27	–	40,000
Proceeds from issue of preferred shares	27	–	180,000
Transaction costs for issuing preferred shares	27	–	(2,256)
Net proceeds from issue of ordinary shares		1,841,540	936
Shares repurchase expenses		(30,999)	–
Dividend paid		(225,751)	–
Net cash inflow from financing activities		1,592,790	189,881
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,012,454	192,802
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		215,018	22,216
Effect of foreign exchange rate changes, net		(90,534)	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,136,938	215,018
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		2,136,938	215,018

BALANCE SHEET

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	1,136,344	229,787
CURRENT ASSETS			
Due from a subsidiary	18	96,296	129,455
Prepayment, deposits and other receivables	21	3,790	3,472
Cash and cash equivalents	22	675,397	12,383
		775,483	145,310
CURRENT LIABILITIES			
Accruals	24	5,274	3
Due to a director	26	–	27,579
Dividend payable		–	129,455
		5,274	157,037
NET CURRENT ASSETS/(LIABILITIES)		770,209	(11,727)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,906,553	218,060
NON-CURRENT LIABILITIES			
Preferred shares	27	–	216,599
Derivative component of preferred shares	27	–	1,324
		–	217,923
NET ASSETS		1,906,553	137
EQUITY			
Issued share capital	29	19,177	936
Reserves	30(b)	1,887,376	(799)
TOTAL EQUITY		1,906,553	137

DING SHUI PO
Director

DING MEI QING
Director

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 10 April 2007 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the listing (the "Listing") of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 19 September 2008 (the "Group Reorganisation"). Further details of the Group Reorganisation are set out in the section headed "History and Corporate Structure" and in Appendix VI "Statutory and General Information" to the prospectus of the Company dated 21 May 2008 (the "Prospectus").

The Company's shares have been listed on the Stock Exchange since 3 June 2008 (the "Listing Date").

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

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

2.1 BASIS OF PRESENTATION AND PREPARATION

The consolidated financial statements have been prepared on a combined basis by applying the principles of merger accounting as the Group Reorganisation involved business combination of entities under common control and the Group is regarded and accounted for as a continuing group. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented rather than from the date of their acquisition. Accordingly, the consolidated results of the Group for the years ended 31 December 2007 and 2008 include the results of the Company and its subsidiaries with effect from 1 January 2007 or since their respective dates of incorporation, whichever is shorter. In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

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

All income, expenses and unrealised gains and losses resulting from intercompany transactions and balances within the Group are eliminated on consolidation in full.

Minority interests represent the interest of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[1]
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments[1]
HKFRS 8	Operating Segments[1]
HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items[2]
HK(IFRIC)-Int 13	Customer Loyalty Programs[3]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[4]
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners[2]
HK(IFRIC)-Int 18	Transfer of Assets from Customers[2]

Apart from the above, the HKICPA has also issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 7 (Amendments), HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a member of the key management personnel of the Group;

(c) the party is a close member of the family of any individual referred to in (a) or (b);

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or

(e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Impairment of non-financial assets

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

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

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

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 it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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 balance sheet date.

An item of property, plant and equipment 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 sales 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 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 balance sheet date.

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 five 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.

Financial assets

Financial assets in the scope of HKAS 39 are classified as loans and receivables. The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) 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 either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. 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 impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, an impairment allowance is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

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

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

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities at amortised cost (including interest-bearing bank borrowings)

Financial liabilities including trade and bills payables, interest-bearing bank borrowings and other monetary liabilities are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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.

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 cash flow statements, 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 balance sheets, 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 balance sheet date 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 is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period 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.

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

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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 at the balance sheet date.

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

Revenue recognition

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

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

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

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

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits or an appropriate distributable reserve within the equity section of the balance sheets, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Borrowing costs

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

Government grants

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

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external professionally qualified valuer using an appropriate pricing model, further details of which are given in note 31 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date 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 awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance 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. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, 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. 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.

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

Pension schemes

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

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

Other benefits

The Group contributes on a monthly basis to defined contribution housing, medical and other benefit plans organised by the PRC government. 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 are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity, the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

Convertible bonds and preferred shares

Convertible bonds, which are convertible into preferred shares, are classified as a current liability on initial recognition based on the maturity date of the instrument. In subsequent periods, the convertible bonds are carried at amortised cost using the effective interest method.

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

Treasury shares

Own equity instruments which are reacquired are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

Judgement and estimates

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition seldom equal the related actual results. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, including those judgements made which have the significant effect on the amounts recognised in the financial statements, are discussed below.

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. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets not 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.

Accounting treatment of preferred shares

The Group recognised a financial liability during the year ended 31 December 2008 in respect of the obligation to repay the Carlyle Investment Funds (as defined in note 27) pursuant to a redemption option granted to the Carlyle Investment Funds to demand the Company to repurchase all of the preferred shares held by the Carlyle Investment Funds pursuant to the Agreements (as defined in note 27). The Group's management has assessed the terms of the Agreements and the facts and circumstance, and concluded that in respect of the funds contributed by the Carlyle Investment Funds, it was presented as a financial liability. The financial liability was recognised initially at fair value plus transaction costs that are directly attributable to the issue of the financial liability. After initial recognition, the financial liability is measured at amortised cost using the effective interest method.

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 each balance sheet date.

Impairment allowances for trade and other receivables

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

Valuation of share options

As described in note 31 to the financial statements, the Company has engaged an independent professionally qualified valuer to assist in the valuation of the share options granted during the year. The fair value of options granted under the pre-IPO share option scheme is determined using the Black-Scholes-Merton Option Pricing Model. The significant inputs into the model were the weighted average share price at the grant date, risk-free interest rate, exercise price, expected volatility of the underlying shares, expected dividend yield and expected life of options. When the actual results of the inputs differ from management's estimate, it will have an impact on share option expenses and the related share option reserve of the Company. As at 31 December 2008, the fair value of the share options granted by the Company was RMB11,051,000, of which the share option expense of RMB3,956,000 was recognised during the year.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, base upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2008 was RMB3,578,000 (2007: RMB140,000). Further details are set out in note 10 to the financial statements.

4. SEGMENT INFORMATION

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2008 RMB'000	2007 RMB'000
Revenue		
Manufacture and sale of sportswear:		
Footwear	1,454,596	849,135
Apparel	1,350,976	497,635
Accessories	61,609	18,177
	2,867,181	1,364,947
Other income and gains		
Penalty charged to suppliers	–	830
Rental income	570	345
Subsidy income from the PRC government *	4,221	900
Others	336	39
	5,127	2,114
	2,872,308	1,367,061

* 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	2008 RMB'000	2007 RMB'000
Cost of inventories sold*		1,802,879	921,804
Depreciation	14	11,784	8,017
Amortisation of intangible assets**	17	71	74
Employee benefit expenses (including directors' remuneration – note 8):			
Wages and salaries		137,777	107,756
Other allowances and benefits		9,921	3,668
Equity-settled share option expense		3,956	–
Pension scheme contributions***		9,025	5,591
		160,679	117,015
Auditors' remuneration		2,226	160
Amortisation of prepaid land lease payments	15	502	490
Minimum lease payments under operating leases:			
Land and buildings		1,577	640
Loss on disposal of items of property, plant and equipment		–	1,891
Research and development costs ****		45,216	16,627
Rental income		(570)	(345)

* The cost of inventories sold for the year includes RMB105,214,000 (2007: RMB83,239,000), relating to staff costs, depreciation of manufacturing facilities and minimum lease payments for land and buildings, which are also included in the respective total amounts disclosed above for each of these types of expenses.

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

*** As at 31 December 2008, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2007: Nil).

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

7. FINANCE COSTS, NET

	Notes	Group 2008 RMB'000	Group 2007 RMB'000
Interest on bank loans wholly repayable within five years		12,489	13,973
Interest expense on preferred shares	27	239	206
Foreign exchange differences, net		28,745	71
Bank interest income		(27,085)	(2,276)
Fair value gain on derivative component of preferred shares	27	(1,156)	(27)
		13,232	11,947

8. DIRECTORS' REMUNERATION

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

	Group 2008 RMB'000	Group 2007 RMB'000
Fees:		
Executive directors	–	–
Non-executive director	–	–
Independent non-executive directors	335	–
	335	–
Other emoluments of executive directors:		
Salaries, other allowances and benefits in kind	2,146	660
Performance related bonuses	–	–
Equity-settled share option expense	312	–
Pension scheme contributions	15	15
	2,473	675
	2,808	675

During the year, a director was granted share options, in respect of his services to the Group, under the pre-IPO share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosure.

During the year, no remuneration was paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

(a) Executive directors

	Salaries, other allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2008					
Ding Shui Po	763	–	–	3	766
Ding Mei Qing	381	–	–	3	384
Lin Zhang Li	381	–	–	3	384
Ding Ming Zhong	381	–	–	3	384
Ye Qi	240	–	312	3	555
	2,146	–	312	15	2,473
2007					
Ding Shui Po	177	–	–	3	180
Ding Mei Qing	117	–	–	3	120
Lin Zhang Li	87	–	–	3	90
Ding Ming Zhong	60	–	–	3	63
Ye Qi	219	–	–	3	222
	660	–	–	15	675

(b) Non-executive director

There were no emoluments payable to Xiao Feng, the non-executive director, during the year (2007: Nil).

(c) Independent non-executive directors

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

	2008 RMB'000	2007 RMB'000
Sin Ka Man	125	–
Xu Peng Xiang	105	–
Gao Xian Feng	105	–
	335	–

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2007: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2007: three) non-director, highest paid employee for the year are as follows:

	Group	
	2008 RMB'000	2007 RMB'000
Salaries, allowances and benefits in kind	1,171	697
Performance related bonuses	–	–
Equity-settled share option expense	208	–
Pension scheme contributions	54	10
	1,433	707

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

	Number of employees	
	2008	2007
Nil to RMB1,000,000	–	3
RMB1,000,001 to RMB1,500,000	1	–
	1	3

During the year, share options were granted to a non-director, highest paid employee in respect of his services to the Group, under the pre-IPO share option scheme of the Company further details of which set out the disclosures in note 31 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosure.

10. 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 (2007: Nil). Taxes on profits assessable in the People's Republic of China ("PRC") have been calculated at the prevailing rates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2008 RMB'000	2007 RMB'000
Current tax – Mainland China		
Charge for the year	66,423	33,311
Deferred (note 28)	2,824	–
	69,247	33,311

According to the then income tax law of the PRC for foreign invested enterprises and foreign enterprises and as approved by relevant PRC tax authorities, Xtep (China) Co., Ltd. ("Xtep (China)"), a wholly-owned subsidiary of the Company, was entitled to a 50% reduction in the PRC enterprise income tax of the tax rate of 24% for the year ended 31 December 2007.

Sanxing Sports Goods Co., Ltd., Quanzhou ("Sanxing Sports"), a wholly-owned subsidiary of the Company, was subject to the tax rate of 24% for the year ended 31 December 2007.

Koling (Fujian) Garment Co., Ltd. ("Koling (Fujian)"), a wholly-owned subsidiary of the Company, was also exempted from the PRC enterprise income tax for its first two profitable years and thereafter is entitled to a 50% reduction in the PRC corporate income tax for the subsequent three years.

Under the new Enterprise Income Tax Law of the PRC (the ''New Tax Law") and its implementation rules (effective on 1 January 2008), the PRC enterprise income tax rate for domestic-invested and foreign-invested enterprises is unified to 25%. Also, a foreign-invested enterprise established before the New Tax Law was promulgated, which is entitled to foreign-invested enterprise income tax holiday, can continue to enjoy the existing tax holiday until its expiry subject to a 5-year period restriction.

Xtep (China) continues to enjoy the 50% reduction in the new unified PRC enterprise income tax rate of 25% for the year ended 31 December 2008 and the year ending 31 December 2009. Koling (Fujian) enjoys exemption from the PRC corporate income tax for the year ended 31 December 2008 and the year ending 31 December 2009 and thereafter will be entitled to a 50% reduction in the PRC enterprise income tax for the subsequent three years. Sanxing Sports is subject to the applicable tax rate of 25% with effect from 1 January 2008. 廈門特步投資股份有限公司 ("Xtep Xiamen"), a wholly-owned subsidiary of the Company, has been granted certain tax relief whereby the profit of Xtep Xiamen was taxed at the prevailing tax rate set by the local tax authority of 18% in 2008.

No provision for the PRC enterprise income tax has been made for other PRC companies comprising the Group for the year (2007: Nil) as they have not yet commenced business operations.

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

	Group	
	2008 RMB'000	2007 RMB'000
Profit before tax	577,419	255,189
Tax at the applicable tax rates	146,995	68,977
Lower tax rate for specific provinces or tax holidays	(86,860)	(36,497)
Income not subject to tax	(5,181)	–
Expenses not deductible for tax	7,891	691
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	2,824	–
Tax losses not recognised	3,578	140
Tax charge at the Group's effective rate	69,247	33,311

The Group has tax losses arising in Hong Kong of approximately RMB21,685,000 for the year (2007: RMB800,000) that are available indefinitely for offsetting against future taxable profits of the companies in which it arose. Deferred tax asset has not been recognised as at 31 December 2008 in respect of the tax losses as the directors of the Company consider that it is uncertain that future taxable profits will be available against which the tax losses can be utilised in the foreseeable future.

11. LOSS 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 2008 includes a loss of RMB13,187,000 (2007: RMB799,000) which has been dealt with in the financial statements of the Company (note 30(b)).

12. DIVIDENDS

	Notes	2008 RMB'000	2007 RMB'000
Pre-Listing dividend	(a)	–	129,455
Interim – HK5.0 cents (2007: Nil) per ordinary share		96,296	–
Proposed final – HK8.0 cents (2007: Nil) per ordinary share	(b)	153,286	–
Proposed special – HK5.0 cents (2007: Nil) per ordinary share	(b)	95,803	–
		345,385	129,455

Notes:

(a) On 17 September 2007, the Company declared a pre-Listing dividend of RMB129,455,000 to its shareholders whose names appeared on its register of members on the record date of 17 September 2007. The pre-Listing dividend has been paid before the Listing Date.

The rates and the number of shares ranking for this pre-Listing dividend are not presented as the directors of the Company consider that such information is not meaningful for the purpose of these financial statements.

(b) The proposed final and special dividends for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

(a) Basic earnings per share

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of RMB508,172,000 (2007: RMB221,878,000) and the weighted average of 1,893,638,311 (2007: 1,468,500,007) ordinary shares deemed to have been in issue during the year.

The weighted average number of shares used to calculate the basic earnings per share amount for the year ended 31 December 2007 includes the pro forma issued share capital of the Company of 1,468,500,007 shares, comprising:

(i) the 100 shares of the Company allotted and issued at nil paid on 10 April 2007 and 27 June 2007 (notes 29(b)(i) and (ii));

(ii) the 99,999,900 shares allotted and credited as fully paid on 17 September 2007 (note 29(b)(iii)); and

(iii) the capitalisation issue of 1,368,500,007 shares (note 29(b)(vi)).

The weighted average number of shares of 1,893,638,311 used to calculate the basic earnings per share amount for the year ended 31 December 2008 includes the weighted average of:

(i) the aggregate 12,359,550 shares of the Company issued during the year pursuant to the conversion of the Preferred Shares (as defined in note 27) on 21 March 2008 and 3 June 2008 (note 29(b)(iv) and (v));

(ii) the capitalisation issue of 169,140,443 shares pursuant to the conversion of the Preferred Shares (29(b)(vi));

(iii) the 550,000,000 shares issued upon the Listing of the Company's shares on the Stock Exchange on 3 June 2008 (note 29(b)(vii));

(iv) the repurchase of 26,355,000 shares from the market during the year (note 29(b)(viii)); and

(v) the aforementioned pro-forma issued share capital of the Company of 1,468,500,007 shares.

(b) Diluted earnings per share

The calculations of diluted earnings per share amount for the year ended 31 December 2008 is based on the profit for the year attributable to ordinary equity holders of the Company of RMB508,172,000 (2007: RMB221,878,000) adjusted to reflect the imputed interest expense on the Preferred Shares of RMB239,000 (2007: RMB206,000) and the fair value gain on derivative component of the Preferred Shares of RMB1,156,000 (2007: RMB27,000). The weighted average number of ordinary shares of 1,965,360,022 (2007: 1,529,482,193) used in the calculation is the weighted average number of ordinary shares in issue at 31 December 2008, as used in the basic earnings per share amount calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of 12,359,550 Preferred Shares and the corresponding 169,140,443 ordinary shares to be issued pursuant to the capitalisation issue. The Pre-IPO Share Options (as defined in note 31) outstanding during the year had an anti-dilutive effect on the basic earnings per share amount for the year.

14. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2008

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

31 December 2007

	Buildings RMB'000	Leasehold improvements RMB'000	Moulds, plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At beginning of year	51,841	–	33,356	3,007	7,398	1,945	97,547
Additions	11,239	977	12,745	2,398	5,131	708	33,198
Disposals	–	–	(4,725)	–	–	–	(4,725)
Transfer	1,469	–	–	–	1,184	(2,653)	–
At 31 December 2007	64,549	977	41,376	5,405	13,713	–	126,020
Accumulated depreciation:							
At beginning of year	7,401	–	13,277	393	1,632	–	22,703
Provided during the year	2,595	–	3,265	579	1,578	–	8,017
Disposals	–	–	(1,285)	–	–	–	(1,285)
At 31 December 2007	9,996	–	15,257	972	3,210	–	29,435
Net carrying amount:							
At 31 December 2007	54,553	977	26,119	4,433	10,503	–	96,585

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

At 31 December 2008, certain of the Group's buildings with net book values of approximately RMB8,891,000 (2007: RMB9,513,000) were pledged to secure general banking facilities granted to the Group (note 25).

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

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2008 RMB'000	2007 RMB'000
Carrying amount at 1 January	22,271	22,761
Additions	579	–
Recognised during the year	(502)	(490)
Carrying amount at 31 December	22,348	22,271
Current portion included in prepayments, deposits and other receivables	(501)	(508)
Non-current portion	21,847	21,763

The Group's prepayment of land use rights premiums was for medium term leasehold land located in Mainland China.

At 31 December 2008, land use rights with carrying values of approximately RMB8,639,000 (2007: RMB8,842,000) were pledged to secure general banking facilities to the Group (note 25).

16. DEPOSIT PAID FOR ACQUISITION OF LAND USE RIGHTS

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

At 31 December 2007, the deposit of RMB10,000,000 was paid for land use right over a parcel of land in Jinjiang, Fujian Province, the PRC. On 25 January 2008, a sales and purchase agreement was entered into between the Group and an independent third party for the transfer of the right arising from the aforesaid deposit paid at a consideration of RMB10,000,000. The consideration of RMB10,000,000 was fully paid by the independent third party to the Group in March 2008.

17. INTANGIBLE ASSETS

Patents and trademarks

	Group	
	2008 RMB'000	2007 RMB'000
Cost:		
At beginning of year	418	418
Additions	573	–
At 31 December	991	418
Accumulated amortisation:		
At beginning of year	129	55
Amortisation provided during the year	71	74
At 31 December	200	129
Net carrying amount:		
At 31 December	791	289

18. INTERESTS IN SUBSIDIARIES

	Company	
	2008 RMB'000	2007 RMB'000
Unlisted shares, at cost	–	–
Due from subsidiaries	1,136,344	229,787
	1,136,344	229,787

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

The amount due from a subsidiary included in the Company's current assets of RMB96,296,000 (2007: RMB129,455,000) is unsecured, interest-free and is repayable on demand.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation or establishment/operation	Issued and fully paid up capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Xtep International Development Limited ("Xtep Development")*	BVI	US$10,000	100	–	Investment holding
Xtep (China)* (notes (i) and (ii))	PRC	HK$830,029,801	–	100	Manufacture and sale of sportswear
Koling (Fujian)* (notes (i) and (ii))	PRC	HK$157,999,900	–	100	Manufacture and sale of sportswear
Sanxing Sports* (notes (i) and (iii))	PRC	HK$36,800,000	–	100	Manufacture and sale of sportswear
Xtep Xiamen* (notes (i) and (iii))	PRC	RMB50,000,000	–	100	Trading of sportswear

Notes:

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

(ii) The unpaid registered capitals of these entities as at 31 December 2008 was set out in note 35(a) to the financial statements.

(iii) The registered capital of these entities were fully paid up as at 31 December 2008.

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

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

19. INVENTORIES

	Group 2008 RMB'000	Group 2007 RMB'000
Raw materials	117,528	77,777
Work in progress	43,318	28,853
Finished goods	127,441	86,875
	288,287	193,505

20. TRADE AND BILLS RECEIVABLES

	Group 2008 RMB'000	Group 2007 RMB'000
Trade receivables	526,912	188,585
Bills receivables	–	45,798
	526,912	234,383

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three months. Each customer has a maximum credit limit. The Group seeks to strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the Group's trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	Group 2008 RMB'000	Group 2007 RMB'000
Within 3 months	437,854	100,546
3 to 6 months	80,233	67,861
6 to 12 months	8,782	19,049
Over 1 year	43	1,129
Trade receivables	526,912	188,585

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

	Group	
	2008	2007
	RMB'000	RMB'000
Neither past due nor impaired	437,854	100,546
Less than 3 months past due	80,233	67,861
Past due between 3 to 9 months	8,782	19,049
Past due over 9 months	43	1,129
	526,912	188,585

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

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

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	47,488	49,512	99	2,975
Deposits	69,111	81,167	353	497
Other receivables	5,141	1,305	3,338	–
	121,740	131,984	3,790	3,472

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

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Time deposits	870,952	–	620,785	–
Cash and bank balances	1,271,986	215,018	54,612	12,383
	2,142,938	215,018	675,397	12,383
Less: Pledged deposits for bills payable	(6,000)	–	–	–
Cash and cash equivalents	2,136,938	215,018	675,397	12,383

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to RMB1,220,342,000 (2007: RMB207,867,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

23. TRADE AND BILLS PAYABLES

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

	Group	
	2008 RMB'000	2007 RMB'000
Within 3 months	319,730	54,413
3 to 6 months	25,385	1,179
6 to 12 months	2,093	263
Over 1 year	781	4
Trade payables	347,989	55,859
Bills payables	30,000	–
Trade and bills payables	377,989	55,859

Bills payables of the Group were secured by a corporate guarantee from Sanxing Sports and time deposits of RMB6,000,000 (note 22). The trade payables are non-interest bearing and are normally settled within 60 to 90 days. The carrying amounts of trade and bills payables approximate to their fair values.

24. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Deposits received	8,706	23,121	–	–
Accruals	41,537	15,959	5,274	3
Value-added tax ("VAT") payables	23,594	(1,368)	–	–
Other payables	1,555	3,390	–	–
	75,392	41,102	5,274	3

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

25. INTEREST-BEARING BANK BORROWINGS

	Group	
	2008 RMB'000	2007 RMB'000
Current		
Bank loans – secured	108,000	101,000
Bank loans – unsecured	16,000	15,000
	124,000	116,000

	2008 RMB'000	2007 RMB'000
Analysed into:		
Bank loans repayable within one year	124,000	116,000

The above bank loans are all denominated in RMB. The bank loans bore fixed interest rates ranging from 6.32% to 7.47% per annum for the year (2007: From 5.51% to 6.56% per annum). Because of the short maturity, the carrying amounts of bank loans approximate to their fair values.

Certain of the Group's bank loans were secured by:

(i) corporate guarantees from Xtep (China), Sanxing Sports and Koling (Fujian); and

(ii) mortgages over certain buildings and land use rights of the Group situated in Mainland China (notes 14 and 15).

26. AMOUNT DUE TO A DIRECTOR

The amount due to a director was unsecured, interest-free and was repayable on demand. The Group had fully repaid the amount to the director before the Listing.

27. CONVERTIBLE BONDS AND PREFERRED SHARES

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

On 13 June 2007, the Carlyle Investment Funds made its first tranche of investment to the Company through the subscription of convertible bonds with principal amount of approximately RMB40,000,000 (the "Convertible Bonds"). The convertible bonds bear interest at 5% per annum and have a term of 6 months. On the maturity date, the Carlyle Investment Funds could request for the repayment or convert all or part of the Convertible Bonds into the Company's preferred shares at a valuation predetermined in the Agreements.

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

Details of the terms of the Preferred Shares are set out in the Prospectus.

Details of the net proceeds received from the issue of the Convertible Bonds and Preferred Shares are as follows:

Convertible Bonds

	Notes	RMB'000
Nominal value of the Convertible Bonds issued on 13 June 2007		40,000
Converted into 2,247,190 Preferred Shares		(40,000)
At 31 December 2007 and 31 December 2008		–

Preferred Shares

	Notes	RMB'000
Nominal value of 2,247,190 Preferred Shares issued upon the conversion of the Convertible Bonds		40,000
Nominal value of 10,112,360 Preferred Shares issued during the year		180,000
Transaction costs related to the liability component		(2,256)
Derivative component at the issuance date		(1,351)
Liability component at the issuance date		216,393
Imputed interest expense		206
Liability component at 31 December 2007		216,599
Imputed interest expense for the year		239
Conversion of Preferred Shares on 21 March 2008	(a)	(27,447)
Conversion of Preferred Shares on 3 June 2008	(b)	(189,391)
Liability component at 31 December 2008		–
Derivative component at the issuance date		1,351
Fair value adjustment		(27)
Derivative component at 31 December 2007		1,324
Conversion of Preferred Shares on 21 March 2008	(a)	(168)
Fair value adjustment		(1,156)
Derivative component at 31 December 2008		–

Notes:

(a) On 21 March 2008, the Carlyle Investment Funds converted a total of 1,565,168 Preferred Shares into 1,565,168 ordinary shares of the Company. These ordinary shares were then transferred to Group Success, a company owned by Ding Shui Po and Ding Mei Qing, who are considered as the controlling shareholders of the Company, at a consideration of US$1. After the conversion, the Carlyle Investment Funds holds a total of 10,794,382 Preferred Shares.

(b) On 7 May 2008, the Carlyle Investment Funds exercised the conversion rights to the effect that conditional upon satisfaction of the conditions to the Company as set out in Appendix VI to the Prospectus, the remaining 10,794,382 Preferred Shares would be converted into 10,794,382 ordinary shares of the Company. The pre-conditions for the conversion were fulfilled on the Listing Date and all the Preferred Shares were converted into the ordinary shares of the Company accordingly.

28. DEFERRED TAX LIABILITIES

Group

	Withholding taxes RMB'000
At 1 January 2007, 31 December 2007 and 1 January 2008	–
Deferred tax charged to the income statement during the year (note 10)	2,824
At 31 December 2008	2,824

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

At 31 December 2008, there were no significant unrecognised deferred tax liabilities (2007: 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.

29. SHARE CAPITAL

The share capital as at 31 December 2008 and 31 December 2007 represented the issued capital of the Company and a summary of the authorised and issued share capital of the Company is as follows:

2008

	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:		
2,173,645,000 ordinary shares of HK$0.01 each	21,736	19,177

2007

	HK$'000	RMB'000
Authorised:		
99,987,640,450 ordinary shares of HK$0.01 each	999,876	935,513
12,359,550 preferred shares of HK$0.01 each	124	116
	1,000,000	935,629
Issued and fully paid:		
100,000,000 ordinary shares of HK$0.01 each	1,000	936

A summary of the movements in the Company's authorised and issued ordinary and Preferred Shares capital from 10 April 2007 (date of incorporation) to 31 December 2008 is as follows:

(a) Authorised share capital

	Notes	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares HK$'000	Nominal value of ordinary shares RMB'000
Authorised ordinary shares				
Upon incorporation	(i)	38,000,000	380	356
Increase during the period	(ii)	99,949,640,450	999,496	935,157
At 31 December 2007 and 1 January 2008		99,987,640,450	999,876	935,513
Redesignated as ordinary shares	(iii)	12,359,550	124	116
At 31 December 2008		100,000,000,000	1,000,000	935,629

	Notes	Number of Preferred Shares of HK$0.01 each	Nominal value of Preferred Shares HK$'000	Nominal value of Preferred Shares RMB'000
Authorised Preferred Shares				
Increase during the period	(ii)	12,359,550	124	116
At 31 December 2007 and 1 January 2008		12,359,550	124	116
Redesignated as ordinary shares	(iii)	(12,359,550)	(124)	(116)
At 31 December 2008		–	–	–
Total authorised shares:				
At 31 December 2008		100,000,000,000	1,000,000	935,629
At 31 December 2007		100,000,000,000	1,000,000	935,629

Notes:

(i) The Company was incorporated in the Cayman Islands on 10 April 2007 with an authorised share capital of HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each.

(ii) Pursuant to written resolutions of the sole shareholder of the Company passed on 17 September 2007, the authorised share capital of the Company was increased from HK$380,000 to HK$1,000,000,000 by the creation of an additional 99,949,640,450 ordinary shares of HK$0.01 each and 12,359,550 Preferred Shares ranking pari passu in all respects with the existing shares.

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

(b) Issued ordinary shares

	Notes	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares HK$'000	Nominal value of ordinary shares RMB'000
Issued:				
Upon incorporation				
– issued nil paid	(i)	1	–	–
Allotment of shares				
– on 27 June 2007	(ii)	99	–	–
– on 17 September 2007	(iii)	99,999,900	1,000	936
At 31 December 2007 and 1 January 2008		100,000,000	1,000	936
Issued pursuant to conversion of Preferred Shares				
– on 21 March 2008	(iv)	1,565,168	16	14
– on 3 June 2008	(v)	10,794,382	108	95
Capitalisation issue credited as fully paid conditional on the share premium account of the Company, being credited as a result of the issue of the new shares to the public	(vi)	1,537,640,450	15,376	13,526
New issue of shares	(vii)	550,000,000	5,500	4,838
Repurchase of shares	(viii)	(26,355,000)	(264)	(232)
At 31 December 2008		2,173,645,000	21,736	19,177

Notes:

(i) On 10 April 2007, one ordinary share of the Company was allotted and issued at par as nil paid to the initial subscriber and was immediately transferred to Ding Shui Po. On 28 May 2007, Group Success acquired the one ordinary share of the Company from Ding Shui Po.

(ii) On 27 June 2007, an additional 99 ordinary shares of the Company were allotted at par and credited as nil paid to Group Success.

(iii) On 17 September 2007, an additional 99,999,900 ordinary shares of the Company were allotted at par and credited as fully paid to Group Success.

(iv) On 21 March 2008, the Carlyle Investment Funds converted a total of 1,565,168 Preferred Shares into 1,565,168 ordinary shares of the Company. The conversion resulted in an increase in share capital and share premium account by HK$16,000 (equivalent to approximately RMB14,000) and HK$28,478,000 (equivalent to approximately RMB27,601,000), respectively.

(v) On 3 June 2008, the Carlyle Investment Funds converted the remaining 10,794,382 Preferred Shares into 10,794,382 ordinary shares of the Company. The conversion resulted in an increase in share capital and share premium account by HK$108,000 (equivalent to approximately RMB95,000) and HK$195,255,000 (equivalent to approximately RMB189,296,000), respectively.

(vi) Pursuant to a resolution passed on 7 May 2008, a total of 1,537,640,450 new ordinary shares of HK$0.01 each were further allotted and issued, credited as fully paid at par by the Company, by way of capitalisation of the sum of HK$15,376,000 (equivalent to approximately RMB13,526,000) from the share premium account, to the then existing shareholders of the Company, whose names appeared on the register of the Company on 3 June 2008, in proportion to their respective shareholdings. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the issue of new ordinary shares to the public in connection with the Company's initial public offering ("IPO") as detailed in (vii) below.

(vii) In connection with the Company's IPO, 550,000,000 shares of HK$0.01 each were issued at a price of HK$4.05 per share for a total cash consideration, before related issuance expenses, of HK$2,227,500,000 (equivalent to approximately RMB1,959,531,000). Dealings in these shares on the Stock Exchange commenced on 3 June 2008.

(viii) During the year, the Company repurchased and cancelled 26,355,000 of its ordinary shares of HK$0.01 each from the market at a total amount of HK$35,181,000 (equivalent to approximately RMB30,999,000). These repurchased ordinary shares were subscquently cancelled by the Company and the premium of approximately RMB30,767,000 paid by the Company over the nominal value of the repurchased ordinary shares was debited to share premium account, as set out in note 30(b) to the financial statements.

(c) Share option schemes

Details of the Company's share option schemes and the share options issued under the scheme are included in note 31 to the financial statements.

30. RESERVES

(a) Group

The amounts of the Group's reserves and movement therein for the current and prior years 2008 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 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	Accumulated losses RMB'000	Proposed final and special dividend RMB'000	Total RMB'000
Upon incorporation		–	–	–	–	–	–
Profit for the period		–	–	–	128,656	–	128,656
Total income and expense for the period		–	–	–	128,656	–	128,656
Pre-Listing dividend	12	–	–	–	(129,455)	–	(129,455)
At 31 December 2007 and 1 January 2008		–	–	–	(799)	–	(799)
Exchange realignment		–	–	(15,604)	–	–	(15,604)
Total income and expense for the year recognised directly in equity		–	–	(15,604)	–	–	(15,604)
Loss for the year		–	–	–	(13,187)	–	(13,187)
Total income and expense for the year		–	–	(15,604)	(13,187)	–	(28,791)
Conversion of preferred shares into ordinary shares	29(b)(iv), 29(b)(v)	216,897	–	–	–	–	216,897
Capitalisation issue	29(b)(vi)	(13,526)	–	–	–	–	(13,526)
Issue of Pre-IPO Share Options	31	–	3,956	–	–	–	3,956
Issue of shares	29(b)(vii)	1,954,693	–	–	–	–	1,954,693
Share issue expenses		(117,991)	–	–	–	–	(117,991)
Repurchase of shares	29(b)(viii)	(30,767)	–	–	–	–	(30,767)
Interim 2008 dividend	12	(96,296)	–	–	–	–	(96,296)
Proposed final dividend	12	(153,286)	–	–	–	153,286	–
Proposed special dividend	12	(95,803)	–	–	–	95,803	–
At 31 December 2008		1,663,921	3,956	(15,604)	(13,986)	249,089	1,887,376

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

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

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

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

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

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

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

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

The fair value of the Pre-IPO Share Options granted during the year was estimated at RMB11,051,000, of which the Company recognised a share option expense of RMB3,956,000 during the year ended 31 December 2008.

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

Exercise price (HK$ per share)	3.24
Expected dividend yield (%)	2.0
Expected volatility (%)	39.8
Risk-free interest rate (%)	2.143
Expected life of share options (years)	3.08
Weighted average share price at grant date (HK$ per share)	2.73

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

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

At the balance sheet date and up to the date of approval of these financial statements, the Company had outstanding Pre-IPO Share Options for the subscription of 19,000,000 shares under the Pre-IPO Share Option Scheme, which represented approximately 0.9% of the issued share capital of the Company as at that date. The exercise in full of the outstanding Pre-IPO Share Options would, under the present capital structure of the Company, result in the issue of 19,000,000 additional ordinary shares of the Company and additional share capital of HK$190,000 (equivalent to RMB167,000) and share premium account of HK$61,370,000 (equivalent to RMB54,098,000), before related issuance expenses.

(b) Share Option Scheme

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

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

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

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

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

The exercise price of the share options is determinable by the directors in their absolute discretion, but in any event shall not be less than the highest of (1) the nominal value of the Company's ordinary share; (2) the closing price of the Company's shares as stated in the Stock Exchange daily quotation sheet issued on the date of grant of the share options; and (3) the average closing price of the Company's share 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 holder to dividends or to vote at shareholders' meetings.

No share option has been granted under the Share Option Scheme during the year.

32. NOTES TO THE CASH FLOW STATEMENT

Major non-cash transactions for the year ended 31 December 2007 were as follows:

(a) Acquisition of a minority interest of Xtep Xiamen

On 21 October 2007, the Group entered into an agreement with Lin Zhang Li to acquire his entire 35% equity interest in Xtep Xiamen at a consideration of RMB17,500,000. The consideration was determined with reference to the 35% paid-in capital of Xtep Xiamen contributed by Lin Zhang Li. The acquisition was completed on 15 November 2007 and Xtep Xiamen became a wholly-owned subsidiary of the Group since then. Lin Zhang Li has assigned the right to such consideration receivable to Ding Shui Po on 31 December 2007.

(b) Group Reorganisation – Sanxing Sports

Pursuant to the Group Reorganisation, the Group acquired the entire equity interest in Sanxing Sports from Ding Shui Po at a consideration of HK$36,800,000 (equivalent to approximately RMB34,429,000). The consideration was determined with reference to the paid-in capital of Sanxing Sports at the time of transfer.

33. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

34. OPERATING LEASE ARRANGEMENTS

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

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Within one year	4,295	1,703	1,305	1,063
In the second to fifth years, inclusive	12,690	5,062	1,370	2,502
	16,985	6,765	2,675	3,565

35. COMMITMENTS

(a) In addition to the operating lease commitments detailed in note 34 above, the Group had the following commitments at the balance sheet date:

	2008 RMB'000	2007 RMB'000
Contracted for commitments in respect of its wholly-foreign-owned subsidiaries in the PRC	652,284	7,952
Contracted for commitments in respect of:		
– construction of new buildings	5,248	67
– acquisition of land use rights	–	4,667
– advertising and promotional expenses	59,570	41,820
	64,818	46,554
	717,102	54,506

(b) For the period from 1 November 2008 to 31 December 2009, the Group is obliged to pay a minimum guaranteed royalty to a licensor, however, such amount will be adjusted based on the actual sales amount of the relevant product for these years.

At 31 December 2008, the Company did not have any significant commitment (2007: Nil).

36. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties:

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

	2008 RMB'000	2007 RMB'000
Short term employee benefits	2,146	660
Performance related bonuses	–	–
Equity-settled share option expense	312	–
Post-employment benefits	15	15
Total compensation paid to key management personnel	2,473	675

(b) Details of the outstanding balance with a director as at 31 December 2007 are disclosed in note 26 to the financial statements.

(c) During the year, Ding Shui Po and Ding Ming Fang agreed to transfer to the Group certain trademarks and patents, which are in relation to the Group's operations, at nil consideration. The Group will have proper title over the said trademarks and patents once the registration with the relevant PRC authorities is completed. As at 31 December 2008, the registration with the relevant PRC authorities have been completed.

(d) During the year ended 31 December 2007, the Group paid subcontracting fees of RMB6,695,000 to a related company (the "Subcontractor") owned by the directors of the Company, namely Lin Zhang Li and Ding Mei Qing, for footwear production services. The directors of the Company are of the opinion that the above transaction was conducted on normal commercial terms and in the ordinary course of business. A deposit of RMB2,616,000 was paid to the Subcontractor for the subcontracting services as at 31 December 2007 which was included under prepayments, deposits and other receivables in the consolidated balance sheet. On 17 January 2008, Lin Zhang Li and Ding Mei Qing transferred their interests in the Subcontractor to unrelated parties of the Group at a consideration of RMB8,000,000, which was equal to the paid-in capital of the Subcontractor at the time of transfer and approximated to the net asset value of the Subcontractor of RMB7.9 million as at 31 December 2007. After that, the Subcontractor was no longer a related party to the Group.

(e) Upon establishment on 5 January 2007, Xtep Xiamen was a non-wholly owned subsidiary of the Group. On 21 October 2007, the Group acquired 35% equity interest in Xtep Xiamen from Lin Zhang Li at a consideration of RMB17,500,000, which was equivalent to a 35% portion of paid-in capital contributed by Lin Zhang Li. Therefore, no goodwill arose from the above acquisition. Thereafter Xtep Xiamen became a wholly-owned subsidiary of the Group. The above transaction was completed as at 31 December 2007.

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Group

31 December 2008

Financial assets

	Loans and receivables RMB'000
Trade and bills receivables	526,912
Other receivables (note 21)	5,141
Pledged deposits	6,000
Cash and cash equivalents	2,136,938
	2,674,991

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	377,989
Other payables (note 24)	1,555
Interest-bearing bank borrowings	124,000
	503,544

31 December 2007

Financial assets

	Loans and receivables RMB'000
Trade and bills receivables	234,383
Other receivables (note 21)	1,305
Cash and cash equivalents	215,018
	450,706

Financial liabilities

	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	–	55,859	55,859
Other payables (note 24)	–	3,390	3,390
Interest-bearing bank borrowings	–	116,000	116,000
Due to a director	–	32,874	32,874
Dividend payable	–	129,455	129,455
Preferred Shares	–	216,599	216,599
Derivative component of Preferred Shares	1,324	–	1,324
	1,324	554,177	555,501

Company

31 December 2008

Financial assets

	Loans and receivables RMB'000
Due from a subsidiary	96,296
Other receivables (note 21)	3,338
Cash and cash equivalents	675,397
	775,031

At the balance sheet date, the Company did not have any financial liabilities.

31 December 2007

Financial assets

	Loans and receivables RMB'000
Due from a subsidiary	129,455
Cash and cash equivalents	12,383
	141,838

Financial liabilities

	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 a director	–	27,579	27,579
Dividend payable	–	129,455	129,455
Preferred Shares	–	216,599	216,599
Derivative component of Preferred Shares	1,324	–	1,324
	1,324	373,633	374,957

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise bank borrowings, convertible bonds, preferred shares and cash and bank balances with the main purpose of raising finance for the Group's operations. The Group has various financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

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

Foreign currency risk

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

Credit risk

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

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

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

Interest rate risk

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

Liquidity risk

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

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

Group

	2008		
	On demand and within 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	124,000	–	124,000
Other financial liabilities	1,555	–	1,555
Trade and bills payables	377,989	–	377,989
	503,544	–	503,544

	2007		
	On demand and within 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	116,000	–	116,000
Preferred Shares (including derivative component)	–	220,000	220,000
Other financial liabilities	36,264	–	36,264
Trade and bills payables	55,859	–	55,859
Dividend payable	129,455	–	129,455
	337,578	220,000	557,578

Commodity price risk

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

Capital management

The primary objective of the Group's capital management is 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 shareholder's value. The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes adjustment to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 31 December 2007.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio, which is calculated as the net debt divided by adjusted capital. The debt-to-adjusted capital ratio as at the balance sheet dates was as follows:

	Group	
	2008 RMB'000	2007 RMB'000
Interest-bearing bank borrowings	124,000	116,000
Preferred Shares	–	216,599
Derivative component of Preferred Shares	–	1,324
Less: Cash and cash equivalents	(2,136,938)	(215,018)
Net debt/(cash)	(2,012,938)	118,905
Total equity	2,637,776	279,796
Add: Amount due to a director	–	32,874
Adjusted capital	2,637,776	312,670
Net debt/(cash)-to-adjusted capital ratio	(0.8)	0.4

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 March 2009.

Definitions

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

"Board"	The Board of Directors of the Company
"Business Day"	Any day on which the Hong Kong Stock Exchange is open for the business of dealing in securities
"Company" or "Xtep"	Xtep International Holdings Limited
"Corporate Governance Code"	Code on corporate governance practices
"Director(s)"	The director(s) of the Company
"GDP"	Gross domestic product
"Group"	The Company and its subsidiaries
"Group Success"	Group Success Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 23 February 2007, the entire issued share capital of which is directly owned as to 63.2% by Mr. Ding Shui Po and 36.8% by Ms. Ding Mei Qing
"HK$" and "HK cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Listing Date"	3 June 2008, on which dealing in the Shares first commence on the Hong Kong Stock Exchange
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Model Code"	Model code for securities transactions by directors of listed issuers
"OEM"	acronym for original equipment manufacturer, a business that manufacturers goods or equipment for branding and resale by others
"Other brands"	Disney Sport brand and Koling brand collectively
"PRC"	The People's Republic of China
"Pre-IPO Share Option Scheme"	The share option scheme for employees of the Group approved and adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed "Pre-IPO Share Option Scheme" in Appendix VI to the Prospectus
"Prospectus"	Prospectus of the Company dated 21 May 2008
"R&D"	Research and development
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	Ordinary share(s) of HK$0.01 each in the share capital of the Company
"Share Option Scheme"	The share option scheme adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed "Share Option Scheme" in Appendix VI to the Prospectus
"Shareholder(s)"	Shareholder(s) of the Company
"Xtep (China)"	Xtep (China) Co., Ltd., an indirect wholly-owned subsidiary of the Group

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