XTEP INTERNATIONAL HOLDINGS LIMITED
特步國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1368)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

RESULTS HIGHLIGHTS

- Successfully listed on the main board of the Hong Kong Stock Exchange on 3 June 2008
- Revenue rose by **110% to RMB2,867 million**
- Gross profit margin increased by 4.6 percentage points to **37.1%**
- Net profit increased by **129% to RMB508 million**
- Dividend payout ratio for the year amounted to **68%**

FINANCIAL HIGHLIGHTS

- 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 are proposed, together with interim dividend of HK5.0 cents (equivalent to RMB4.4 cents), representing a total payout of approximately RMB345.4 million
- Net profit margin increased by 1.4 percentage points to **17.7%**
- Basic earnings per share rose by **78% to RMB26.84 cents**
- Working capital cycle reduced by 41 days to **53 days**

OPERATIONAL HIGHLIGHTS

- Total number of retail outlets reached **5,532**, a net increase of 885 outlets
- Total number of Xtep brand retail outlets reached **5,056**, a net increase of 676 outlets
- Average floor area of Xtep brand retail outlets for the year increased by 73% to **341,709 sq.m.**
- Average wholesale revenue per Xtep brand retail outlet increased by 37% to **RMB552,403**
- Xtep brand footwear products
  - Gross profit margin increased by 1.1 percentage points to **35.6%**
  - Sales volume surged by **76% to 18.3 million** pairs
  - Average selling price (wholesale) increased by 5% to **RMB73.2**
- Xtep brand apparel products
  - Gross profit margin increased by 3.7 percentage points to **38.1%**
  - Sales volume surged by **145%** to **21.5 million** pieces
  - Average selling price (wholesale) increased by 7% to **RMB56.4**

CHAIRMAN'S STATEMENT

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.

Ding Shui Po
Chairman

ANNUAL RESULTS

The board of Directors of Xtep International Holdings Limited is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2008, together with the comparative figures for the corresponding period in 2007. These results have been reviewed by the Company's audit committee, comprising solely the independent non-executive Directors, one of whom chairs the committee.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
REVENUE	3	**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	3	**5,127**	2,114
Selling and distribution costs		**(350,529)**	(119,414)
General and administrative expenses		**(128,249)**	(58,707)
Operating profit	4	**590,651**	267,136
Finance costs, net	5	**(13,232)**	(11,947)
PROFIT BEFORE TAX		**577,419**	255,189
Tax	6	**(69,247)**	(33,311)
PROFIT FOR THE YEAR		**508,172**	221,878
DIVIDENDS	7	**345,385**	129,455
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
– 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		**115,333**	96,585
Prepaid land lease payments		**21,847**	21,763
Deposit paid for acquisition of land use rights		**50,079**	10,000
Deposits paid for acquisition of items of property, plant and equipment		**10,288**	–
Intangible assets		**791**	289
		198,338	128,637
CURRENT ASSETS			
Inventories		**288,287**	193,505
Trade and bills receivables	*9*	**526,912**	234,383
Prepayments, deposits and other receivables		**121,740**	131,984
Pledged deposits		**6,000**	–
Cash and cash equivalents		**2,136,938**	215,018
		3,079,877	774,890
CURRENT LIABILITIES			
Trade and bills payables	*10*	**377,989**	55,859
Deposits received, other payables and accruals		**75,392**	41,102
Interest-bearing bank borrowings		**124,000**	116,000
Due to a director		**–**	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		**–**	216,599
Derivative component of preferred shares		**–**	1,324
Deferred tax liabilities		**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		**19,177**	936
Reserves		**2,618,599**	278,860
TOTAL EQUITY		**2,637,776**	279,796

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. 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. 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.

3. REVENUE, OTHER INCOME AND GAINS

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

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

	2008	2007
	RMB'000	*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.*

4. OPERATING PROFIT

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

	2008	2007
	RMB'000	*RMB'000*
Cost of inventories sold*	**1,802,879**	921,804
Depreciation	**11,784**	8,017
Amortisation of intangible assets**	**71**	74
Employee benefit expenses (including directors' remuneration):		
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	**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.*

5. FINANCE COSTS, NET

	Group	
	2008	2007
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	**12,489**	13,973
Interest expense on preferred shares	**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	**(1,156)**	(27)
	13,232	11,947

6. 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	2007
	RMB'000	*RMB'000*
Current tax – Mainland China		
Charge for the year	**66,423**	33,311
Deferred	**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 (Xiamen Xtep Investment Co., Ltd.*) ("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	2007
	RMB'000	*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.

* *For identification purpose only*

7. 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.

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

(a) Basic earnings per share

The calculation of basic earnings per share amount 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;

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

(iii) the capitalisation issue of 1,368,500,007 shares.

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 on 21 March 2008 and 3 June 2008;

(ii) the capitalisation issue of 169,140,443 shares pursuant to the conversion of the preferred shares;

(iii) the 550,000,000 shares issued upon the Listing of the Company's shares on the Hong Kong Stock Exchange on 3 June 2008;

(iv) the repurchase of 26,355,000 shares from the market during the year; 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 granted under the Pre-IPO Share Option Scheme outstanding during the year had an anti-dilutive effect on the basic earnings per share amount for the year.

9. TRADE AND BILLS RECEIVABLES

	Group	
	2008	2007
	RMB'000	*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	2007
	RMB'000	*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.

10. 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	2007
	RMB'000	*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. 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.

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 table sets 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

Notes:

Eastern region includes: Shanghai, Jiansu, Zhejiang, Anhui, Shandong, Jiangxi and Fujian

Southern region includes: Hubei, Hunan, Henan, Guangxi, Guangdong, and Hainan

Western region includes: Sichuan, Guizhou, Tibet, Yunnan, Chongqing, Shaanxi, Ningxia, Gansu, Qinghai and Xinjiang

Northern region includes: Heilongjiang, Jilin, Liaoning, Tianjin, Hebei, Shanxi, Beijing and Inner Mongolia

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.

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.

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%).

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	**Gross profit margin**	Revenue	Gross profit margin
	(RMB'000)	***(%)***	*(RMB'000)*	*(%)*
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*

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.

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).

Use of proceeds	**Net proceeds from the global offer (HK$ million)** 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 by 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.

CORPORATE GOVERNANCE CODE

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

The Company has adopted the code provisions contained in the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The Company has complied with the Corporate Governance Code since the Listing Date except for the deviation from code provision A.2.1, which stipulates that 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.

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 from the Listing Date to 31 December 2008.

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.

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 make recommendations to the Board regarding candidates to fill vacancies on the Board. 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.

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	Number of shares repurchased	Purchase consideration per share Highest	Purchase consideration per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$*
October 2008	4,000,000	1.02	0.98	3,976,165
November 2008	15,935,000	1.59	0.99	21,368,200
December 2008	6,420,000	1.55	1.38	9,526,705
Total:	**26,355,000**			**34,871,070**

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.

SUFFICIENCY OF PUBLIC FLOAT

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

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Hong Kong Stock Exchange (www.hkex.com.hk) and the Company (http://www.xtep.com.hk). The annual report for the year ended 31 December 2008 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders of the Company and available on the same websites in due course.

DIVIDENDS

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.

CLOSURE OF REGISTER OF MEMBERS

The transfer books and register of members of the Company will be closed from Monday, 4 May 2009 to Monday, 11 May 2009, both days inclusive, for the purpose of determining Shareholders' entitlements to the proposed final dividend and special dividend. In order to qualify for the final dividend (if any) and the special dividend (if any) and the right to attend and vote at the forthcoming annual general meeting of the Company to be held on 11 May 2009, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 30 April 2009.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held in Hong Kong on Monday, 11 May 2009. Notice of the annual general meeting will be issued and disseminated to Shareholders in due course.

APPRECIATION

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

DEFINITIONS

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

"Board"	The Board of Directors of the Company
"Company" or "Xtep"	Xtep International Holdings Limited
"Corporate Governance Code"	Code on corporate governance practices
"Director(s)"	The director(s) of the Company
"GDP"	Gross domestic product

"Group"	The Company and its subsidiaries
"HK$" and "HK cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Listing 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
"R&D"	Research and development
"RMB"	Renminbi, the lawful currency of the PRC

"Share(s)"	Ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	Shareholder(s) of the Company

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

Hong Kong, 31 March 2009

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