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

2010 Annual Report

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Xiao Feng (肖楓)
Tan Wee Seng (陳偉成)

Independent non-executive Directors

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

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

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

HEAD OFFICE IN THE PRC

Economic and Technical Development Zone
Quanzhou City
Fujian Province PRC 362000

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

LEGAL ADVISER AS TO HONG KONG LAWS

Orrick, Herrington & Sutcliffe

AUDITORS

Ernst & Young

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

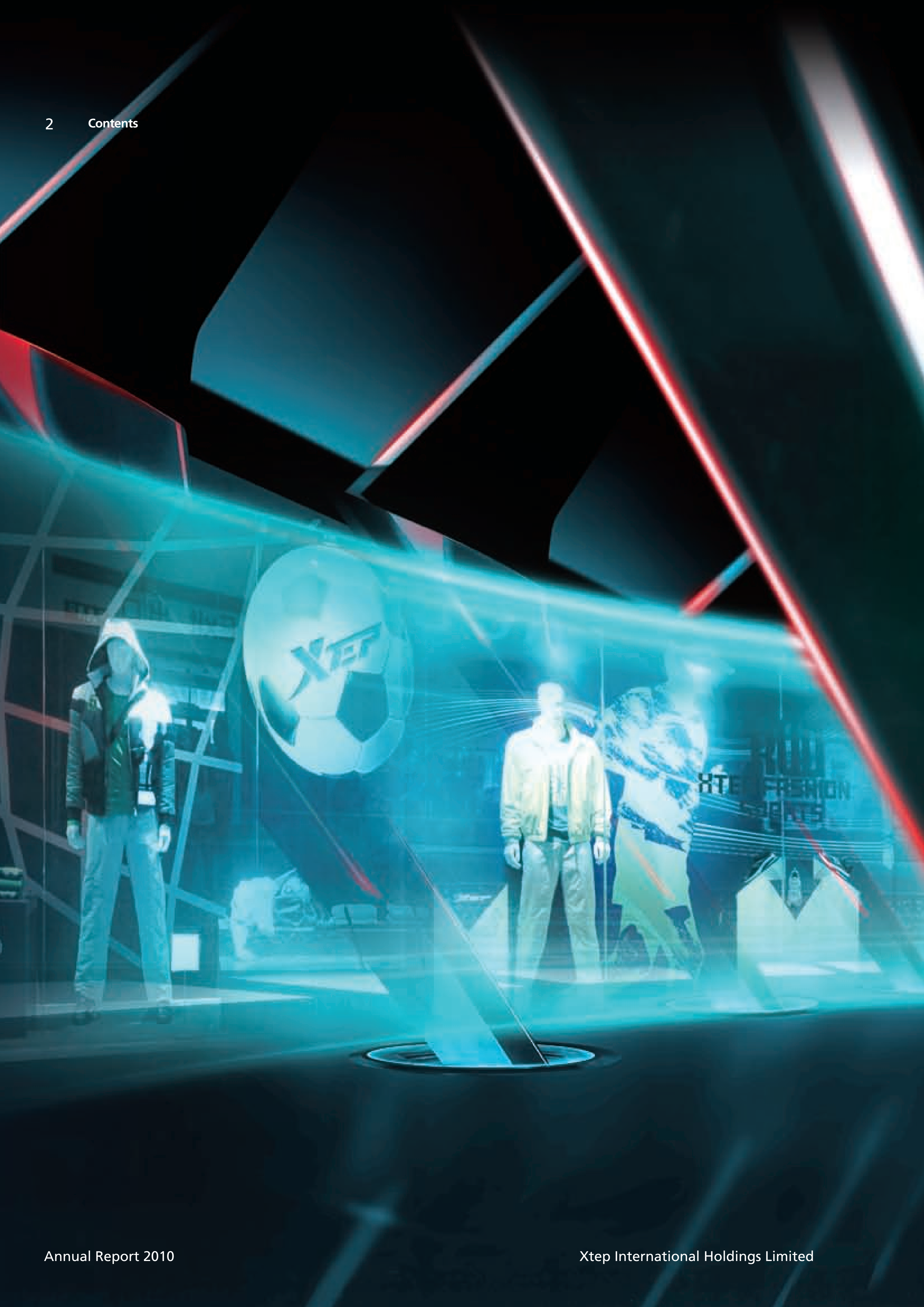
Agricultural Bank of China
Bank of Communications
China Construction Bank
China Merchants Bank
Hang Seng Bank
Industrial Bank

INVESTOR RELATIONS CONSULTANTS

Porda Havas International Finance
Communications Group
Aries Consulting Limited

COMPANY WEBSITE

www.xtep.com.hk



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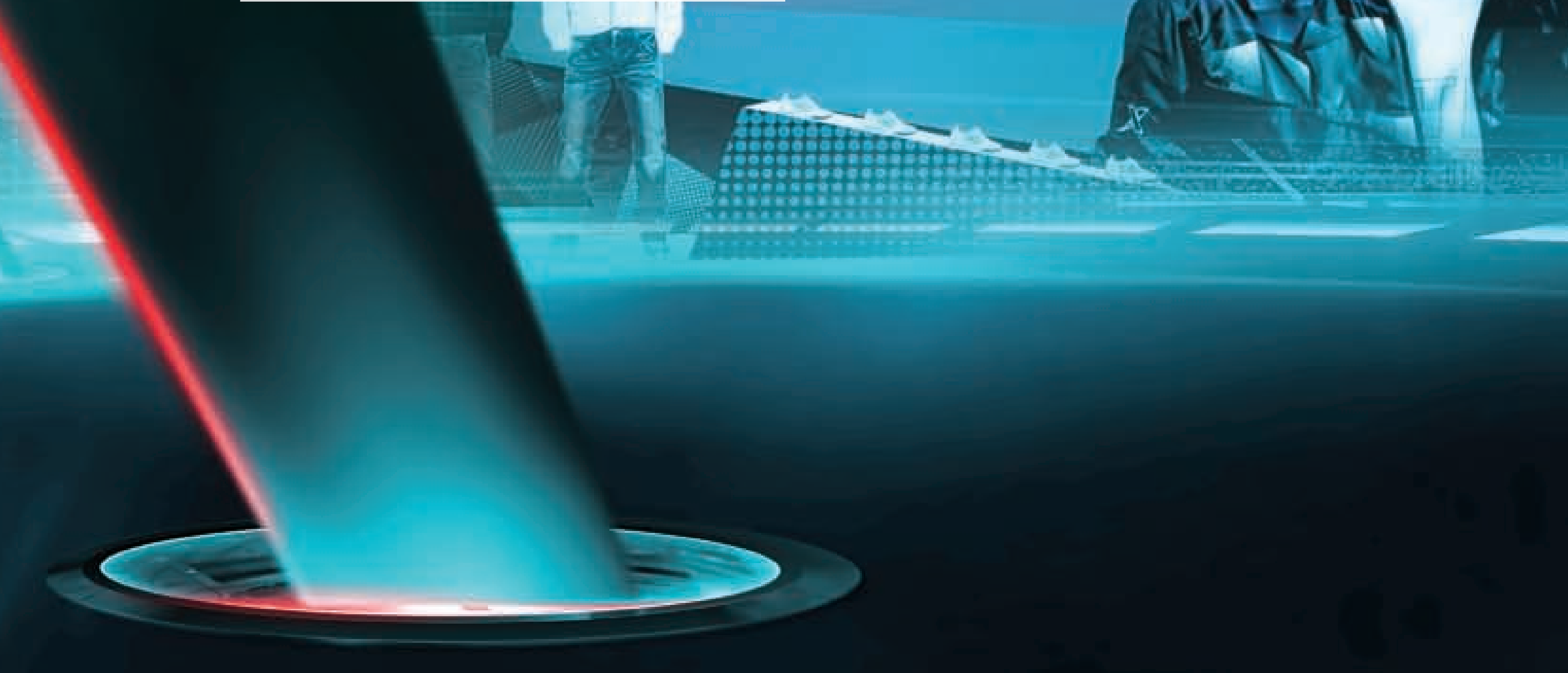


Financial Highlights

Total Revenue	+26%	to approximately	RMB4.46 billion
Gross Profit Margin	+1.5	percentage points to approximately	40.6%
Operating Profit	+39%	to approximately	RMB978 million
Profit for the Year	+26%	to approximately	RMB814 million

Proposed final dividend per Share		:	HK12.0 cents
Interim dividend per Share		:	HK10.0 cents
Total basic dividend per Share	+29%	:	HK22.0 cents
Total basic payout ratio		**:**	**50.4%**

Financial Performance

Net profit margin: **18.3%**

Basic earnings per Share: **RMB37.42 cents ↑ 26%**

Working capital cycle reduced by 5 days to **27 days**

XTEP Brand

	Gross profit margin	Sales Volume	Average selling price (wholesale price)
Footwear	**41.0% ↑ 1.9% pts**	**22.3 mil pairs ↑ 16.7%**	**RMB83.7 ↑ 5.4%**
Apparel	**40.6% ↑ 1.5% pts**	**33.3 mil pieces ↑ 16.4%**	**RMB68.2 ↑ 10.0%**

Cautionary Statement Regarding Forward-looking Statements

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

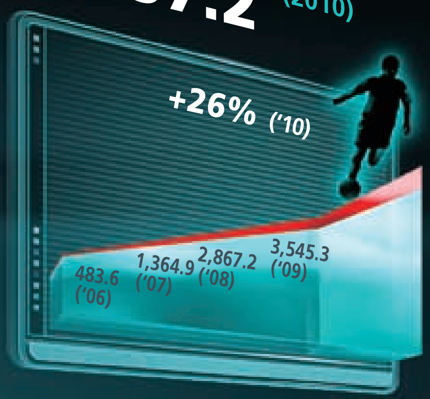
Revenue from Xtep brand
To approximately RMB4,210.3 million

Five-Year Financial Summary

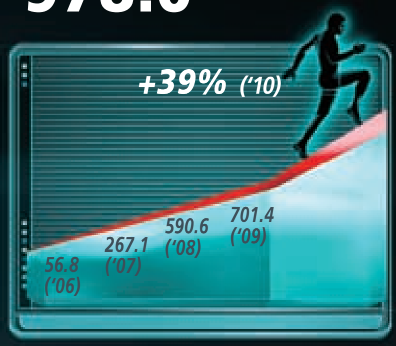
For the year ended 31 December

	2010	2009	2008	2007	2006
Profitability data (RMB million)					
Revenue	**4,457.2**	3,545.3	2,867.2	1,364.9	483.6
Gross profit	**1,811.7**	1,387.8	1,064.3	443.1	136.1
Operating profit	**978.0**	701.4	590.6	267.1	56.8
Profit for the year	**813.7**	647.5	508.2	221.9	50.1
Basic earnings per Share (RMB cents) *(Note 1)*	**37.42**	29.79	26.84	15.11	3.41
Profitability ratios (%)					
Gross profit margin	**40.6**	39.1	37.1	32.5	28.1
Operating profit margin	**21.9**	19.8	20.6	19.6	11.8
Net profit margin	**18.3**	18.3	17.7	16.3	10.4
Effective tax rate	**16.8**	7.8	12.0	13.1	–
Return on average total equity holders' equity *(Note 2)*	**25.7**	23.0	34.8	94.9	31.3
Operating ratios (as a percentage of revenue) (%)					
Advertising and promotion costs	**11.7**	11.8	9.1	5.6	8.6
Staff costs	**4.7**	5.3	5.5	8.5	12.1
Research and development costs	**1.8**	1.6	1.6	1.2	1.3
As of 31 December					
Assets and liabilities data (RMB million)					
Non-current assets	**307.6**	275.0	198.3	128.6	107.5
Current assets	**3,976.6**	3,365.6	3,079.9	774.9	414.9
Current liabilities	**892.0**	629.3	637.6	405.8	335.0
Non-current liabilities	**39.9**	27.3	2.8	217.9	–
Shareholders' equity	**3,352.3**	2,984.1	2,637.8	279.8	187.4
Asset and Working Capital data					
Current asset ratios	**4.5**	5.3	4.8	1.9	1.2
Gearing ratios (%) *(Note 3)*	**0.0**	0.0	4.7	41.5	105.1
Net asset value per Share (RMB) *(Note 4)*	**1.54**	1.37	1.21	N/A	N/A
Average inventory turnover days (days) *(Note 5)*	**50**	47	49	68	133
Average trade and bills receivables turnover days (days) *(Note 6)*	**51**	54	48	56	109
Average trade and bills payables turnover days (days) *(Note 7)*	**74**	69	44	30	74

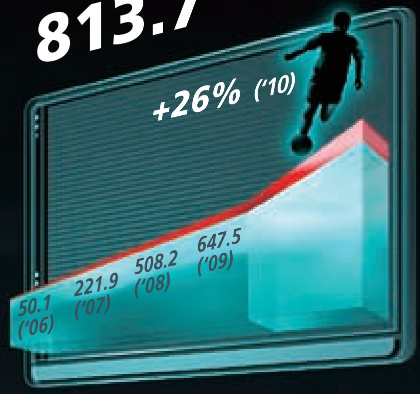
Revenue
(RMB million)
4,457.2 (2010)



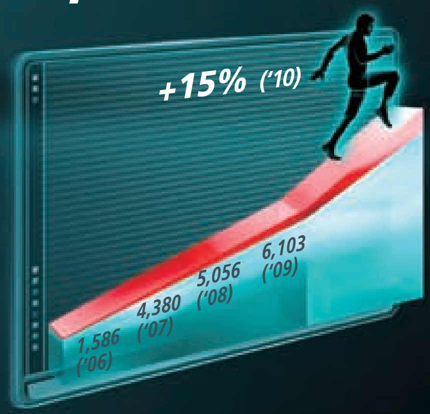
Operating Profit
(RMB million)
978.0 (2010)



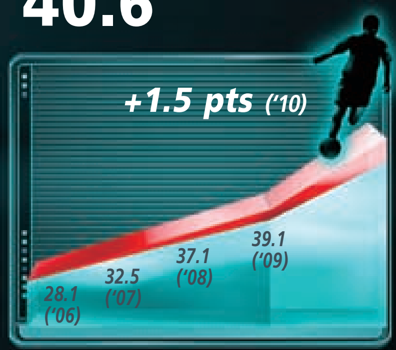
Profit For The Year
(RMB million)
813.7 (2010)



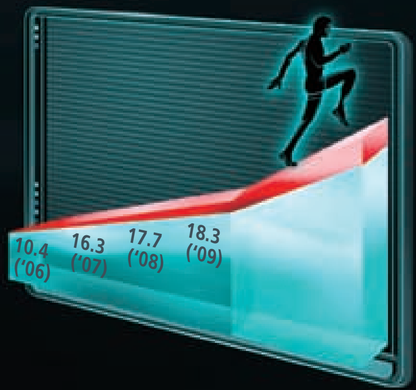
Number of Xtep Stores
7,031 (2010)



Gross Profit Margin
(%)
40.6 (2010)



Net Profit Margin
(%)
18.3 (2010)



Notes:
1) The calculation of basic earnings per Share is based on the profit attributable to ordinary equity holders of the Company divided by the weighted average number of ordinary shares in issue during the relevant year.
2) Return on average total equity holders' equity is equal to the profit for the year divided by the average of opening and closing total equity holders' equity.
3) The calculation of gearing ratio is based on the total borrowings divided by the sum of share capital and reserves of the Company at the end of the year.
4) The calculation of net asset value per Share is based on the total number of Shares in issue after the Company's listing and at the end of the year.
5) Average inventory turnover days is equal to the average of opening and closing inventory divided by costs of sales and multiplied by 365 days (or 366 days in 2008).
6) Average trade and bills receivables turnover days is equal to the average of opening and closing trade and bills receivables divided by revenue and multiplied by 365 days (or 366 days in 2008).
7) Average trade and bills payables turnover days is equal to the average of opening and closing trade and bills payables divided by cost of sales and multiplied by 365 days (or 366 days in 2008).

FINANCIAL REVIEW

REVENUE AND GROSS PROFIT MARGIN BREAKDOWN BY BRANDED PRODUCT SALES

For the year ended 31 December

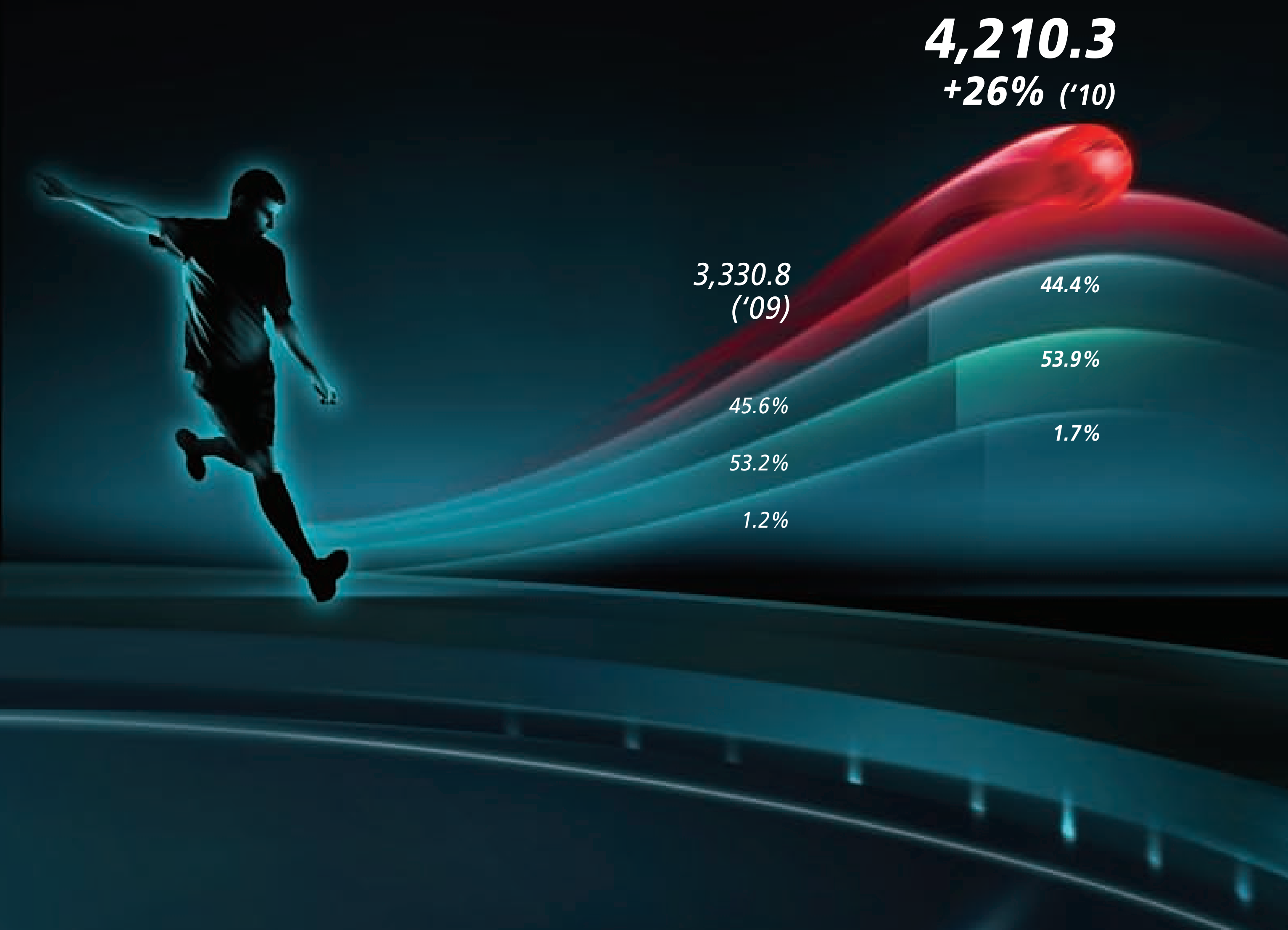
	Revenue (RMB'000)			As a percentage of revenue (%)		Gross profit margin (%)		
	2010	2009	Change (%)	**2010**	2009	**2010**	2009	Change (pts)
Xtep brand	4,210,258	3,330,764	+26.4	94.5	93.9	40.7	39.0	+1.7
Other brands	246,940	214,572	+15.1	5.5	6.1	39.7	40.7	-1.0
Total	4,457,198	3,545,336	+25.7	100.0	100.0	40.6	39.1	+1.5

XTEP BRAND

REVENUE BREAKDOWN OF XTEP BRAND BY PRODUCT CATEGORY

For the year ended 31 December

	Revenue (RMB'000)			As a percentage of revenue (%)	
	2010	2009	Change (%)	**2010**	2009
Footwear	1,869,738	1,520,185	+23.0	44.4	45.6
Apparel	2,270,511	1,773,159	+28.0	53.9	53.2
Accessories	70,009	37,420	+87.1	1.7	1.2
Total	4,210,258	3,330,764	+26.4	100.0	100.0
Gross profit margin	40.7%	39.0%	+1.7 pts		



Flagship Stores of Xtep Brand

Hefei

Shanxi


Shenyang


Quanzhou

Heilongjiang


Xiamen

Eastern Region	: 2,587	(Year 2009 / 2,314 outlets)
Southern Region	: 1,694	(Year 2009 / 1,499 outlets)
Western Region	: 1,266	(Year 2009 / 1,041 outlets)
Northern Region	: 1,484	(Year 2009 / 1,249 outlets)

2010 Awards

ANNUAL AND INTERIM REPORT AWARDS

"Expand Border to the World"
Annual report 2009

Bronze Award
2010 24th International ARC Awards for Overall Design

Bronze Award
2010 21st International GALAXY Awards for Annual Report Design

Honors Award
2010 24th International ARC Awards for Interior Design

"Expand Together"
Interim report 2010

Gold Award
2010 24th MERCURY Awards for Interim Report Design

CORPORATE AWARDS

Top 100 Most Valuable Footwear Brands in China
National Footwear Supervision and Examination Centre

High-Tech Enterprise Award
Science and Technology Department of Fujian Province, Finance Department of Fujian Province, National Taxation Bureau of Fujian Province

Harmonized Enterprise Award
Municipal of Quanzhou, Quanzhou Municipal Government

Harmonized Labour Relations Enterprise of Fujian Province
Human Resources and Social Security Department of Fujian Province

Caring Company of Fujian Province
Trade Unions of Quanzhou Municipal

Quanzhou City Donors Contribution Award
Quanzhou Municipal Government

Major Marketing Promotion

Shanghai World Expo 2010

Football Events

Running Events

Exciting Events

Road to Champion

CARLING CUP

Round	Date	Results
Final	27 February 2011	Birmingham City vs Arsenal 2:1
Semi-final	26 January 2011	Birmingham City vs West Ham United 4:3 (aggregate score)
Quarter final	1 December 2010	Birmingham City vs Aston Villa 2:1
Fourth Round	26 October 2010	Birmingham City vs Brentford 1:1 (Penalty shootout score 4:3)
Third Round	21 September 2010	Birmingham City vs Milton Keynes 3:1
Second Round	26 August 2010	Birmingham City vs Rochdale 3:2


CARLING CUP
FINAL 2011
CARLING CUP
FINAL 2011

XTEP :

aim to become a world-class leading fashion sportswear brand

Ding Shui Po
Chairman

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Xtep International Holdings Limited, I am pleased to present the audited annual results of the Group for the year ended 31 December 2010.

It was a year of opportunity and growth despite the challenging domestic and global economic environment. By leveraging on our strengths and pursuing our goals through stringent control and effective management, we were able to achieve promising growth in our business by accelerating our network expansion, and continuing with our strong brand equity promotion.

STEADY SUSTAINABLE GROWTH

For the year ended 31 December 2010, the total revenue of the Group was RMB4,457.2 million, (2009: RMB3,545.3 million), representing an increase of approximately 25.7% over last year. Revenue from the Xtep brand increased significantly by approximately 26.4% to RMB4,210.3 million (2009: RMB3,330.8 million). Overall gross profit margin of the Group increased by 1.5 percentage points to 40.6% (2009: 39.1%). Operating profit increased significantly by approximately 39.4% to RMB978.0 million (2009: RMB701.4 million). Profit attributable to shareholders was approximately RMB813.7 million (2009: RMB647.5 million), representing an increase of approximately 25.7% over last year.

The Group's notable financial results and strong cash flow position has ensured the goal of creating long-term value for our Shareholders was achieved. The Board recommended the payment of a final dividend of HK12.0 cents (2009: HK10.0 cents) per Share, together with an interim dividend of HK10.0 cents (2009: HK7.0 cents) per Share, the total basic dividend for the year amounted to HK22.0 cents (2009: HK17.0 cents) per Share, representing an increase of 29.4%. The total basic dividend payout ratio for the year amounted to 50.4% (2009: 50.3%). In order to reserve more resources for future development, the Board did not recommend any special dividend (2009: HK5.0 cents per Share).

XTEP BRAND IS FASHION SPORTS

Brand differentiation is one of the most important factors to brand equity. We believe the potential for smart and trend-setting sportswear in the domestic and global markets represents a unique opportunity for Xtep because of its growing popularity, and the large size and fragmented nature of this market, in contrast to the functional sports products market. Xtep brand was one of the first Chinese brands to successfully incorporate sports elements into fashionable designs and position as the first Chinese fashion sports brand.

In 2010, the central government's stimulus policies including the "Guiding Opinion on Faster Development of Sports Industry" and 12th Five Year Plan, provided a favorable economy, resulted in surge in retail sales for both apparel and footwear segments. With growing urbanization and per capita consumption driving rising market demand, the Group is well positioned to strengthen its foothold and popularity in this dynamic and fast developing market through our unique dual sports and entertainment marketing strategy.

Xtep continued to leverage upon its established reputation by expanding its fashion sports business in the mass market segment. We identified a market gap for innovative, trendy and comfortable sportswear products that can attract consumers in China who seek high quality products with affordable prices. Xtep has successfully honed its brand equity with consumers through its unique concept in providing excellent value for money fashion sports products and effective dual sports and entertainment marketing strategies. Our inspiring and dynamic product range is well placed to be the key growth driver for the Group in securing its leading position as the Chinese fashion sportswear player in the sportswear industry.

“ Xtep – principal partner of the Shanghai World Expo“

XTEP IS DIFFERENT

Our Xtep brand slogan “Sports Like No Other” represents our core belief in product differentiation. We are dedicated to strengthening our brand and products through sponsorship campaigns for the major domestic and international sports events and national events held in China, and in the implementation of innovative dual sports and entertainment marketing campaigns in a bid to become a globally recognized fashion sportswear brand.

Some highlights in 2010 are:

The Shanghai World Expo in 2010 was a very successful and remarkable international event that took its place in history as the most successful Expo ever hosted. We are very proud and delighted that Xtep brand became a principal partner of the Shanghai World Expo and could share its success. We rendered full support in this event and provided uniforms for all the volunteers in the Shanghai World Expo during the entire six-month period. With hundreds and millions of visitors in China and from overseas, this sponsorship has enhanced our brand equity and was regarded as a highly effective and impact brand promotion. We are proud to say that the Xtep branded Shanghai World Expo volunteer outfits (known as the “little white cabbage”, due to its white and light green color) is the first-ever sports brand apparel being displayed at the National Museum of China permanently in memory of this historical and remarkable achievement.

Football is the most viewed sport around the globe; therefore we choose to establish our presence in the English Premier League ("EPL"), where we took the unique opportunity of partnering with Birmingham City Football Club ("BCFC"). The unprecedented cross-border partnership between a Chinese sports brand and a football club in one of the top European football leagues represents a shared desire for excellence and winning, based on tradition, integrity, teamwork and success. The recent triumph of BCFC winning as the champion of the Carling Cup (being one of the most important cup matches in England) over Arsenal has written a new chapter for BCFC lifting their first cup in 48 years. Not only did the approximately 90,000 attendees in the London Wembley stadium witnessed live on the day the BCFC players all wearing the team jersey bearing Xtep brand logo, so did hundreds and millions of football lovers globally on their TV sets. We believe this powerful and influential marketing campaign (i.e. the five-years sponsorship between the Group and BCFC) will significantly raise the brand equity in China and also represents an unparalleled global reach that leads the Xtep brand on to the global stage, enhancing recognition and international exposure.

"Love Running, Love Xtep" continues to be one of Xtep's key marketing campaigns that has reinforced our brand positioning, and is critical to the future success of the brand. In planning to further develop running as a key trend, we have become a significant player in China's running market. We sponsored a series of high-profile marathons during 2010, including the Xiamen International Marathon, the Xi'an City Wall International Marathon and the Hangzhou International Marathon. Our most visible sponsorship, however, was the IAAF Diamond League 2010, in which Xtep became a partner and the sole sportswear sponsor for the Shanghai series. With some of the world's foremost track and field athletes participating, we are honored that Xtep is a sponsor of these events. We are confident that through these campaigns, our targeted consumers can also share our vision, passion and love for running.

Entertainment marketing strategy is unique to Xtep brand. In 2010, six passionate music concerts were held with our Xtep brand representatives, namely Nicholas Tse, Wilber Pan and Jolin Tsai and the five "Super girls" performed in six cities across the mainland China: Kunming, Harbin, Chengdu, Zhengzhou, Xian and Haikou. Huge attention and tremendous advertising and promotion were rolled out across these cities, creating an "Xtep heat wave". As tickets were exclusive only to Xtep brand products customers, the retails outlets in these cities were packed with customers. We believe these effective promotion strategies have communicated well to our core target market about Xtep brand's popularity and trendy positioning in fashion sports.

Our efforts demonstrated the Group's commitment in bringing passion to the creation of compelling Xtep products in the China market and global stages. We are committed to continuously supporting domestic and international events and sports games. We believe our distinguished heritage will differentiate the Xtep brand from its competitors, and provide a solid foundation for future growth.

NATIONWIDE NETWORK EXPANSION

Xtep's high quality nationwide distribution network is one of the Group's key success factors. To further strengthen our leading position in the Chinese fashion sportswear market, we continued on expanding the network penetration of the Xtep brand by adding 928 outlets for the full year of 2010. As at 31 December 2010, the total number of Xtep brand retail outlets reached 7,031 (31 December 2009: 6,103). These retail outlets are operated by our 28 exclusive distributors and over 3,000 third-party retailers.

We allocated ample resources to monitor and control the retail network, with over 60% Xtep brand retail outlets being covered by the DRP system. Real time data is posted by the DRP system to assist the Group to monitor the retail end inventory status, pricing strategy and store performances. In order to provide an unified service code of conduct, over 100 extensive management and sales training sessions were conducted by our sales and marketing department to the distributors and third-party retailers for the products training, sales training and Xtep code of compliance training.

We believe the establishment of flagship stores is crucial to strengthening the Group's brand recognition and in building better relationships with customers. Stylish flagship store designs made most of the Xtep flagship stores became the landmark of that commercial surroundings. As at 31 December 2010, the Group established a total of 38 (31 December 2009: 30) Xtep brand flagship stores, representing an increase of 8 flagship stores from the previous year.

LEADING THROUGH INNOVATION AND CORPORATE MANAGEMENT

Xtep brand is continuously striving to drive product innovation, enhance corporate management and embrace changes, as part of a broader effort to stay ahead and respond to the competitive challenges in the sportswear industry.

In April 2010, we set up a new research and development centre in Guangzhou as part of our commitment to innovation, and to better understand our consumers. The collaboration between our own innovative design team and international design consultants in South Korea, France, Spain, Italy and England and the advanced R&D facilities which comprises a comprehensive Product Lifestyle Management system will ensure we address the full range of consumer needs, capture fast changing fashion trends, shorten creation and production lead times and seize new and emerging market opportunities. Through these efforts, we are able to offer consumers high quality leading fashion sports products that are value for money. In 2010, we further enhanced our product technology to provide superlight marathon running shoes, super shock absorption running series and superstar series footwear to attract the young and stylish runners. In addition, we enlarged our offerings of football design apparel and superstar series apparel to enrich our apparel collection series.

We highly value our talented staff. We are continuously looking at strengthening our overall corporate structure. Efforts in the last fiscal year include the hiring of talents with expertise in strategic planning and supply chain management, and with extensive experience in the global sportswear sector. By building up an international management system, coupled with the optimization of infrastructure and processes, we are confident the Group's operational capabilities can be further strengthened in the long term.

BEYOND OUR VISION, A DEFINED FUTURE

Our long-term brand development strategy is to become the dominant brand in the fashion sportswear industry in China and eventually in the global market. We believe the most important key success factors are based on effective brand differentiating marketing strategies, mass market network penetration and innovative high quality value for money products. Based on these precise Xtep brand elements – passion for sports and fashion, we are set and ready to lead the Chinese sportswear industry into a new era.

We believe the Xtep brand will continue to delight and inspire consumers as we focus on strengthening the brand by drawing on our extensive research and development expertise and innovative capabilities. It is our brand and product offerings that will ultimately distinguish us from competitors, and more importantly, provide a solid foundation for sustainable future business growth.

The Group recently unveiled its major international sports sponsorships for 2011, which include the sponsorships of Great Britain and USA delegates at the 26th Universiade, Shenzhen, and the China National Women's Synchronized Swimming Team. Football and running constitute an integral part of Xtep's long-term brand building strategy. We aim to continue our efforts in this regard, by extending the global reach of the brand through effective sponsorship campaigns. We will increase the international marathon sponsorships in 2011 in China and Taiwan. We will continue to support BCFC in our 5 years' sponsorship and we will certainly have the full benefit from BCFC pursue into the UEFA Europa League football matches in Europe in 2011 following the winning of the Carling Cup Final 2011. Such notable and prestigious sponsorship will strongly raise our brand equity among the Chinese customers in China market and enhance our exposure and profile in the Europe and overseas market.

To continue our unique entertainment marketing strategies and to create another round of "Xtep heat wave", we will continue to organize more exciting and entertaining music concerts by our Xtep brand representatives in various cities in China. We believe the innovative dual sports sponsorships and entertainment marketing campaigns will enhance our brand development efforts, heightening the exposure and visibility of Xtep brand as a leading fashion sportswear icon in China and on the global stage.

We are committed to strengthening Xtep's leading position and network penetration in the fashionable sportswear market in China by further expanding its footprint in the mass market segment. The Group plans to increase the number of Xtep brand retail outlets in China by approximately 800-1,000 in the new fiscal year. In addition, Xtep will extend its presence on the global stage by adding new sales points in new locations across the Middle East and Southeast Asia. We will also continue to spend more effort to provide more extensive training to the distributors and third-party retailers, upgrading the decoration of the retail outlets and improve the operation efficiency of retail chain. More variety of high quality running footwear and apparel products will be introduced, together with more football theme related products and also our superstar artists theme related footwear and apparel to enrich the product range offering to the customers.

The central government announced its proposal to lower the tax burden of low- and mid-income earners in March 2011. Such favorable tax proposal will increase the purchasing power of low- and mid-income group, generating ample growth opportunities for mass-market domestic brands.

By focusing on strengthening our strong Xtep brand equity, management of the sales channel network, facilitating the efficiency of product design, research and development to provide high quality value for money products, we are committed to continuously enhancing the Group's structure and operations so as to exceed customers' needs and expectations.

ACKNOWLEDGEMENTS

Underscoring our success is our people. We have a team of professional and high caliber management and staff who have extensive knowledge of the industry. I would like to take this opportunity to thank them all for their dedication and commitment over the past year. Lastly, I would like to express my deep gratitude to our customers, suppliers, business partners and shareholders for their unwavering support of, and faith in Xtep. Looking ahead, our goal is to develop Xtep as a leading fashion sportswear brand, and to create genuine shareholder value in the future.

Ding Shui Po
Chairman
Hong Kong, 21 March 2011

Innovative Products

The Power of Our Brands...

Management Discussion and Analysis

Entertainment Marketing

Media Advertising

MARKET REVIEW

CHINA'S ECONOMY PROVES RESILIENT

China experienced a combative year on the world stage in 2010, emerging resiliently as the world's second largest economy even as the global economic recovery continued to falter. China's GDP growth strengthened in the second half of 2010, underscored by the Chinese government's stimulus policies and 12th Five Year Plan, which has triggered an economic rebound in the domestic markets, facilitated the pace of urbanization and boosted domestic consumption to deliver remarkable growth in the fiscal year of 2010. According to the National Bureau of Statistics of China, China's GDP increased by approximately 10.3% for 2010 to approximately RMB39,798 billion over last year. The accumulated total retail sales of consumer goods also rose by approximately 18.4% over last year to approximately RMB15,455 billion, of which, retail sales of consumer goods in urban areas increased by approximately 18.5% over last year to approximately RMB13,692 billion. The growing purchasing power of the middle class in second and third-tier inland Chinese cities have become a key growth driver for the Chinese economy, fuelling significant growth in the second half of 2010.

Latest policies announced by China's Premier Wen Jiabao in March 2011 on income distribution reform and economic development in urban areas under the 12th Five Year Plan indicated that the low- and mid-income earners will benefit the most of it. Such policies will continue to stimulate the growth of retail sector in the mass market which can translate into genuine growth opportunities for mass-market domestic brands. With the competitive landscape in the Chinese sportswear sector, the Group believe that its established presence in mass market sector in China will strengthen the market position of Xtep to weather the challenges and achieve consistent business growth.

FAST EVOLVING SPORTSWEAR TREND PREVAILS

The development of Chinese sports industry remains a key priority for the Chinese government. According to the "Guiding Opinion on Faster Development of Sports Industry" issued by the General Office of the State Council in March 2010, the Chinese government aims to build a strong domestic sports industry to compete in the international arena by 2020. Efforts include the construction of new sports infrastructure and establishment of institutional mechanisms in both urban and rural areas. The Chinese government is also promoting sports as a healthy lifestyle pursuit and citizens are encouraged to take part in all sports activities. With support from the Chinese government, the sportswear industry is expected to benefit directly as the passion for sports increases domestically. With rising market demand driven by the acceleration of urbanization and Chinese consumers' passion for sports. The market expects that the ample potential in China's sports industry to reach approximately RMB190 billion by 2012.

BUSINESS REVIEW

The Group has continued its strong growth momentum and delivered remarkable results in 2010, attributable mainly to four key competitive strengths of the Xtep brand. These include brand building, product innovation, channel establishment and management capability.

BRAND DIFFERENTIATION

Leveraging on our business concepts: "Sports like no other" and "Xtep is Fashion Sports", the Xtep brand has become China's leading fashion sportswear brand. To optimize upon its fashion reputation and stronghold in the Chinese sportswear industry, the Group continues to launch its unique dual sports and entertainment marketing strategy and pursue sponsorship campaigns for major domestic and international sports events, and national events held in China. In addition, the Group also strives to promote the Xtep brand across all communication channels in a bid to become a global sportswear brand.

Prominent Events

Xtep is focused on creating innovative brand marketing campaigns and pursuing effective sponsorship campaigns to build up brand equity and support the achievement of the Group's goals. During the year under review, the Group has provided a new scope of consumer experiences through its unique concept in fashion sports, and deployed effective marketing and sponsorship campaigns in a real-time and cost-effective manner.

Xtep – Principal Partner for the Volunteers of the World Expo 2010 Shanghai
特步 — 中國2010年上海世博會志願者首席合作伙伴

4TH ALL-CHINA GAMES

All-China Games is a national non-Olympic multi-sports event organized by the General Administration of Sports of the PRC. The competition is held once every four years. Held in Hefei, Anhui province in May 2010, the 4th All-China Games comprised of 34 sporting events ranging from fin swimming, water skiing, jet skiing, Chinese wrestling, open water swimming to life saving. As the official partner and sole sports products sponsor of the 4th All-China Games, the Group sponsored all the outfits for the delegates from Hefei, Jiangsu, Anhui, Guizhou and Hong Kong. The sponsorships represented an important part of brand endorsement, strengthening the Group's partnership with the national premier games.

THE SHANGHAI WORLD EXPO 2010

The Shanghai World Expo was China's most successful and influential international event in 2010. It leaves behind a legacy of a grand gathering of world cultures with the six-month event closing on 31 October 2010. The memorable event was attended by 246 countries and international organizations, and attracted over 73 million visitors. Xtep was a principal partner of Shanghai Expo. The Group's exclusive sponsorship of outfits for all volunteers at the event enhanced the visibility of the Xtep brand. In addition, the Xtep x Shanghai World Expo volunteer outfits were chosen to be displayed at the National Museum of China in memory of this historical and remarkable achievement. This sponsorship has enhanced brand recognition, and also demonstrated the Group's commitment to becoming a true global icon.

Xtep Treasures in National Museum of China

Xtep is the first ever sportswear brand to have its apparel products being chosen to display at the National Museum of China, where millions of national treasures are exhibited. The design of its Xtep x Shanghai World Expo volunteer outfits (commonly known as "little white cabbage" due to its white and light green color design) was revolved around the concepts of being environmentally friendly and maintains harmony with our society.

International Football Events

FOOTBALL

Birmingham City Football Club

In January 2010, the Group entered into a five-year sponsorship agreement with Birmingham International Holdings Limited, under which the Group will supply apparel to Birmingham City Football Club ("BCFC"). The unprecedented cross-border partnership allows the Group to showcase the credentials of Xtep brand products in the performance arena as players and supporting staff of BCFC will wear football outfits designed by Xtep during matches, training sessions and club events throughout the season. Advertising billboards with the Xtep logo will also be displayed around the St. Andrews Stadium, home ground of BCFC, to maximize publicity.

English Premier League ("EPL") is recognized as one of the world's most intriguing and widely followed football leagues. The Group believes the sponsorship not only marks a milestone in Xtep's history in becoming the first Chinese brand to enter into the EPL, but also represents an unparalleled global reach that allows the Xtep brand to access on to the global stage, enhancing recognition and international exposure.

Birmingham China Charity Tour

In July 2010, BCFC traveled to Hong Kong, Beijing and Shenyang for the "Birmingham China Charity Tour" and played friendly matches against local teams as part of the pre-season preparation for the 2010/2011 EPL season. BCFC won all three matches with over 23,000 football lovers attending the matches held in Hong Kong and China. The new "Xtep-Birmingham" outfits were showcased by BCFC during the football tour, and provided a new scope of experiences to football fans in China and around the globe.

Birmingham Carling Cup Glory

On 27 February 2011, thousands and millions of football viewers globally witness the glorious triumph victory made by BCFC in winning the Carling Cup at Wembley Stadium, London over Arsenal, the other strong English football team. This is a great and unforgettable moment that the loyal BCFC football supporters have long waited for almost 48 years since 1963. Each of the BCFC players was wearing the traditional blue and white color jersey which bore the outstanding BCFC and Xtep logo. The cameras have well captured each of the movement of BCFC players during such exciting and thrilling game. The display of Xtep logo on the BCFC jersey has been a very

powerful, extremely effective and efficient marketing campaign during the match. Hence, our promotion was well connected to the world-wide audience through this enjoyable and exciting match.

All Star Sports Association

The Group continued to give support to the Hong Kong All Star Sports Association (ASSA) by sponsoring apparel products to its members. During the year under review, members of the ASSA had participated in a number of charity football games in Hong Kong and the PRC in outfits designed and sponsored by the Group. The ASSA is a renowned sports and charity organization founded by a group of famous artists in Hong Kong entertainment industry to promote sport activities and raise funds for those needed through bringing together the power of popular artists to charity contests and performances. The Group has been providing the team members customized sportswear, casual wear and accessories products since August 2009. The win-win sponsorship features the Xtep brand as a fashionable and trendy sportswear brand while enhancing its brand awareness in domestic and overseas markets.

Running

LOVE RUNNING, LOVE XTEP

Running continues to be one of Xtep's key marketing campaigns that reinforced the Group's brand positioning which is critical to the future success of the brand. To activate and validate the key concept of the Xtep brand, "Love Running, Love Xtep", the Group sponsored a series of high-profile marathons and launched several eye-catching and innovative commercials across major television channels in China during the year under review.

IAAF SHANGHAI DIAMOND LEAGUE

The IAAF Diamond League is a renowned annual series of track and field meets. The Shanghai league was the second leg of the series this year, and was held at the Shanghai Stadium on 23 May 2010. With seven world records created this year, the league featured Liu Xiang, the "Chinese Flying Man", a 110m hurdler, and Usain Bolt, "The Jamaican Lightening", the world record holder for 100m and 200m together with some of the world's foremost track and field athletes at the 16 diamond races. As the official partner and sole sportswear sponsor for the Diamond League from 2010 to 2012, Xtep is committed to focusing on building credibility with the high performance athletes in international races, which will provide a strong foundation for the Group to capitalize on significant market opportunities in the running category in China.

As the league was broadcasted by 48 television stations worldwide, including daily live coverage by China Central Television Channel 5 (CCTV-5) and the British Broadcasting Corporation Channel 3 (BBC-3) in the United Kingdom, the Xtep brand was showcased around the globe, further advancing its recognition and reputation as a key player in China's running market.

XIAMEN INTERNATIONAL MARATHON

The Xiamen International Marathon was jointly organized by the Chinese Athletic Association and the Xiamen Municipal Government. It comprised of eight race categories including men's and women's marathon, half marathon, 10km race and 5km race, with over 50,000 runners participating from 35 countries across the globe. The race was broadcasted live by Central China Television (CCTV) and Xiamen Television (XMTV) as well as over 40 TV stations worldwide. The Group was and will be the event's sole sports producer partner from 2009 to 2013, and will provide sports apparel for all participants.

TAIYUAN INTERNATIONAL MARATHON

The Group was appointed sportswear provider of the 1st Taiyuan International Marathon held on 5 September 2010 with nearly 10,000 runners from all over the world attending the event in Xtep outfits. The participants truly embraced Xtep's unique concept of "Love Running, Love Xtep" in the 42km run.

TIBET INTERNATIONAL MARATHON

The 5th Tibet International Half Marathon Challenge was held on 12 September 2010 with nearly 4,700 runners across the globe competing at 3,670 meters above sea level in Lhasa. The Group is the designated apparel sponsor of the marathon and provided sportswear for athletes, staff, volunteers and committee members.

XIAN CITY WALL INTERNATIONAL MARATHON CHALLENGE

The Xian City Wall International Marathon Challenge was widely recognized as one of the most anticipated international sports events in China on 6 November 2010. The challenge comprises of individual events and team events with nearly 3,000 citizens and sports lovers attending. Such sponsorship has allowed the Group to continue supporting the development of sports in China's urban cities, and more importantly, to share its vision, passion and love for running with the targeted consumers.

HANGZHOU INTERNATIONAL MARATHON

Hailed as one of the "world's most beautiful marathons" held in the beautiful city of Hangzhou, the 2010 Hangzhou International Marathon was held on 7 November 2010 and attracted nearly 15,000 runners from 31 countries. Xtep was the sole sportswear sponsor for all participants.

Other Sports Events

In embracing a multi-faceted marketing strategy to maximise consumer outreach, Xtep has also sponsored other sports events to promote and strengthen its unique brand identity.

NATIONAL BASKETBALL LEAGUE AND WOMEN'S CHINESE BASKETBALL ASSOCIATION

Xtep has been the sole title sponsor of the national men's basketball league ("NBL") and women's basketball league ("WCBA") since 2007. The Group renewed its sole title sponsorship in 2009, and will continue to support NBL and WCBA until 2013.

CHINA X-GAMES

The CX, or China X-Games, is an exciting action sports event held annually since 1999, and includes a 10-stop BMX, skateboard and inline skating series. The event has become the most watched and attended sports action race in China, reflecting the popularization of sports among young people in China, and internationally. To achieve growth and market share in this category, the Group has, for the fourth consecutive year, been the sole title sponsor for the China X-Games, and has also promoted the preliminary "CX Campus Games" at various universities across the greater China region, including Beijing, Chengdu, Guangzhou, Shanghai, Shenyang and Wuhan.

2010 OLYMPIC DAY RUN

The Group was a 2010 Olympic Day Run sponsor, an event organized by the Sports Federation & Olympic Committee of Hong Kong, China. The event was held in June 2010 at the Hong Kong Disneyland Resort, and attracted approximately 3,400 participants and 11 corporate teams.

Entertainment and Commercials

The Group initiated a series of large-scale entertainment marketing activities in major Chinese cities as a way of further strengthening the appeal and reach of the brand, positioning it to become a leading fashion sportswear brand. The annual nationwide concert tour under the title sponsorship of Xtep brand has become a successful marketing channel in which the Group is able to attract the attention of the nation's youth as the event is widely broadcasted by media in China.

The "2010 Xtep Super Stars Nationwide Concert" was held from August to October 2010 across six major cities in China, including Kunming, Harbin, Chengdu, Zhengzhou, Xian and Haikou, where the Xtep brand profile has further strengthened. Given the fabulous performance of the Xtep brand spokespersons featuring Nicholas Tse, Wilber Pan Jolin Tsai and the five Super Girls, the concerts drew over 50,000 participants. It also garnered widespread press and live TV broadcast coverage, as well as strong advertising and promotion on the "Xtep heat wave" events. In addition, the high-profile "8th South East Music Chart Awards" held on 4 December 2010 in Fuzhou, Fujian province also raised the profile of the Xtep brand significantly. With the presence of various celebrity artists and singers, the event was widely reported by the media nationwide.

Entertainment and Commercials

Xtep's ongoing effort to integrate sports, fashion and entertainment in its products constitutes the cornerstone of its unique dual sports and entertainment marketing strategy. The Group has further promoted its brand values: "Sports Like No Other" and "Xtep is fashion" by incorporating these concepts into the latest collection of products as well as in its commercials.

The Group leveraged upon this success by launching several inspirational and innovative commercials during the year starting with the "I Love X Football" and "Embrace the Legend" in celebration of the World Cup mania. These commercials featured Xtep brand spokespersons Nicholas Tse, Wilber Pan and Jolin Tsai in the latest sportswear collection, and fuelled popularity amongst young fashion followers.

These campaigns were launched in the core markets covering first, second and third tier cities across mainland China. The Group focused on utilizing multi-media advertising strategies to capture the attention of its targeted consumers, and offered them an inspiring experience. Xtep continues to place considerable emphasis on launching innovative commercials with sports and entertainment influences during prime time hours on leading TV channels and digital broadcast mediums across the Greater China region in 2010.

National: CCTV-1 – China Central Television ("CCTV") is one of China's primary national channels providing comprehensive TV programs readily available to both cable and non-cable television viewers. To enhance brand awareness, Xtep's TV commercials were shown on CCTV-1.

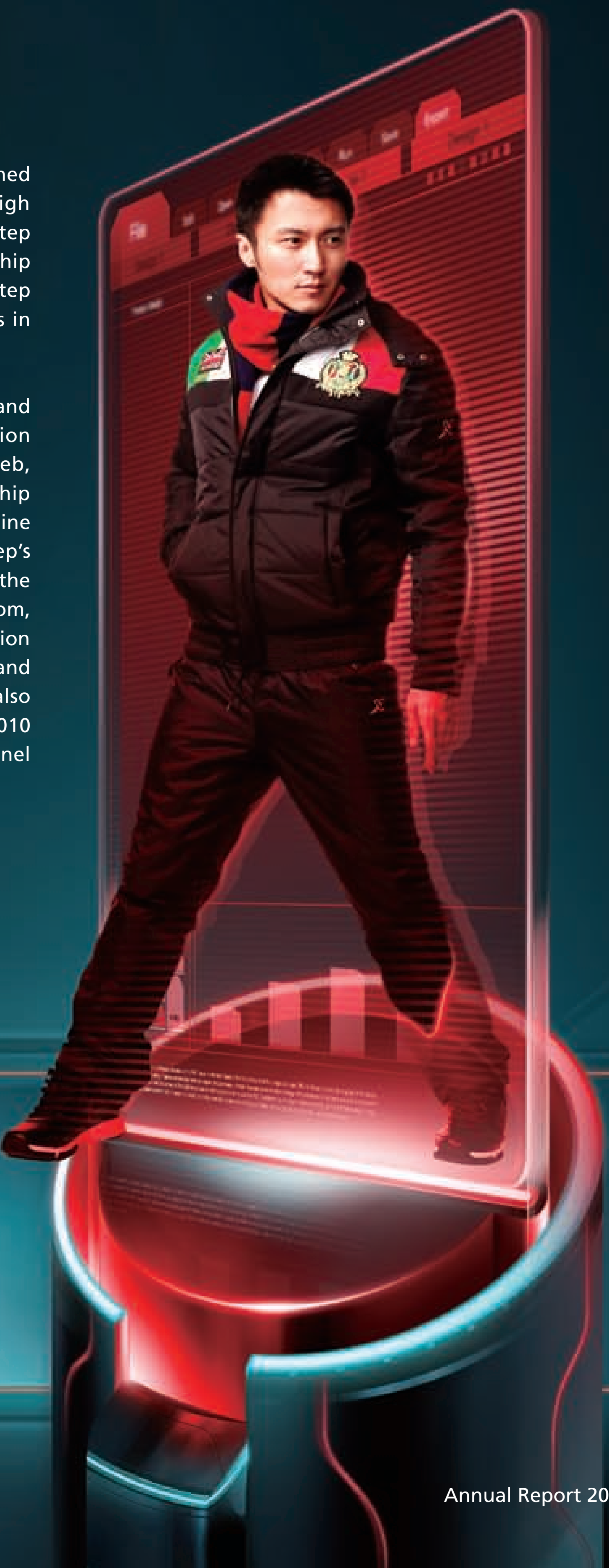
Sports: CCTV-5 – A national sports channel that provides comprehensive coverage on national and international sporting events. Xtep has entered into a two-year agreement with CCTV-5 to become the official partner of CCTV-5 from 2008 to 2010. To strengthen the recognition of Xtep brand and optimize its reach across consumers, the Group aims to broadcast its commercials during the live coverage of all sporting events shown on CCTV-5.

Central China: Hunan Satellite TV – This channel is a popular primary TV channel that focuses on entertainment and information in China. As the sole title sponsor of the highly entertaining and popular programme "Progressing Everyday《天天向上》", the brand heightened its brand visibility significantly.

Southern China: Southeast Satellite – The Group is a key sponsor of "Southeast Music Chart Awards", a popular music programme on the channel that attracts many young music lovers. The channel, which covers China's southern province and Taiwan, showcases two major TV programmes: "Taiwan strait" and "Entertainment News".

Eastern China: Anhui Satellite – A well-established TV channel with extensive coverage and high audience ratings in the Eastern part of China. Xtep has entered into a strategic sportswear partnership with Anhui Satellite. The TV channel will air Xtep commercials featuring the brand's spokespersons in fashion sportswear.

Digital: Sohu.com – In a bid to ensure the brand remains at the forefront of all communication channels, in particular, the World Wide Web, the Group reached a 3-year strategic partnership agreement with Sohu.com, the largest search engine website in China, to promote on its platform Xtep's brand development and network. In leveraging on the well-established and extensive network of Sohu.com, Xtep can promote its unique concept in sports fashion to a wider consumer base through entertaining and innovative commercials. In addition, Xtep was also the sportswear sponsor for the FIFA World Cup 2010 website on Sohu.com. This opened up a new channel of communication for the Group.



Innovative Products

TURNING PRODUCTS ON ITS HEADS

Product innovation is central to the Group's sustainable development and future business growth in the sportswear industry. As part of its long-term brand development, Xtep has focused on enhancing the unique identities, heritage, technologies, designs and reputation of its products, particularly the football and running series, in the fiscal year of 2010. The Group's strategic concepts and methods comprise the cornerstone of the Xtep brand, and is positioned to drive sales and profitability in the near future.

During 2010, our product design team, which comprises of over 600 industry professionals and technological experts, has collaborated with the world's leading design houses and research companies from South Korea, France, Spain, Italy and England to address consumer interest and capture the latest fashion trends. As such, the Group has offered customers with innovative footwear and apparel collections.

In April 2010, the Group set up a new R&D centre in Guangzhou as part of its commitment to strengthening innovation, building stronger connection with consumers, improving quality and increasing color offerings across its product lines. The new 2,500 sq meter R&D centre comprises of state-of-the-art design facilities as well as a design and R&D team that consists of professionals with extensive experience and in-depth knowledge of the fashion business from China and South Korea.

During the year, the Group implemented a real-time application– Product Lifecycle Management ("PLM"). PLM is a web based solution that manages the entire lifecycle of a product from its conception through to design and manufacturing, and to product delivery. The solution offers a collaborative platform on which the design and production team, data, processes and business systems can be integrated, providing an invaluable information backbone that can shorten creation and production lead times, and boost product quality.

Footwear Products

The Group held four seasonal sales fairs annually and provided a large variety of stylish and functional sportswear footwear products which are both high quality and excellent value for money products. A total of approximately 1,100 styles, totalling approximately 4,300 SKU of Xtep brand footwear designs were launched in 2010, that mainly include running, football, basketball, tennis, casual, urban, lifestyle, classic and Xtep superstar series. The new products featuring unique designs and radically new technology to improve the shock absorption and comfortablity. The Group has also incorporated its cutting edge design ideas such as 3D colour embroidery, temperature sensor printing and thin-layer cutting techniques into a new series of footwear products.

The cornerstone of the Xtep brand is to lead through innovation, and create a versatile collection of products with sports and fashion influences. During the year under review, the following key elements have been enhanced by adopting advanced technologies:

- super light weight material to reduce the weight of performance long distance running shoes
- "X-Turbo" technology was adopted in new running shoes with elastic insoles professionally designed to provide a more comfortable fit and to enhance stability
- Doble – Core for high shock absorption function in running which can save energy and reduce possibility of ankle sprain
- Dual – Density to use 2 different density of "Phylon" shock absorption material to reduce the impact force for sole protection
- X – Balance is a special mid-inward structure to improve the foot balance
- X – CJ Jelly is the exclusive Xtep research material for high shock absorption function

- X – Grip is the special round oval shape plastic material which imitate the strong griping of jaguar during predation
- nanosilver anti-bacterial chemicals to depress the inhabitation of bacteria

Apparel Products

The Group believed that the demand for high quality and value for money fashionable sportswear is high in the mass market of China. We have successfully integrated the functional sports element and stylish design into our apparel products. The Group held four seasonal sales fairs annually and provide a total of approximately 1,400 styles, totalling approximately 5,500 SKU of Xtep brand apparel designs with unique identity and sports fashion in the following sportswear collections: sailing series, soccer series, running series, tennis series, integrated training series outdoor series, urban series, lifestyle series and Xtep superstar series in the fiscal year of 2010. Xtep strives to enhance its position as a leader of fashion sports brand by continuously creating inspired product and brand experiences. A classic example was "Xtep Superstar" collection using the stylish and trendy characteristics of Xtep brand's representatives Nicholas Tse, Wilber Pan and Jolin Tsai were incorporated in the design theme and the cheerful and energetic "Super Girls" collection featuring the young and colorful design theme.

In addition, the Group continued to breakthrough the boundaries of functionality and performance of its apparel products by employing proprietary technologies and groundbreaking innovations to meet the needs of its targeted consumers. As a result, in 2010, Xtep introduced cool and comfortable fibres with nano-technology in its production processes, enabling its apparel products to offer maximum comfort by filtering thermal radiation in the light and reducing heat. Eco-friendly warm fibres have also been adopted to provide warmth and enhance air diffusion.

Product Line

FOOTWEAR

- Q1
- Q2
- Q3
- Q4

- **Integrated**
  - Tennis — Integrated training
  - Basketball training — Basketball street wear
- **Football**
  - Football training
  - Football culture
- **Running**
  - Functional — Light weight — Outdoor
  - Urban — Training — Lifestyle
- **Skateboard**
  - Sports — New Cool
  - Lifestyle — Classic
- **Casual**
  - Casual — Trendy
  - Classic

APPAREL

- Q1
- Q2
- Q3
- Q4
  - **Tennis**
    - Trendy
      - Metalic
      - Jaguar
  - **Football**
    - Flash
      - Dazzle
      - Passion
    - Classic
      - Rider
      - Classic
  - **Running**
    - Urban
      - Colorful
    - Speed
      - Running track
  - **Urban**
    - Environmental
      - Colorful
      - Environmental
    - Lifestyle
      - Trendy wording — Lifestyle
      - Urban landsacpes
  - **Spokesperson**
    - Nicholas Tse — Jolin Tsai — Wilber Pan — Super Girls

Nationwide Distribution Network

EXTENSIVE DISTRIBUTION CHANNELS

For the year ended 31 December 2010, the Group had a total of 39 flagship stores and a total of 7,451 retail outlets through its extensive network of distributors and third-party retailers. The following table shows the number of flagship stores and retail outlets operated by the Group's distributors and third-party retailers under the Xtep brand and Other brands:

	As of 31 December 2010		As of 31 December 2009	
Brands	Flagship stores	Retail outlets	Flagship stores	Retail outlets
Xtep brand	38	7,031	30	6,103
Other brands	1	420	1	430
Total	39	7,451	31	6,533

THE XTEP BRAND

As Xtep continues to expand its extensive nationwide network, the total number of retail outlets, flagship stores, gross saleable area and average saleable area per retail outlet also increased:

	As of 31 December 2010	As of 31 December 2009	Change
Total number of retail outlets	7,031	6,103	+928
Total number of flagship stores	38	30	+8
Gross saleable areas (square meters)	600,000	498,000	+20.5%
Average saleable area per retail outlet (square meters)	85	82	+4.5%

EXTENDING BRAND REACH THROUGH NETWORK PENETRATION

China

The Group is committed to strengthening its leading position in the Chinese fashion sportswear market by expanding its footprint in critical mass market cities in China during the fiscal year. The Group has focused on penetrating into markets with strong potential, in particular, Hunan and Hubei provinces in the Southern region; and Jiangsu, Zhejiang, Anhui and Shandong provinces in the Eastern region. Xtep's retail outlets are located in prime areas enabling the Group to expand and secure a stronghold in second and third-tier cities in the near future. As of 31 December 2010, the Group had a total of 7,031 Xtep brand retail outlets through its distributors or third-party retailers in China.

Overseas

The Group also capitalized on the growing popularity of fashion sports in the overseas emerging markets such as Taiwan in the second half of 2010. Xtep launched its first retail outlet in Taipei in June 2010, and became the first Chinese sportswear brand to venture into the Taiwan market. The store was opened in a premier area of the Ximending shopping district, and features gaming areas and 3D zones that offer customers an alluring experience that clearly communicates our brand image. Entry into the Taiwan market has taken the Xtep brand a step further to competing in the global sportswear arena.

E-Commerce Platform

In view of the increasing popularity of online shopping among youngsters, the Group believes e-commerce possesses huge market potential and sees it as one of the important sales networks in the near future. Along with the partnership with Sohu.com and Taobao.com, the Group continued to develop and strengthen its e-commerce platform in the cyberspace.

Flagship Stores

To attract and inspire customers, Xtep is dedicated to constantly refurbishing and freshening up its flagship stores with new and updated interior designs. As such, the establishment of flagship stores is crucial to strengthening of the Group's brand recognition and building better relationships with customers. As of 31 December 2010, Xtep had a total of 38 Xtep brand flagship stores, 8 stores more than the previous year. These flagship stores are located in the prime location of the popular cities and most of the Xtep flagship stores have very eye-catching exterior designs which made them become an outstanding landmarks of the area.

OTHER BRANDS

The retail outlets of Other brands, namely Disney Sport and Koling are mainly in the northern and eastern regions due to greater brand recognition in these areas. As of 31 December 2010, there were 420 Other brands retail outlets in the PRC and Hong Kong.

In 2010, distribution of the Disney Sport brand was broadened due to the licensee agreements reached for distributing the brand products in 21 countries across the globe, including Southeast Asia, the Middle East and Middle Europe. The extensive distribution channels provided a solid platform for the Disney Sport brand to further bolster the Group's profitability and growth in a sustainable manner. At the same time, the Group continued to reduce the operation of the Koling brand in an effort to better utilize its resources in the mass market.

MANAGEMENT CAPABILITIES

An Outstanding Distribution Network

The Group's well established distribution network across the Greater China region has provided a strong foundation on which to seize market opportunities and achieve sustainable business growth during the fiscal year. The distributors were valued as important business partners of the Group. A total of 28 exclusive Xtep brand distributors and 50 Other brands distributors were appointed to cover 31 provinces in China for the year ended 31 December 2010. In addition, the Group continued to offer regular training in the areas of marketing, visual merchandising and inventory management in order to foster the expertise, product knowledge, and technical skills of its retail management.

The Group is particularly focused on improving the management of its sales channel network by ensuring all retail outlets are in compliance and conformance with its code of practice. The primary objective is to standardize its operational management, specifications on outlet design and layout settings, customer service guide and pricing policies, and to maintain consistency and uniformity of the Xtep brand across all retail channels.

A stringent distribution management system was also implemented to enhance the efficiency of the Group's common infrastructure and internal processes across the supply chain cycle. The DRP system allows the Group to record and track real-time inventory levels and monitor the movement of products at warehouses and retail outlets. As a result, the Group can better plan and closely monitor the market situation as well as optimize its inventory control. As of 31 December 2010, up to approximately 60% Xtep brand retail outlets nationwide have adopted the real-time monitoring DRP system.

Supply chain management

The Group strives to meet the full range of consumer needs by providing high quality fashion sports products with advanced technologies. Xtep has improved the flexibility of its supply chain in order to shorten the production lead times. By connecting and integrating various elements within the supply chain, from design and production to sales and distribution, the Group is able to respond quickly to the market's ever changing trends.

For the year ended 31 December 2010, the Group's own facilities included 12 footwear production lines and 20 apparel production lines with a total annual production capacity of approximately 12 million pairs of footwear products and approximately 4 million pieces of apparel products. The utilization rate of the production facilities was close to 100%. By sales volume, approximately 53% of footwear and 12% of apparel products were manufactured by the Group during the fiscal year.

Corporate management

Xtep is determined to strengthen its overall corporate structure and management. To enhance corporate governance and professionalism, in March 2010, Mr. Ho Yui Pok, Eleutherius, who is the chief financial officer of the Group was appointed as executive director of the Company. Mr. Ho has over 20 years of experience in auditing, accounting and financial management. Mr. Tan Wee Seng, who was the former chief financial officer and executive director of Li Ning Company, was appointed as non-executive director of the Company. Mr. Tan has over 30 years of financial, business and operation experience and is well acknowledged by the retail industry. The Group has also focused on hiring talents with expertise in strategic planning and supply chain management and with extensive experience in the global sportswear sector. With the implementation of these initiatives, the Group is confident its operational capabilities including infrastructure, processes and systems will be further optimized and strengthened in the long run.

FINANCIAL REVIEW

REVENUE AND GROSS PROFIT MARGIN BREAKDOWN BY BRANDED PRODUCT SALES

For the year ended 31 December

	Revenue (RMB'000)			As a percentage of revenue (%)		Gross profit margin (%)		
	2010	2009	Change (%)	**2010**	2009	**2010**	2009	Change (pts)
Xtep brand	4,210,258	3,330,764	+26.4	94.5	93.9	40.7	39.0	+1.7
Other brands	246,940	214,572	+15.1	5.5	6.1	39.7	40.7	–1.0
Total	4,457,198	3,545,336	+25.7	100.0	100.0	40.6	39.1	+1.5

For the year ended 31 December 2010, the total revenue of the Group increased by approximately 25.7% to approximately RMB4.5 billion (2009: RMB3.5 billion). The gross profit margin grew by 1.5 percentage points to 40.6% (2009: 39.1%). The increase in overall revenue and gross profit margin was due to substantial and strong growth in the performance of the Xtep brand.

The increase in revenue of Other brands was due to the increase in revenue of Disney Sport brand products, but was offset by the decrease in revenue of the Koling brand. Xtep brand products remained the Group's major products contributor, which accounted for approximately 94.5% of the Group's total revenue. The improvement in the Group's gross profit margin was due to an improvement in the Xtep brand products' gross profit margin.

XTEP BRAND

REVENUE BREAKDOWN OF XTEP BRAND BY PRODUCT CATEGORY

For the year ended 31 December

	Revenue (RMB'000)			As a percentage of revenue (%)	
	2010	2009	Change (%)	**2010**	2009
Footwear	1,869,738	1,520,185	+23.0	44.4	45.6
Apparel	2,270,511	1,773,159	+28.0	53.9	53.2
Accessories	70,009	37,420	+87.1	1.7	1.2
Total	4,210,258	3,330,764	+26.4	100.0	100.0
Gross profit margin	40.7%	39.0%	+1.7 pts		

For the year ended 31 December 2010, the Group's total revenue from Xtep brand products surged by 26.4% to approximately RMB4.2 billion (2009: RMB3.3 billion) and the gross profit margin increased by 1.7 percentage points to 40.7% (2009: 39.0%). The remarkable results of Xtep brand products were mainly attributable to the widespread recognition of Xtep brand as a result of the sponsorship of a number of high-profile international and national sports events and its unique entertainment marketing strategy. In addition, as a result of the popularity of Xtep brand products among the general public and the satisfactory sales performance through its expanded sales channels and network.

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

	2010	2009	Change (%)
Revenue (RMB million)	4,210.3	3,330.8	+26.4
Average number of retail outlets for the year	6,567	5,580	+17.7
Average wholesale revenue per retail outlet for the year (RMB)	641,123	596,911	+7.4

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

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

For the year ended 31 December

	2010	2009	Change (%)
Revenue (RMB million)	1,869.7	1,520.2	+23.0
Sales volume (million pairs)	22.3	19.1	+16.7
Average selling price (RMB)	83.7	79.4	+5.4
Gross profit margin (%)	41.0	39.1	+1.9 pts

Revenue from Xtep brand footwear products rose by 23.0% to approximately RMB1.87 billion (2009: RMB1.52 billion), accounting for 44.4% of the revenue from the Xtep brand. The growth in revenue was mainly due to the increase in the sales volume of footwear products by approximately 16.7% to 22.3 million pairs (2009: 19.1 million pairs) and average selling price by approximately 5.4% to RMB83.7 (2009: RMB79.4). The growth in average selling price was mainly due to the decrease in discount given to distributors from 62% in 2009 to 60% in 2010. Due to the decrease in discount given to distributors and successful cost control, the gross profit margin grew by 1.9 percentage points to 41.0% (2009: 39.1%).

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

For the year ended 31 December

	2010	2009	Change (%)
Revenue (RMB million)	2,270.5	1,773.2	+28.0
Sales volume (million pieces)	33.3	28.6	+16.4
Average selling price (RMB)	68.2	62.0	+10.0
Gross profit margin (%)	40.6	39.1	+1.5 pts

Revenue from Xtep brand apparel products increased by 28.0% to approximately RMB2.27 billion (2009: RMB1.77 billion). The strong growth was due to the significant increase in the sales volume by approximately 16.4% to 33.3 million pieces (2009: 28.6 million pieces) and average selling price increased by approximately 10.0% to RMB68.2 (2009: RMB62.0). Due to the increase in average selling price, the gross profit margin also rose by 1.5 percentage point to 40.6% (2009: 39.1%). The substantial growth in sales volume was predominantly due to the strong and differentiated brand position of Xtep brand sportswear apparel products, providing the mass market with excellent value for money products, trendy and lifestyle products suitable for sports and casual, coupled with the effective marketing strategy. Accordingly, the sales volume grew rapidly during the year under review.

Notes:
(1) We do not include details of the sales volume, average selling price and gross profit margin for the accessory products of Xtep brand because we have a broad range of accessory products that vary significantly in terms of unit price. We believe that a unit-based analysis of this product category is not meaningful.
(2) Average selling price represented the revenue for the financial year divided by the total units sold during the financial year.

OTHER BRANDS

REVENUE BREAKDOWN OF OTHER BRANDS BY PRODUCT CATEGORY

For the year ended 31 December

	Revenue (RMB'000)			As a percentage of revenue (%)	
	2010	2009	Change (%)	**2010**	2009
Footwear	86,140	98,947	–12.9	34.9	46.1
Apparel	150,595	101,302	+48.7	61.0	47.2
Accessories	10,205	14,323	–28.8	4.1	6.7
Total	246,940	214,572	+15.1	100.0	100.0
Gross profit margin	39.7%	40.7%	–1.0 pts		

Revenue from Other brands was derived from Disney Sport brand and Koling brand. For the year ended 31 December 2010, revenue from Other brands was approximately RMB246.9 million (2009: RMB214.6 million), an increase of 15.1% over last year. The gross profit margin was 39.7% (2009: 40.7%). The increase in revenue was mainly due to increase in revenue of Disney Sport brand but offset by decrease in revenue of Koling brand. It is because of the re-allocation of resources to Disney Sport brand which has greater market potentials and the reduction in the resources in the sales network of Koling brand and its product sales. The decrease in gross profit margin was mainly due to decrease of footwear products gross profit margin which was caused by the material cost increase but partially offset by the increase in apparel gross profit margin due to better cost control and volume increase which lower the unit cost.

REVENUE, SALES VOLUME AND AVERAGE SELLING PRICE OF OTHER BRANDS FOOTWEAR PRODUCTS

For the year ended 31 December

	2010	2009	Change (%)
Revenue (RMB million)	86.1	98.9	–12.9
Sales volume (million pairs)	1.1	1.2	–7.5
Average selling price (RMB)	75.3	80.0	–5.9
Gross profit margin (%)	36.3	43.1	-6.8 pts

Revenue from Other brands footwear products decreased by 12.9% to approximately RMB86.1 million (2009: RMB98.9 million). The decrease in revenue was primarily due to the decrease in sales volume by approximately 7.5% to 1.1 million pairs (2009: 1.2 million pairs) as a result of the shifting the product mix to the more popular Disney Sport apparel products. Decrease in gross profit margin by 6.8 percentage points to 36.3% (2009: 43.1%) was due to decrease in average selling price which increased the Group's competitiveness and higher material cost.

REVENUE, SALES VOLUME AND AVERAGE SELLING PRICE OF OTHER BRANDS APPAREL PRODUCTS

For the year ended 31 December

	2010	2009	Change (%)
Revenue (RMB million)	150.1	101.3	+48.7
Sales volume (million pieces)	2.2	1.4	+59.2
Average selling price (RMB)	69.5	74.4	–6.6
Gross profit margin (%)	41.6	39.7	+1.9 pts

Revenue from Other brands apparel products increased by 48.7% to approximately RMB150.1 million (2009: RMB101.3 million). The significant increase in revenue was attributable to increase in sales volume by approximately 59.2% to 2.2 million pieces (2009: 1.4 million pieces) and decrease in average selling price by approximately 6.6% to RMB69.5 (2009: RMB74.4). The significant increase in volume was due to the lowering of average selling price to increase the competitiveness and also the popular image of Disney Sport and the demand for good value for money products in the mass market.

Koling brand targets the high-end market with high selling price. In order to place more resources to develop Disney Sport brand which has greater market potentials, the Group reduced the sales of products of Koling brand for the year ended 31 December 2010. As the gross profit margin of Disney Sport brand's apparel products improved, the gross profit margin of Other brands apparel products also grew by 1.9 percentage points to 41.6% (2009: 39.7%).

Notes:
(1) We do not include details of the sales volume, average selling price and gross profit margin for the accessory products of Other brands because we have a broad range of accessory products that vary significantly in terms of unit price. We believe that a unit-based analysis of this product category is not meaningful.
(2) Average selling price represented the revenue for the financial year divided by the total units sold during the financial year.

REVENUE BREAKDOWN BY PRODUCT CATEGORY

For the year ended 31 December

	Revenue (RMB'000)			As a percentage of revenue (%)	
	2010	2009	Change (%)	**2010**	2009
Footwear	1,955,879	1,619,132	+20.8	43.9	45.7
Apparel	2,421,105	1,874,461	+29.2	54.3	52.9
Accessories	80,214	51,743	+55.0	1.8	1.4
Overall	4,457,198	3,545,336	+25.7	100.0	100.0
Gross profit margin	40.6%	39.1%	+1.5 pts		

Total revenue of the Group from footwear products rose by 20.8% to approximately RMB2.0 billion (2009: RMB1.6 billion). Revenue from apparel products grew by 29.2% to approximately RMB2.4 billion (2009: RMB1.8 billion), and also the revenue from accessories increased by 55.0% to approximately RMB80.2 million (2009: RMB51.7 million). Revenue increased in all product segment, mainly due to successful brand building and marketing strategy to provide high quality fashion sports products for mass market.

REVENUE BREAKDOWN BY REGION SALES

For the year ended 31 December

	2010		2009		
	Revenue (RMB'000)	**As a percentage of product mix (%)**	Revenue (RMB'000)	As a percentage of product mix (%)	Change (%)
Xtep brand					
Eastern	1,895,272	42.5	1,510,264	42.6	+25.5
Southern	1,094,992	24.6	876,327	24.7	+25.0
Western	720,890	16.2	541,570	15.3	+33.1
Northern	499,104	11.2	402,603	11.3	+24.0
Sub-total	4,210,258	94.5	3,330,764	93.9	+26.4
Other brands	246,940	5.5	214,572	6.1	+15.1
Total	4,457,198	100.0	3,545,336	100.0	+25.7

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

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

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

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

Due to the effective marketing promotion of Xtep brand and the expansion of sales network, strong growth of the Xtep brand in the eastern region was recorded in Shandong province and Anhui province; the growth in the southern region was mainly in Hunan province and Hubei province; whereas the growth in the western region was mainly in Sichuan province.

COST OF SALES BREAKDOWN

For the year ended 31 December

	2010		2009		
	Cost of sales (RMB'000)	As a percentage of cost of sales (%)	Cost of sales (RMB'000)	As a percentage of cost of sales (%)	Change (%)
Raw materials	1,326,110	50.9	1,130,101	52.4	+17.3
Outsourced production costs	1,162,434	43.9	894,346	41.4	+30.0
Direct staff costs	123,187	3.9	110,252	5.1	+11.7
Others	33,732	1.3	22,850	1.1	+47.6
Total	2,645,463	100.0	2,157,549	100.0	+22.6

During the year under review, cost of sales of the Group increased by 22.6% as compared to last year, mainly due to the increase in cost of raw materials and outsourced production costs. As the extent of increase of the Group's total cost of sales was less than the increase of the Group's total revenue, the Group's gross profit margin still recorded an increase.

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

OTHER INCOME AND GAINS

During the year under review, other income and gains of the Group was approximately RMB15.2 million (2009: RMB10.7 million). The increase was primarily due to the increase in subsidy income received from the local Chinese government.

SELLING AND DISTRIBUTION COSTS

For the year ended 31 December 2010, the Group's selling and distribution costs amounted to approximately RMB619.8 million (2009: RMB523.0 million), which represented approximately 13.9% (2009: 14.8%) of the Group's total revenue.

Given the Group's strategy of enhancing its brand status, the sponsorship of high-profile sports events and its innovative entertainment marketing efforts, advertising and promotion costs increased from approximately RMB418.7 million in 2009 (accounting for 11.8% of revenue) to approximately RMB519.3 million (accounting for 11.7% of revenue) during the year under review.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased from approximately RMB174.1 million in 2009 to approximately RMB229.1 million for the year under review. This was primarily due to the increase in the Group's research and development costs to approximately RMB78.0 million (accounting for 1.8% of revenue) (2009: RMB56.7 million, accounting for 1.6% of revenue), mainly as a result of the investment in the improvement of footwear design and functions as well as the enhancement of apparel quality in terms of appearance, function and durability.

INCOME TAX EXPENSE

Income tax of the Group for the year under review amounted to approximately RMB164.5 million (2009: RMB54.7 million).

Pursuant to the New Enterprise Income Tax Law of the PRC and its implementation rules (effective from 1 January 2008), both domestic enterprises and foreign-invested enterprises are subject to the unified PRC enterprise income tax rate of 25%. Xtep (China) enjoyed a 50% tax reduction at the unified tax rate of 25% for the year ended 31 December 2008 and 2009. In 2010, Xtep (China) was taxed at a preferential 15% tax rate as Xtep (China) was qualified as a High-New Technology Enterprise in the PRC. Koling (Fujian) Garment Co., Ltd. enjoyed exemption of the PRC enterprise income tax for the year ended 31 December 2008 and 2009, and thereafter will be entitled to a 50% reduction in the PRC enterprise income tax over the next three years. Since the Group enjoyed a more preferential tax exemption in the year ended 31 December 2009, the effective tax rate for the year under review was 16.8% which was higher as compared to 7.8% last year.

Details of the income tax for the year ended 31 December 2010 are set out in note 10 to the financial statements.

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS AND NET PROFIT MARGIN

For the year ended 31 December 2010, the profit attributable to equity holders of the Company amounted to approximately RMB813.7 million (2009: RMB647.5 million), an increase of 25.7% over last year. The Group's gross profit margin improved to 40.6% (2009: 39.1%) due to the improvement of the Xtep brand gross profit margin which rose to 40.7% (2009: 39.0%). With tight and effective cost control, the Group's operating margin improved to 21.9% (2009: 19.8%). Since the preferential tax treatment mainly ends in 2009, the Group's effective tax rate increased to 16.8% (2009: 7.8%). As a result, the Group's net profit margin was 18.3% (2009: 18.3%).

DIVIDEND

In view of the strong business growth and the solid cash position of the Group, the Board declared a final dividend of HK12.0 cents (2009: HK10.0 cents) per Share, together with an interim dividend of HK10.0 cents (2009: HK7.0 cents) per Share, the total basic dividend for the year amounted to HK22.0 cents (2009: HK17.0 cents) per Share, represented 29.4% increase as compared to last year. The basic dividend payout ratio for the year under review was approximately 50.4%. In order to reserve more resources for future development, the Board did not recommend any special dividend (2009: HK5.0 cents per Share).

WORKING CAPITAL CYCLE

During the year under review, the Group's overall working capital cycle decreased by 5 days to 27 days as compared to that of last year (2009: 32 days).

The Group's average inventory turnover days increased by 3 days to 50 days as compared to last year (2009: 47 days), primarily due to incremental stock up of raw materials to lower the anticipated cost increase in the future.

The Group's average trade and bills receivables turnover days improved by 3 days to 51 days as compared to that of last year (2009: 54 days), due to improvement on credit control and stringent cashflow monitoring over customers.

The Group's average trade and bills payables turnover days increased by 5 days to 74 days over last year (2009: 69 days), primarily as a result of utilisation of credit terms provided by the suppliers to the Group.

LIQUIDITY AND CAPITAL RESOURCES

The Group's primary sources of operating funds are cash flow from operating activities and cash and bank balances. As at 31 December 2010, the Group's current ratio was 4.5 (2009: 5.3). The Group maintained a net cash position, reflecting its healthy financial condition, paving the way for future development.

As of 31 December 2010, the Group's gearing ratio was 0% (2009: 0%), which is defined as total borrowings divided by the sum of share capital and reserves of the Group. The net cash inflow from operating activities for the year ended 31 December 2010 was approximately RMB456 million (2009: RMB880 million). The decrease in operating cashflow was mainly due to:

a) the increase of prepayments of approximately RMB83 million which mainly related to advertising and promotion expenses for securing certain important Xtep brand promotion activities;

b) the increase of advance payments to suppliers of approximately RMB177 million which mainly related to secure the costs of outsourced production in advance of raw materials inflation; and

c) the increase of inventory of approximately RMB197 million which mainly related to purchase raw materials in advance of price inflation in the future.

On the other hand, as of 31 December 2010, the Group's total cash and bank balances amounted to approximately RMB2,443.7 million (2009: RMB2,497.6 million), which is approximately the same as last year.

As of 31 December 2010, the Group's bank borrowing was nil (2009: nil). As of 31 December 2010 and 31 December 2009, the Group did not pledge any asset to secure any banking facilities granted to the Group.

INVENTORY PROVISION

For the year ended 31 December 2010, the Group did not have any inventory provision.

DOUBTFUL DEBT PROVISION

For the year ended 31 December 2010, the Group did not have any doubtful debt provision.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

For the year ended 31 December 2010, the Group did not have any material capital commitments or contingent liabilities.

FOREIGN CURRENCY RISKS

The Group mainly operates in the PRC with most of its transactions settled in RMB. The Group's assets and liabilities and transactions arising from operation are mainly denominated in RMB. Accordingly, it is believed that the Group does not have any material foreign currency risks which will affect the Group's operation. The Group has not used any forward contract or currency borrowing to hedge its interest rate risks. However, the management will continue to monitor foreign currency risks and adopt prudent measures as appropriate.

CAPITAL MARKET

The Group will seek the appropriate timing and condition to expand the participation in different capital market. On 29 November 2010, the Company announced that an application was made to the Taiwan Stock Exchange and the Taiwan Central Bank for the offering and listing of TDR, further details please refer to the Company's announcement dated on 29 November 2010. As at the date of this annual report, the listing of TDR has not been finalized and further announcement will be made by the Company as and when 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 expand the business of the Group in order to generate more returns to its Shareholders.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

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

Proceeds from the global offer (HK$ million)

Use of proceeds	Available to utilize	Utilized (as of 31 December 2010)	Unutilized (as of 31 December 2010)
Media advertising and brand promotion activities	459	459	–
Expanding and improving distribution network	355	253	102
Expanding production and operating facilities	397	170	227
Acquiring brands	501	–	501
Enhancing design and R&D capabilities	146	146	–
Enhancing IT management system	63	43	20
General working capital	167	167	–
Total	2,088	1,238	850

HUMAN RESOURCES

As of 31 December 2010, the Group had 7,433 employees (31 December 2009: 7,352 employees). The Group provides introductory orientation programs and continuous training to its employees. Areas include industry knowledge, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and standard of its staff. The Group will strive to strengthen human resources management to provide strong support for the development of the Group's business through staff recruitment initiatives and the optimization of the development of its organizational structure and corporate culture to ensure that the Group will be able to maintain sustainable development in the future.

PROSPECTS

MARKET OUTLOOK

The economic forecasts provided by various analysts and research institutes on the Chinese sportswear market in 2011 has indicated the industry will maintain a steady growth rate compared to 2010. The Group remains optimistic about the potential of the Chinese sportswear market, and expects to see continual expansion in 2011. Rising income levels, increasing in personal tax allowances and growing participation in sports will continue to support the trend together with the latest policies on reform and development, benefiting the low- and mid-income group and generating growth opportunities for mass-market domestic brands in the mass market segment.

The Group has capitalized on the market opportunities in the fiscal year of 2010, and will continue to strengthen its stronghold in the mass market segment in the Greater China Region. Xtep, a key player in the fashion sportswear market, is well positioned to deliver continuous business growth, fueled by the rising consumption power of the low- and mid-income group and the growing domestic demand in second and third-tier cities in China. The Group's management foresees these areas will become the key growth driver for the Chinese sportswear industry in the near future.

INTEGRATED MARKETING AND PROMOTIONS

To reinforce the brand value of Xtep: "Xtep is Fashion Sports" and "Sports Like No Other", the Group is committed to enhancing its unique dual sports and entertainment marketing strategy by introducing new sponsorship campaigns and incorporating new global marketing concepts in the fiscal year of 2011. In addition, football and running remains an integral part of Xtep's long-term brand building strategy.

INTERNATIONAL AND NATIONAL EVENTS

Following the success of the Group's sponsorship in the Shanghai World Expo 2010, 4th All China Games and 2010 China X Games, the Group will continue to extend its global reach of the Xtep brand through effective sponsorship campaigns in other international and national events.

The Group recently unveiled its main international sporting sponsorships for 2011, which includes the partnership of the Great Britain and USA delegates at the 26th Universiade Shenzhen, and the China National Women's Synchronized Swimming Team. Xtep believes these new sponsorship campaigns will draw greater alignment with sports, and enhance brand development efforts, heightening the exposure and visibility of Xtep as a leading sportswear icon on the global stage in 2011.

FOOTBALL

Carling Cup Final 2011

The Xtep brand is making its debut at one of the most important football Cup match in England during the Carling Cup Final 2011 which was held at the Wembley stadium, London on 27 February 2011. As the kit sponsor of BCFC, Xtep became the first sponsor as Chinese sportswear brand to triumph in the Carling Cup Final after BCFC gave a stunning 2-1 victory over Arsenal at Wembley Stadium. BCFC ended a 48-year drought by winning its first major trophy since 1963, and approximately 90,000 football fans attended the final and millions of viewers across the globe witnessed the glorious moments through live broadcast and match replays. Following BCFC's victory, Xtep brand will surely gain continuous exposures as the team progresses to compete in the qualifying rounds of next year's UEFA Europa League with the Xtep sponsored outfits. The Group believes this strategic partnership represents an unparalleled global reach that allows the Xtep brand to tap into the global market, and enhance recognition and international exposure.

RUNNING

"Love Running, Love Xtep"

The Group plans to enhance its key marketing campaign, "Love Running, Love Xtep", by continuously sponsoring a series of high-profile marathons in 2011. To strengthen its brand positioning as a significant player in China's running market, Xtep will sponsor nine major marathons in 2011 as follows:

- Xiamen International Marathon
- China "Zheng-Kai" International Marathon
- Jianzhen International Half Marathon Tournament
- Taiyuan (Shanxi) International Marathon
- Tibet International Half Marathon
- Xian City Wall International Marathon
- Hangzhou International Marathon
- Taipei Freeway Marathon
- Fubon Taipei International Marathon

These sponsorship campaigns will enable the Xtep brand to further develop running as a key trend in the Greater China region, and more importantly, to share its vision, passion and love for running with the targeted consumer.

ENTERTAINMENT MARKETING

Entertainment marketing remains a key strategy for Xtep to hone its relationship with younger consumers.

The Group will continue to sponsor the Xtep-Southeast Satellite TV Music Award and hold several Xtep Superstar Concert Tour in China in 2011. These phenomenal music performances featuring Xtep brand spokespersons, and prompting the delight of young music lovers, have highlighted the success of the Group's unique entertainment marketing strategy in reinforcing the brand's image among the youth market in China.

In addition, the Group will strive to further enhance its market attention and brand recognition by continuously strengthening its strategic partnerships with major television channels such as CCTV-1, CCTV-5, Hunan Satellite, Anhui Satellite, Zhejiang Satellite, and Jiangsu Satellite in the new fiscal year. To achieve this, Xtep is dedicated to focusing on creating inspirational and innovative commercials to provide a new scope of experience amongst for young fashion followers. The Group believes its unique brand marketing strategy will enhance its rich heritage, and more importantly, differentiate the Xtep brand from competitors, providing a solid platform for future growth.

PRODUCT INNOVATION

The Group believes that innovation plays a significant role in differentiating Xtep product offerings in the minds of consumers. By leveraging on the Group's extensive R&D expertise and innovative capabilities, the Xtep brand will continue to broaden its product portfolio, offering exciting products and brand experiences to its targeted customers in the near future.

The Group will focus on expanding its footwear collection by introducing the professional running series to enhance its brand credibility in the running category. The innovative technologies adopted by the Group in the production of the new series of running shoes offering elastic insoles designed features. It provides better protection to the ankles, and offers stability and comfort while enhancing the speed of movement for runners. For the apparel products, more variety will be introduced for the running series, football series, superstar series and urban series. The Group will put more emphasis on the comfortability and stylish design as well as excellent value for money for the mass market customers. The inspiring and dynamic product range is well placed to capture key growth opportunities for the Group, and secure its leading position in the Chinese sportswear market.

RETAIL NETWORK EXPANSION

To maintain its market leadership and stronghold in the Chinese sportswear market, the Group will continue to expand its distribution network in mass market segment as China remains the key growth engine in the fiscal year of 2011. More flagship stores will be added to strengthen the Group's brand recognition and build better relationships with customers. The Group is planning to increase 800-1,000 retail outlets in the new fiscal year.

In addition, Xtep plans to extend its sales network on the global stage by adding new sales points in new locations across the Middle East and Southeast Asia.

DESIGN, R&D AND PRODUCTION

The Group believes that design and R&D capabilities are essential to sustaining its leading position in the Chinese sportswear industry. The Group will continue to allocate more resources and efforts in the development of product design and R&D facilities. More resources will be allocated to the new R&D centre in Guangzhou, which comprises of state-of-the-art design facilities as well as a strong design and R&D team. This will enable the Group to continuously launch new sportswear products with unique fashion sports concepts, and further strengthen the brand's leading position in the fashion sportswear market.

The Group will expand the footwear and apparel capacity in order to improve the product quality and lower the production costs. We will identify the suitable location and resources which can cater for our long term future growth.

CONCLUSION

For the fiscal year of 2011, the Group's ultimate goal is to develop the Xtep brand as a global icon, leading the Chinese sportswear industry with a passion for sports and fashion.

Going forward, Xtep will continue to employ innovative brand marketing campaigns, focusing on product innovation, expanding its sales channel network, and recruiting talents with extensive experiences in the global sportswear sector. Our aim is to strengthen the Group's structure and operations so as to exceed customers' needs and expectations, and more importantly, maintain an unrivalled position in the sportswear market in China.


Global
China
Football
United Kingdom
China
Taiwan

2011 International Events

Asia

China

The 26th Universiade – Shenzhen, China
(U.S.A Team & Great Britain Team)
China National Women's Synchronized Swimming Team
International Horticultural Exposition 2011 Xi'an
Xiamen International Marathon
China "Zheng-Kai" International Marathon
Jianzhen International Half Marathon
(Yangzhou, China)
IAAF Shanghai Diamond League
Taiyuan (Shanxi) International Marathon
Tibet International Half Marathon
Xi'an City Wall International Marathon
Hangzhou International Marathon
National X- Games
X-Game National Team
China X-Games
Xtep Southeast Music Chart Awards
Xtep Superstar Nationwide Concert

Taiwan

Taipei Freeway Marathon
Fubon Taipei International Marathon

Hong Kong

BOCHK 54th Festival of Sport
Hong Kong ASSA Football Team
The Hong Kong Amateur Athletic Association
Athletics League

Europe

English Premier League –
Birmingham City Football Club (BCFC)

Investor Relations Report

OVERVIEW

To strengthen the communication between the Group, and its investors, shareholders and the public, we are devoted to further enhance the management of investor relations by communicating with the aforesaid parties in a timely, fair and transparent manner.

COMMITMENT IN TRANSPARENT AND QUALITY PUBLIC DISCLOSURE

The Group demonstrated a high level of compliance with the Listing Rules and relevant requirements under the Hong Kong Stock Exchange in the fiscal year of 2010. To achieve effective communication between the Group and its stakeholders, the disclosure of corporate information and inquiries made by investors and the public were fully addressed and attended to in a timely, fair, transparent and accurate manner. In addition, various group and one-on-one meetings, company visits and roadshows were conducted successfully so as to strengthen the link between the Group and the financial community.

INVESTOR RELATIONS REVIEW

Under the leadership and guidance of Mr. Ho Yui Pok, Eleutherius, executive director, chief financial officer and company secretary of the Company, together with the strong support from the Board of Directors and the senior management, we were committed to establishing an efficient and transparent communication platform for all stakeholders. Various activities are conducted for the year ended 31 December 2010 and summarised as follows:

1. Results Announcement and Roadshows

To achieve a remarkable level of accuracy and transparency of public disclosures, the Group placed great emphasises on the preparation of comprehensive statutory interim and annual reports. These reports are aimed at providing the stakeholders with an in-depth analysis and discussion on key areas including macro economic overview, financial and operational performances and also future prospect of the industry.

In order to deliver update information to the public in a timely manner, press conferences and analyst meetings were held on the same date where the interim and annual results were announced, the Group had attended 8 roadshows in Hong Kong, China and overseas after the result announcement, and met with approximately 120 fund managers and analysts from major international financial markets including Hong Kong, Beijing, Shanghai, Shenzhen, New York and Singapore. The roadshows were proved to be an excellent opportunity and platform to convey a clear message about the Group's latest operational and financial performances and business prospect.

2. Investors Meetings and Conferences

For the year of 2010, the Group attended a total of 15 investor forums, conferences and seminars in Hong Kong, Macau, China, New York and Singapore as invited by leading investment banks and securities firms and met with approximately 220 analysts and fund managers through one-on-one meetings, group meetings and investment seminars. Constructive suggestions and feedbacks were collected from the investors and analysts will be addressed carefully by the management.

3. Site Visits and Ongoing Communications

During 2010, the Group organized numerous meetings for the investors to communicate directly with the senior management and arranged site visits to company's headquarter, production lines, flagship and retail stores. In addition, the Group organized four sales fairs and invited the analysts to attend. We strongly believed that the site visits and ongoing communications are important for the market to gain a better understanding on our future quarterly sales order growth. In 2010, the Group held approximately 130 meetings and conference call meetings with global investors and analysts to keep them well informed on our latest financial and operational information, and a comprehensive analysis of business performances and managerial views on future prospects were conducted during the meetings.

As at 31 December 2010, a total of 20 renowned investment banks and securities firms have published research reports on the Group. In particular, approximately 90% of the research reports stated a "BUY" rating as their recommendation. This to a large extent have reflected the recognition and support for the Group's strategies and growing prospects.

4. Media Relations

During the year of 2010, the Group further polished up the reputation and image of the Group through maintaining a close relationship with various media. Our management were interviewed by numerous media agencies, newspapers, financial magazines, radio stations, on-line web-site and TV stations to disseminate the latest updates of the Group and thereby strengthening the brand recognition of Xtep.

5. Dissemination of Corporate Information

The investor relations website – www.xtep.com.hk, is one of the important medium used by the Group. Through its unwavering and continued effort, the Group has been providing regular updates through press release, company announcements and monthly newsletters to investors, analysts and the media with an aim to provide latest business updates, financial and operational information to the market and to enhance interaction of corporate communication and transparency.

Looking forward, the Group welcomes constructive recommendation and feedback from the investment community. With the invaluable support from the investors and the public, we are committed to providing the best investor relations service and continuously improving the quality and transparency of public disclosure so as to maximize the return to our Shareholders.

INVESTOR INFORMATION

1. SHARE PARTICULARS

Listing date	3 June 2008
Board lot	500 Shares
Number of issued shares	2,176,000,000 Shares (as at 31 December 2010)
Stock code	1368

2. FINANCIAL CALENDAR

2010 interim results announcement	23 August 2010
2010 annual results announcement	21 March 2011
Closure of register of members	21 April 2011 – 29 April 2011 (both dates inclusive)
Annual general meeting	29 April 2011
Payment of 2010 final dividend	13 May 2011
Financial year end	31 December

3. 2010 DIVIDEND

Interim dividend	HK 10.0 cents (2009: HK 7.0 cents)
Final dividend	HK 12.0 cents (2009: HK 10.0 cents)
Special dividend	Nil (2009: HK 5.0 cents)

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

Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Ding Shui Po (丁水波), aged 40, is the founder, chairman and chief executive officer of the Group. He has over 22 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
2009	Ernst & Young Entrepreneur of the Year China 2009
2009	May 1st Labor Medal
2009	Top Ten Eminent Young Entrepreneurs of Fujian
2010	Chinese Brands Awards – People of the Year
2010	Chinese Textile and Apparel Industry – Top 10 People of the Year

Mr. Ding held the following public offices:

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

Mr. Ding participated in entrepreneurship programs offered by Peking University (北京大學) and Tsinghua University (清華大學) in 2004 and 2006, respectively. He is currently enrolled in an EMBA program offered by Xiamen University (廈門大學), and China Country Managers program and Finance MBA program by Cheung Kong Graduate School of Business (長江商學院). 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 38, is our executive Director and a vice president of the Company. Ms. Ding has over 12 years of experience in the sportswear industry and is primarily responsible for the management of footwear operation of the Group. She is also responsible for the design and technology development of the Group and has led our design team to create a number of special collections of footwear under our Xtep brand that successfully appeal to the trendy and youthful mass market segment. Ms. Ding joined the Group in 1999 and is currently also a deputy general manager, a director and a vice president of various subsidiaries of the Group. Ms. Ding participated in an entrepreneurship program offered by Tsinghua University (清華大學) in 2006. She is the daughter of Mr. Ding Jin Chao, the sister of Mr. Ding Shui Po and Mr. Ding Ming Zhong and the wife of Mr. Lin Zhang Li.

Mr. Lin Zhang Li (林章利), aged 39, is our executive Director and a vice president of the Company. Mr. Lin has over 12 years of experience in the sportswear industry and is primarily responsible for the management of apparel business of the Group. Mr. Lin joined the Group in 1999 and is currently also a vice president of Xtep (China). He participated in an entrepreneurship program offered by Tsinghua University (清華大學) in 2006. He is the husband of Ms. Ding Mei Qing, the son-in-law of Mr. Ding Jin Chao, a brother-in-law of Mr. Ding Shui Po and Mr. Ding Ming Zhong.

Mr. Ding Ming Zhong (丁明忠), aged 34, is our executive Director and a vice president of the Company. He has over 12 years of experience in the sportswear industry and is primarily responsible for the management of accessories business of the Group. Mr. Ding joined the Group in 1999 and is currently also a deputy general manager and a vice president of various subsidiaries of the Group. He participated in entrepreneurship programs offered by Peking University (北京大學) and Tsinghua University (清華大學) in 2004 and 2006, respectively. He is the son of Mr. Ding Jin Chao, a brother of Mr. Ding Shui Po and Ms. Ding Mei Qing and a brother-in-law of Mr. Lin Zhang Li.

Mr. Ye Qi (葉齊), aged 53, is our executive Director and a vice president of Xtep (China). Joining the Group in 2004, Mr. Ye has over 18 years of experience in sales and marketing and is primarily responsible for the overall sales and marketing business of the Group. He also assists our chairman with the overall corporate strategies planning and business development of the Group. He graduated from South West University (西南大學) with a bachelor's degree in chemical science in 1982. He obtained a master's degree in philosophical science from East China Normal University (華東師範大學) in 1988 and a master's degree in business administration from China Europe International Business School (中歐國際工商學院) in 2003.

Mr. Ho Yui Pok, Eleutherius (何睿博), aged 45, was appointed as an executive Director of the Company on 29 March 2010. Mr. Ho is also the chief financial officer, investor relations spokesperson and authorized representative of the Company. He is also the company secretary of the Company. He has over 21 years of experience in auditing, accounting and financial management and is primarily responsible for the Group's overall financial and accounting affairs and investor relations. Mr. Ho graduated from University of Kent at Canterbury, England with a bachelor's degree in accounting in 1987 and a master's degree in management science in 1989. Prior to joining the Group in 2007, he was a chief financial officer, company secretary and authorized representative of GST Holdings Limited from 2005 to 2007 and a financial controller of EC-Founder (Holdings) Co., Ltd. from 2000 to 2005, a company listed on the Main Board of the Hong Kong Stock Exchange. In addition, he worked for an international accounting firm as a manager from 1994 to 1996. He was a fellow member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Hong Kong Institute of Certified Public Accountants, and an associate member of the Hong Kong Institute of Directors.

Non-Executive Director

Mr. Xiao Feng (肖楓), aged 38, 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 China Europe International Business School (中歐國際工商學院). He holds a B.E. in computer science and a B.A. in English from Tsinghua University (清華大學). He also holds a Lawyer's Qualification Certificate in China since June 1997.

Mr. Tan Wee Seng (陳偉成), aged 55, was appointed as a non-executive Director of the Company on 29 March 2010. Mr. Tan is a professional in value and business management consultancy. He is a non-executive director of Sa Sa International Holdings Limited whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited, an independent director of ReneSola Ltd whose shares are listed on the New York Stock Exchange and on the Alternative Investment Market (AIM) of the London Stock Exchange, an independent director of 7 Days Group Holdings Limited whose shares are listed on the New York Stock Exchange, a board member of Beijing City International School and a director of Landgent Group Company Limited. From 2003 to 2008, he was an executive director, chief financial officer and company secretary of Li Ning Company Limited, the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Tan has over 30 years of financial, operation and business management experience and has also held various senior management positions in a number of multi-national corporations. From 1999 to 2002, he was the senior vice president of Reuters for the China, Mongolia and North Korea regions, and the chief representative of Reuters in China. Prior to that, he had served as the managing director of AFE Computer Services Limited, a Reuters subsidiary in Hong Kong which was a major domestic equity and financial information services company, and as director of Infocast Pty Limited, a Reuters subsidiary in Australia, and as the regional finance manager of Reuters East Asia. Mr. Tan is a fellow member of the Chartered Institute of Management Accountants, United Kingdom, and a fellow member of the Hong Kong Institute of Directors.

Independent Non-Executive Directors

Mr. Sin Ka Man (冼家敏), aged 43, was appointed as our independent non-executive Director on 24 January 2008. Mr. Sin has over 18 years of professional experience in auditing, accounting and financial management for both private and listed corporations. He is an associate member of the HKICPA, a fellow member of the Association of Chartered Certified Accountants and a CPA of the CPA Australia. He is currently a vice president of the Huayu Expressway Group Limited, a company listed on the Main Board of the Hong Kong Stock Exchange 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 PNG Resources Holdings Limited (formerly known as LeRoi Holdings Limited), Chinese People Holdings Company Limited and China Motion Telecom International Limited (these 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 63, was appointed as our independent non-executive Director on 24 January 2008. Mr. Xu has over 12 years of industry experience in footwear and apparel industries. He has been the Standing vice chairman of Quanzhou General Chambers of Commerce (泉州市總商會) since 1997 and is responsible for, among others, footwear and apparel industries. He was the Head of Enterprise Department at the Quanzhou Economy Committee (泉州市經濟委員會) from 1991 to 1996, responsible for enterprise re-structuring, capital re-structuring and state-owned enterprises pre-listing matters. He was also responsible for financial and statistical planning in Quanzhou Economy Committee. He graduated from Fuzhou University.

Dr. Gao Xian Feng (高賢峰), aged 48, was appointed as our independent non-executive Director on 24 January 2008. Dr. Gao is currently the executive officer of Human Resources Management Research Centre at the Peking University (北京大學人本管理研究中心) and a guest professor of entrepreneurship programs at Peking University (北京大學) Tsinghua University (清華大學), Party School of the Central Committee of Communist Party of China (中央黨校) and Fudan University (復旦大學). Dr. Gao previously served as an associate professor at Shandong Economic University (山東經濟學院). He holds a bachelor degree in enterprise management from Shandong Economic University (山東經濟學院) and a doctor of law degree from the Peking University (北京大學).

SENIOR MANAGEMENT

Mr. Wang Jia Ye (王家業), aged 35, is a vice president of Xtep (China). He has over 12 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 Guangzhou Menten Sports Co., Ltd. (廣州麥特體育用品有限公司). He graduated from Tianjin Polytechnic University (天津工業大學), previously known as Tianjin Textile Industry College (天津紡織工學院) with a bachelor's degree in apparel in 1996.

Mr. Yu Shi Yong (余世勇), aged 47, is a vice president of Xtep (China). He has over 28 years of experiences in finance and accounting and is primarily responsible for financial and capital management of the Group's PRC subsidiary companies. Prior to joining the Group in May 2010, he was the chief financial officer for Fujian Mingdong Electric Power Company Limited and Shandong Chenming Paper Holdings Limited. Shares of both companies are listed on the Shenzhen Stock Exchange. Mr. Yu was also the vice president of financial securities in Fangda Group. Mr. Yu obtained MBA from University of Hertfordshire in September 2005, and the certificate of advanced financial management in University of Cambridge in January 2007. For the past years, he has achieved numerous awards including the China Top CFO Award in 2005, China Top 10 Outstanding CFO in 2006, and China Top 10 Uprising CFO in 2007.

Dr. Wu Lian Yin (吳聯銀), aged 36, is a vice president of Xtep (China). He has over 10 years of experience in providing consulting services to enterprises of information technology management and is primarily responsible for building up and managing our overall enterprise information resources. Prior to joining the Group in 2007, he worked for a consulting group as a senior manager from 2003 to 2007 with participation in several projects to provide consulting and training services to a number of PRC companies involving information technology management. He worked for HAND Enterprise Solutions Company Ltd. (上海全富漢得軟件技術有限公司) as an Oracle CRM senior consultant from 2001 to 2003. Dr. Wu won the "Outstanding Management Consulting Award" (傑出管理咨詢獎) in 2007. He graduated from Xi'an Jiaotong University (西安交通大學) with a bachelor's degree in engineering in 1996 and a doctor's degree in engineering in 2001. In 2009, he was granted the China TOP 50 CIO Award by IT Manager World Magazine and named the "Outstanding Entrepreneur of the Year" (年度貢獻人物獎) by vsharing.com.

Mr. Liu Qing Xian (劉慶先), aged 43, is a vice president of Xtep (China). Joining the Group in 2005, Mr. Liu has over 19 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 the Young Entrepreneurs Association of Fujian Province (福建省青年企業家協會), a standing director of the Young Politician Association of Quanzhou City (泉州市青年政治家協會) and the Youth Chamber of Commerce of Quanzhou City (泉州市青年商會), respectively. Mr. Liu graduated from Capital University of Economics and Business (首都對外經濟貿易大學) with a bachelor's degree in international trade. He also obtained a master's degree in human resources management from Peking University (北京大學) in 2006. He participated in an entrepreneurship program offered by Tsinghua University (清華大學) in 2006. He is the advisor of the Human Resources Association of Huaqiao University and the chair professor at Xiamen University and Fujian Normal University as well as guest professor at a number of academic institutions including Wuhan University of Science and Engineering. He is currently enrolled as a PHD student in strategic planning and human resource program offered by School of Economics Peking University (北大經濟學院), and China Country Managers program and Finance MBA program by Cheung Kong Graduate School of Business (長江商學院).

Mr. Huang Hai Qing (黃海清), aged 52, is a vice president of Xtep (China). He has over 20 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

Mr. Ho Yui Pok, Eleutherius (何睿博), aged 45, is the company secretary as well as the chief financial officer, investor relations spokesperson and authorized representative of the Company. His biographical details are set out above under the paragraph headed "Directors".

Corporate Social Responsibilities

CARE FOR COMMUNITY AND IN HARMONY

The Group strives to achieve its long-term objective of becoming the world's famous sportswear brand. In expanding our business, we believe that the Group's business growth and success are aligned to our continuous efforts and supports in promoting a better community and harmonious environment.

As a caring and responsible corporate citizen, the Group endeavours to build a harmonious and warm working environment for its staff on the one hand, and encourage its staff to act in unity and make contributions to the community on the other hand. Our past efforts have also gained the recognition by the community and our staff. During the year, we have been awarded the "Donors Contribution Award", "Harmonized Enterprise Award", "Harmonized Labour Relations Enterprise" and "Caring Company" by various local government bodies.

I) Contribution to society

In 2010, the Group actively participated in various charitable and community activities with the support of its staff:

(i) Sending warmth to victims of disasters

The Group acted promptly to the disaster of Qinghai Yushu Earthquake to donate relief materials amounting to RMB6,000,000 to the victims for their immediate relief. In addition, at the end of June when the massive flooding hit Fujian Province, causing serious damages to certain parts of Fujian Province, Mr. Ding Shui Po, our Chairman, donated RMB500,000 under his name for rebuilding homes for the victims.

(ii) Promoting equal opportunity

The "BCFC-Xtep Walkathon for Brightness 2010" was jointly sponsored by the Group and Birmingham International Holdings Limited in order to promote "Equal Participation, Sports for All" and raise the public awareness of the disabled community. The 3km walkathon attracted over 1,000 participants and raised approximately HK$700,000 for the visually impaired. Moreover, the Group also sponsored the representatives for the visually impaired from Hong Kong by means of cash and apparel products to attend the Beijing International Marathon to support them in participating public sports activities.

(iii) Supporting environmental protection

To raise the public awareness of environmental protection in China, the Group has supported the World Wide Fund For Nature (WWF) – "Earth Hour 2010" by sponsoring T-shirt to promote the environmental campaign. We are happy to make a difference to our living environment and continue to support a low-carbon lifestyle in the near future.

II) Training for business partners

Our distribution network covers 31 provinces by 28 exclusive Xtep brand distributors and over 3,000 retail outlets franchise operators appointed by the Group. We also have over 100 suppliers and outsource production operators to supply and manufacture our products. Accordingly, we regard them as our key business partners and provide regular and comprehensive training to ensure that the Group's brand image of the leading enterprise of fashion sportswear products can be consistently maintained. During the year, the Group organized over 100 training programmes for our distributors and retail outlets franchise operators, suppliers and outsourced production operators, covering innovative solicitation model, management strategies and service training for different ranks of staff. Among the training courses, various community care programme were included and environmental caring instructions were laid down for staff to comply with. We encourage our business partners to serve and protect our environment.

III. Staff Training and Corporate Activities

Xtep is a learning organization that treasures knowledge sharing and seeks for continuous improvement. We believe that our staff is fundamental to drive the Group's business growth and future success. Accordingly, our staff is our most valuable asset. We strive to enhance our staff's understandings towards the corporate mission, culture, value and strategy through a series of training activities, established strategic human resources management, competitive remuneration packages and appraisal system.

During the year, the Group held various corporate activities including "Sunshine Sharing Programme" and "4th Sunlight Cultural Tour" to build and promote a constructive corporate culture and core values, and to recognise the performance and efforts of our staff. At the same time, these ongoing corporate culture activities can increase the cohesion and impact of our quality staff and facilitate close communication and cooperation with us. In addition, to enhance the service quality, we encourage staff to progress and excel every day by offering them comprehensive on-the-job training and high-end professional training course – 14-cycle senior management-led training scheme.

The Group acknowledged and awarded those staff with outstanding performances at the annual award ceremony to recognise their excellent performance in the past year.

As such, the above-mentioned corporate activities has enabled our staff to gain better understanding of our mission, vision and our core values, and hence strengthening their cohesion, sense of belonging and team spirit.

The Group is fully committed to becoming a globally renowned fashion sportswear brand that cares for the community, its business partners and staff. Looking ahead, in discharging our corporate social responsibilities, we endeavour to promote Xtep's brand and the development of the sports industry through a variety of effective marketing measures, build a promising career platform for our staff, explore tremendous potential opportunities with our business partners, establish a dynamic and caring community for the public, and maximise the value of our Shareholders.

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 such code provisions during the year ended 31 December 2010 except for the deviation from code provision A.2.1 as disclosed below.

(1) 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 make 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 eleven Directors, consisting of six executive Directors, two non-executive Directors 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 during the year ended 31 December 2010.

Chairman and Chief Executive Officer

Under code 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 consists of six executive Directors, two non-executive Directors 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 Board meetings and scrutinizing the Group's performance. Their views carry significant weight in the Board's decisions. In particular, they bring an impartial view to bear on issues of the Group's strategies, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advice to the Board. The independent non-executive Directors provide independent advice on the Group's business strategies, 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 Board meets regularly either in person or through electronic means of communications. The number of meetings held and the attendance of each Director at these meetings for the year ended 31 December 2010 are set out as follows:

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

All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the company secretary of the Company at all times and may seek independent professional advice at the Company's expense. 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 Directors 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. For more details of the service contracts of each of the Directors, please refer to the section headed "Report of the Directors" of this annual report.

Board Committees

The Board has established (i) audit committee, (ii) remuneration committee; and (iii) nomination committee, with defined terms of reference which are in line with the code provisions of the Corporate Governance Code. The terms of reference of the board committees which explain their respective roles 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 primary duties of the audit committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company. The audit committee consists of three members, namely, Mr. Sin Ka Man, Mr. Xu Peng Xiang and Dr. Gao Xian Feng, all of whom are independent non-executive Directors. Mr. Sin Ka Man is the chairman of the audit committee.

In accordance with its written terms of reference, the audit committee has held 3 meetings during the year ended 31 December 2010 to discuss the auditing, internal controls and financial reporting matters of the Company, including review of the annual results of the Group for the year ended 31 December 2009, interim results of the Group for the six months ended 30 June 2010 and annual results of the Group for the year ended 31 December 2010 audit planning.

Remuneration Committee

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

In accordance with its written terms of reference, the remuneration committee has held 2 meetings during the year ended 31 December 2010 to review and approve the Company's remuneration structure for the directors and senior management of the Company for the year ended 31 December 2010 and the granting of the share options of the Company to eligible persons for the year ended 31 December 2010.

Nomination Committee

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

In accordance with its written terms of reference, the nomination committee has held 1 meeting during the year ended 31 December 2010 to review the composition of the Board.

(2) 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 has re-appointed Ernst & Young as its external auditors during the year ended 31 December 2010. The external auditor is refrained from engaging in non-audit services except for specific approved items, such as review of interim results of the Group. The audit committee reviews the external auditor's statutory audit scope and non-audit services and approves its fees. Details of the fees paid/payable to Ernst & Young during the year are as follows:

	2010 **HK$**	2009 HK$
Statutory audit services	**3,273,000**	2,980,000
Non-audit services	**600,000**	528,000
Total	**3,873,000**	3,508,000

(3) Internal Controls

The Board is responsible for ensuring the reliability and effectiveness of the Group's internal control systems on, among other things, financial, operational and compliance controls. During the year under review, the Board and the audit committee have reviewed the effectiveness of the Group's internal control systems on all major operations of the Group by the Group's internal audit department.

The Group's internal control department has reported major internal control review findings to the Board and audit committee. There were no major issues but areas for improvement have been identified. All of the recommendations from the Group's internal control department will be properly followed up to ensure that they are implemented within a reasonable period of time. The Board and the audit committee considered that the key areas of the Group's internal control systems, including the adequacy of resources, qualifications and experience of our accounting and financial reporting staff, and their training programs and budget, are reasonably implemented and the Group has fully complied with provisions of the Corporate Governance Code regarding internal control systems in general for the year ended 31 December 2010.

(4) 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 2010.

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 the Group, and the Disney Sport brand, which is licensed by The Walt Disney Company (Shanghai) Limited to the Group in the PRC and by the Walt Disney Company (Asia Pacific) Limited to the Group in Hong Kong and Macau.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2010 are set out in note 18 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2010 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 95 to 142 of this annual report.

DIVIDENDS

An interim dividend of HK10.0 cents (2009: HK7.0 cents) per Share was paid to our Shareholders during the year. The Board recommended a final dividend of HK12.0 cents (2009: HK10.0 cents) per Share for the year ended 31 December 2010, subject to approval by the Shareholders at the annual general meeting to be held on 29 April 2011. In order to reserve more resources for future development, the Board did not recommend any special dividend (2009: HK5.0 cents per Share) for the year ended 31 December 2010. The total basic dividends for the year ended 31 December 2010, which include the interim and final dividends, amounted to a total of HK22.0 cents per Share. Details of the dividend for the year ended 31 December 2010 are set out in note 12 to the financial statements.

RESERVES

Details of movements in reserves of the Company and the Group are set out in note 27 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2010, 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 RMB1,069.6 million. Details of the reserves of the Company as at 31 December 2010 are set out in note 27 to the financial statements.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2010 amounted to approximately RMB9.2 million (2009: RMB6.4 million).

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group for the year ended 31 December 2010 are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2010 are set out in note 26 to the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2010 were:

Executive Directors
Mr. Ding Shui Po *(Chairman)*
Ms. Ding Mei Qing
Mr. Lin Zhang Li
Mr. Ding Ming Zhong
Mr. Ye Qi
Mr. Ho Yui Pok, Eleutherius
(appointed on 29 March 2010)

Non-Executive Directors
Mr. Xiao Feng
Mr. Tan Wee Seng (appointed on 29 March 2010)

Independent Non-Executive Directors
Mr. Sin Ka Man
Mr. Xu Peng Xiang
Dr. Gao Xian Feng

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

Mr. Ho Yui Pok, Eleutherius and Mr. Tan Wee Seng were appointed as an executive Director and non-executive Director, respectively, with effect from 29 March 2010 and were re-elected as Directors by Shareholders of the Company at the last annual general meeting held on 5 May 2010. Each of Mr. Ho Yui Pok, Eleutherius and Mr. Tan Wee Seng has entered into a service contract with the Company for an initial term of three years commencing from 29 March 2010 and thereafter may be terminated by either party upon a three-month prior written notice.

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

In accordance with article 87 of the Company's articles of association, Mr. Ding Shui Po, Mr. Xiao Feng, Mr. Sin Ka Man and Mr. Ye Qi will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out on pages 65 to 71 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 2010.

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

As at 31 December 2010, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Long Positions in the Company

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company(1)
Mr. Ding Shui Po(2)	Interests of controlled corporation/Beneficial interests	1,313,559,500	60.37%
Ms. Ding Mei Qing(3)	Interests of controlled corporation	1,310,059,500	60.20%
Mr. Lin Zhang Li(4)	Interests of spouse	1,310,059,500	60.20%
Mr. Ye Qi(5)	Beneficial interests	2,500,000	0.11%
Mr. Ho Yui Pok, Eleutherius(6)	Beneficial interests	3,500,000	0.16%
Mr. Tan Wee Seng(7)	Beneficial interests	600,000	0.03%

Notes:

(1) It was based on 2,176,000,000 issued Shares of the Company as at 31 December 2010.

(2) Mr. Ding Shui Po is deemed to be interested in 1,310,059,500 Shares of the Company held by Group Success by virtue of it being controlled by Mr. Ding Shui Po. Mr. Ding Shui Po is also beneficially interested in 3,500,000 Shares of the Company.

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

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

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

(6) 1,000,000 of these shares are subject to the exercise of options granted on 7 May 2008 under the Pre-IPO Share Option Scheme. Another 1,500,000 of these shares are subject to the exercise of options granted on 29 July 2009 under the Share Option Scheme. The remaining 1,000,000 of these shares are subject to the exercise of options granted on 28 May 2010 under the Share Option Scheme.

(7) These shares are subject to the exercise of options granted on 30 March 2010 under the Share Option Scheme.

Save as disclosed above, as at 31 December 2010, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

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

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

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

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

Details of the share options granted under the Pre-IPO Share Option Scheme as at 31 December 2010 are as follows:

Name	Outstanding as at 1 January 2010	Exercised during the year ended 31 December 2010[1]	Outstanding as at 31 December 2010
Directors			
Mr. Ye Qi	1,500,000	–	1,500,000
Mr. Ho Yui Pok, Eleutherius	1,000,000	–	1,000,000
Senior Management			
In aggregate	2,300,000	–	2,300,000
Other Employees			
In aggregate	14,200,000	2,025,000	12,175,000
Total	**19,000,000**	**2,025,000**	**16,975,000**

Notes:

(1) Of the share options granted on 7 May 2008 under the Pre-IPO Share Option Scheme, 690,000 were exercised on 11 May 2010, 345,000 were exercised on 17 June 2010, 660,000 were exercised on 13 September 2010 and 330,000 were exercised on 5 October 2010. The weighted average closing price immediately before the dates on which the share options were exercised was HK$6.29.

Save as disclosed above, no options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2010.

Share Option Scheme

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

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

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

(a) the nominal value of a Share;

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

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

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

Details of the share options granted under the Share Option Scheme as at 31 December 2010 are as follows:

Name	Date of grant	Exercise price per Share[1]	Exercise period[2][3]	Outstanding as at 1 January 2010	Granted during the year ended 31 December 2010	Exercised during the year ended 31 December 2010[4]	Outstanding as at 31 December 2010
Directors							
Mr. Ye Qi	28 May 2010	HK$6.00	28 May 2012 – 27 May 2020	–	1,000,000	–	1,000,000
Mr. Ho Yui Pok, Eleutherius	29 July 2009	HK$4.11	29 July 2010 – 28 July 2019	1,500,000	–	–	1,500,000
Mr. Ho Yui Pok, Eleutherius	28 May 2010	HK$6.00	28 May 2012 – 27 May 2020	–	1,000,000	–	1,000,000
Mr. Tan Wee Seng	30 March 2010	HK$6.13	30 March 2011 – 29 March 2020	–	600,000	–	600,000
Senior Management							
In aggregate	28 May 2010	HK$6.00	28 May 2012 – 27 May 2020	–	3,500,000	–	3,500,000
Other Employees							
In aggregate	29 July 2009	HK$4.11	29 July 2010 – 28 July 2019	8,500,000	–	330,000	8,170,000
In aggregate	28 January 2010	HK$5.01	28 January 2011 – 27 January 2020	–	500,000	–	500,000
In aggregate	28 May 2010	HK$6.00	28 May 2012 – 27 May 2020	–	4,500,000	–	4,500,000
Total				**10,000,000**	**11,100,000**	**330,000**	**20,770,000**

Saved as disclosed above, no share options granted under the Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2010.

Notes:

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

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

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

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

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

(4) Of the share options granted on 29 July 2009 under the Share Option Scheme, 255,000 were exercised on 13 September 2010 and 75,000 were exercised on 6 October 2010. The weighted average closing price immediately before the dates on which the share options were exercised was HK$6.39.

Further details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 28 to the financial statements.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

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

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

So far as is known to any Director or chief executive of the Company, as at 31 December 2010, the persons or corporations (other than the Directors or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company[(1)]
Group Success	Beneficial interests	1,310,059,500	60.20%
Carlyle Asia Growth Partners III, L.P.	Beneficial interests	200,769,294	9.23%
CAGP III Co-investment, L.P.	Beneficial interests	8,931,206	0.41%
CAGP General Partner, L.P.	Interests of controlled corporation[(2)]	209,700,500	9.64%
CAGP Ltd	Interests of controlled corporation[(2)]	209,700,500	9.64%

Notes:

(1) It was based on 2,176,000,000 issued Shares of the Company as at 31 December 2010.

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

Save as disclosed above, as at 31 December 2010, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2010.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2010.

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 2010 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 was 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 28 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 (Chapter 485 of the Law of Hong Kong) for eligible employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statements as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in China are required to participate in defined contribution central pension schemes operated by the local municipal governments. 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 schemes.

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 6.2% (2009: 10.0%) and 22.9% (2009: 33.4%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 8.2% (2009: 6.6%) and 24.4% (2009: 21.6%) of the Group's total purchases respectively.

At no time during the year ended 31 December 2010, 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

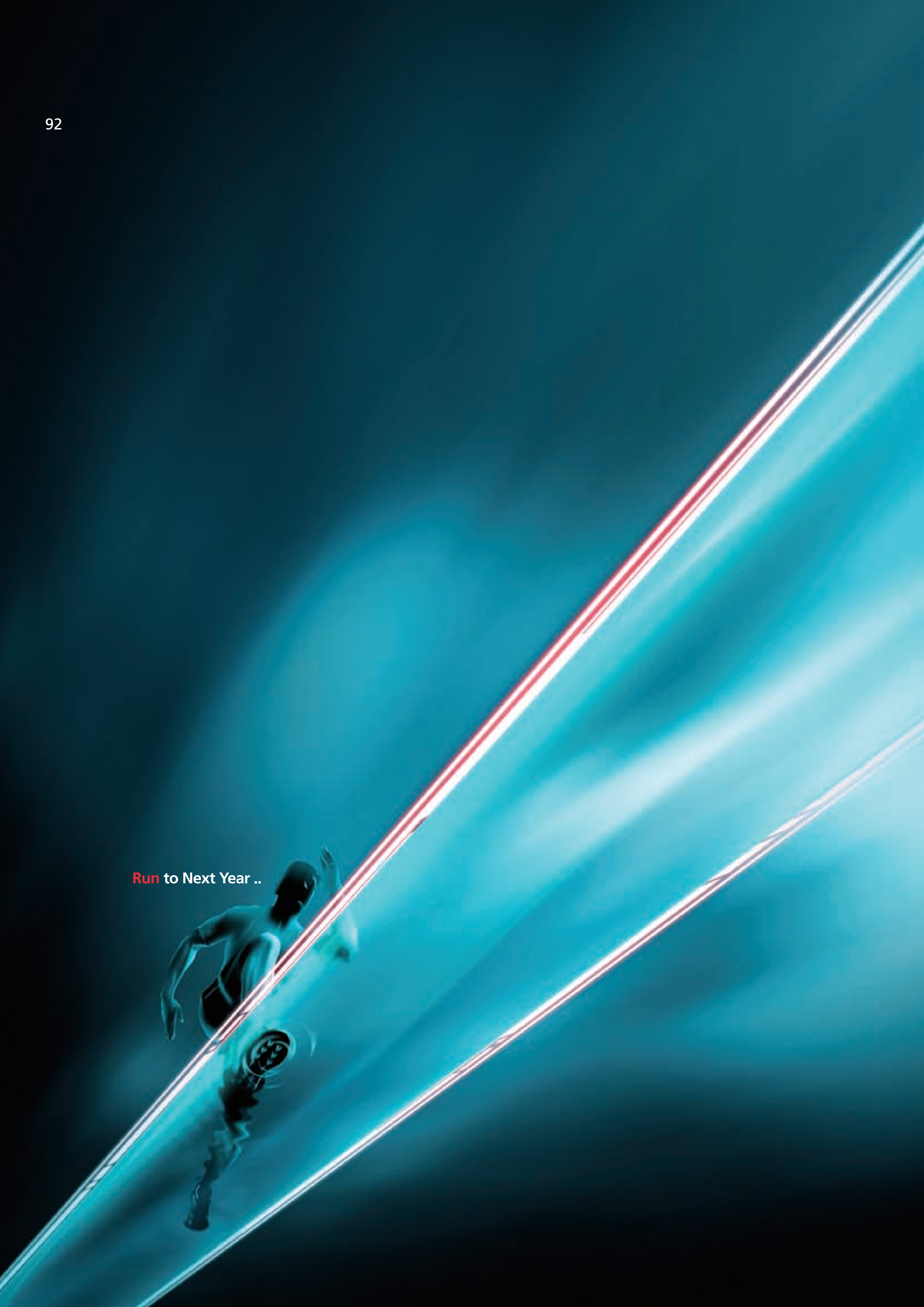
Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the year ended 31 December 2010.

FIVE-YEAR SUMMARY

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

On behalf of the Board
Ding Shui Po
Chairman

Hong Kong, 21 March 2011


Run to Next Year ..

2010 Financial 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 consolidated financial statements of Xtep International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 95 to 142, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 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 Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong
21 March 2011

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	5	4,457,198	3,545,336
Cost of sales		(2,645,463)	(2,157,549)
Gross profit		1,811,735	1,387,787
Other income and gains	5	15,172	10,688
Selling and distribution costs		(619,790)	(522,966)
General and administrative expenses		(229,121)	(174,147)
Operating profit	6	977,996	701,362
Net finance income	7	228	860
PROFIT BEFORE TAX		978,224	702,222
Income tax expense	10	(164,540)	(54,701)
PROFIT FOR THE YEAR		813,684	647,521
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
– Basic (RMB cents)		37.42	29.79
– Diluted (RMB cents)		37.30	N/A

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

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
PROFIT FOR THE YEAR	813,684	647,521
OTHER COMPREHENSIVE INCOME		
Exchange difference on translation of financial statements of overseas subsidiaries	9,055	73,924
Other comprehensive income for the year, net of tax	9,055	73,924
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	822,739	721,445

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	197,073	192,969
Prepaid land lease payments	15	20,843	21,345
Deposits paid for acquisitions of land use rights	16	88,699	50,079
Deposit paid for acquisitions of items of property, plant and equipment		–	10,000
Intangible assets	17	994	615
Total non-current assets		307,609	275,008
CURRENT ASSETS			
Inventories	19	462,562	265,689
Trade and bills receivables	20	727,056	522,755
Prepayments, deposits and other receivables	21	343,260	79,526
Cash and cash equivalents	22	2,443,702	2,497,635
Total current assets		3,976,580	3,365,605
CURRENT LIABILITIES			
Trade and bills payables	23	639,141	439,398
Deposits received, other payables and accruals	24	164,593	165,494
Tax payable		88,254	24,373
Total current liabilities		891,988	629,265
NET CURRENT ASSETS		3,084,592	2,736,340
TOTAL ASSETS LESS CURRENT LIABILITIES		3,392,201	3,011,348
NON-CURRENT LIABILITY			
Deferred tax liabilities	25	39,868	27,268
		39,868	27,268
NET ASSETS		3,352,333	2,984,080
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	26	19,197	19,177
Reserves	27(a)	3,333,136	2,964,903
TOTAL EQUITY		3,352,333	2,984,080

Ding Shui Po
Director

Ding Mei Qing
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Notes	Issued capital RMB'000 (note 26)	Share premium account RMB'000 (note 27(b))	Capital reserve RMB'000 (note 27(a))	Statutory surplus fund RMB'000 (note 27(a))	Share option reserve RMB'000 (note 27(b))	Exchange fluctuation reserve RMB'000 (note 27(a))	Retained profits RMB'000	Total reserves RMB'000	Total equity RMB'000
		Attributable to ordinary equity holders of the Company								
At 1 January 2010		**19,177**	**1,529,827**	**118,600**	**216,279**	**11,998**	**(8,012)**	**1,096,211**	**2,964,903**	**2,984,080**
Total comprehensive income for the year		–	–	–	–	–	9,055	813,684	822,739	822,739
Equity-settled share option transactions		–	–	–	–	10,153	–	–	10,153	10,153
2009 final dividend declared and paid	12	–	(189,890)	–	–	–	–	–	(189,890)	(189,890)
2009 special dividend declared and paid	12	–	(94,945)	–	–	–	–	–	(94,945)	(94,945)
2010 interim dividend declared and paid	12	–	(186,638)	–	–	–	–	–	(186,638)	(186,638)
Exercise of share options	26	20	8,342	–	–	(1,528)	–	–	6,814	6,834
Transfer to statutory surplus fund		–	–	–	63,429	–	–	(63,429)	–	–
At 31 December 2010		**19,197**	**1,066,696**	**118,600**	**279,708**	**20,623**	**1,043**	**1,846,466**	**3,333,136**	**3,352,333**

	Notes	Issued capital RMB'000 (note 26)	Share premium account RMB'000 (note 27(b))	Capital reserve RMB'000 (note 27(a))	Statutory surplus fund RMB'000 (note 27(a))	Share option reserve RMB'000 (note 27(b))	Exchange fluctuation reserve RMB'000 (note 27(a))	Retained profits RMB'000	Total reserves RMB'000	Total equity RMB'000
		Attributable to ordinary equity holders of the Company								
At 1 January 2009		**19,177**	**1,913,010**	**118,600**	**129,791**	**3,956**	**(81,936)**	**535,178**	**2,618,599**	**2,637,776**
Total comprehensive income for the year		–	–	–	–	–	73,924	647,521	721,445	721,445
Equity-settled share option transactions		–	–	–	–	8,042	–	–	8,042	8,042
2008 final dividend declared and paid	12	–	(153,286)	–	–	–	–	–	(153,286)	(153,286)
2008 special dividend declared and paid	12	–	(95,803)	–	–	–	–	–	(95,803)	(95,803)
2009 interim dividend declared and paid	12	–	(134,094)	–	–	–	–	–	(134,094)	(134,094)
Transfer to statutory surplus fund		–	–	–	86,488	–	–	(86,488)	–	–
At 31 December 2009		**19,177**	**1,529,827**	**118,600**	**216,279**	**11,998**	**(8,012)**	**1,096,211**	**2,964,903**	**2,984,080**

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		978,224	702,222
Adjustments for:			
Depreciation	14	20,706	15,383
Amortisation of prepaid land lease payments	15	502	502
Amortisation of intangible assets	17	263	176
Interest income	7	(17,407)	(15,088)
Interest expense	7	8,847	10,598
Equity-settled share option expense	28	10,153	8,042
		1,001,288	721,835
(Increase)/decrease in inventories		(196,873)	22,598
(Increase)/decrease in trade and bills receivables		(204,301)	4,157
(Increase)/decrease in prepayments, deposits and other receivables		(263,734)	42,214
Increase in trade and bills payables		199,743	61,409
(Decrease)/increase in deposits received, other payables and accruals		(901)	90,102
Cash generated from operations		535,222	942,315
Interest received		17,407	15,088
Interest paid		(8,847)	(10,598)
Overseas taxes paid		(87,647)	(66,546)
Net cash flows from operating activities		456,135	880,259
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(24,870)	(92,731)
Increase in deposit paid for acquisition of land use rights		(38,620)	–
Refund of deposits paid for acquisition of items of property, plant and equipment		10,000	–
Additions to intangible assets	17	(642)	–
Decrease/(increase) in pledged deposits		–	6,000
Net cash flows used in investing activities		(54,132)	(86,731)

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		–	(124,000)
Net proceeds from issue of ordinary shares	27	6,834	–
Dividends paid		(471,473)	(383,183)
Net cash flows used in financing activities		(464,639)	(507,183)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(62,636)	286,345
Cash and cash equivalents at beginning of year		2,497,635	2,136,938
Effect of foreign exchange rate changes, net		8,703	74,352
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,443,702	2,497,635
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		2,443,702	2,497,635

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSET			
Investments in subsidiaries	18	935,085	1,247,888
CURRENT ASSETS			
Due from a subsidiary	18	96,296	96,296
Prepayments, deposits and other receivables	21	4,506	739
Cash and cash equivalents	22	63,191	243,248
		163,993	340,283
CURRENT LIABILITIES			
Accruals	24	10,308	4,441
		10,308	4,441
NET CURRENT ASSETS		153,685	335,842
TOTAL ASSETS LESS CURRENT LIABILITIES		1,088,770	1,583,730
NET ASSETS		1,088,770	1,583,730
EQUITY			
Issued capital	26	19,197	19,177
Reserves	27(b)	1,069,573	1,564,553
TOTAL EQUITY		1,088,770	1,583,730

Ding Shui Po
Director

Ding Mei Qing
Director

1. CORPORATE INFORMATION

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

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 mainly under the Xtep brand and the Disney Sport 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 PREPARATION

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

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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

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

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 Leases – *Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised) and HKAS 27 (Revised), the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

(b) HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised HKAS 27 changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 Statement of Cash Flows, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rates, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures.

The changes introduced by these revised standards are applied prospectively and will affect the accounting of future acquisitions, loss of control and transactions with non-controlling interests after 1 January, 2010.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[5]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1 HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1st February 2010

2 Effective for annual periods beginning on or after 1st July 2010

3 Effective for annual periods beginning on or after 1st January 2011

4 Effective for annual periods beginning on or after 1st July 2011

5 Effective for annual period beginning on or after 1st January 2012

6 Effective for annual periods beginning on or after 1st January 2013

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's 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 and its holding company;

(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.

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

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

Intangible assets

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

Patents and trademarks

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

Research and development costs

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

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

Impairment of non-financial assets

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

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

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

Financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

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

Subsequent measurement

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

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

Derecognition of financial assets

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

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

Leases

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

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

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

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

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

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

- in respect of taxable temporary differences associated with investments in subsidiaries, 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 the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

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

Revenue recognition

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

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

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

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

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

Borrowing costs

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

Government grants

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

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external professional qualified valuer using an appropriate pricing model, further details of which are given in note 28 to the financial statements.

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

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

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

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

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

Other employee benefits

Pension schemes

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

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

Other benefits

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

Foreign currencies

These financial statements are presented in RMB, which is the Company's presentation currency. The functional currency of the Company is the Hong Kong dollar which is the currency of the primary environment in which the Company operates. Since the Company does not conduct any substantive operations of its own and conducts its primary business operations through its subsidiaries in the PRC, the Company adopts RMB as the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences 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 end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

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

Treasury shares

Own equity instruments which are reacquired are recognised at cost and 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. Any difference between the carrying amount and the consideration is recognised in equity.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

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

Judgement

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

Classification between investment properties and owner-occupied properties

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

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

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

Estimation uncertainty

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

Useful lives of property, plant and equipment

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

Net realisable value of inventories

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

Impairment allowances for trade and other receivables

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

Valuation of share options

As described in note 28 to the financial statements, the Company has engaged an independent professionally qualified valuer to assist in the valuation of the share options granted during the year. The fair value of options granted under the share option scheme is determined using the Trinomial Option Pricing Model. The significant inputs into the model were the weighted average share price at the grant date, risk-free interest rate, exercise price, expected volatility of the underlying shares, expected dividend yield and expected life of options. When the actual results of the inputs differ from management's estimate, it will have an impact on share option expenses and the related share option reserve of the Company. Further details are set out in note 28 to the financial statements.

Deferred tax assets

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

4. OPERATING SEGMENT INFORMATION

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

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2010 RMB'000	2009 RMB'000
Revenue		
Manufacture and sale of sportswear:		
Footwear	1,955,879	1,619,132
Apparel	2,421,105	1,874,461
Accessories	80,214	51,743
	4,457,198	3,545,336
Other income and gains		
Rental income	1,147	616
Subsidy income from the PRC government *	8,536	4,932
Others	5,489	5,140
	15,172	10,688
	4,472,370	3,556,024

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

6. OPERATING PROFIT

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

	Notes	2010 RMB'000	2009 RMB'000
Cost of inventories sold *		2,645,463	2,157,549
Depreciation	14	20,706	15,383
Amortisation of prepaid land lease payments	15	502	502
Amortisation of intangible assets **	17	263	176
Employee benefit expenses (including directors' remuneration – note 8):			
Wages and salaries		181,220	163,178
Other allowances and benefits		12,183	11,046
Equity-settled share option expense		10,153	8,042
Pension scheme contributions ***		9,892	10,209
		213,448	192,475
Auditors' remuneration		2,843	2,627
Minimum lease payments under operating leases of land and buildings		7,229	4,720
Research and development costs ****		77,959	56,735

* The cost of inventories sold for the year includes RMB124,650,000 (2009: RMB121,076,000), relating to staff costs, depreciation of manufacturing facilities, and minimum lease payments for land and buildings, which are also included in the respective total amounts disclosed above for each of these types of expenses.

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

*** As at 31 December 2010, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2009: Nil).

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

7. NET FINANCE INCOME

An analysis of net finance income is as follows:

	Group	
	2010 RMB'000	2009 RMB'000
Interest on bank loans wholly repayable within five years	(8,847)	(10,598)
Foreign exchange differences, net	(8,332)	(3,630)
Bank interest income	17,407	15,088
	228	860

8. DIRECTORS' REMUNERATION

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

	Group	
	2010 RMB'000	2009 RMB'000
Fees:		
Executive directors	–	–
Non-executive directors	430	–
Independent non-executive directors	568	572
	998	572
Other emoluments of directors:		
Salaries, other allowances and benefits in kind	3,995	2,896
Equity-settled share option expense	1,907	455
Pension scheme contributions	112	48
	6,014	3,399
	7,012	3,971

During the year and in 2008 and 2009, share options were granted to directors, in respect of their services to the Group, under the share option and pre-initial public offering ("pre-IPO") share option scheme of the Company respectively. Further details of which are set out in notes 28(a) and 28(b) 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.

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

	Salaries, other allowances and benefit in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share options expenses RMB'000	Pension Scheme Contributions RMB'000	Total remuneration RMB'000
2010					
a) *Executive directors*					
Ding Shui Po	954	–	–	13	967
Ding Mei Qing	477	–	–	13	490
Lin Zhang Li	477	–	–	13	490
Ding Ming Zhong	477	–	–	12	489
Ye Qi	480	–	492	3	975
Ho Yui Pok, Eleutherius	869	261	1,068	58	2,256
	3,734	261	1,560	112	5,667
b) *Non-executive directors*					
Xiao Feng	–	–	–	–	–
Tan Wee Seng	430	–	347	–	777
	430	–	347	–	777
c) *Independent non-executive directors*					
Sin Ka Man	208	–	–	–	208
Xu Peng Xiang	180	–	–	–	180
Gao Xian Feng	180	–	–	–	180
	568	–	–	–	568
	4,732	261	1,907	112	7,012
2009					
a) *Executive directors*					
Ding Shui Po	964	–	–	14	978
Ding Mei Qing	483	–	–	14	497
Lin Zhang Li	483	–	–	14	497
Ding Ming Zhong	483	–	–	3	486
Ye Qi	483	–	455	3	941
	2,896	–	455	48	3,399
b) *Non-executive director*					
Xiao Feng	–	–	–	–	–
c) *Independent non-executive directors*					
Sin Ka Man	212	–	–	–	212
Xu Peng Xiang	180	–	–	–	180
Gao Xian Feng	180	–	–	–	180
	572	–	–	–	572
	3,468	–	455	48	3,971

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2009: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining Nil (2009: one) non-director, highest paid employee for the year are as follows:

	Group	
	2010 RMB'000	2009 RMB'000
Salaries, allowances and benefits in kind	–	1,190
Equity-settled share option expense	–	645
Pension scheme contributions	–	59
	–	1,894

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

	Number of employee	
	2010	2009
RMB1,000,001 to RMB1,500,000	–	–
RMB1,500,001 to RMB2,000,000	–	1
	–	1

In prior year, share options were granted to the non-director, highest paid employee in respect of his services to the Group under the share option scheme of the Company, further details of which are set out in note 28(b) to the financial statements. The fair values of such options, which have been recognised in the income statement over the vesting period, were determined as at the date of grant and the amount included in the financial statements for the year is included in the above non-director, highest paid employees' remuneration disclosure.

10. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group has utilised tax losses to offset assessable profits arising in Hong Kong during the year (2009: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Group	
	2010 **RMB'000**	**2009** **RMB'000**
Current tax – Overseas		
Charge for the year	151,940	29,475
Underprovision in prior years	–	782
	151,940	30,257
Deferred (note 25)	12,600	24,444
	164,540	54,701

Xtep (China) Co., Ltd. ("Xtep (China)"), a wholly-owned subsidiary of the Company was entitled to a 50% reduction in the PRC corporate income tax rate of 25% for the year ended 31 December 2009. For the year ended 31 December 2010, Xtep (China) was taxed at a preferential 15% tax rate as Xtep China was qualified as a High-New Technology Enterprise (the "HNTE") in PRC and obtained the HNTE certificate in 2010. Koling (Fujian) Garment Co., Ltd. ("Koling (Fujian)") and Xtep Sports Goods Co., Ltd. Jinjiang ("Xtep Jinjiang") enjoyed exemption from the PRC corporate income tax for the year ended 31 December 2009 and thereafter are entitled to a 50% reduction in the PRC corporate income tax for the year ended 31 December 2010, 2011 and 2012. 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 at 20% for the year ended 31 December 2009 and at 22% for the year ended 31 December 2010.

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

	Group	
	2010 RMB'000	2009 RMB'000
Profit before tax	978,224	702,222
Tax at the applicable tax rates	244,233	180,681
Lower tax rates for specific provinces or tax holidays	(118,398)	(193,964)
Adjustments in respect of current tax of previous years	–	782
Income not subject to tax	(66)	(546)
Expenses not deductible for tax	21,322	37,606
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	12,600	24,444
Tax losses utilised from previous periods	(153)	–
Tax losses not recognised	5,002	5,698
Tax charge at the Group's effective rate	164,540	54,701

The Group has accumulated tax losses arising in Hong Kong of approximately RMB86,192,000 for the year (2009: RMB56,218,000) 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 2010 (2009: Nil) in respect of the tax losses as the directors of the Company consider that it is uncertain that future taxable profits will be available against which the tax losses can be utilised for the respective companies from which the tax losses arose in the foreseeable future.

11. PROFIT ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to ordinary equity holders of the Company for the year ended 31 December 2010 includes a loss of RMB3,523,000 (2009: RMB54,199,000) which has been dealt with in the financial statements of the Company (note 27(b)).

12. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Dividends paid during the year:		
Final in respect of the financial year ended 31 December 2009		
– HK10.0 cents per ordinary share (2009: HK8.0 cents)	189,890	153,286
Special in respect of the financial year ended 31 December 2009		
– HK5.0 cents per ordinary share (2009: HK5.0 cents)	94,945	95,803
Interim – HK10.0 cents (2009: HK7.0 cents) per ordinary share	186,638	134,094
	471,473	383,183
Proposed final dividends:		
Final – HK12.0 cents (2009: HK10.0 cents) per ordinary share	223,127	191,368
Special – Nil (2009: HK5.0 cents) per ordinary share	–	95,684
	223,127	287,052

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

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

(a) Basic earnings per share

The calculation of basic earnings per share amount for the year was based on the profit for the year attributable to ordinary equity holders of the Company of RMB813,684,000 (2009: RMB647,521,000) and the weighted average number of ordinary shares in issue during the year of 2,174,540,000 (2009: 2,173,645,000).

(b) Diluted earnings per share

The calculation of diluted earnings per share amounts for the year ended 31 December 2010 is based on the profit for that year attributable to ordinary equity holders of the Company of RMB813,684,000. The weighted average number of ordinary shares of 2,181,416,000 used in the calculation is the weighted average of 2,174,540,000 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 6,876,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of 37,745,000 diluted share options during the year.

No adjustment has been made to the basic earnings per share amount presented for the year ended 31 December 2009 in respect of a dilution as the exercise price of the share options of the Company outstanding during the year is higher than the average market price of the Company's ordinary shares and, accordingly, they have no dilutive effect on the basic earnings per ordinary shares.

14. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2010

	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	144,359	7,123	55,722	8,368	27,533	6,466	249,571
Additions	1,914	1,102	2,181	4,776	14,136	761	24,870
Transfers	5,955	–	–	–	–	(5,955)	–
Exchange realignment	–	(33)	–	–	(27)	–	(60)
At 31 December 2010	152,228	8,192	57,903	13,144	41,642	1,272	274,381
Accumulated depreciation:							
At beginning of year	16,582	2,078	25,317	2,915	9,710	–	56,602
Provided during the year	6,462	1,895	5,365	1,618	5,366	–	20,706
At 31 December 2010	23,044	3,973	30,682	4,533	15,076	–	77,308
Net carrying amount:							
At 31 December 2010	129,184	4,219	27,221	8,611	26,566	1,272	197,073

31 December 2009

	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	69,771	5,858	51,007	6,671	20,975	2,270	156,552
Additions	74,225	1,266	4,715	1,697	6,558	4,559	93,020
Transfers	363	–	–	–	–	(363)	–
Exchange realignment	–	(1)	–	–	–	–	(1)
At 31 December 2009	144,359	7,123	55,722	8,368	27,533	6,466	249,571
Accumulated depreciation:							
At beginning of year	12,971	646	19,749	1,802	6,051	–	41,219
Provided during the year	3,611	1,432	5,568	1,113	3,659	–	15,383
At 31 December 2009	16,582	2,078	25,317	2,915	9,710	–	56,602
Net carrying amount:							
At 31 December 2009	127,777	5,045	30,405	5,453	17,823	6,466	192,969

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

Included in "Buildings" are certain self-used properties with net carrying amounts of approximately RMB87,702,000 at 31 December 2010 (2009: RMB83,627,000), for which the Group has not obtained the building ownership certificates. Up to the date of approval of these financial statements, the Group is still in the process of applying for the building ownership certificates in respect of the aforementioned properties with net carrying amounts at 31 December 2010 of RMB85,140,000 out of the total of RMB87,702,000 (2009: RMB80,928,000 out of the total of RMB83,627,000).

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2010 RMB'000	2009 RMB'000
Carrying amount at 1 January	21,846	22,348
Recognised during the year	(502)	(502)
Carrying amount at 31 December	21,344	21,846
Current portion included in prepayments, deposits and other receivables	(501)	(501)
Non-current portion	20,843	21,345

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

16. DEPOSITS PAID FOR ACQUISITIONS OF LAND USE RIGHTS

Pursuant to two agreements entered into between the Group and independent third parties on 30 December 2008 and 2 August 2010, the Group has agreed to acquire a parcel of land in Xiamen, Fujian Province, the PRC of RMB50,079,000 (2009: RMB50,079,000) and another parcel of land in Quanzhou Fujian Province, the PRC of RMB38,620,000 (2009: Nil), respectively. At the end of the reporting period, the considerations of the two agreements have been fully paid by the Group.

17. INTANGIBLE ASSETS

Patents and trademarks

	Group	
	2010 RMB'000	2009 RMB'000
Cost:		
At beginning of year	991	991
Additions	642	–
At 31 December	1,633	991
Accumulated amortisation:		
At beginning of year	376	200
Amortisation provided during the year	263	176
At 31 December	639	376
Net carrying amount:		
At 31 December	994	615

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	–	–
Due from subsidiaries	935,085	1,247,888
	935,085	1,247,888

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

The amount due from a subsidiary included in the Company's current assets of RMB96,296,000 (2009: RMB96,296,000) is unsecured, interest-free and repayable on demand.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation or establishment/ operation	Issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Xtep International Development Limited ("Xtep Development") *	BVI	US$10,000	100	–	Investment holding
Xtep (China) * (notes (i) and (iii))	PRC	HK$830,029,801	–	100	Manufacture and sale of sportswear
Koling (Fujian) * (notes (i) and (iii))	PRC	HK$157,999,900	–	100	Manufacture and sale of sportswear
Xtep Jinjiang * (notes (i) and (iii))	PRC	US$6,000,000	–	100	Manufacture and sale of sportswear
Xtep Xiamen * (notes (ii) 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 entity is registered as a limited liability company under the PRC law.

(iii) The registered capitals of these entities were fully paid up as at 31 December 2010.

* 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 2010 RMB'000	Group 2009 RMB'000
Raw materials	327,397	107,043
Work in progress	51,039	27,170
Finished goods	84,126	131,476
	462,562	265,689

20. TRADE AND BILLS RECEIVABLES

	Group 2010 RMB'000	Group 2009 RMB'000
Trade receivables	727,056	521,691
Bills receivables	–	1,064
	727,056	522,755

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group's trade receivables relate to a number of diversified customers and there is certain concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group 2010 RMB'000	Group 2009 RMB'000
Neither past due nor impaired	525,196	274,962
Less than 3 months past due	161,405	185,595
Past due between 3 to 9 months	40,455	59,434
Past due over 9 months	–	1,700
	727,056	521,691

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.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Prepayments	105,048	22,374	4,164	386
Advance payments to suppliers	227,668	50,649	–	–
Other deposits	4,544	2,662	342	352
Other receivables	6,000	3,841	–	1
	343,260	79,526	4,506	739

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.

22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Time deposits	42,817	450,489	42,817	120,592
Cash and bank balances	2,400,885	2,047,146	20,374	122,656
	2,443,702	2,497,635	63,191	243,248

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB2,372,886,000 (2009: RMB1,919,071,000). 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 are deposited with creditworthy banks with no recent history of default.

23. TRADE AND BILLS PAYABLES

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

	Group	
	2010 RMB'000	2009 RMB'000
Within 3 months	585,922	365,594
3 to 6 months	38,911	47,749
6 to 12 months	14,096	24,579
Over 1 year	212	1,005
Trade payables	639,141	438,927
Bills payable	–	471
Trade and bills payables	639,141	439,398

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

24. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Deposits received	30,865	45,618	–	–
Accruals	83,808	54,231	10,308	4,441
Value-added tax ("VAT") payables	32,871	23,925	–	–
Other payables	17,049	41,720	–	–
	164,593	165,494	10,308	4,441

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

25. DEFERRED TAX LIABILITIES

Group

	Withholding taxes RMB'000
At 1 January 2009	2,824
Deferred tax charged to the income statement during the year (note 10)	24,444
At 31 December 2009 and 1 January 2010	27,268
Deferred tax charged to the income statement during the year (note 10)	12,600
At 31 December 2010	39,868

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 tax is 5%. In estimating the withholding taxes on dividends expected to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008, the directors have made assessment based on the factors which included dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future.

At 31 December 2010, there were no significant unrecognised deferred tax liabilities (2009: Nil) for withholding taxes that would be payable on the unremitted earnings of the Company's subsidiaries expected to be distributed, after considering the abovementioned factors, in the foreseeable future.

26. SHARE CAPITAL

At 31 December 2010

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

At 31 December 2009

	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

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

	Note	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares HK$'000	Nominal value of ordinary shares RMB'000
Issued ordinary shares				
At 1 January 2009, 31 December 2009 and 1 January 2010		2,173,645,000	21,736	19,177
Exercise of share options	(i)	2,355,000	24	20
At 31 December 2010		2,176,000,000	21,760	19,197

Note:

(i) The subscription rights attaching to 2,025,000 and 330,000 share options granted under the Pre-IPO Scheme and the Share Option Scheme (as defined in note 28) were exercised at the subscription price of HK$3.24 per share and HK$4.11 per share, respectively, resulting in the issue of 2,355,000 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$7,917,000 (equivalent to RMB6,834,000). An amount of HK$1,759,000 (equivalent to RMB1,528,000) was transferred from the share option reserve to the share premium account upon the exercise of the share options

Share option schemes

Details of the Company's share option schemes and the share options issued under the schemes are included in note 28 to the financial statements.

27. RESERVES

(a) Group

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

(i) Capital reserve

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

(ii) Statutory surplus fund

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

(iii) Exchange fluctuation reserve

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

(b) Company

	Notes	Share premium account RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profit/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2009		1,913,010	3,956	(15,604)	(13,986)	1,887,376
Profit for the year		–	–	–	54,199	54,199
Other comprehensive income						
Exchange realignment		–	–	(1,881)	–	(1,881)
Total comprehensive income for the year		–	–	(1,881)	54,199	52,318
Equity-settled share option transactions	28(a), (b)	–	8,042	–	–	8,042
2008 final dividend declared and paid	12	(153,286)	–	–	–	(153,286)
2008 special dividend declared and paid	12	(95,803)	–	–	–	(95,803)
2009 interim dividend declared and paid	12	(134,094)	–	–	–	(134,094)
At 31 December 2009 and 1 January 2010		1,529,827	11,998	(17,485)	40,213	1,564,553
Loss for the year		–	–	–	(3,523)	(3,523)
Other comprehensive income						
Exchange realignment		–	–	(36,951)	–	(36,951)
Total comprehensive income for the year		–	–	(36,951)	(3,523)	(40,474)
Equity-settled share option transactions	28(a), (b)	–	10,153	–	–	10,153
2009 final dividend declared and paid	12	(189,890)	–	–	–	(189,890)
2009 special dividend declared and paid	12	(94,945)	–	–	–	(94,945)
2010 interim dividend declared and paid	12	(186,638)	–	–	–	(186,638)
Exercise of share options		8,342	(1,528)	–	–	6,814
At 31 December 2010		1,066,696	20,623	(54,436)	36,690	1,069,573

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.

28. SHARE OPTION SCHEMES

(a) Pre-IPO share option scheme

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

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

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

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

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

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

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

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

On 7 May 2008, an aggregate of 19,000,000 share options (the "Pre-IPO Share Options") under the Pre-IPO Scheme were issued to certain employees and Directors of the Group. The exercise prices and exercise periods of the Pre-IPO Share Options outstanding at 31 December 2010 were as follows:

Number of options	Exercise price per share	Exercise period
4,380,000	HK$3.24*	3 June 2009 to 2 June 2018
4,995,000	HK$3.24*	3 June 2010 to 2 June 2018
7,600,000	HK$3.24*	3 June 2011 to 2 June 2018
16,975,000		

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

The fair value of the Pre-IPO Share Options granted during the year ended 31 December 2008 was estimated at RMB10,815,000, of which the Company recognised a share option expense of RMB2,035,000 (2009: RMB5,764,000) during the year.

At the end of the reporting period and up to the date of approval of these financial statements, the Company had outstanding Pre-IPO Share Options for the subscription of 16,975,000 shares under the Pre-IPO Scheme, which represented approximately 0.8% of the issued share capital of the Company as at that date. The exercise in full of the outstanding Pre-IPO Share Options would, under the present capital structure of the Company, result in the issue of 16,975,000 additional ordinary shares of the Company and additional share capital of HK$169,750 (equivalent to RMB145,000) and share premium account of HK$54,829,000 (equivalent to RMB46,850,000), 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 and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. No option may be granted to any person such that the total number of shares of the Company issued and to be issued upon exercise of all options granted and to be granted to each participant in any 12-month period up to the date of the latest grant exceeds 1% of the number of shares of the Company in issue.

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

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

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

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

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

	2010 Weighted average exercise price HK$ per share	2010 Number of options '000	2009 Weighted average exercise price HK$ per share	2009 Number of options '000
At 1 January	4.11	10,000	–	–
Granted during the year	5.01	500	4.11	10,000
Granted during the year	6.13	600	–	–
Granted during the year	6.00	10,000	–	–
Exercised during the year	4.11	(330)	–	–
At 31 December	5.10	20,770	4.11	10,000

The weighted average share price at the date of exercise for share options exercised during the year was HK$5.97 per share.

On 28 January 2010, 30 March 2010 and 28 May 2010 ("Dates of Grant"), an aggregate of 11,100,000 share options (the "Share Options") under the Share Option Scheme were granted to certain employees and Directors of the Group. The exercise prices and exercise periods of the Share Options outstanding at 31 December 2010 and 2009 were as follows:

2010

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

2009

Number of options	Exercise price per share	Exercise period
3,000,000	HK$4.11	29 July 2010 to 28 July 2019
3,000,000	HK$4.11	29 July 2011 to 28 July 2019
4,000,000	HK$4.11	29 July 2012 to 28 July 2019
10,000,000		

The fair value of the Share Options granted during the year was estimated at RMB17,970,000, of which the Company recognised a share option expense of RMB3,920,000 during the year ended 31 December 2010.

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

	2010	2009
Exercise price (HK$ per share)	5.01– 6.13	4.11
Expected dividend yield (%)	3.593 to 4.495	4.879
Expected volatility (%)	49.954 to 61.388	54.122 to 65.679
Risk-free interest rate (%)	0.241 to 1.285	0.100 to 0.954
Expected life of share options (years)	1 to 3	1 to 3
Weighted average share price at grant date (HK$ per share)	5.85	4.12

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

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

At the end of the reporting period, the Company had outstanding Share Options for the subscription of 20,770,000 shares under the 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 Share Options would, under the present capital structure of the Company, result in the issue of 20,770,000 additional ordinary shares of the Company and additional share capital of HK$207,700 (equivalent to RMB177,500) and share premium account of HK$105,719,000 (equivalent to RMB90,337,000), before related issuance expenses.

Subsequent to year end, on 14 January 2011, a total of 60,000,000 share options were granted to certain employees and Directors of the Group under the Share Option Scheme.

At the date of approval of these financial statements, the Company had outstanding Share Options for the subscription of 80,770,000 shares under the Share Option Scheme, which represented approximately 3.7% of the issued share capital of the Company as at that date.

29. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities (2009: Nil).

At 31 December 2010, the banking facilities granted to a subsidiary subject to corporate guarantee given to a bank by the Company were not utilised (2009: RMB471,000).

30. OPERATING LEASE ARRANGEMENTS

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

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

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Within one year	7,195	6,933	1,190	1,206
In the second to fifth years, inclusive	15,202	12,044	3,797	–
	22,397	18,977	4,987	1,206

31. COMMITMENTS

(a) In addition to the operating lease commitments detailed in note 30 above, the Group had the following commitments at the end of the reporting period:

	2010 RMB'000	2009 RMB'000
Contracted for commitments in respect of its wholly-foreign-owned subsidiaries in the PRC	–	651,470
Contracted for commitments in respect of:		
– construction of new buildings	2,117	2,692
– advertising and promotional expenses	170,231	59,973
	172,348	62,665
	172,348	714,135

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

At 31 December 2010, the Company did not have any significant commitment (2009: Nil).

32. 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:

	2010 RMB'000	2009 RMB'000
Short term employee benefits	3,995	2,896
Equity-settled share option expense	1,560	455
Post-employment benefits	112	48
Total compensation paid to key management personnel	5,667	3,399

33. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

Financial assets

Loans and receivables

	2010 RMB'000	2009 RMB'000
Trade and bills receivables	727,056	522,755
Other receivables (note 21)	6,000	3,841
Cash and cash equivalents	2,443,702	2,497,635
	3,176,758	3,024,231

Financial liabilities

Financial liabilities at amortised cost

	2010 RMB'000	2009 RMB'000
Trade and bills payables	639,141	439,398
Other payables (note 24)	17,049	41,720
	656,190	481,118

Company

Financial assets

Loans and receivables

	2010 RMB'000	2009 RMB'000
Due from a subsidiary	96,296	96,296
Other receivables (note 21)	–	1
Cash and cash equivalents	63,191	243,248
	159,487	339,545

At the end of the reporting period, the Company did not have any financial liabilities.

34. FAIR VALUE

Cash and bank balances, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and amounts due from subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, comprise cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

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

Foreign currency risk

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

Credit risk

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

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

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

Interest rate risk

The Group does not have any significant exposure to risk of changes in market interest rate 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 end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

On demand and within 1 year

	2010 RMB'000	2009 RMB'000
Other payables	17,049	41,720
Trade and bills payables	639,141	439,398
	656,190	481,118

Commodity price risk

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

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratio in order to support its business and maximise shareholders' value. The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 31 December 2009.

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

Group

	2010 RMB'000	2009 RMB'000
Cash and cash equivalents	2,443,702	2,497,635
Total capital	3,352,333	2,984,080
Net cash-to-capital ratio	(0.7)	(0.8)

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 March 2011.

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

"BCFC"	Birmingham City Football Club
"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
"Carling Cup"	The Football League Cup, commonly known as the League Cup or, from current sponsorship, the Carling Cup, is an English football competition
"Company" or "Xtep"	Xtep International Holdings Limited
"Corporate Governance Code"	Code on Corporate Governance Practices
"Director(s)"	The director(s) of the Company
"DRP System"	Distribution Resource Planning System
"EPL"	English Premier League
"GDP"	Gross domestic product
"Group"	The Company and its subsidiaries
"Group Success"	Group Success Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 23 February 2007, the entire issued share capital of which is directly owned as to 63.2% by Mr. Ding Shui Po and 36.8% by Ms. Ding Mei Qing
"HK$" and "HK cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IAAF Shanghai Diamond League"	International Association of Athletics Federations Diamond League Shanghai
"Listing Date"	3 June 2008, on which dealing in the Shares first commence on the Hong Kong Stock Exchange
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Macau"	Macau Special Administrative Region of the PRC
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers

"Other brands"	Disney Sport brand and Koling brand collectively
"PLM"	Product Lifecycle Management
"PRC"	The People's Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan
"Pre-IPO Share Option Scheme"	The share option scheme for employees of the Group approved and adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed "Pre-IPO Share Option Scheme" in Appendix VI to the Prospectus
"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
"SKU"	Stock keeping unit
"TDR"	Taiwan Depositary Receipts
"UEFA"	The Union of European Football Associations
"UEFA Europa League"	The UEFA Europa League (previously called the UEFA Cup) is an annual association football cup competition organized by UEFA since 1971 for eligible European football clubs
"Xtep (China)"	Xtep (China) Co., Ltd., an indirect wholly-owned subsidiary of the Group

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