



Chairman's Statement



XTEP:
**“Sports like no
other”** aim to
become a world-class
leading fashion
sportswear brand



Ding Shui Po
Chairman



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 2009.

EXTRAORDINARY GROWTH


In the first half of 2009, the global market was still under the haze of the financial crisis and the world economy remained unstable. Under the PRC government's aggressive financial policies together with revitalization measures for progressive action on urbanization and domestic consumption, there appeared significant recovery in the domestic economy in the second half of the year. With the improving economic environment in the second half of 2009, the Group continued to promote Xtep brand through innovative sports and entertainment marketing strategies, therefore tremendously enhanced the recognition of Xtep brand and accordingly accelerated the expansion of the Group's retail network. As the Group implemented stringent control over the retail network operating efficiency which resulted in increase of average sales per store. The Group has succeeded in achieving extraordinary results and a pleasing performance in every aspect.

Total revenue of the Group for the year was RMB3,545.3 million (2008: RMB2,867.2 million), representing an increase of 24% over last year. Of which, revenue from Xtep brand increased significantly by approximately 28% to RMB3,330.8 million (2008: RMB2,606.2 million). Overall gross profit margin of the Group rose to 39.1% (2008: 37.1%). Profit attributable to shareholders was approximately RMB647.5 million (2008: RMB508.2 million), representing an increase of 27% over last year. Basic earnings per Share were RMB29.79 cents (2008:

RMB26.84), representing an increase of 11%. The reason for lesser growth in basic earnings per Share as compared to the growth in profit attributable to shareholders was due to the listing of the Group on 3 June 2008 and thus the calculation of the weighted average number of shares for 2008 was based on approximately 1.894 billion Shares while that for 2009 was based on 2.174 billion Shares. Given the satisfactory results and the adequate surplus cash balances, to reward the support of the Shareholders, the Board recommended the payment of a final dividend of HK10.0 cents per Share (2008: HK8.0 cents per Share) and a special dividend of HK5.0 cents per Share (2008: HK5.0 cents per Share). Together with an interim dividend of HK7.0 cents per Share (2008: HK5.0 cents per Share), the total dividend for the year amounted to HK22.0 cents per Share (2008: HK18.0 cents per Share), representing an increase of 22%. The total dividend payout ratio for the year amounted to 65%.

 Revenue from *Xtep brand*

+28%

To approximately
RMB 3,331 million 





BRAND ENHANCEMENT

The Group aims to develop Xtep brand into a world-class leading fashion sportswear brand and has continuously focused on branding by means of sponsoring nationwide and international events, high-profile sports events and adopting innovative entertainment marketing promotion. The recognition of Xtep brand has been strengthened and stepped towards a breakthrough in brand development. In October 2009, we were re-appointed as the sole sports product partner for the 11th National Games. The National Games is an important sports event in China organized every four years, attracting hundreds of millions of spectators. The Group is very honoured to be the sole sports product partner for the National Games again in 2009 and all of the eight representative teams we sponsored achieved satisfactory results. The sponsorship increased the recognition of Xtep brand in China significantly.

Apart from national contests, the Group is also very supportive to other major sports events in China. We believe that sponsoring these major sports events does not only enhance Xtep's brand image but also provides support to the development of domestic sports industry. To promote the spirit of "Sports for All" and be in line with the strengthening of Xtep brand's recognition in the running arena, the Group expands sponsorship and promotions in key running contests, including the Group's appointment as the sole sports product partner for the Xiamen International Marathon for five consecutive years from 2009 to 2013.

Brand differentiation has been a competitive advantage of the Group. To strengthen Xtep brand's leading position in the fashion sportswear sector, we take advantage of the influence of well-known entertainment icons among youngsters to promote through entertainment marketing events. During 2009, in the key PRC markets, the Group organized the "2009 Xtep Stars Nationwide Concert Tour" performed by Xtep brand's spokespersons. Besides, the Group appointed the top five winners of last year's hottest Chinese singing contest "Super Girl Talent Show", to be additional spokespersons. They held concerts in major cities in the PRC which were solely sponsored by Xtep brand, which drew in great publicity. All these superstars concerts have attracted wide coverage of the media, including television, magazines, newspapers and the internet, strengthening Xtep brand's recognition and its leading position in the fashion trends.

The Group fully understands the importance of marketing promotions. To further intensify our brand promotions, we continue to optimize media's channels for promotions. This year, the Group became a partner of CCTV for its live match programs from 2009 to 2010. Furthermore, the penetration of TV commercials and TV program sponsorship with extremely high national viewing ratings such as Hunan Satellite and Anhui Satellite has further increased Xtep brand's recognition among the TV audience.





“LOVE RUNNING, LOVE XTEP”

Among the sports industry in China, running products have enormous potentials for growth. Therefore, we focus on improving the design and functionality factors in our running product series, including the launch of various new series of lightweight, shock resistant and fashionable light running shoes. Xtep has been actively strengthening the fashion sense and functionality of product designs. The Group cooperates closely with design teams in the England, France and Korea in launching multi-functional and trend-setting new products and has succeeded in developing fashion products featuring cold protection, sweat absorption, UV resistance and 3D cutting. The Group believes that products blending fashion and functionality is an important strategy for Xtep brand to be successful in attracting and retaining consumers.

The Group has devoted respective resources into the running product series to increase market attention. During the year, the Group has launched new TV commercials at major television channels such as CCTV, Hunan Satellite and Anhui Satellite with the slogan of “Love Running, Love Xtep”, aiming to enhance the brand position of Xtep brand’s running shoes series among consumers.

NETWORK EXPANSION

During the year, the Group strived continuously to enhance the retail network so as to face a challenging market environment. Therefore, the Group made comprehensive improvements aspects of site selections, store image designs and customer services. Given the tremendous rise in the recognition of Xtep brand, Xtep brand’s products are extremely popular in China’s second and third-tier markets. As at 31 December 2009, the number of Xtep brand retail outlets had already reached 6,103 (2008: 5,056), representing an increase of approximately 21% over last year and exceeding our target of 5,800 outlets set in 2009. Currently, most of the Xtep brand retail outlets in the country have been renewed into the fifth-generation shop design and over 85% of the retail outlets are located in the second and third-tier markets. We believe that innovative store designs will provide customers with a more pleasant shopping environment and enhance consumer satisfaction.

Establishment of flagship stores is an important part of brand building of the Group’s image. As at 31 December 2009, the total number of Xtep brand flagship stores in China reached 30 outlets. The Chinese economy has been growing fast, especially astounding economic developments in the second- and third-tier cities. We have placed second and third-tier cities as the core markets for development, in particular the immense market potentials hidden in Central and North East of China. Currently, Xtep brand has already established its leading market position in areas of the Hunan Province, hence provided a solid foundation for further market expansion in other second and third-tier cities so that more Chinese consumers can experience the extraordinary brand essence of Xtep brand.





DISTINGUISHED MANAGEMENT

We place great emphasis on corporate management. To further enhance management systems for increased project operating efficiency, we are active in improving supply chain and strengthening management in design, production, sales and distribution, with an aim to promptly react to the continuously changing market needs and fashion trends. In 2009, real-time monitoring of the distribution resource planning (DRP) system adopted by the Group covered approximately 50% of Xtep brand nationwide retail outlets. The DRP system is capable of tracking real-time sales, inventory and product conditions, hence enabling the Group to be more effective in planning and monitoring of sales and market conditions.

Thanks to the rising brand image and recognition of Xtep brand together with the dedicated work and efforts of the entire management and staff towards the Group, I was very honored to be awarded the “Ernst & Young Entrepreneur of the Year” for 2009 China, organized by Ernst & Young and selected by an independent and professional panel of experts. This award is being praised in the market as the “Oscars” for the business sector. Furthermore, in March 2010, the Group was accredited by Hang Seng Indexes as a constituent of three Hang Seng Composite Index series namely:

- a) Hang Seng Composite Index;
- b) Hang Seng Composite Industry Index – Consumer Goods; and
- c) Hang Seng Composite Small Cap Index.

Having such prestigious award and accreditation are great encouragements for our future corporate developments.

WORLD-CLASS BRAND, CHINA MARKET

Along with the effective and sustained economic development, speedy urbanization reforms and aggressive promotion of domestic demand and consumption in China, the Chinese consumers are expected to grow continuously in the long run. The sports industry is going to be one of the key industries supported by the Chinese government and the domestic sports product industry will continue to benefit from it in the foreseeable future. To increase the presence of Xtep brand as a world-class brand, the Group will continue to strengthen brand building, product innovation, network expansion and distinguished management.

The Shanghai World Expo to be held in 2010 will be a world-class event for China to demonstrate the country's culture, economy and enterprises to the world. The Group is very proud to become the principal sponsoring partner for the volunteers of the Shanghai World Expo 2010. All volunteers within the Expo arena will wear exclusive “Expo Xtep” sports outfits as designed and provided by the Group. Therefore, participants of different races, countries and enterprises will take note of the fashion and high quality of the sportswear provided by the Group, again raising Xtep brand's position in world-class events.

To enable the staging of Xtep brand at top sports contests going forward, the Group is competing aggressively for the cooperation with international teams. In January 2010, the



Group made a breakthrough development by concluding an agreement with one of the world's top class football leagues, the English premier league, Birmingham City Football Club for the appointment as the sole sports product sponsor for five years from August 2010 to May 2015. Such sponsorship has made history at which Xtep brand will become China's first sports brand to appear on stage as a sponsor at an English premier league. The global broadcast of the contests for the next five years will be watched by hundreds of millions of soccer fans and spectators and they will watch players of the Birmingham team wearing professional and fashionable "Xtep-Birmingham" outfits designed and sponsored by the Group which are capable of demonstrating the dynamic movements of the various players in world-class professional football matches. 2010 is also the year of the World Cup. Therefore, the Group also teamed up with one of the key domestic websites Sohu in becoming the sports product sponsor for Sohu's World Cup website. Taking advantage of Sohu's huge customer base, latest products and updates of Xtep brand will be promoted to the web-viewers while they are browsing the latest news and match results at the website.

To enhance the quality of product designs, the Group will recruit more renowned designers with international experience to join our design team and will set up a R&D center equipped with advanced design facilities in Guangzhou with an aim to launch more new-style products going forward. Besides, the Group will launch the design of Xtep "ultra-light marathon shoes" exclusively for long-distance running events and various fashionable shock-resistant shoes series to strengthen the promotion of running shoes.

The Group also plans to continue the expansion of domestic sales network. In 2010, we plan to increase 800-1,000 Xtep brand retail outlets and 5-8 flagship stores in the premier areas to lift Xtep's brand position.

The Group also places great emphasis on management quality. Going forward, we will continue to focus on the improvement of corporate governance practice, operational strategy and financial management of the management team. Furthermore, we will continue our stringent control and management of the sales channel network and operations of the supply chain. The Group will continue to develop multi-brand strategy and pay close attention to opportunities to expand the multi-brand operation.

SINCERE GRATITUDE

The Group's capability in maintaining distinguished growth is attributed to the loyal services and the relentless efforts of the management and the staff. On behalf of the Board, I would like to take this opportunity to extend my heartfelt thanks to all of our staff for their contributions made during the year. I would also like to express my sincere gratitude to our Shareholders and business partners for their long-term support and trust. The Group will continue to advance its position to become a world-class leading fashion sportswear brand.

Ding Shui Po

Chairman

Hong Kong, 29 March 2010







**Ardent
Summer Passion**

