

Report of the Directors



The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in the design, development, manufacture and marketing of sportswear, including footwear, apparel and accessory products, sold under the Xtep brand and the Koling brand, which are owned by us, and the Disney Sport brand, which is licensed by The Walt Disney Company (Shanghai) Limited to the Group in the PRC 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 2009 are set out in note 18 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2009 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 78 to 131 of this annual report.

DIVIDENDS

An interim dividend of HK7.0 cents (equivalent to RMB6.2 cents) per Share was paid to our Shareholders during the year. The Board recommended a final dividend of HK10.0 cents (equivalent to RMB8.8 cents) per Share and a special dividend of HK5.0 cents (equivalent to RMB4.4 cents) per Share for the year ended 31 December 2009, subject to approval by the Shareholders at the annual general meeting to be held on 5 May 2010. The total dividends for the year ended 31 December 2009, which include the interim, final and special dividends, amounted to a total dividend of HK22.0 cents (equivalent to RMB19.4 cents) per Share, represented an increase of 22% from last year and represented a payout ratio of 65%.

RESERVES

Details of movements in reserves of the Company and the Group are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2009, 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 RMB1,570.0 million. The amount of approximately RMB1,570.0 million includes the Company's share premium account of approximately RMB1,529.8 million and retained profit of approximately RMB40.2 million in aggregate as at 31 December 2009, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to approximately RMB6.4 million (2008: RMB6.7 million).

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group for the year ended 31 December 2009 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 2009 are set out in note 28 to the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2009 were:

EXECUTIVE DIRECTORS

Mr. Ding Shui Po (*Chairman*)
 Ms. Ding Mei Qing
 Mr. Lin Zhang Li
 Mr. Ding Ming Zhong
 Mr. Ye Qi

NON-EXECUTIVE DIRECTOR

Mr. Xiao Feng

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.

Each of the executive, non-executive and independent non-executive Directors on the Board during the year ended 31 December 2009 has entered into a service contract with the Company for an initial term of three, one and two year(s), respectively, commencing from 3 June 2008 and thereafter may be terminated by either party upon a three-month prior written notice.

In accordance with article 87 of the Company's articles of association, Ms. Ding Mei Qing, Mr. Xu Peng Xiang and Dr. Gao Xian Feng will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Mr. Ho Yui Pok, Eleutherius and Mr. Tan Wee Seng whose appointment as an executive Director and non-executive Director, respectively, with effect from 29 March 2010 will be subject to election by Shareholders of the Company at the forthcoming annual general meeting to be held on 5 May 2010.

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 52 to 55 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 2009.

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

As at 31 December 2009, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been

notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

LONG POSITIONS IN THE COMPANY

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

Notes:

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

Save as disclosed above, as at 31 December 2009, none of the Directors or chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

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

SHARE OPTION SCHEMES

PRE-IPO SHARE OPTION SCHEME

The Company has adopted the Pre-IPO Share Option Scheme on 7 May 2008 for the purpose of giving its employees an opportunity to have a personal stake in the Company and helping motivate its employees to optimize their performance and efficiency, and retaining its employees whose contributions are important to the long-term growth and profitability of the Group. Options to subscribe for an aggregate of 19,000,000 Shares were granted

to one executive Director, six members of the senior management of the Group and 52 employees on 7 May 2008. The exercise price per Share is HK\$3.24, being a discount of 20% to the global offering price. No further options would be granted under the Pre-IPO Share Option Scheme on or after the Listing Date. All options granted under the Pre-IPO Share Option Scheme may be exercised during the option period commencing from the end of twelve months after the Listing Date to the date falling 10 years from the offer date of the options and can only be exercised in the following manner:

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

Accordingly, there is no exercise of such options granted for the year ended 31 December 2009.

Name	Number of Shares to be issued upon full exercise of the Pre-IPO Share Option Scheme	Approximate percentage of total issued share capital of the Company
Director Mr. Ye Qi	1,500,000	0.07%
Senior Management In aggregate	4,000,000	0.18%

SHARE OPTION SCHEME

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

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



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

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

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

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

Details of the share options granted under the Share Option Scheme as at 31 December 2009 are as follows:

Category of participants	Date of grant	Exercise price per Share	Exercise period	Balance as at 1 January 2009	Granted during 2009	Balance as at 31 December 2009
Senior Management In aggregate	29 July 2009	HK\$4.11	29 July 2010 – 28 July 2020	–	1,500,000	1,500,000
Other Employees In aggregate	29 July 2009	HK\$4.11	29 July 2010 – 28 July 2020	–	8,500,000	8,500,000
Total				–	10,000,000	10,000,000

During the year ended 31 December 2009, no options granted under the Share Option Scheme were exercised, lapsed or cancelled.

Notes:

- 1. The closing price per Share immediately before 29 July 2009 (the date on which the option were granted) was HK\$4.18.

Share options granted under the Share Option Scheme on 29 July 2009 shall vest in the grantees in accordance with the timetable below with a 10-year exercise period (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 Share Options granted
Second anniversary of the Date of Grant	30% of the total number of Share Options granted
Third anniversary of the Date of Grant	40% of the total number of Share Options granted

Further details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 30 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 share in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

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

So far as is known to any Director or chief executive of the Company, as at 31 December 2009, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Nature of Interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company
Group Success	Beneficial interests	1,418,059,500	65.24%
Carlyle Asia Growth Partners III, L.P.	Beneficial interests	201,655,919	9.28%
CAGP III Co-investment, L.P.	Beneficial interests	8,044,581	0.37%
CAGP General Partner, L.P.	Interests of controlled corporation ⁽¹⁾	209,700,500	9.65%
CAGP Ltd	Interests of controlled corporation ⁽¹⁾	209,700,500	9.65%
Wellington Management Company, LLP	Investment manager	110,130,545	5.07%

Note:

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

Save as disclosed above, as at 31 December 2009, the Directors of the Company are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company which would require to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.





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 2009.

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 2009.

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 2009 and up to and including the date of this annual report.

MANAGEMENT CONTRACTS

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

PRE-EMPTIVE RIGHTS

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

EMOLUMENT POLICY

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

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

The Company has adopted two share option schemes to motivate and reward its Directors and eligible employees. Details of these schemes are set out in the paragraph headed "Share Option Schemes" above and note 30 to the financial statements.

None of the directors waived any emoluments during the year.

PENSION SCHEME

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

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



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

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's largest and five largest customers were 10.0% (2008: 6.0%) and 33.4% (2008: 25.1%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 6.6% (2008: 4.9%) and 21.6% (2008: 17.4%) of the Group's total purchases respectively.

At no time during the year ended 31 December 2009, did a Director, his/her associate(s) or a Shareholder, which to the knowledge of the Director owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers and suppliers.

AUDITORS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the year ended 31 December 2009.

BANK LOANS

Details of bank loans of the Company and the Group as at 31 December 2009 are set out in note 25 to the financial statements.

FIVE-YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 10 and 11 of this annual report.

On behalf of the Board

Ding Shui Po

Chairman

Hong Kong, 29 March 2010







Expand Border
to the World

