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, the Disney Sport brand and the Koling Brand. There were no significant changes in the nature of the Group's principal activities during the year.

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

2.1 BASIS OF 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, except for the derivative component of preferred shares, which has been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all amounts are rounded to the nearest thousand except where otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2009. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
HKFRS 8	Operating Segments
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment *	Amendments to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers (adopted from 1 July 2009)*
Improvements to HKFRSs (October 2008) **	Amendments to a number of HKFRSs

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

** The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 *Non-current assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*, which is effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of HKAS 1 (Revised), the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

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 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards* [1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters* [2]
HKFRS 1 Amendment	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [4]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions* [2]
HKFRS 3 (Revised)	*Business Combinations* [1]
HKFRS 9	*Financial Instruments* [6]
HKAS 24 (Revised)	*Related Party Disclosures* [5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners* [1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [4]
Amendments to HKFRS 5 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* [1]
HK Interpretation 4 *(Revised in December 2009)*	Leases – *Determination of the Length of Lease Term in respect of Hong Kong Land Leases* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2010
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have significant impact on its 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 part of property, plant and equipment are required to be replaced at internals, 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, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years/periods. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

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, pledged deposits, 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 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, interest-bearing bank borrowings 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 outside profit or loss, 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.

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external professional qualified valuer using an appropriate pricing model, further details of which are given in note 30 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 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 in 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.

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 recorded by the entities in the Group. 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.

Preferred shares

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

Treasury shares

Own equity instruments which are reacquired are 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 uncertainly

The key assumptions concerning the future and other key sources of estimation uncertainly at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amount 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 30 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 Trinormal Option Pricing Model. The significant inputs into the model were the weighted average share price at the grant date, risk-free interest rate, exercise price, expected volatility of the underlying shares, expected dividend yield and expected life of options. When the actual results of the inputs differ from management's estimate, it will have an impact on share option expenses and the related share option reserve of the Company. As at 31 December 2009, the fair value of the share options granted by the Company was RMB9,540,000, of which share option expense of RMB2,278,000 was recognised during the year.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2009 was RMB56,218,000 (2008: RMB21,685,000). Further details are set out in note 10 to the financial statements.

4. SEGMENT INFORMATION

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

	2009 RMB'000	2008 RMB'000
Revenue		
Manufacture and sale of sportswear:		
Footwear	1,619,132	1,454,596
Apparel	1,874,461	1,350,976
Accessories	51,743	61,609
	3,545,336	2,867,181
Other income and gains		
Rental income	616	570
Subsidy income from the PRC government *	4,932	4,221
Others	5,140	336
	10,688	5,127
	3,556,024	2,872,308

* 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	2009 RMB'000	2008 RMB'000
Cost of inventories sold *		2,157,549	1,802,879
Depreciation	14	15,383	11,784
Amortisation of prepaid land lease payments	15	502	502
Amortisation of intangible assets **	17	176	71
Employee benefit expenses (including directors' remuneration – note 8):			
Wages and salaries		163,178	137,777
Other allowances and benefits		11,046	9,921
Equity-settled share option expense		8,042	3,956
Pension scheme contributions ***		10,209	9,025
		192,475	160,679
Auditors' remuneration		2,627	2,226
Minimum lease payments under operating leases of land and buildings		4,720	1,577
Research and development costs ****		56,735	45,216

* The cost of inventories sold for the year includes RMB121,076,000 (2008: RMB105,214,000), 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 2009, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2008: Nil).

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

7. FINANCE INCOME/(COSTS), NET

An analysis of finance income/(costs) is as follows:

	Notes	Group 2009 RMB'000	Group 2008 RMB'000
Interest on bank loans wholly repayable within five years		(10,598)	(12,489)
Interest expense on preferred shares	26	–	(239)
Foreign exchange differences, net		(3,630)	(28,745)
Bank interest income		15,088	27,085
Fair value gain on derivative component of preferred shares	26	–	1,156
		860	(13,232)

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 2009 RMB'000	Group 2008 RMB'000
Fees:		
Executive directors	–	–
Non-executive director	–	–
Independent non-executive directors	572	335
	572	335
Other emoluments of executive directors:		
Salaries, other allowances and benefits in kind	2,896	2,146
Equity-settled share option expense	455	312
Pension scheme contributions	48	15
	3,399	2,473
	3,971	2,808

In prior year, a director was granted share options, in respect of his services to the Group, under the pre-initial public offering ("IPO") share option scheme of the Company, further details of which are set out in note 30(a) 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.

(a) Executive directors

	Salaries, other allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2009					
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
2008					
Ding Shui Po	763	–	–	3	766
Ding Mei Qing	381	–	–	3	384
Lin Zhang Li	381	–	–	3	384
Ding Ming Zhong	381	–	–	3	384
Ye Qi	240	–	312	3	555
	2,146	–	312	15	2,473

(b) Non-executive director

There were no emoluments payable to Xiao Feng, the non-executive director, during the year (2008: Nil).

(c) Independent non-executive directors

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

	2009 RMB'000	2008 RMB'000
Sin Ka Man	212	125
Xu Peng Xiang	180	105
Gao Xian Feng	180	105
	572	335

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2008: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining one (2008: one) non-director, highest paid employee for the year are as follows:

	Group	
	2009 RMB'000	2008 RMB'000
Salaries, allowances and benefits in kind	1,190	1,171
Equity-settled share option expense	645	208
Pension scheme contributions	59	54
	1,894	1,433

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

	Number of employees	
	2009	2008
RMB1,000,001 to RMB1,500,000	–	1
RMB1,500,001 to RMB2,000,000	1	–
	1	1

In current 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 30(b) to the financial statements. In prior year, share options were granted to the non-director, highest paid employee in respect of his services to the Group, under the pre-IPO share option scheme of the Company, further details of which are set out in note 30(a) to the financial statements. The fair values of these options, which have 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 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 did not generate any assessable profits arising in Hong Kong during the year (2008: Nil). Taxes on profits assessable elsewhere have been calculated at the prevailing rates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2009 RMB'000	2008 RMB'000
Current tax – Overseas		
Charge for the year	29,475	66,423
Underprovision in prior years	782	–
Deferred (note 27)	24,444	2,824
	54,701	69,247

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 years ended 31 December 2008 and 2009. 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 years ended 31 December 2008 and 2009 and thereafter will be entitled to a 50% reduction in the PRC corporate income tax for the subsequent three years. 廈門特步投資有限公司 ("Xtep Xiamen"), a wholly-owned subsidiary of the Company, has been granted certain tax relief whereby the profit of Xtep Xiamen was taxed at the prevailing tax rate set by the local tax authority of 18% for the year ended 31 December 2008 and at 20% for the year ended 31 December 2009.

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	
	2009 RMB'000	2008 RMB'000
Profit before tax	702,222	577,419
Tax at the applicable tax rates	180,681	146,995
Lower tax rates for specific provinces or tax holidays	(193,964)	(86,860)
Adjustments in respect of current tax of previous years	782	–
Income not subject to tax	(546)	(5,181)
Expenses not deductible for tax	37,606	7,891
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	24,444	2,824
Tax losses not recognised	5,698	3,578
Tax charge at the Group's effective rate	54,701	69,247

The Group has tax losses arising in Hong Kong of approximately RMB34,533,000 for the year (2008: RMB21,685,000) 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 2009 (2008: 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 2009 includes a profit of RMB54,199,000 (2008: loss of RMB13,187,000) which has been dealt with in the financial statements of the Company (note 29(b)).

12. DIVIDENDS

	2009 RMB'000	2008 RMB'000
Dividends paid during the year:		
Final in respect of the financial year ended 31 December 2008		
– HK8.0 cents per ordinary share (2008: Nil)	153,286	–
Special in respect of the financial year ended 31 December 2008		
– HK5.0 cents per ordinary share (2008: Nil)	95,803	–
Interim – HK7.0 cents (2008: HK5.0 cents) per ordinary share	134,155	96,296
	383,244	96,296
Proposed final and special dividends:		
Final – HK10.0 cents (2008: HK8.0 cents) per ordinary share	191,368	153,286
Special – HK5.0 cents (2008: HK5.0 cents) per ordinary share	95,684	95,803
	287,052	249,089

The proposed final and special dividends for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect the final and special 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 RMB647,521,000 (2008: RMB508,172,000) and the number of ordinary shares in issue during the year of 2,173,645,000 (2008: the weighted average number of shares in issue of 1,893,638,311 as adjusted to reflect the conversion of preferred shares, capitalisation issues and the share offering during the year).

(b) Diluted earnings per share

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.

The calculations of diluted earnings per share amount for the year ended 31 December 2008 is based on the profit for the year attributable to ordinary equity holders of the Company of RMB508,172,000 adjusted to reflect the imputed interest expense on the preferred shares of RMB239,000 and the fair value gain on derivative component of the preferred shares of RMB1,156,000. The weighted average number of ordinary shares of 1,965,360,022 used in the calculation is the weighted average number of ordinary shares in issue at 31 December 2008, as used in the basic earnings per share amount calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed conversion of 12,359,550 preferred shares and the corresponding 169,140,443 ordinary shares to be issued pursuant to the capitalisation issue. The pre-IPO share options outstanding during the year ended 31 December 2008 had no dilutive effect on the basic earnings per share amount for that year.

14. PROPERTY, PLANT AND EQUIPMENT

Group

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

31 December 2008

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

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 book values of approximately RMB83,627,000 at 31 December 2009 (2008: RMB10,224,000), 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 book values at 31 December 2009 of RMB80,928,000 out of the total of RMB83,627,000 (2008: RMB7,569,000 out of the total of RMB10,224,000).

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

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2009 RMB'000	2008 RMB'000
Carrying amount at 1 January	22,348	22,271
Additions	–	579
Recognised during the year	(502)	(502)
Carrying amount at 31 December	21,846	22,348
Current portion included in prepayments, deposits and other receivables	(501)	(501)
Non-current portion	21,345	21,847

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

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

16. DEPOSIT PAID FOR ACQUISITION OF LAND USE RIGHTS

As at 31 December 2009, the Group paid a deposit of RMB50,079,000 (2008: RMB50,079,000) for the acquisition of a parcel of land in Xiamen, Fujian Province, the PRC. The acquisition has not been completed up to the date of these financial statements.

17. INTANGIBLE ASSETS

Patents and trademarks

	Group	
	2009 RMB'000	2008 RMB'000
Cost:		
At beginning of year	991	418
Additions	–	573
At 31 December	991	991
Accumulated amortisation:		
At beginning of year	200	129
Amortisation provided during the year	176	71
At 31 December	376	200
Net carrying amount:		
At 31 December	615	791

18. INTERESTS IN SUBSIDIARIES

	Company	
	2009 RMB'000	2008 RMB'000
Unlisted shares, at cost	–	–
Due from subsidiaries	1,247,888	1,136,344
	1,247,888	1,136,344

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

The amount due from a subsidiary included in the Company's current assets of RMB96,296,000 (2008: 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 Jinjiangs * (notes (i) and (iv))	PRC	US$6,000,000	–	100	Manufacture and sale of sportswear
Xtep Xiamen * (notes (ii) and (iv))	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 unpaid registered capitals of these entities as at 31 December 2009 were set out in note 33(a) to the financial statements.

(iv) The registered capital of these entities were fully paid up as at 31 December 2009.

* 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	
	2009 RMB'000	2008 RMB'000
Raw materials	107,043	117,528
Work in progress	27,170	43,318
Finished goods	131,476	127,441
	265,689	288,287

20. TRADE AND BILLS RECEIVABLES

	Group	
	2009 RMB'000	2008 RMB'000
Trade receivables	521,691	526,912
Bills receivables	1,064	–
	522,755	526,912

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three months. Each customer has a maximum credit limit. The Group seeks to strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. 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	
	2009 RMB'000	2008 RMB'000
Neither past due nor impaired	274,962	437,854
Less than 3 months past due	185,595	80,233
Past due between 3 to 9 months	59,434	8,782
Past due over 9 months	1,700	43
	521,691	526,912

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

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

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Prepayments	22,374	47,488	386	99
Deposits	53,311	69,111	352	353
Other receivables	3,841	5,141	1	3,338
	79,526	121,740	739	3,790

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

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Time deposits	450,489	870,952	120,592	620,785
Cash and bank balances	2,047,146	1,271,986	122,656	54,612
	2,497,635	2,142,938	243,248	675,397
Less: Pledged deposits for bills payable	–	(6,000)	–	–
Cash and cash equivalents	2,497,635	2,136,938	243,248	675,397

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB1,919,071,000 (2008: RMB1,220,342,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

23. TRADE AND BILLS PAYABLES

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

	Group	
	2009 RMB'000	2008 RMB'000
Within 3 months	365,594	319,730
3 to 6 months	47,749	25,385
6 to 12 months	24,579	2,093
Over 1 year	1,005	781
Trade payables	438,927	347,989
Bills payable	471	30,000
Trade and bills payables	439,398	377,989

The trade payables are non-interest-bearing and are normally settled within 60 to 90 days. The carrying amounts of trade and bills payables approximate to their fair values.

24. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Deposits received	45,618	8,706	–	–
Accruals	54,231	41,537	4,441	5,274
Value-added tax ("VAT") payables	23,925	23,594	–	–
Other payables	41,720	1,555	–	–
	165,494	75,392	4,441	5,274

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

25. INTEREST-BEARING BANK BORROWINGS

	Group 2009 RMB'000	Group 2008 RMB'000
Current		
Bank loans – secured	–	108,000
Bank loans – unsecured	–	16,000
	–	124,000
Analysed into:		
Bank loans repayable within one year	–	124,000

The above bank loans are all denominated in RMB. The bank loans bore fixed interest rates ranging from 6.32% to 7.47% per annum. Because of the short maturity, the carrying amounts of bank loans approximate to their fair values.

As at 31 December 2008, certain of the Group's bank loans were secured by:

(i) corporate guarantees from Xtep (China), Sanxing Sports Goods Co. Ltd. Quanzhou and Koling (Fujian), subsidiaries of the Group; and

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

26. PREFERRED SHARES

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

On 13 June 2007, the Carlyle Investment Funds made its first tranche of investment to the Company through the subscription of convertible bonds with principal amount of approximately RMB40,000,000 (the "Convertible Bonds").

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

Details of the terms of the Preferred Shares were set out in the Company's prospectus dated 21 May 2008 (the "Prospectus").

The Preferred Shares issued in prior years had been split as to liability and derivate components.

Movements of the Preferred Shares were as follows:

	Notes	RMB'000
Preferred Shares		
Liability component at 1 January 2008		216,599
Imputed interest expense for the year		239
Conversion of Preferred Shares on 21 March 2008	(a)	(27,447)
Conversion of Preferred Shares on 3 June 2008	(b)	(189,391)
Liability component at 31 December 2008, 1 January 2009 and 31 December 2009		–
Derivative component at 1 January 2008		1,324
Conversion of Preferred Shares on 21 March 2008	(a)	(168)
Fair value adjustment		(1,156)
Derivative component at 31 December 2008, 1 January 2009 and 31 December 2009		–

Notes:

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

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

27. DEFERRED TAX LIABILITIES

Group

	Withholding taxes RMB'000
At 1 January 2008	–
Deferred tax charged to income statement during the year (note 10)	2,824
At 31 December 2008 and 1 January 2009	2,824
Deferred tax charged to the income statement during the year (note 10)	24,444
At 31 December 2009	27,268

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 2009, there were no significant unrecognised deferred tax liabilities (2008: 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.

28. SHARE CAPITAL

	HK$'000	RMB'000
Authorised:		
100,000,000,000 (2008: 100,000,000,000) ordinary shares of HK$0.01 each	1,000,000	935,629
Issued and fully paid:		
2,173,645,000 (2008: 2,173,645,000) ordinary shares of HK$0.01 each	21,736	19,177

A summary of the movements in the Company's share capital from 1 January 2008 to 31 December 2009 is as follows:

(a) Authorised share capital

	Note	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares HK$'000	Nominal value of ordinary shares RMB'000
Authorised ordinary shares				
At 1 January 2008		99,987,640,450	999,876	935,513
Redesignated as ordinary shares	(i)	12,359,550	124	116
At 31 December 2008, 1 January 2009 and 31 December 2009		100,000,000,000	1,000,000	935,629

	Note	Number of preferred shares of HK$0.01 each	Nominal value of preferred shares HK$'000	Nominal value of preferred shares RMB'000
Authorised Preferred Shares				
At January 2008		12,359,550	124	116
Redesignated as ordinary shares	(i)	(12,359,550)	(124)	(116)
At 31 December 2008, 1 January 2009 and 31 December 2009		–	–	–

	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares	Nominal value of ordinary shares
Total authorised shares:			
At 31 December 2009	100,000,000,000	1,000,000	935,629
At 31 December 2008	100,000,000,000	1,000,000	935,629

Notes:

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

(b) Issued ordinary shares

	Notes	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares HK$'000	Nominal value of ordinary shares RMB'000
Issued ordinary shares:				
At 1 January 2008		100,000,000	1,000	936
Issued pursuant to conversion of Preferred Shares				
– on 21 March 2008	(i)	1,565,168	16	14
– on 3 June 2008	(ii)	10,794,382	108	95
Capitalisation issue credited as fully paid conditional on the share premium account of the Company, being credited as a result of the issue of the new shares to the public	(iii)	1,537,640,450	15,376	13,526
New issue of shares	(iv)	550,000,000	5,500	4,838
Repurchase of shares	(v)	(26,355,000)	(264)	(232)
At 31 December 2008, 1 January 2009 and 31 December 2009		2,173,645,000	21,736	19,177

Notes:

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

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

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

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

(v) During the year ended 31 December 2008, the Company repurchased and cancelled 26,355,000 of its ordinary shares of HK$0.01 each from the market at a total amount of HK$35,181,000 (equivalent to approximately RMB30,999,000). These repurchased ordinary shares were subsequently cancelled by the Company and the premium of approximately RMB30,767,000 paid by the Company over the nominal value of the repurchased ordinary shares was debited to the share premium account, as set out in note 29(b) to the financial statements.

(c) Share option schemes

Details of the Company's share option schemes and the share options issued under the schemes are included in note 30 to the financial statements.

29. 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-in capital of the subsidiaries acquired pursuant to the group reorganisation prior to the listing of the Company's share 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 2008		–	–	–	(799)	(799)
Profit for the year		–	–	–	(13,187)	(13,187)
Other comprehensive income						
Exchange realignment		–	–	(15,604)	–	(15,604)
Total comprehensive income for the year		–	–	(15,604)	(13,187)	(28,791)
Conversion of preferred shares into ordinary shares	28(b)(i), 28(b)(ii)	216,897	–	–	–	216,897
Capitalisation issue	28(b)(iii)	(13,526)	–	–	–	(13,526)
Issue of Pre-IPO share option	30(a)	–	3,956	–	–	3,956
Issue of shares	28(b)(iv)	1,954,693	–	–	–	1,954,693
Share issue expenses		(117,991)	–	–	–	(117,991)
Repurchase of shares	28(b)(v)	(30,767)	–	–	–	(30,767)
2008 interim dividend	12	(96,296)	–	–	–	(96,296)
At 31 December 2008 and 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	30(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	12	(134,094)	–	–	–	(134,094)
At 31 December 2009		1,529,827	11,998	(17,485)	40,213	1,564,553

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.

30. SHARE OPTION SCHEMES

(a) Pre-IPO share option scheme

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

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

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

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

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

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

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

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

On 7 May 2008, an aggregate of 19,000,000 share options (the "Pre-IPO Share Options") under the Pre-IPO Scheme were issued to a director of the Company and certain employees of the Group. The exercise prices and exercise periods of the Pre-IPO Share Options outstanding at 31 December 2009 were as follows:

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

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

The fair value of the Pre-IPO Share Options granted during the year ended 31 December 2008 was estimated at RMB10,815,000, of which the Company recognised a share option expense of RMB5,764,000 (2008: 3,956,000) 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 19,000,000 shares under the Pre-IPO Share Scheme, which represented approximately 0.9% of the issued share capital of the Company as at that date. The exercise in full of the outstanding Pre-IPO Share Options would, under the present capital structure of the Company, result in the issue of 19,000,000 additional ordinary shares of the Company and additional share capital of HK$190,000 (equivalent to RMB167,000) and share premium account of HK$61,370,000 (equivalent to RMB54,030,000), 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.

On 29 July 2009 ("Date of Grant"), an aggregate of 10,000,000 share options (the "Share Options") under the Share Option Scheme were granted to certain employees of the Group. The exercise prices and exercise periods of the Share Options outstanding at 31 December 2009 were as follows:

Number of options	Exercise per share	Exercise period
3,000,000	HK$4.11	29 July 2010 to 29 July 2020
3,000,000	HK$4.11	29 July 2011 to 29 July 2021
4,000,000	HK$4.11	29 July 2012 to 29 July 2022
10,000,000		

The fair value of the Share Options granted during the year was estimated at RMB9,540,000, of which the Company recognised a share option expense of RMB2,278,000 during the year ended 31 December 2009.

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:

Exercise price (HK$ per share)	4.11
Expected dividend yield (%)	4.879
Expected volatility (%)	54.122 to 65.679
Risk-free interest rate (%)	0.100 to 0.954
Expected life of share options (years)	1 to 3
Weighted average share price at grant date (HK$ per share)	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 10,000,000 shares under the Share Option Scheme. The exercise in full of the outstanding Share Options would, under the present capital structure of the Company, result in the issue of 10,000,000 additional ordinary shares of the Company and additional share capital of HK$100,000 (equivalent to RMB88,000) and share premium account of HK$41,000,000 (equivalent to RMB36,096,000), before related issuance expenses.

Subsequent to year end, on 28 January 2010, a total of 500,000 share options were granted to certain employees 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 10,500,000 shares under the Share Option Scheme, which represented approximately 0.5% of the issued share capital of the Company as at that date.

31. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had no significant contingent liabilities (2008: Nil).

At 31 December 2009, the Company provided corporate guarantee to a bank in connection with banking facilities of RMB471,000 granted to a subsidiary (2008: Nil).

32. 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	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Within one year	6,933	4,295	1,206	1,305
In the second to fifth years, inclusive	12,044	12,690	–	1,370
	18,977	16,985	1,206	2,675

33. COMMITMENTS

(a) In addition to the operating lease commitments detailed in note 32 above, the Group had the following commitments at the end of the reporting period:

	2009 RMB'000	2008 RMB'000
Contracted for commitments in respect of its wholly-foreign-owned subsidiaries in the PRC	651,470	652,284
Contracted for commitments in respect of:		
– construction of new buildings	2,692	5,248
– advertising and promotional expenses	59,973	59,570
	62,665	64,818
	714,135	717,102

(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 2009, the Company did not have any significant commitment (2008: Nil).

34. 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:

	2009 RMB'000	2008 RMB'000
Short term employee benefits	2,896	2,146
Equity-settled share option expense	455	312
Post-employment benefits	48	15
Total compensation paid to key management personnel	3,399	2,473

35. 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

	2009 RMB'000	2008 RMB'000
Trade and bills receivables	522,755	526,912
Other receivables (note 21)	3,841	5,141
Pledged deposits	–	6,000
Cash and cash equivalents	2,497,635	2,136,938
	3,024,231	2,674,991

Financial liabilities

Financial liabilities at amortised cost

	2009 RMB'000	2008 RMB'000
Trade and bills payables	439,398	377,989
Other payables (note 24)	41,720	1,555
Interest-bearing bank borrowings	–	124,000
	481,118	503,544

Company

Financial assets

Loans and receivables

	2009 RMB'000	2008 RMB'000
Due from a subsidiary	96,296	96,296
Other receivables (note 21)	1	3,338
Cash and cash equivalents	243,248	675,397
	339,545	775,031

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

36. 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

	2009 RMB'000	2008 RMB'000
Interest-bearing bank borrowings	–	124,000
Other payables	41,720	1,555
Trade and bills payables	439,398	377,989
	481,118	503,544

Commodity price risk

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

Capital management

The primary 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 the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

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

Group

	2009 RMB'000	2008 RMB'000
Interest-bearing bank borrowings	–	124,000
Less: Cash and cash equivalents	(2,497,635)	(2,136,938)
Net cash	(2,497,635)	(2,012,938)
Total capital	2,984,080	2,637,776
Net cash-to-capital ratio	(0.8)	(0.8)

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2010.