



XTEP :
aim to become a
world-class leading
fashion sportswear brand

Ding Shui Po
Chairman

Chairman's Statement

Dear Shareholders,

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

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

STEADY SUSTAINABLE GROWTH

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

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



XTEP BRAND IS FASHION SPORTS

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

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

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

“ Xtep – principal partner of the Shanghai World Expo ”



XTEP IS DIFFERENT

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

Some highlights in 2010 are:

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

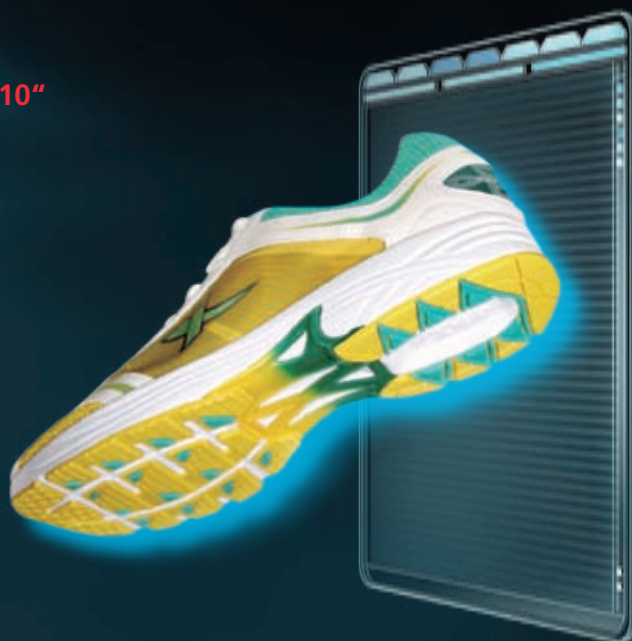
Football is the most viewed sport around the globe; therefore we choose to establish our presence in the English Premier League ("EPL"), where we took the unique opportunity of partnering with Birmingham City Football Club ("BCFC"). The unprecedented cross-border partnership between a Chinese sports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

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

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

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

“Xtep – Marathon 2010”



NATIONWIDE NETWORK EXPANSION

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

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

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

LEADING THROUGH INNOVATION AND CORPORATE MANAGEMENT

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

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

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

BEYOND OUR VISION, A DEFINED FUTURE

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

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

The Group recently unveiled its major international sports sponsorships for 2011, which include the sponsorships of Great Britain and USA delegates at the 26th Universiade, Shenzhen, and the China National Women's Synchronized Swimming Team. Football and running constitute an integral part of Xtep's long-term brand building strategy. We aim to continue our efforts in this regard, by extending the global reach of the brand through effective sponsorship campaigns. We will increase the international marathon sponsorships in 2011 in China and Taiwan. We will continue to support BCFC in our 5 years' sponsorship and we will certainly have the full benefit from BCFC pursue into the UEFA Europa League

football matches in Europe in 2011 following the winning of the Carling Cup Final 2011. Such notable and prestigious sponsorship will strongly raise our brand equity among the Chinese customers in China market and enhance our exposure and profile in the Europe and overseas market.

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

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

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

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

ACKNOWLEDGEMENTS

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

Ding Shui Po
Chairman
Hong Kong, 21 March 2011