

Management Discussion and Analysis

Media Advertising

Entertainment Marketing

MARKET REVIEW

CHINA'S ECONOMY PROVES RESILIENT

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

Chinese cities have become a key growth driver for the Chinese economy, fuelling significant growth in the second half of 2010.

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



FAST EVOLVING SPORTSWEAR TREND PREVAILS

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

BUSINESS REVIEW

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

BRAND DIFFERENTIATION

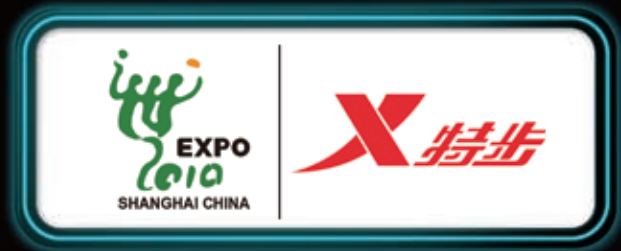
Leveraging on our business concepts: "Sports like no other" and "Xtep is Fashion Sports", the Xtep brand has become China's leading fashion sportswear brand. To optimize upon its fashion reputation and stronghold in the Chinese sportswear industry, the Group continues to launch its unique dual sports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

Prominent Events

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

4TH ALL-CHINA GAMES

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



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

THE SHANGHAI WORLD EXPO 2010

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



Xtep Treasures in National Museum of China

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



International Football Events

FOOTBALL

Birmingham City Football Club

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

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

Birmingham China Charity Tour

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

Birmingham Carling Cup Glory

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



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

All Star Sports Association

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



Running

LOVE RUNNING, LOVE XTEP

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

IAAF SHANGHAI DIAMOND LEAGUE

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

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

XIAMEN INTERNATIONAL MARATHON

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

TAIYUAN INTERNATIONAL MARATHON

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

TIBET INTERNATIONAL MARATHON

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



XIAN CITY WALL INTERNATIONAL MARATHON CHALLENGE

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

HANGZHOU INTERNATIONAL MARATHON

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



Other Sports Events

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

NATIONAL BASKETBALL LEAGUE AND WOMEN'S CHINESE BASKETBALL ASSOCIATION

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

CHINA X-GAMES

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

2010 OLYMPIC DAY RUN

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



Entertainment and Commercials

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

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



Entertainment and Commercials

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

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

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

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

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

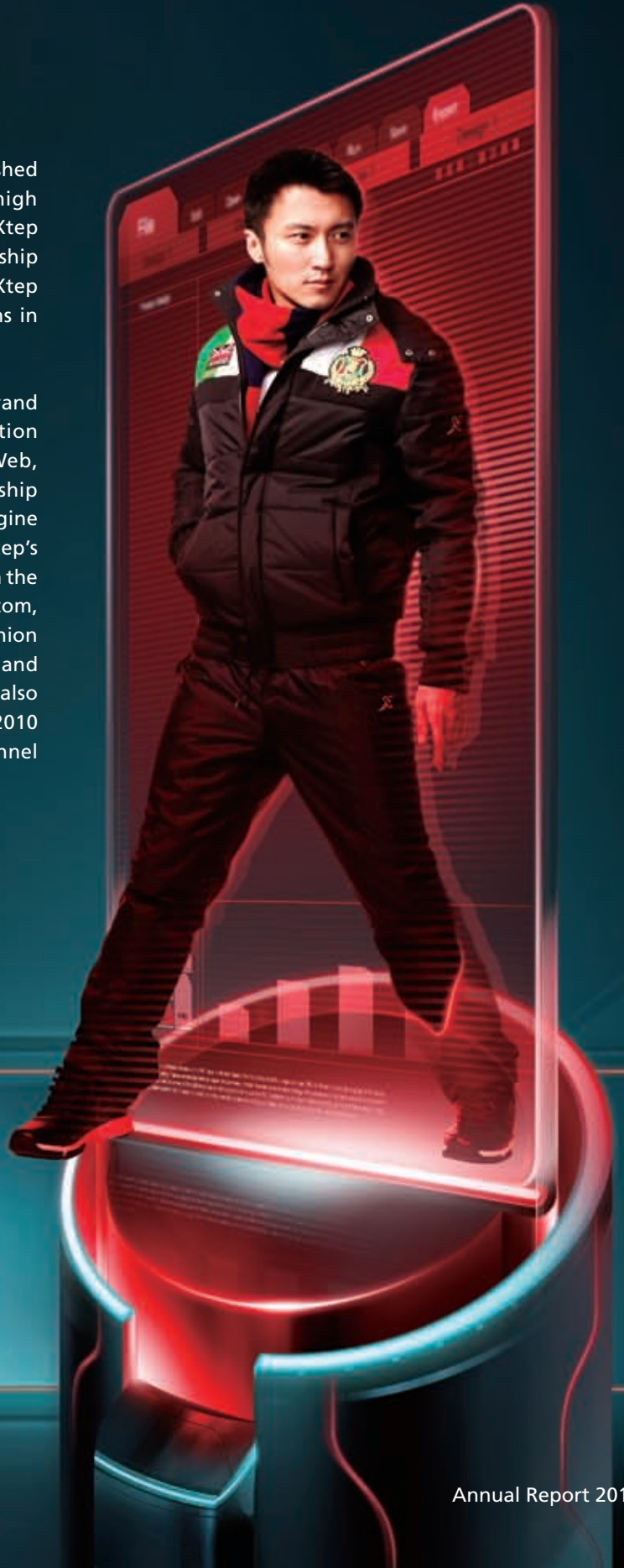
Central China: Hunan Satellite TV – This channel is a popular primary TV channel that focuses on entertainment and information in China. As the sole title sponsor of the highly entertaining and popular programme "Progressing Everyday 《天天向上》", the brand heightened its brand visibility significantly.

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



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

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



Innovative Products

TURNING PRODUCTS ON ITS HEADS

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

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

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

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

Footwear Products

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

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

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

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

Apparel Products

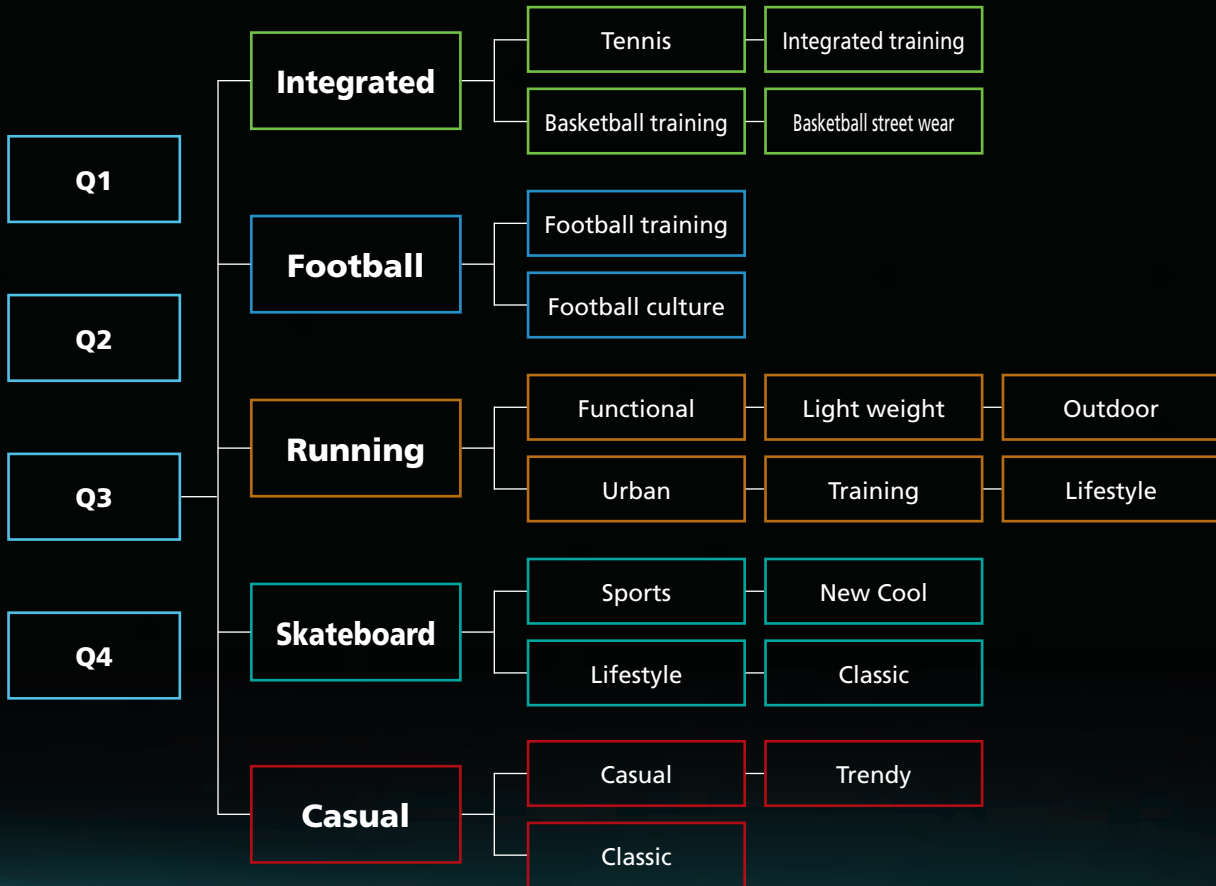
The Group believed that the demand for high quality and value for money fashionable sportswear is high in the mass market of China. We have successfully integrated the functional sports element and stylish design into our apparel products. The Group held four seasonal sales fairs annually and provide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

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

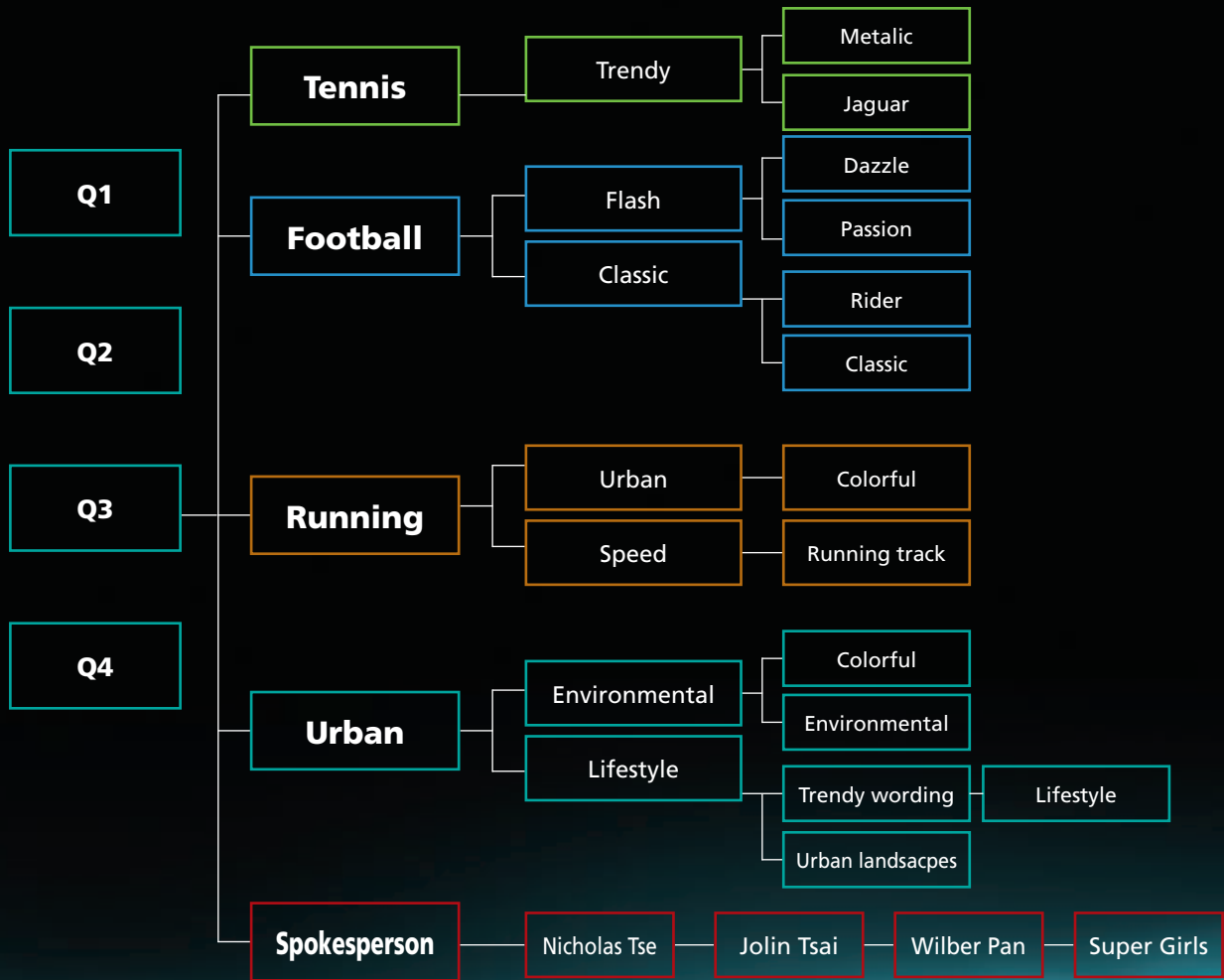


Product Line

FOOTWEAR



APPAREL



Nationwide Distribution Network

EXTENSIVE DISTRIBUTION CHANNELS

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

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

THE XTEP BRAND

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

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

EXTENDING BRAND REACH THROUGH NETWORK PENETRATION

China

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

Overseas

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

E-Commerce Platform

In view of the increasing popularity of online shopping among youngsters, the Group believes e-commerce possesses huge market potential and sees it as one of the important sales networks in

the near future. Along with the partnership with Sohu.com and Taobao.com, the Group continued to develop and strengthen its e-commerce platform in the cyberspace.

Flagship Stores

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

OTHER BRANDS

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

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

MANAGEMENT CAPABILITIES

An Outstanding Distribution Network

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

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

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

Supply chain management

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

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

Corporate management

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

FINANCIAL REVIEW

REVENUE AND GROSS PROFIT MARGIN BREAKDOWN BY BRANDED PRODUCT SALES

For the year ended 31 December

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

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

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

XTEP BRAND

REVENUE BREAKDOWN OF XTEP BRAND BY PRODUCT CATEGORY

For the year ended 31 December

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

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

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

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

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

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

For the year ended 31 December

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

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

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

For the year ended 31 December

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

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

Notes:

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

OTHER BRANDS

REVENUE BREAKDOWN OF OTHER BRANDS BY PRODUCT CATEGORY

For the year ended 31 December

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

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

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

For the year ended 31 December

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

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

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

For the year ended 31 December

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

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

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

Notes:

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

REVENUE BREAKDOWN BY PRODUCT CATEGORY

For the year ended 31 December

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

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

REVENUE BREAKDOWN BY REGION SALES

For the year ended 31 December

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

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

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

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

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

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

COST OF SALES BREAKDOWN

For the year ended 31 December

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

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

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

OTHER INCOME AND GAINS

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

approximately RMB418.7 million in 2009 (accounting for 11.8% of revenue) to approximately RMB519.3 million (accounting for 11.7% of revenue) during the year under review.

SELLING AND DISTRIBUTION COSTS

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

Given the Group's strategy of enhancing its brand status, the sponsorship of high-profile sports events and its innovative entertainment marketing efforts, advertising and promotion costs increased from

GENERAL AND ADMINISTRATIVE EXPENSES

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

INCOME TAX EXPENSE

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

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

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

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS AND NET PROFIT MARGIN

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

ends in 2009, the Group's effective tax rate increased to 16.8% (2009: 7.8%). As a result, the Group's net profit margin was 18.3% (2009: 18.3%).

DIVIDEND

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

WORKING CAPITAL CYCLE

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

- a) the increase of prepayments of approximately RMB83 million which mainly related to advertising and promotion expenses for securing certain important Xtep brand promotion activities;
- b) the increase of advance payments to suppliers of approximately RMB177 million which mainly related to secure the costs of outsourced production in advance of raw materials inflation; and
- c) the increase of inventory of approximately RMB197 million which mainly related to purchase raw materials in advance of price inflation in the future.

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

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

INVENTORY PROVISION

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

DOUBTFUL DEBT PROVISION

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

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

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

FOREIGN CURRENCY RISKS

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

CAPITAL MARKET

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

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

During the year under review, the Group did not have any significant investments or acquisitions or sales of subsidiaries. The Group continued to seek opportunities to expand the business of the Group in order to generate more returns to its Shareholders.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

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

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

HUMAN RESOURCES

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

PROSPECTS

MARKET OUTLOOK

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

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

INTEGRATED MARKETING AND PROMOTIONS

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

INTERNATIONAL AND NATIONAL EVENTS

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

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

FOOTBALL

Carling Cup Final 2011

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

RUNNING

"Love Running, Love Xtep"

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

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

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

ENTERTAINMENT MARKETING

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

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

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

PRODUCT INNOVATION

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

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

RETAIL NETWORK EXPANSION

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

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

DESIGN, R&D AND PRODUCTION

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

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

CONCLUSION

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

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