

Report of the Directors

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in the design, development, manufacture and marketing of sportswear, including footwear, apparel and accessory products, sold under the Xtep brand and the Koling brand, which are owned by the Group, and the Disney Sport brand, which is licensed by The Walt Disney Company (Shanghai) Limited to the Group in the PRC and by the Walt Disney Company (Asia Pacific) Limited to the Group in Hong Kong and Macau.

SUBSIDIARIES

Details of the principal subsidiaries of the Group as at 31 December 2010 are set out in note 18 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2010 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 95 to 142 of this annual report.

DIVIDENDS

An interim dividend of HK10.0 cents (2009: HK7.0 cents) per Share was paid to our Shareholders during the year. The Board recommended a final dividend of HK12.0 cents (2009: HK10.0 cents) per Share for the year ended 31 December 2010, subject to approval by the Shareholders at the annual general meeting to be held on 29 April 2011. In order to reserve more resources for future development, the Board did not recommend any special dividend (2009: HK5.0 cents per Share) for the year ended 31 December 2010. The total basic dividends for the year ended 31 December 2010, which include the interim and final dividends, amounted to a total of HK22.0 cents per Share. Details of the dividend for the year ended 31 December 2010 are set out in note 12 to the financial statements.

RESERVES

Details of movements in reserves of the Company and the Group are set out in note 27 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2010, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB1,069.6 million. Details of the reserves of the Company as at 31 December 2010 are set out in note 27 to the financial statements.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2010 amounted to approximately RMB9.2 million (2009: RMB6.4 million).

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group for the year ended 31 December 2010 are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2010 are set out in note 26 to the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2010 were:

Executive Directors

Mr. Ding Shui Po (*Chairman*)
Ms. Ding Mei Qing
Mr. Lin Zhang Li
Mr. Ding Ming Zhong
Mr. Ye Qi
Mr. Ho Yui Pok, Eleutherius
(appointed on 29 March 2010)

Non-Executive Directors

Mr. Xiao Feng
Mr. Tan Wee Seng (appointed on 29 March 2010)

Independent Non-Executive Directors

Mr. Sin Ka Man
Mr. Xu Peng Xiang
Dr. Gao Xian Feng

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

Mr. Ho Yui Pok, Eleutherius and Mr. Tan Wee Seng were appointed as an executive Director and non-executive Director, respectively, with effect from 29 March 2010 and were re-elected as Directors by Shareholders of the Company at the last annual general meeting held on 5 May 2010. Each of Mr. Ho Yui Pok, Eleutherius and Mr. Tan Wee Seng has entered into a service contract with the Company for an initial term of three years commencing from 29 March 2010 and thereafter may be terminated by either party upon a three-month prior written notice.

Each of the executive, non-executive and independent non-executive Directors on the Board during the year ended 31 December 2010, except Mr. Ho Yui Pok, Eleutherius and Mr. Tan Wee Seng, had entered into a service contract with the Company for an initial term of three, one and two year(s), respectively, commencing from 3 June 2008 and thereafter may be terminated by either party upon a three-month prior written notice. The service contracts are to be automatically renewed upon expiration.

In accordance with article 87 of the Company's articles of association, Mr. Ding Shui Po, Mr. Xiao Feng, Mr. Sin Ka Man and Mr. Ye Qi will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management are set out on pages 65 to 71 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed below, there was no contract of significance to which the Company, its holding company, or any of its subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2010.

Long Positions in the Company

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company⁽¹⁾
Mr. Ding Shui Po ⁽²⁾	Interests of controlled corporation/Beneficial interests	1,313,559,500	60.37%
Ms. Ding Mei Qing ⁽³⁾	Interests of controlled corporation	1,310,059,500	60.20%
Mr. Lin Zhang Li ⁽⁴⁾	Interests of spouse	1,310,059,500	60.20%
Mr. Ye Qi ⁽⁵⁾	Beneficial interests	2,500,000	0.11%
Mr. Ho Yui Pok, Eleutherius ⁽⁶⁾	Beneficial interests	3,500,000	0.16%
Mr. Tan Wee Seng ⁽⁷⁾	Beneficial interests	600,000	0.03%

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

As at 31 December 2010, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Notes:

- (1) It was based on 2,176,000,000 issued Shares of the Company as at 31 December 2010.
- (2) Mr. Ding Shui Po is deemed to be interested in 1,310,059,500 Shares of the Company held by Group Success by virtue of it being controlled by Mr. Ding Shui Po. Mr. Ding Shui Po is also beneficially interested in 3,500,000 Shares of the Company.
- (3) Ms. Ding Mei Qing is deemed to be interested in the Shares of the Company held by Group Success by virtue of Group Success being controlled by Ms. Ding Mei Qing.
- (4) Mr. Lin Zhang Li, the husband of Ms. Ding Mei Qing and an executive Director, is deemed to be interested in his wife's interests in Group Success.
- (5) 1,500,000 of these shares are subject to the exercise of options granted on 7 May 2008 under the Pre-IPO Share Option Scheme. The remaining 1,000,000 of these shares are subject to the exercise of options granted on 28 May 2010 under the Share Option Scheme.
- (6) 1,000,000 of these shares are subject to the exercise of options granted on 7 May 2008 under the Pre-IPO Share Option Scheme. Another 1,500,000 of these shares are subject to the exercise of options granted on 29 July 2009 under the Share Option Scheme. The remaining 1,000,000 of these shares are subject to the exercise of options granted on 28 May 2010 under the Share Option Scheme.
- (7) These shares are subject to the exercise of options granted on 30 March 2010 under the Share Option Scheme.

Save as disclosed above, as at 31 December 2010, none of the Directors or the chief executive of the Company had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of

the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code.

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

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

The Company has adopted the Pre-IPO Share Option Scheme on 7 May 2008 for the purpose of giving its employees an opportunity to have a personal stake in the Company and motivating its employees to optimize their performance and efficiency, and retaining its employees whose contributions are important to the long-term growth and profitability of the Group. Options to subscribe for an aggregate of 19,000,000 Shares were granted on 7 May 2008. The exercise price per Share is HK\$3.24, being a discount of 20% to the global offering price. No further options would be granted under the Pre-IPO Share Option Scheme on or after the Listing Date. All options granted under the Pre-IPO Share Option Scheme may be exercised during the option period commencing from the end of twelve months after the Listing Date to the date falling 10 years from the offer date of the options and can only be exercised in the following manner:

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

Details of the share options granted under the Pre-IPO Share Option Scheme as at 31 December 2010 are as follows:

Name	Outstanding as at 1 January 2010	Exercised during the year ended 31 December 2010 ⁽¹⁾	Outstanding as at 31 December 2010
Directors			
Mr. Ye Qi	1,500,000	–	1,500,000
Mr. Ho Yui Pok, Eleutherius	1,000,000	–	1,000,000
Senior Management			
In aggregate	2,300,000	–	2,300,000
Other Employees			
In aggregate	14,200,000	2,025,000	12,175,000
Total	19,000,000	2,025,000	16,975,000

Notes:

- (1) Of the share options granted on 7 May 2008 under the Pre-IPO Share Option Scheme, 690,000 were exercised on 11 May 2010, 345,000 were exercised on 17 June 2010, 660,000 were exercised on 13 September 2010 and 330,000 were exercised on 5 October 2010. The weighted average closing price immediately before the dates on which the share options were exercised was HK\$6.29.

Save as disclosed above, no options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2010.

Share Option Scheme

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

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

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and

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

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

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

Details of the share options granted under the Share Option Scheme as at 31 December 2010 are as follows:

Name	Date of grant	Exercise price per Share ⁽¹⁾	Exercise period ⁽²⁾⁽³⁾	Outstanding as at 1 January 2010	Granted during the year ended 31 December 2010	Exercised during the year ended 31 December 2010 ⁽⁴⁾	Outstanding as at 31 December 2010
Directors							
Mr. Ye Qi	28 May 2010	HK\$6.00	28 May 2012 – 27 May 2020	–	1,000,000	–	1,000,000
Mr. Ho Yui Pok, Eleutherius	29 July 2009	HK\$4.11	29 July 2010 – 28 July 2019	1,500,000	–	–	1,500,000
Mr. Ho Yui Pok, Eleutherius	28 May 2010	HK\$6.00	28 May 2012 – 27 May 2020	–	1,000,000	–	1,000,000
Mr. Tan Wee Seng	30 March 2010	HK\$6.13	30 March 2011 – 29 March 2020	–	600,000	–	600,000
Senior Management							
In aggregate	28 May 2010	HK\$6.00	28 May 2012 – 27 May 2020	–	3,500,000	–	3,500,000
Other Employees							
In aggregate	29 July 2009	HK\$4.11	29 July 2010 – 28 July 2019	8,500,000	–	330,000	8,170,000
In aggregate	28 January 2010	HK\$5.01	28 January 2011 – 27 January 2020	–	500,000	–	500,000
In aggregate	28 May 2010	HK\$6.00	28 May 2012 – 27 May 2020	–	4,500,000	–	4,500,000
Total				10,000,000	11,100,000	330,000	20,770,000

Saved as disclosed above, no share options granted under the Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2010.

Notes:

- (1) The closing prices per Share immediately before 28 January 2010, 30 March 2010 and 28 May 2010 (the dates on which the share options were granted) were HK\$4.86, HK\$5.95 and HK\$5.67, respectively.
- (2) Share options granted under the Share Option Scheme on 29 July 2009, 28 January 2010 and 30 March 2010 shall vest in the grantees in accordance with the timetable below (for this purpose, the date or each such date on which the share options are to vest being hereinafter referred to as a "Vesting Date"):

Vesting Date	Percentage of Share Options to vest
First anniversary of the date of grant	30% of the total number of options granted
Second anniversary of the date of grant	30% of the total number of options granted
Third anniversary of the date of grant	40% of the total number of options granted

- (3) Share options granted under the Share Option Scheme on 28 May 2010 shall vest in the grantee in accordance with the timetable below:

Vesting Date	Percentage of Share Options to vest
Second anniversary of the date of grant	30% of the total number of options granted
Third anniversary of the date of grant	70% of the total number of options granted

- (4) Of the share options granted on 29 July 2009 under the Share Option Scheme, 255,000 were exercised on 13 September 2010 and 75,000 were exercised on 6 October 2010. The weighted average closing price immediately before the dates on which the share options were exercised was HK\$6.39.

Further details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 28 to the financial statements.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in "Share Option Schemes" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

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

So far as is known to any Director or chief executive of the Company, as at 31 December 2010, the persons or corporations (other than the Directors or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company ⁽¹⁾
Group Success	Beneficial interests	1,310,059,500	60.20%
Carlyle Asia Growth Partners III, L.P.	Beneficial interests	200,769,294	9.23%
CAGP III Co-investment, L.P.	Beneficial interests	8,931,206	0.41%
CAGP General Partner, L.P.	Interests of controlled corporation ⁽²⁾	209,700,500	9.64%
CAGP Ltd	Interests of controlled corporation ⁽²⁾	209,700,500	9.64%

Notes:

- (1) It was based on 2,176,000,000 issued Shares of the Company as at 31 December 2010.
- (2) CAGP General Partner, L.P. is the general partner of Carlyle Asia Growth Partners III, L.P. and CAGP III Co-investment, L.P., both limited partnerships. CAGP Ltd is the general partner of CAGP General Partner, L.P.

Save as disclosed above, as at 31 December 2010, the Directors and the chief executive of the Company are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company which would require to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2010.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2010.

NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders has confirmed to the Company of his/her compliance with the non-compete undertakings provided to the Company under the Deed of Non-compete (as defined in the Prospectus). The independent non-executive Directors of the Company have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-compete have been complied with by the controlling shareholders.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2010 and up to and including the date of this annual report.

MANAGEMENT CONTRACTS

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

PRE-EMPTIVE RIGHTS

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

EMOLUMENT POLICY

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

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

The Company has adopted two share option schemes to motivate and reward its Directors and eligible employees. Details of these schemes are set out in the paragraph headed "Share Option Schemes" above and note 28 to the financial statements.

None of the directors waived any emoluments during the year.

PENSION SCHEME

The Group operates a defined contribution mandatory provident fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Law of Hong Kong) for eligible employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statements as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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

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

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's largest and five largest customers were 6.2% (2009: 10.0%) and 22.9% (2009: 33.4%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 8.2% (2009: 6.6%) and 24.4% (2009: 21.6%) of the Group's total purchases respectively.

At no time during the year ended 31 December 2010, did a Director, his/her associate(s) or a Shareholder, which to the knowledge of the Director owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest customers and suppliers.

AUDITORS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules for the year ended 31 December 2010.

FIVE-YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 6 to 7 of this annual report.

On behalf of the Board

Ding Shui Po
Chairman

Hong Kong, 21 March 2011

Run to Next Year ..

