特步國際控股有限公司
Xtep International Holdings Limited

(Incorporated in the Cayman Islands with Limited Liability)
Stock Code: 1368

ANNUAL REPORT 2012

TRANSFORMAT10N

TO A NEW ERA


XTEP

Contents

Corporate Information

Board Of Directors

Executive Directors

Ding Shui Po (丁水波) (Chairman)
Ding Mei Qing (丁美清)
Lin Zhang Li (林章利)
Ding Ming Zhong (丁明忠)
Ye Qi (葉齊)
Ho Yui Pok, Eleutherius (何睿博)

Non-executive Director

Tan Wee Seng (陳偉成)

Independent non-executive Directors

Sin Ka Man (冼家敏)
Xu Peng Xiang (許鵬翔)
Gao Xian Feng (高賢峰)
Bao Ming Xiao (鮑明曉)

Board Committees

Audit Committee

Sin Ka Man (冼家敏) (Chairman)
Xu Peng Xiang (許鵬翔)
Gao Xian Feng (高賢峰)

Remuneration Committee

Xu Peng Xiang (許鵬翔) (Chairman)
Gao Xian Feng (高賢峰)
Ding Mei Qing (丁美清)

Nomination Committee

Ding Shui Po (丁水波) (Chairman)
Xu Peng Xiang (許鵬翔)
Gao Xian Feng (高賢峰)

Company Secretary

Ho Yui Pok, Eleutherius (何睿博) FCA, FCPA

Authorised Representatives

Ding Shui Po (丁水波)
Ho Yui Pok, Eleutherius (何睿博)

Registered Office

Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands

Head Office In The PRC

Economic and Technical Development Zone
Quanzhou City, Fujian Province, PRC 362000

Principal Place Of Business In Hong Kong

Suite 2401-2, 24/F, Shui On Centre
6-8 Harbour Road, Wanchai, Hong Kong

Legal Adviser As To Hong Kong Laws

Orrick, Herrington & Sutcliffe

Auditor

Ernst & Young

Cayman Islands Principal Share Registrar And Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street, P.O. Box 705
Grand Cayman KY1-1107, Cayman Islands

Hong Kong Branch Share Registrar And Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F, Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong

Principal Bankers

Agricultural Bank of China
Bank of Communications
China Construction Bank
China Merchants Bank
China Minsheng Bank
Hang Seng Bank
Industrial Bank

Investor Relations Consultants

Porda Havas International Finance
Communications Group
Aries Consulting Limited

Company Website

www.xtep.com.hk

Gwei Lun-mei
（桂綸鎂）

X-CEPTIONAL DECADE

2008:
Listed on the Main Board in Hong Kong

2005:
Sole apparel partner of the 10th Chinese National Games

2004:
Product Diversification

2002:
Nicholas Tse (謝霆鋒) became Xtep Brand Representative

'02 '03 '04 '05 '06 '07 '08

2007:
Expanded "Running" series

2006:
Recognized as China's Famous Brand Products

2003:
Expanded brand representative team

‘12

2012:
X-ceptional decade

‘11

2011:
Sole apparel sponsor of Villarreal Club de Fútbol, S.A.D. In Spain

‘10

2010:
Principal partner for the volunteers of the Shanghai World Expo 2010

‘09

2009:
Sole apparel partner of the 11th Chinese National Games

Financial Highlights for 2012

2012 Net Cash Flow from Operating Activities

+5.5 times
to approximately

RMB1,330.3 million

- **Total Revenue**: RMB5,550.3 million
- **Gross Profit Margin**: 40.7%
- **Profit Attributable to Equity Shareholders**: RMB810.0 million
- **Proposed Special Dividend**: Extra 10%
- **Total Payout Ratio (including special dividend)**: 61%

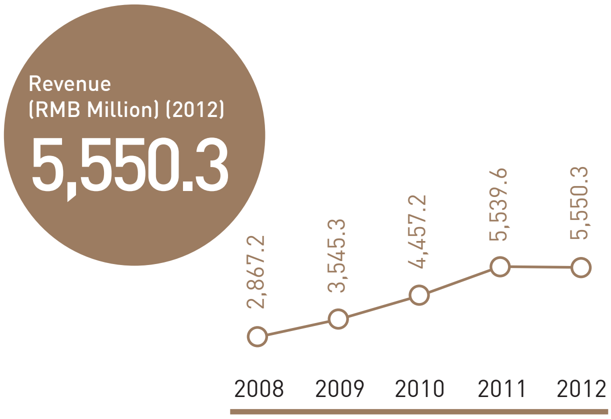
Interim dividend per Share	HK13.2 cents
Proposed final dividend per Share	HK10.0 cents
Proposed special dividend per Share	HK 4.5 cents
Total dividend per Share	HK27.7 cents

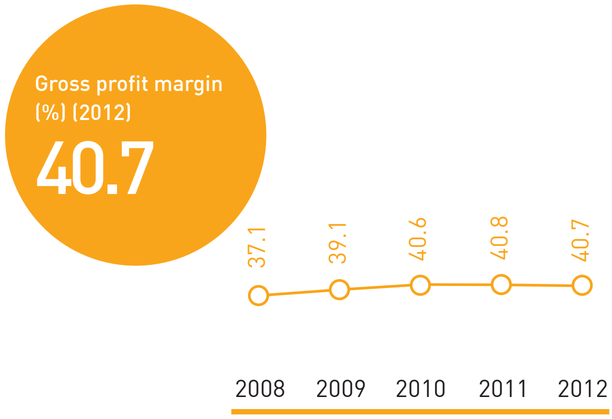
Cautionary Statement Regarding Forward-looking Statements

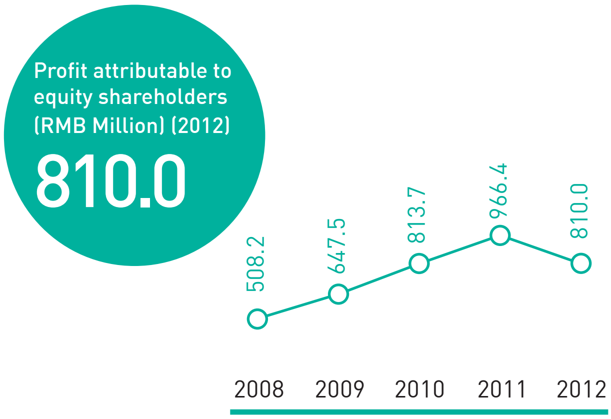
This Annual Report contains certain forward-looking statements with respect to the financial condition, results of operations and business of Xtep International Holdings Limited and its subsidiaries (the "Group"). These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Certain statements, which include wordings like "potential", "estimated", "expects", "anticipates", "objective", "intends", "plans", "believes", "estimates", and similar expressions or variations on such expressions may be considered "forward-looking statements". Forward-looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ in some instances materially, from those anticipated or implied in any forward-looking statement. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been reviewed or updated in the light of new information or future events. Trends and factors that are expected to affect the Group's results of operations are described in the sections of "Business Review" and "Financial Review".

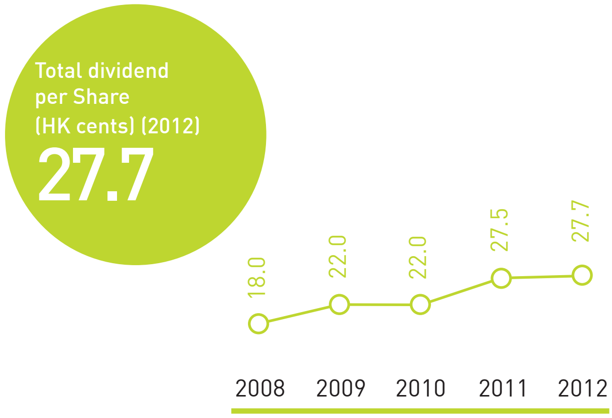
Five-Year Financial Summary

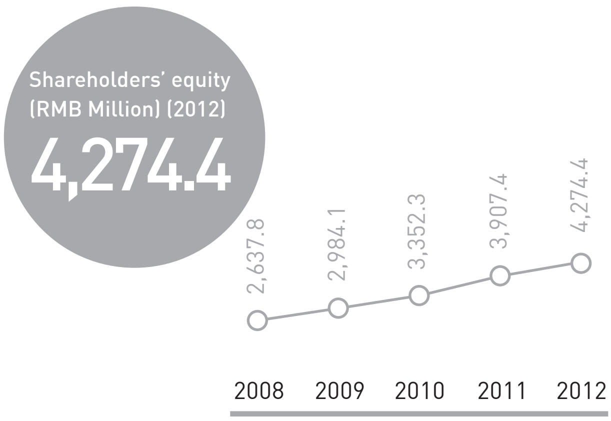
	2012	2011	2010	2009	2008
For the year ended 31 December					
Profitability data (RMB million)					
Revenue	5,550.3	5,539.6	4,457.2	3,545.3	2,867.2
Gross profit	2,257.7	2,257.6	1,811.7	1,387.8	1,064.3
Operating profit	1,131.3	1,219.3	978.0	701.4	590.6
Profit attributable to equity shareholders	810.0	966.4	813.7	647.5	508.2
Basic earnings per Share (RMB cents) (Note 1)	37.22	44.41	37.42	29.79	26.84
Profitability ratios (%)					
Gross profit margin	40.7	40.8	40.6	39.1	37.1
Operating profit margin	20.4	22.0	21.9	19.8	20.6
Net profit margin	14.6	17.4	18.3	18.3	17.7
Effective tax rate	27.0	20.3	16.8	7.8	12.0
Return on average total equity holders' equity (Note 2)	19.8	26.6	25.7	23.0	34.8
Operating ratios (as a percentage of revenue) (%)					
Advertising and promotional costs	11.4	11.3	11.7	11.8	9.1
Staff costs	7.1	4.8	4.7	5.3	5.5
Research and development costs	1.7	1.8	1.8	1.6	1.6
As of 31 December					
Assets and liabilities data (RMB million)					
Non-current assets	663.3	495.0	307.6	275.0	198.3
Current assets	5,836.2	5,000.1	3,976.6	3,365.6	3,079.9
Current liabilities	1,436.8	1,400.2	892.0	629.3	637.6
Non-current liabilities	782.9	183.6	39.9	27.3	2.8
Non-controlling interest	5.4	3.9	–	–	–
Shareholders' equity	4,274.4	3,907.4	3,352.3	2,984.1	2,637.8
Asset and Working Capital data					
Current asset ratios	4.1	3.6	4.5	5.3	4.8
Gearing ratios (%) (Note 3)	16.1	9.0	0.0	0.0	4.7
Net asset value per Share (RMB) (Note 4)	1.97	1.80	1.54	1.37	1.21
Average inventory turnover days (days) (Note 5)	70	63	50	47	49
Average trade and bills receivables turnover days (days) (Note 6)	74	64	51	54	48
Average trade and bills payables turnover days (days) (Note 7)	54	63	74	69	44

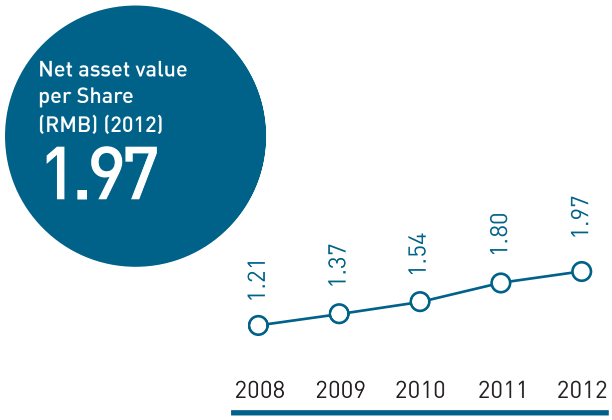












Notes:

1) The calculation of basic earnings per Share is based on the profit attributable to ordinary equity holders of the Company divided by the weighted average number of ordinary shares in issue during the relevant year.
2) Return on average total equity holders' equity is equal to the profit attributable to equity shareholders for the year divided by the average of opening and closing total equity holders' equity.
3) The calculation of gearing ratio is based on the total borrowings divided by the total assets of the Group at the end of the year.
4) The calculation of net asset value per Share is based on the total number of Shares in issue after the Company's listing and at the end of the year.
5) Average inventory turnover days is equal to the average of opening and closing inventory divided by costs of sales and multiplied by 365 days (or 366 days in 2008 and 2012).
6) Average trade and bills receivables turnover days is equal to the average of opening and closing trade and bills receivables divided by revenue and multiplied by 365 days (or 366 days in 2008 and 2012).
7) Average trade and bills payables turnover days is equal to the average of opening and closing trade and bills payables divided by cost of sales and multiplied by 365 days (or 366 days in 2008 and 2012).

Financial Review of Xtep Brand

Revenue and Gross Profit Margin Breakdown of Xtep Brand by Product Category

For the year ended 31 December

	Revenue (RMB' Million)			As a percentage of revenue (%)		Gross profit margin (%)	
	2012	2011	Change (%)	2012	2011	2012	2011
Footwear	2,671.2	2,424.0	+10.2	48.8	45.1	41.5	41.0
Apparel	2,702.1	2,862.0	-5.6	49.4	53.2	40.5	40.8
Accessories	101.2	88.9	+13.8	1.8	1.7	33.3	35.2
Total	5,474.5	5,374.9	+1.9	100.0	100.0	40.9	40.8

RMB
5,474.5
million

Xtep Brand
Revenue
(2012)

STANDARD CHARTERED HONG KONG MARATHON

In 2012, Xtep was honored as the first domestic sportswear brand to be the official sports apparel sponsor for the Standard Chartered Hong Kong Marathon. Approximately 70,000 runners from all over the world participated in this major sports event in Hong Kong. In order to promote the spirit of "run with fun, fun to run", Xtep set up product and game booths at the Marathon Expo prior to the beginning of the race, boosting its brand and product popularity by interacting with the public.


FINISH
起 START 點
你是贏家！
Standard Chartered
Standard Chartered
HONG KONG
MARATHON 2012
H.K.A.A.A.

XIAMEN INTERNATIONAL MARATHON

The Xiamen International Marathon, an IAAF Gold Label Road Race since 2007, is one of the four most important marathons in China. Xtep, being the official apparel sponsor, has been promoting the race with its unique interactive entertainment strategy to encourage more participation, which attracted a record breaking number of over 73,000 runners in 2012. Xtep's brand representatives, Justin Gatlin and Gwei Lun-mei (桂綸鎂), kick-started the event opening ceremony, cheering the runners on and setting the crowd in high spirits.

DALIAN INTERNATIONAL MARATHON

First held in 1987, the Dalian International Marathon has been successfully held for 25 times and is one of the oldest marathons in China. The race ranks among the four most important marathons in China, alongside with The Xiamen International Marathon. Xtep was honored to be the sole apparel partner for the event for the second year in a row.

YANGZHOU JIANZHEN INTERNATIONAL HALF MARATHON

The Yangzhou Jianzhen International Half Marathon, an IAAF Silver Label Road Race, first started in 2006. In 2013, the race was awarded as an IAAF Gold Label Road Race, the first and highest recognition granted to a half-marathon race in China. Being the sole apparel partner for the event for the second year in a row, Xtep provided running apparel for about 35,000 runners this year.

International Marathons

XI'AN CITY WALL INTERNATIONAL MARATHON

As a sixth-consecutive-year premier partner with the Xi'an City Wall International Marathon since 2007, Xtep set the crowd in high spirits on the race day on 3 November 2012, by inviting its brand representative, Justin Gatlin, to kick start the opening ceremony of the 2012 race by a warm-up routine in the form of the popular "Gangnam style" horseback riding dance, making the event more trendy and entertaining than ever.

CHINA ZHENG-KAI INTERNATIONAL MARATHON

The China Zheng-Kai International Marathon is the largest marathon in mid-western China. The 6th edition of 2012 China Zheng-Kai International Marathon was held on 8 April 2012, successfully attracting over 30,000 runners from 29 countries and regions to participate in the event. Xtep was honored to be the sole apparel partner for the event for the second year in a row.

HANGZHOU INTERNATIONAL MARATHON

The Hangzhou International Marathon is an international level event recorded by the Chinese Athletic Association and Association of International Marathons and Distance Races ("AIMS"). The race course covers along the West Lake, Tea Gardens and Qiantang Scenic Area and is widely regarded as one of the world's most beautiful marathon routes. To echo the 2012 marathon theme of "Be Green, Slow Living", the race included a family run and a couple run in addition to the traditional full and half marathons, promoting the concept of "fitness for all". Xtep has sponsored The Hangzhou International Marathon since 2010.

TIANJIN INTERNATIONAL MARATHON

On 26 May 2012, the 2012 Tianjin International Marathon completed with great success at Wuqing Development Zone. The race attracted over 10,000 runners from 23 countries and regions to participate in the event. With years of experience in marathon sponsorships, Xtep has been named the official apparel sponsor for the race.

GUANGZHOU MARATHON

The first Guangzhou Marathon was held on 18 November 2012, attracting over 20,000 participants. The race route runs through several key landmarks of Guangzhou, including Huacheng Square, Zhongshan Memorial Hall, Chenjiaci. As the official apparel sponsor for the race, Xtep set the crowd in high spirits by combining music and trendy elements into the event.

Four Seasonal Collections


SUMMER
Women
Women
TRAINING
TENNIS

2012 Awards and Accreditations

Fujian Provincial Government Quality Award

Quanzhou City Government Quality Award

CORPORATE AWARDS

2012 Asia's 200 Best Under a Billion
Forbes Asia

Top 100 Hong Kong Listed Companies Selection 2012 – Top 10 Comprehensive Strength
Finet Group and Tencent Holdings Limited

The Best China Brands 2012 - Top 50 Best China Brands
Interbrand

Hurun Most Valuable Chinese Home-grown Brands List - Top 100
Hurun Report

Quanzhou City Government Quality Award
Quanzhou Municipal Government

Fujian Provincial Government Quality Award
Fujian Provincial Bureau of Quality and Technical Supervision and Putian Municipal Government

Fujian Province Advanced, Quality Control Enterprise
Fujian Provincial Bureau of Quality and Technical Supervision

2012 Most Valuable E-commerce Business Award
Business Value Magazine

Top 10 Most Competitive China Corporate Culture Enterprise
China Culture Administration Society

2012 Most Valuable E-Commerce Business Award

PUBLICATION AWARDS

Gold Award
2012 LACP Vision Awards
Overall Report

Top 25 Chinese
2012 LACP Vision Awards
Annual Report of 2011

Silver
2012 26th International ARC Awards
Overall Annual Report: Sports Equipment and Goods


ELCOME
ABOARD
X-TOP
Navy
Pop Culture
Fashion
Living


XTEP IS
FASHION
SPORTSWEAR
XTEP

WE AIM TO BECOME A WORLD CLASS LEADING FASHION SPORTSWEAR BRAND

DING SHUI PO
Chairman

Dear Shareholders,

On behalf of the Board, I am pleased to present the audited annual results of the Group for the year ended 31 December 2012.

X-Ceptional Decade

2012 marked the 10th anniversary of Xtep and a decade of accomplishment. During the past decade, Xtep has evolved into a leading fashion sportswear brand with an extensive nationwide network in the PRC. With the goal of becoming the "Runner's Choice", Xtep today enjoys strong consumer awareness and recognition in various running sports, promoting the brand spirit of "Love Running, Love Xtep".

2012 Overview

Market Overview

On the macroeconomic level, affected by the continuing fragile global economy, China's overall growth slowed during 2012. Domestic consumer demand also weakened due to market uncertainties. According to the National Bureau of Statistics of China (the "NBS"), total retail sales of consumer goods reached RMB20.7 trillion in 2012, representing a growth of 14.3%, a decrease of 2.8 percentage points from the previous year.

Looking at the Chinese sportswear industry, domestic players in this sector have enjoyed rapid growth over the last decade with hundreds of new brands rushing into the Chinese market. This trend has led to intense price competition and market overcapacity. Faced with these challenging circumstances, a number of industry-wide issues have emerged while sales growth has slowed. These issues included excessive inventory across retail channels, deep retail discounts and mass store closures. The overcrowded Chinese sportswear sector has therefore entered into more serious market consolidation during the year. In addition, increasingly sophisticated domestic consumption patterns required the players to demonstrate forethought with regards to brand positioning, product planning and marketing strategies. Market players who responded too slowly to cater to the changing market were forced to exit the market.

Strategy Overview

Despite intense competition among industry players in 2012, we have continued to reinforce our unique brand positioning strategy and to further differentiate ourselves from peers by strategically deploying resources in our comprehensive marketing activities and with continuous product innovation and design.

Backed by the solid foundation of Xtep's unique, trendy and fashionable brand image, we continue to implement successful dual entertainment and sports marketing strategy to bolster our leading position and reinforce a sense of preeminence among our peers. With clear, focused sports sponsorship and endorsement, especially in prominent running events and marathons, we have reaffirmed our brand identity and consolidated our leading market position. In 2012, we sponsored 9 international marathon in the PRC and Hong Kong that further enhanced our brand image among our target customers. The addition of our two new brand representatives – the 2012 world indoor sprint champion and London Olympic Games 2012 bronze medalist, Justin Gatlin, and renowned Taiwanese actress, Gwei Lun-mei (桂綸鎂) – also promoted brand awareness of the Xtep brand.

To cater to increasingly sophisticated consumer tastes and fully capture market potential, we have established a diversified product portfolio that satisfies a wide range of consumer needs. During the past year, we strengthened our product portfolio in running footwear products with additional investments in design, technology, and talent in order to enhance our research and design capabilities.

Results Overview

Despite a challenging operating environment, Xtep maintained a steady financial performance during the year of 2012. For the year ended 31 December 2012, the total revenue of the Group was RMB5,550.3 million (2011: RMB5,539.6 million), representing an increase of approximately 0.2% over the last year. In particular, we achieved satisfactory revenue growth from our footwear products due to the success of our marketing and promotional efforts as well as a clear focus on our core running category. Under our prudent operational approach and continued brand building effort, the profit attributable to equity shareholders was approximately RMB810.0 million (2011: RMB966.4 million), representing a decrease of about 16.2% over the last year. Basic earnings per Share was approximately RMB37.22 cents (2011: RMB44.41 cents). Despite the decrease in profit attributable to equity shareholders, we have seen significant improvement in working capital. Coupled with careful utilization of cash and bank balances, the Group achieved a significant increase in the operating cash flow and maintained a healthy balance sheet. For the year ended 31 December 2012, the operating cash inflow has increased by 5.5 times to approximately RMB1,330.3 million (2011: RMB204.2 million). In view of the strong operating cashflow, the Board recommended the payment of a final dividend of HK10.0 cents (2011: HK14.5 cents) per Share. In addition, to celebrate Xtep

Chairman's Statement

brand's 10th anniversary, the Board recommended that an approximately extra 10% of the profit be used as a special dividend in the amount of HK4.5 cents per Share (2011: nil). As a result, together with the interim dividend of HK13.2 cents (2011: HK13.0 cents), the total dividend for the year ended 31 December 2012 amounted to HK27.7 cents (2011: HK27.5 cents) per Share, representing a total dividend payout ratio of approximately 61% (2011: 50%).

Outlook

Looking ahead, the overall economic and industry prospects in 2013 will remain challenging. The current excessive inventory and high retail discounts in existing distribution channels across the sportswear sector are likely to persist throughout the coming year, resulting in further store closures and a drop in sales across the industry. This will deepen the negative impact before the industry environment can finally stabilize and recover.

Under these market conditions, effective retail channel management will be a top priority for us in order to reap further success of the Xtep brand. To address all the issues potentially affecting our distribution channels, we will proactively reduce the excessive inventory and moderate our new stock supply. Therefore, we will continue to encourage our distributors and franchisees to take a thoughtful and conservative approach when placing orders, while we will make timely adjustments to our strategies in anticipation of changing market conditions. We will increase wholesale discounts and enhance our brand promotion efforts by providing additional incentives on store renovation and decoration to ease the operational pressures of our distributors.

In addition, to further strengthen the competitiveness of our distribution channels and to maintain healthy and sustainable development, we will consolidate our distribution networks in saturated markets in which growth opportunities are limited. This will enhance our overall operational efficiency. At the same time, we are set to expand our coverage in third and fourth-tier cities in line with the Chinese government's efforts to promote urbanization.

We believe our Xtep brand equity has risen strongly due to our consistent advertising and promotional efforts. We will continue to invest in brand building and enhance Xtep's brand awareness through continuous cooperation with the State General Administration of Sport of China. For the 3rd consecutive time, Xtep was named the sole apparel sponsor of the 12th National Games (the "Games") in September 2013. To complement the Group's prominent marketing campaign as the sole apparel sponsor of the Games, which will be held in Liaoning province, we have designated the northern cities of China as a major focus of our development plans. Doing so will allow us to capture opportunities in this region.

To uphold our leading fashion sports marketing position and to build stronger brand equity for Xtep, we will strengthen our product portfolio to satisfy a range of consumer needs. We will strive to enhance our diversified product portfolio to keep ourselves relevant to the changing market and our customers. Therefore, eyeing the huge market potential, we will further expand "X-TOP" series, "Xtep Kids" series and enhance the e-commerce distribution channels.

Given that 2013 will be a more challenging year, we will strive to implement effective measures to overcome foreseeable difficult situations that may arise. We believe that after the reshuffling of sportswear operators during the current market consolidation, the Chinese sportswear industry will gradually stabilize and recover. Over the long term, national policies to help boost domestic demand and speed up the pace of urbanization will be highly beneficial to our sportswear industry. As a top leading fashion sportswear brand with solid brand equity and strong competitive niches, we believe that by carefully managing our operations through this difficult period, Xtep will emerge as a stronger brand and will benefit from the valuable experience accumulated.

Acknowledgements

On behalf of the Board, I would like to express my sincere gratitude to our customers, suppliers, business partners and shareholders for their support of Xtep, as well as to our dedicated staff for their relentless efforts over the past year. Xtep will continue to strive to reinforce its brand equity and bring fruitful returns to shareholders in the future.

Ding Shui Po

Chairman
Hong Kong, 15 March 2013


SPORTS
LIKE
NO OTHER

Justin Gatlin

2012 World indoor sprint champion
London Olympic Games 2012 men's 100-meter bronze medalist

OUR STRATEGIES

International Exposure

Sports Sponsorship

Entertainment Marketing

Media Advertising

Market Review

Affected by the lingering European sovereign debt crisis and the sluggish growth in developed countries led by the U.S., the recovery of the global economy remained fragile in 2012. Meanwhile, China's GDP grew 7.8% in 2012, its slowest rate since 1999, due to feeble export demand and to the economic stimulus measures implemented a few years ago running out of steam. Nevertheless, the PRC's economy showed signs of stabilization in the fourth quarter, recording a 7.9% year-on-year growth. On the other hand, China's urbanization policy produced steady progress with regards to further narrowing of the urban-rural income gap during the year. According to NBS, per capita disposable income of urban households grew 9.6% in real terms to RMB24,565, while per capita cash income of rural households increased 10.7% to RMB7,917.

The industry specific issues that arose in the last few years plagued the overcrowded domestic sportswear market, which entered into an even more serious consolidation during the year. Some market players were severely affected by the market overcapacity and intense price competition, and their revenues were eroded due to excessive inventory across retail channels.

Business Review

Brand Management

Amidst fierce competition in the domestic sportswear sector, strong brand equity has become more essential in order for players to stand out in the market and propel sustainable development. Over the past decade, resulting from its successful and consistent branding strategy, Xtep has established a unique brand position with a trendy and fashionable image. During the year, the Group continued to adopt its dual sports and entertainment marketing strategy to promote brand awareness and to reinforce Xtep's position as the leading fashion sports brand in the PRC.

X-Ceptional Decade Celebration

To commemorate Xtep's 10th anniversary, a grand X-Ceptional Decade celebration event was held in Xiamen on 10 April 2012. With the theme of "Rising Power", the Group was honored to have key local government officials join the event to celebrate this milestone anniversary. Honorable guests including Mr. Zhong Xingguo (鍾興國), Deputy Secretary of Xiamen Municipal Committee of the Communist Party of China (CPC), Mr. Fu Chaoyang (付朝陽), Deputy Mayor of Quanzhou Municipal People's Government and Mr. Gerhard Heiberg, Chairman of the International Olympic Committee (Marketing Commission), attended the event together with about 6,000 other valuable guests. Representatives of Xtep's exclusive distributors and franchisees, together with its celebrity spokespersons, namely, Nicholas Tse (謝霆鋒), Han Geng (韓庚), Jolin Tsai (蔡依林), Wilber Pan (潘瑋柏), and the newly appointed brand representatives, Gwei Lun-mei (桂綸鎂) and Justin Gatlin, also joined this commemorative event.

London Olympic Games 2012

In order to increase the international exposure of its brand, the Group strategically sponsored several events at the London Olympic Games 2012. As the competition apparel sponsor for the Chinese women's Synchronized Swimming Team, Xtep tailor-made the teams' custom swimsuits, bolstering overall performance and artistic impression. Achieving an unprecedented success, China won a silver medal in the team event, and a bronze medal in the duet event, the nation's best record for the sport.

Additionally, Xtep's brand representative, renowned U.S. track and field sprinter, Justin Gatlin, who won the 2012 world indoor 60-meter championship in March 2012, went on to win a bronze medal in the men's 100-meter track event at the London Olympic Games 2012, while wearing the specially designed Xtep competition shoes. Gatlin's excellent performance, a personal best of 9.79 seconds, brought Xtep's brand into the international spotlight and demonstrated the superior functionality of the Group's running shoe products.

Sports Marketing

Sports marketing is one of the key and most effective tools that Xtep has used throughout the years. To help promote and gain publicity of the Xtep brand, the Group was committed to sponsoring a variety of domestic and international sporting events in 2012.

RUNNING EVENTS

Approximately 300,000 Runners in 9 International Marathons Sponsored by Xtep

Xiamen International Marathon

Standard Chartered Hong Kong Marathon

China Zheng-Kai International Marathon

Yangzhou Jianzhen International Half Marathon

Dalian International Marathon

Tianjin International Marathon

Xi'an City Wall International Marathon

Hangzhou International Marathon

Guangzhou International Marathon

Justin Gatlin

Running

During the year, with running as Xtep's core sport category, the Group sponsored nine major international marathons and various prominent running events to boost its brand awareness and to strengthen the market position of its running products in line with its brand spirit of "Love Running, Love Xtep".

Through its active involvement in these significant running events, the Group has fully demonstrated its unique market leading position in promoting and developing the increasingly popular running sports in the PRC, and thus is well positioned to become the "Runner's Choice" in the long run.

In addition, the Group was named the sole apparel sponsor of the 2012 IAAF Shanghai Diamond League for the third consecutive year. The partnership with this top track and field meeting has allowed the Xtep brand to reach the global market and further strengthen its professional running-focused brand image.

Meanwhile, 2012 also marked the third year of collaboration between the Hong Kong Amateur Athletic Association (the "HKAAA") and Xtep on the title sponsorship events, "Xtep Hong Kong Athletics League" and "Xtep Hong Kong 15km Challenge".

Details of the major running events sponsored by Xtep in 2012:

Marathons
Xiamen International Marathon
Standard Chartered Hong Kong Marathon
China Zheng-Kai International Marathon
Yangzhou Jianzhen International Half Marathon
Dalian International Marathon
Tianjin International Marathon
Xi'an City Wall International Marathon
Hangzhou International Marathon
Guangzhou International Marathon

Other running events
IAAF Shanghai Diamond League (Shanghai)
Xtep Hong Kong Athletics League (Hong Kong)
Xtep Hong Kong 15km Challenge (Hong Kong)
"Fun Route" Xtep Run (Beijing, Shanghai, Xiamen and Hangzhou)

Xtep Runners Club (特跑族)

To further advocate Xtep's brand spirit of "Love Running, Love Xtep", Xtep established its "Xtep Runners Club" in June 2012, and launched its "Lifestyle Running" and "Technology Running" series. By the end of 2012, the accumulated number of registered members of the Xtep Runners Club exceeded 3,000, exemplifying Xtep's strong presence and influence among the active runners in the PRC.

FOOTBALL EVENTS

**Spanish football club
Villarreal C.F.**

Football

As football is one of the most popular sports enjoyed by its target group of young consumers, the Group has strengthened its promotional resources in the sport through various sponsorships at college, university and professional levels.

Major football events and football clubs sponsored by Xtep in 2012:

- Xtep China University Football League (PRC)
- Xtep Chinese College Futsal League (PRC)
- Xtep Weifang Cup (PRC)
- Fujian Junhao Football Club (PRC)
- La Adelante's Villarreal C.F. (Spain)
- Hong Kong Rangers Football Club (Hong Kong)
- Hong Kong All Star Sports Association (Hong Kong)

Xtep China University Football League (the "CUFL")

Xtep and The University Sports Association of China (CUSA), the organizer of CUFL, entered into a five-year partnership agreement in 2012 for the title sponsorship of CUFL. The tournament, officially renamed as "Xtep China University Football League", attracted nationwide participation from over 400 college and university football teams. Xtep sees that football has always been one of the most popular sports in China, and therefore believes that the Group's involvement in the sport will further enhance its brand popularity.

Xtep Chinese College Futsal League (the "CCFL")

For the second year in a row since 2011, Xtep became the title sponsor of the 2012-2013 Xtep CCFL in October 2012. Hosted by the Federation of University Sports of China (FUSC) and the Chinese Football Association, Xtep CCFL is the only official league for college futsal in China. The "2011-2012 Xtep CCFL" tournament attracted over 200 colleges in 15 provinces with more than 2,000 college and university players competing for the championship. With widespread participation on campuses, Xtep CCFL played an important role in developing the 5-a-side football game at the college and university level.

Other title sponsorships and endorsements of football clubs

As part of the Group's ongoing commitment to the long-term development of Chinese youth football, and in order to reach out to younger players, the Group sponsored the 2012 Xtep Weifang Cup, a leading international youth football tournament in China, of which Xtep has been named the title and official kit sponsor since 2011. Xtep has also continued its sponsorships for domestic and foreign football teams during the year, including the Spanish La Adelante's Villarreal C.F., Hong Kong Rangers Football Club, the Hong Kong All Star Sports Association and Fujian Junhao Football Club.

Other Sports

To increase Xtep's brand visibility in different sports categories and to expand its appeal to a broader audience in sports, the Group has also sponsored and partnered with a variety of other sports events, namely Tour of Beijing and Tour of Taihu Lake, the two premier cycling races in China. Xtep was named the core strategic partner and the sole equipment sponsor for these tours. Since cycling is a fashionable and trendy lifestyle sport, the Group believes that this sport not only fits well with its brand image, but also promotes a healthy and green lifestyle.

ENTERTAINMENT MARKETING

Gwei Lun-mei
(桂綸鎂)

Han Geng
(韓庚)

Nicholas Tse
(謝霆鋒)

Dual Sports and Entertainment Marketing Strategy

Primarily targeting its young and fashion-conscious customers, Xtep continued to adhere to its unique dual sports and entertainment marketing strategy throughout the year. This included arranging title sponsorship of popular PRC entertainment programs, TV commercials featuring Xtep's celebrity endorsements and marketing campaigns, and arranging concert tours, which have helped to establish the Group's distinctive image as a trendy and fashionable brand.

Media Exposure

In 2012, the Group worked with several mainstream networks in the PRC to promote its brand as follows:

Xtep 10th anniversary special on Hunan Satellite TV's "Day Day Up"(「天天向上」)

In celebration of the 10th anniversary of Xtep's inception, a special "Xtep 10th Anniversary Special" program was broadcasted in April 2012 on Hunan Satellite TV's "Day Day Up", a variety TV show solely title sponsored by Xtep. Xtep's celebrity representatives, namely, Nicholas Tse (謝霆鋒), Han Geng (韓庚), Jolin Tsai (蔡依林) and Wilber Pan (潘瑋柏), as well as Xtep's Chairman and Chief Executive Officer, Mr. Ding Shui Po, appeared together on the show, and introduced Xtep's special 10th anniversary edition products.

National

CCTV-5 is a national sports channel that provides comprehensive coverage of national and international sporting events. In 2012, Xtep continued to be CCTV-5's official broadcast partner for football games and advertised broadly on the network. Benefiting from the congruence of the sports network with Xtep's brand, the Group strengthened its sports image while gaining broader brand recognition among sports enthusiasts.

Regional

Hunan Satellite TV is a popular entertainment and informational channel. As the sole title sponsor of the highly acclaimed entertainment program, "Day Day Up", the Group significantly boosted its brand popularity and maximized its brand awareness among young audiences. Xtep also continued to act as Anhui Satellite TV's sporting goods strategic partner. Riding the London Olympic Games 2012 wave, Xtep partnered with Henan City Channel, and title sponsored a TV program introducing the Games.

Network Media

In light of the soaring internet usage in China, the Group established partnerships with Tencent and Sohu to leverage this emerging opportunity and further bolster Xtep's affinity among young consumers. By enhancing its brand exposure on the most popular Chinese social media sites, the Group ensured its brand equity remain trendy and relevant to its target customers.

Xtep Stars

To strengthen Xtep's position as a leading fashion sportswear brand, the Group has been actively adopting its celebrity endorsement strategy, which has proven to be an effective tool in reaching the target young customers. Xtep's brand spokespersons were strategically selected to align with Xtep's brand identity and values. Xtep's long-standing celebrity spokespersons include distinguished actor, singer and songwriter Nicholas Tse, famous singer and actor Han Geng who recently claimed the Mainland Most Popular Male Singer in the 11th CCTV MTV Music Awards and 2012 MTV Europe Music Awards' "Best Worldwide Act". Other Xtep celebrity spokespersons include renowned singers Jolin Tsai and Wilber Pan, who enjoy enormous popularity in the PRC.

New Brand Representatives

During the year, the Group appointed two high-profile brand representatives Gwei Lun-mei and Justin Gatlin as part of Xtep's marketing strategy to connect to its target customers and reinforce its fashion sportswear brand position. Through their participation in various promotional activities, the Group received positive national and international media exposure to boost its brand.

Critically Acclaimed Actress – Gwei Lun-mei

Renowned Taiwanese artiste Gwei Lun-mei, is well-known for her role in many popular movies, including "Blue Gate Crossing", "Secret", "The Flying Swords of Dragon Gate" and "Sound of Colors". Gwei was recently crowned Best Leading Actress for her leading role in the film "Gf*Bf" at the 49th Golden Horse Awards Ceremony. As a new Xtep brand representative, her healthy image and popularity in the PRC has helped raise the Group's brand profile. Gwei participated in various promotional activities for Xtep during the year, such as the X-Ceptional Decade celebration event in Xiamen and Xtep's "Fun Route" Xtep Run in Beijing.

World Class Athlete – Justin Gatlin

On 5 August 2012, Xtep's new brand representative, 2012 world indoor sprint champion Justin Gatlin, won a bronze medal in the men's 100-meter track event at the London Olympic Games 2012, while wearing his specially designed Xtep competition shoes. During the year, Gatlin also participated in multiple world-class track and field events winning multiple championships, including the men's 100-meter sprint championship at the 2012 IAAF Diamond League in Doha, Qatar, the IAAF World Challenge in Daegu, South Korea, and the International Mohammed VI athletics carnival in Rabat, Morocco. In addition to joining the Group's X-Ceptional Decade celebration event and "Fun Route" Xtep Run, Gatlin participated in Xtep's sponsored Xi'an City Wall International Marathon, promoting the "Love Running, Love Xtep" brand spirit.

INNOVATIVE PRODUCTS

Diversified Product Portfolio

Innovative and quality products play a vital role for the Xtep brand in creating further brand differentiation in the current market and reinforcing its market positioning as a leading fashionable sportswear brand. Therefore, Xtep has been committed to offering a wide selection of products to keep its customers inspired. With over a decade of manufacturing experience and know-how in designing and producing sportswear products, Xtep is able to present a diversified product portfolio comprised of both fashion and casual sportswear to cater to the diverse consumer needs.

During the year, Xtep's footwear product lines included skateboard shoes, casual sneakers, basketball shoes, football boots, urban series, casual training shoes and outdoor footwear, in addition to its core running series. Meanwhile, aiming to tap into the lucrative young consumer market, the Group created a specially designed "Cool" footwear series ("潮酷鞋") for teenagers, who are yearning for products to declare their own individuality. Additionally, the Group collaborated with Marvel Entertainment, LLC (the "Marvel") and market-launched a "Spider-Man Crossover" series and an "Avengers Crossover" series, catching the wave of the Marvel movies released during the year. To further tap into the northern China market, the Group developed a line of cotton-padded shoes to cater to the long and cold winter in the region. In terms of Xtep's apparel, on top of its well-established running and cross-training fashion sports apparel lines, the Group continued to strengthen its comprehensive range of apparel products, which included the cowboy, outdoor, tennis, football and classic series.

Xtep's brand products are intended to be the first choice for young and fashion-conscious customers. The Group notably broadened its "X-TOP" and "X-Girls" urban series, which featured distinctive styling and comfort. One of Xtep's brand representatives, Han Geng, who enjoys extreme popularity in China especially among young people, was strategically chosen as the endorser of this series.

Moreover, as the Group further expanded its "Xtep Kids" series, a separate team was dedicated to managing this product line in order to penetrate the high potential kids wear market, backed by the growing purchasing power of affluent parents in the PRC.

Research and Design Enhancement

Apart from aesthetic designs, the quality and comfort of products are equally important. Thus, the Group continued to refine the quality of its existing materials and products by advancing the R&D level through investment in technology, research and development. Equipped with the most advanced and newly imported equipment, the Group's in-house laboratory passed the China National Accreditation Service for Conformity Assessment in September 2012 and the Group was honored by Fujian Provincial Bureau of Quality and Technical Supervision as "Fujian Province Advanced Quality Control Enterprise".

The Group also greatly emphasized talent acquisition and development, and therefore, proactively recruited a number of talented designers during the year. As at 31 December 2012, Xtep had approximately 600 creative designers from not only the PRC, but also from Hong Kong, England and South Korea, as well as international product design and technology advisors and consultants from England, France, Spain, South Korea and the U.S.. With such a diversified pool of talents, the Group strived to maintain its reputation for industry-leading, differentiated and stylish products. For the year, the Group's research and design team created over 3,000 types of newly-designed footwear and apparel products that were uniquely fashionable and functional. For the year ended 31 December 2012, the sales volume of Xtep brand footwear products was approximately 29.4 million pairs (2011: 27.1 million pairs), while the sales volume of Xtep brand apparel products was approximately 37.4 million pieces (2011: 39.1 million pieces).

DISTRIBUTION CHANNEL MANAGEMENT

Sustainable Distribution Channels

In response to the challenging conditions in existing distribution channels, the Group has taken prudent and effective measures to manage its channels in order to maintain a healthy and sustainable development for the Xtep brand. As of 31 December 2012, the total number of retail outlets of Xtep brand was 7,510 (2011: 7,596), representing a net reduction 1.1% from last year. The closed retail outlets were mainly located in remote locations with under-performance operational efficiency.

In addition to the strategic deployment of its retail outlets, the Group actively upgraded the appearance of its retail outlets to ensure a high level of overall consistency and to uphold the Xtep brand equity. During the year, the Group continued to revamp its existing outlets to the sixth generation layout standard in order to maintain a fresh look in the decoration and interior design of its distribution network to match its marketing campaigns. An integrated management of Xtep's outlet designs and a standard theme was applied to all outlets.

Inventory Management

The Group recognizes the importance of maintaining stringent control over its retail chains' inventory levels.

In order to accurately and promptly monitor the retail inventory level of the sales channel so as to keep abreast of the market situation and to optimize inventory control, a real-time monitoring DRP system has been adopted in approximately 75% of the total number of Xtep's retails outlets. Through the DRP system, the Group has been able to closely monitor the inventory level in the retail market and control the future supply of products. As a result, we did not encounter excessive unsold products at the retail level.

Additionally, the Group maintained a tight control over the retail discount rates in its distribution network, which is vital for the preservation of the Xtep brand equity. While closely keeping an eye on the data from the retail operations to determine whether a retail discount should be granted, the Group also enforced its guidelines and carried out regular inspections of retail outlets to ensure compliance in areas such as pricing policy, retail display and customer service. Regular training sessions were also offered to the retail teams to enhance their expertise, product knowledge and technical skills.

Vertically Integrated Business Model

The Group adopted a vertically integrated business model from design and production to sales and distribution management. In addition to better cost controls, the Group has been able to deliver products and respond to market demand in a timely manner. The major production lines were located in Quanzhou, Fujian. During the year, approximately 15 million pairs of footwear were produced in-house, representing 51% of total volume sold. Also, approximately 6 million pieces of apparel were produced in-house, representing 15% of total volume sold.

Expansion of Production Facilities

In order to improve its production quality and efficiency, and to exert tight cost control through a mixture of in-house and outsourced manufacturing, the Group expanded its production capacity and a new production base in Auhui province was under construction during the year. The Auhui production plant is expected to start production in 2013 and the Group believes that this facility expansion will bring benefits of economies of scale, and will reduce its per unit production cost in the long run. The future capital expenditure for this new production plant is expected to be approximately RMB200-400 million in the next 2 years.

Channel Diversification

Driven by the rising internet penetration and greater use of online shopping, e-commerce has emerged as one of the fastest-growing sectors in the PRC. Online shopping is particularly popular among internet-savvy young customers. Eyeing the huge potential of e-commerce, Xtep has proactively started plotting the development of its online distribution channels in order to fully capture these growing market opportunities. Apart from operating its own official website www.xtep.com.cn, the Group has also been co-operating with a number of leading online shopping platforms such as taoxie.com, taobao.com, TMall.com and paipai.com. In 2012, the Group made significant progress in optimizing its online sales channel, and collaborated with multiple media platforms to maximize its exposure. Additionally, the Group introduced online exclusive products through its online platforms, and assigned a special team to manage the Group's e-commerce business.

Although the Group's focus remained firmly on the PRC market, it has also been exploring opportunities relating to overseas brand exposure, which could be beneficial to the long-term development of the Xtep brand. The Group currently has around 100 overseas points of sales locations, which are mainly located in the Middle East, Spain and Central Europe.

FUTURE PROSPECTS

Market Outlook

The outlook for the global economy in 2013 and the recovery of China's economic growth remain uncertain. In regards to the sportswear sector, existing issues such as intense competition, excessive inventory and high retail discounts will continue to linger during the coming year. In addition, high labor costs and lukewarm new sales orders will add to the pressure in the sector.

However, the Group is of the view that in the long term, with support from national policies, the sector as a whole will gradually recover and resume healthy growth. The PRC Government's favorable policy on urbanization development will create new potential in the third and fourth-tier city markets. Moreover, the national campaign "Fitness for All", which encourages more people to participate in sports and to live a healthier lifestyle will also boost the demand for sportswear products. The Group will continue to execute its comprehensive strategies to uphold its position as the leading fashion sportswear brand.

Integrated Brand Management

Leveraging its distinctive identity as a trendy and fashionable sportswear brand, the Group will continue to reinforce its brand image through the implementation of integrated marketing and promotional strategies. At the beginning of a new decade for Xtep, the Group is honored to be named the sole apparel sponsor of the 2013 National Games for the third consecutive time, and the official sponsor of twelve delegation teams of the National Games, including Liaoning, Beijing, Jiangsu, Tianjin, Guangdong, Zhejiang, Hunan, Henan, Hebei, Guizhou, Hubei and, last but not least, the People's Liberation Army delegation. This prominent sponsorship will put the Xtep brand in the national spotlight, as the National Games is the most important sporting event attended by all of the PRC's top athletes, with millions of people expected to watch.

Apart from this prominent event, Xtep will also continue to sponsor major international marathons and running events in hopes of achieving Xtep's ultimate goal of being the "Runner's Choice". Some significant continuing sponsorships by the Group, include the Xiamen International Marathon, Standard Chartered Hong Kong Marathon and China Zheng-Kai International Marathon, which highlight its commitment to strengthen its leading position in the running segment.

Diversified Product Portfolio and Innovative Products

To uphold its leading fashion sports marketing position and to build stronger brand equity for Xtep, the Group will strive to enhance its product portfolio. In doing so will keep the Group fully attuned to the changing market trends and consumption pattern. Therefore, to fully capture emerging market opportunities, the Group will further expand its "X-TOP" and "Xtep Kids" series, as well as enhance its e-commerce distribution channels.

The Group places great emphasis on product innovation that satisfies changing consumer needs and differentiates the Xtep brand from others. Leveraging on the success of its running series, the Group will continue to invest in R&D to improve the design and functionality of its sportswear products. The Group believes that its innovative products will help to strengthen its unique reputation as a trendy and fashionable brand and cultivate greater brand loyalty.

Retail Channel Management

Retail channel management will be a top priority for the Group to optimize its overall operational efficiency and to maintain a sustainable business environment. In 2013, the Group intends to further consolidate 100 to 200 retail outlets in areas in which the locations are remote and the operations have underperformed. While further network consolidation in less efficient areas shall continue, the Group will expand its coverage in the core market of third and fourth-tier cities in which urbanization policy has brought high growth potential. Moreover, the Group has made the northern cities a major focus of its development plans in order to capture opportunities in this region and to complement the Group's prominent marketing campaign as the sole apparel sponsor of the 2013 National Games to be held in Liaoning.

To enhance retail store efficiency, the Group will continue to encourage its distributors and franchisees to take a conservative approach to placing future orders. At the same time, the Group will implement measures to alleviate the pressure of distributors by offering a higher wholesale discount and by providing additional incentives in store renovation and interior design to heighten Xtep's store image. These measures should maintain its overall competitiveness within the industry.

Conclusion

Facing the uncertainties in the operating environment of the sportswear sector, Xtep is committed to using all of its resources to ensure healthy and sustainable development of the business. The Group will continue to implement a prudent approach to mitigate risks, proactively respond to changing market conditions and enhance its competitiveness. Xtep believes that the current market uncertainties also represent an opportunity for industry players who have distinctive brand positioning, unique products and an efficient marketing strategy to create further brand distinction. Building on its distinctive brand character, the Group will strive to achieve sustainable and steady business growth.


往荃灣
to Tsuen Wan
特步全力贊助
渣打香港馬拉松2013
愛跑步 愛特步
特步全力贊助
中港台10大馬拉松


特步全力贊助渣打香港馬拉松2013
HERO
Step by Step!


HERO!


XTEP
X特步

Financial Review

Group Revenue and Gross Profit Margin Breakdown by Branded Product Sales

For the year ended 31 December

	Revenue (RMB' million)			As a percentage of revenue (%)		Gross profit margin (%)		
	2012	2011	Change (%)	2012	2011	2012	2011	Change (pts)
Xtep brand	5,474.5	5,374.9	+1.9	98.6	97.0	40.9	40.8	+0.1
Other brands	75.8	164.7	-54.0	1.4	3.0	25.5	39.2	-13.7
Total	5,550.3	5,539.6	+0.2	100.0	100.0	40.7	40.8	-0.1

Group Revenue Breakdown by Product Category

For the year ended 31 December

	Revenue (RMB' million)			As a percentage of revenue (%)	
	2012	2011	Change (%)	2012	2011
Footwear	2,700.1	2,489.6	+8.5	48.6	44.9
Apparel	2,746.2	2,950.1	-6.9	49.5	53.3
Accessories	104.0	99.9	+4.1	1.9	1.8
Total	5,550.3	5,539.6	+0.2	100.0	100.0

Note: The total revenue of the Group was predominantly attributable to a single geographical region, the PRC, therefore no analysis by geographical country is presented.

For the year ended 31 December 2012, the total revenue of the Group increased by approximately 0.2% to approximately RMB5.55 billion (2011: RMB5.54 billion). The increase in overall revenue was due to increase in revenue of Xtep brand products by 1.9% to approximately RMB5.47 billion (2011: RMB5.37 billion), but was partially offset by the decrease of revenue of Other brands products by 54.0% to approximately RMB75.8 million (2011: RMB164.7 million). The increase in revenue of Xtep brand products was carefully monitored and achieved due to successful product positioning and promotion of running products. The decrease in revenue of Other brands was mainly due to the decrease in revenue of the Disney Sports brand products as a result of the competition in the higher end market. Xtep brand products remained as the Group's major revenue contributor, which accounted for approximately 98.6% of the Group's total revenue.

The overall gross profit margin decreased by 0.1 percentage point to 40.7% (2011: 40.8%). The gross profit margin of Xtep brand products improved by 0.1 percentage point to 40.9% (2011: 40.8%), mainly due to the improvement of the gross profit margin of footwear products. The gross profit margin of Other brand products decreased by 13.7 percentage points to 25.5% (2011: 39.2%) mainly due to the decrease in ASP.

XTEP Brand

Revenue and Gross Profit Margin Breakdown of Xtep Brand by Product Category

For the year ended 31 December

	Revenue (RMB' million)			As a percentage of revenue (%)		Gross profit margin (%)	
	2012	2011	Change (%)	2012	2011	2012	2011
Footwear	2,671.2	2,424.0	+10.2	48.8	45.1	41.5	41.0
Apparel	2,702.1	2,862.0	-5.6	49.4	53.2	40.5	40.8
Accessories	101.2	88.9	+13.8	1.8	1.7	33.3	35.2
Total	5,474.5	5,374.9	+1.9	100.0	100.0	40.9	40.8

Note: Since we have a broad range of products that vary significantly in terms of unit price we do not include details of the sales volume and average wholesale selling price for the products of Xtep brand. We believe that a unit-based analysis of Xtep brand's product category is not meaningful.

For the year ended 31 December 2012, the Group's total revenue from Xtep brand products increased by 1.9% to approximately RMB5.47 billion (2011: RMB5.37 billion), and the gross profit margin increased by 0.1 percentage point to 40.9% (2011: 40.8%). The increase of Xtep brand products' revenue was mainly due to the successful unique brand positioning of the dual sports and entertainment marketing strategy. In addition, the enhancement of Xtep brand equity in the running sports was well recognized by the customers. Throughout the year, Xtep brand promotion has been well supported by the various major PRC marathon and running sponsorships, which led to the increase in sales of Xtep brand footwear products.

Revenue from Xtep brand footwear products increased by 10.2% to approximately RMB2.67 billion (2011: RMB2.42 billion), accounting for 48.8% of the revenue from the Xtep brand products. The growth in footwear products was carefully executed, it was the result of Xtep's successful focus in developing high performance running footwear, as well as the outstanding stylish design customized for the target consumer group. These were the efforts of our strong promotion of running through our sponsorship of various high profile international marathons in China. The slogan "Love Running, Love Xtep" has built an association between the Xtep brand and running among end users and customers of running sports. Xtep brand's focus on running products, especially footwear products, has made itself a preferred choice of value for money products among PRC customers.

The gross profit margin of Xtep brand footwear products increased by 0.5 percentage point to 41.5% (2011: 41.0%). This was mainly due to more functional product mix and the improvement in supply-chain management of cost control.

Revenue from Xtep brand apparel products decreased by 5.6% to approximately RMB2.70 billion (2011: RMB2.86 billion). The decrease in revenue of apparel products was mainly due to the Group's actively enforced tight controls, aimed at reducing the risk of excessive inventory in retail markets resulting from intense market competition. The gross profit margin of Xtep brand apparel products decreased by 0.3 percentage point to 40.5% (2011: 40.8%), mainly due to the adjustments of additional price competitive products.

The Xtep brand differentiates its brand image of trendy sportswear and provides a wide range of products ranging from functional, lifestyle sports and casual products. In addition to the wide-range of excellent value for money products, the Group put close monitoring through a high coverage of distribution resource planning system, which covers approximately 75% of all retail stores, to closely monitor the sales in the retail channels. As a result, we did not encounter issues of excessive unsold products at the retail level.

Other Brands

The products that are licensed to the Group, which are the main source of revenue for Other brands, only contributed to 1.4% (2011: 3.0%) of the Group's total revenue for the year under review. For the year ended 31 December 2012, the Group's total revenue from Other brands was approximately RMB75.8 million (2011: RMB164.7 million), a decrease of 54.0% over the last year. The gross profit margin was decreased to 25.5% (2011: 39.2%).

Other Income and Gains

Other income and gains of the Group mainly represented subsidy income from the government of RMB28.0 million (2011: RMB8.2 million), and net income derived from available-for-sale financial assets of RMB37.4 million (2011: nil), which are related to interest income from treasury deposits products.

Selling and Distribution Costs

For the year ended 31 December 2012, the Group's selling and distribution costs amounted to approximately RMB738.9 million (2011: RMB733.7 million), which represented approximately 13.3% (2011: 13.2%) of the Group's total revenue.

The Group continued its effective dual sports and entertainment marketing strategy with a particular focus on running events, especially international marathon events. During the year under review, the advertising and promotional costs increased by approximately RMB8.5 million to RMB633.9 million, accounting for 11.4% of revenue (2011: RMB625.4 million, accounting for 11.3% of revenue).

General and Administrative Expenses

For the year ended 31 December 2012, the Group's general and administrative expenses amounted to approximately RMB455.1 million (2011: RMB320.9 million), which represented approximately 8.2% (2011: 5.8%) of the Group's total revenue.

The Group's research and development costs were approximately RMB95.5 million (accounting for 1.7% of revenue) (2011: RMB97.7 million, accounting for 1.8% of revenue), mainly for enhancing the functionality of running footwear and apparel products, as well as the development of a wide range of lifestyle sportswear products. To reward and motivate the senior management and staff of the Group, the issuance costs of share options amounted to approximately RMB41.4 million (2011: RMB38.2 million). In order to ease the operational pressure of distributors, the Group has carefully extended the recovery period of trade receivables while enhancing the credit vetting and monitoring process.

Taking a prudent approach, the provision for impairment of trade receivables amounted to approximately RMB77.2 million was provided for in the year under review (2011: nil).

Net Finance Cost

The increase in net finance cost was mainly due to an increase in interest expense on bank loans resulting from an increase of total bank loans in Hong Kong for the payment of dividends.

Operating Profit Margin

The operating profit margin for the year under review was decreased by 1.6 percentage points to 20.4% (2011: 22.0%). It was mainly due to the provision of receivables impairment, an increase in advertising and promotional costs and an increase in share option costs.

Income Tax Expense

Income tax of the Group for the year under review was approximately RMB298.7 million (2011: RMB246.0 million), while the effective tax rate was 27.0% (2011: 20.3%). Due to the differing tax arrangements of subsidiary companies in the PRC and the increase in provision of deferred tax of the Group in 2012, the effective tax rate for the year under review was higher. Details related to income tax and deferred tax are set out in note 10 and note 26 to the financial statements, respectively.

Profit Attributable to Equity Holders and Net Profit Margin

For the year ended 31 December 2012, the profit attributable to equity holders of the Company amounted to approximately RMB810.0 million (2011: RMB966.4 million), a decrease of approximately 16.2% over the last year. The decrease was mainly due to the prudent approach with regard to the provision of long outstanding trade receivables and the increase of tax. As a result, the Group's net profit margin decreased to 14.6% (2011: 17.4%).

Dividend

Despite the decrease in profit attributable to equity holders of the Company, the Group exercised effective control over the working capital of the Group, and the operating cashflow increased significantly by 5.5 times to RMB1,330.3 million (2011: RMB204.2 million). In view of the healthy net cash balances of the Group, the Board recommended a final dividend of HK10.0 cents (2011: HK14.5 cents) per Share. To celebrate Xtep brand's 10th anniversary, the Board also recommended a special dividend of HK4.5 cents (2011: nil) per Share. Together with an interim dividend of HK13.2 cents (2011: HK13.0 cents) per Share, the total dividend for the year under review amounted to HK27.7 cents (2011: HK27.5 cents) per Share. The total dividend payout ratio for the year under review was approximately 61% (2011: 50%).

Working Capital Cycle

Inventories	2012 RMB' million	2011 RMB' million	Change RMB' million
Balance at 1 January	671.5	462.6	
Balance at 31 December	582.7	671.5	-88.8
Average balance (note 1)	627.1	567.1	
Cost of sales for the year ended 31 December	3,292.6	3,282.0	
Average turnover days (note 2)	70 days	63 days	

As at 31 December 2012, the Group's balance of inventory was RMB582.7 million, representing a decrease of approximately RMB88.8 million as compared to the last year (31 December 2011: RMB671.5 million) and also a decrease of approximately RMB118.2 million as compared to the balance of inventory as at 30 June 2012 of RMB700.9 million, indicating the improvement of inventory control. The average inventory turnover days was 70 days (2011: 63 days) as the average inventory balance during the year under review was higher than last year's average inventory balance.

Note 1: The average balance is equal to the average of balance as at 1 January and 31 December of the relevant period.

Note 2: The average turnover days is equal to the average balance divided by the corresponding cost of sales and multiplied by 365 days. (or 366 days in 2012)

Trade and Bills Receivables	2012 RMB' million	2011 RMB' million	Change RMB' million
Balance at 1 January	1,205.4	727.1	
Balance at 31 December	1,035.9	1,205.4	-169.5
Average balance (note 1)	1,120.7	966.3	
Revenue for the year ended 31 December	5,550.3	5,539.6	
Average turnover days (note 2)	74 days	64 days	

As at 31 December 2012, the Group's balance of trade and bills receivables was RMB1,035.9 million, representing a decrease of approximately RMB169.5 million as compared to last year (31 December 2011: RMB1,205.4 million). The decrease was mainly caused by a provision of ageing trade receivables of RMB77.2 million and decrease in bills receivables balance of RMB114.3 million. The average trade and bills receivables turnover days was 74 days (2011: 64 days) as the average trade and bills receivables balance during the year was extended in order to support and ease the operational pressure of retail channels.

Note 1: The average balance is equal to the average of balance as at 1 January and 31 December of the relevant period.

Note 2: The average turnover days is equal to the average balance divided by the corresponding revenue and multiplied by 365 days. (or 366 days in 2012)

Trade and Bills Payables	2012 RMB' million	2011 RMB' million	Change RMB' million
Balance at 1 January	498.9	639.1	
Balance at 31 December	482.5	498.9	-16.4
Average balance (note 1)	490.7	569.0	
Cost of sales for the year ended 31 December	3,292.6	3,282.0	
Average turnover days (note 2)	54 days	63 days	

As at 31 December 2012, the Group's balance of trade and bills payables was RMB482.5 million, representing an increase of approximately RMB16.4 million as compared to the last year (31 December 2011: RMB498.9 million). The Group continued to make effective payments to outsource suppliers in order to control the production costs. The average trade and bills payables turnover days was 54 days (2011: 63 days) for the year under review.

Note 1: The average balance is equal to the average of balance as at 1 January and 31 December of the relevant period.

Note 2: The average turnover days is equal to the average balance divided by the corresponding cost of sales and multiplied by 365 days. (or 366 days in 2012)

Liquidity and Capital Resources

Improvements on Net Assets per Share

As of 31 December 2012, the total assets of the Group amounted to RMB6,499.5 million (2011: RMB5,495.1 million), represented by non-current assets of RMB663.3 million (2011: RMB495.0 million) and current assets of RMB5,836.2 million (2011: RMB5,000.1 million). The total liabilities of the Group amounted to RMB2,219.7 million (2011: RMB1,583.7 million), represented by non-current liabilities of RMB782.9 million (2011: RMB183.5 million) and the current liabilities of RMB1,436.8 million (2011: RMB1,400.2 million). The total non-controlling interests of the Group amounted to RMB5.4 million (2011: RMB3.9 million). Hence, the total net assets of the Group amounted to RMB4,279.8 million (2011: RMB3,911.4 million), representing an increase of 9.4%. Net assets per Share as at 31 December 2012 were approximately RMB1.97 (2011: RMB1.80), representing an increase of 9.4%.

As of 31 December 2012, the Group's non-current assets were approximately RMB663.3 million (2011: RMB495.0 million) and the increase was mainly due to an increase in net book value of property, plant and machinery in the amount of RMB129.5 million. The Group's current assets were approximately RMB5,836.2 million (2011: RMB5,000.1 million), representing an increase of 16.7%. The increase was mainly due to the improvement of operating cash inflow which led to an increase in cash and cash equivalents of RMB1,054.7 million but offset by decrease in inventory balance of RMB88.8 million, decrease in trade and bills receivable of RMB169.5 million and decrease in prepayment, deposits and other receivables of RMB112.0 million. The Group's current liabilities were approximately RMB1,436.8 million (2011: RMB1,400.2 million), representing an increase of 2.6%. The increase was mainly due to increase in deposit received, other payables and accruals of RMB59.9 million and increase in bank loans of RMB18.9 million but offset by the decrease in trade and bills payables of RMB16.4 million. The Group improved the current asset ratio to 4.1 (2011: 3.6). The Group's non-current liabilities were approximately RMB782.9 million (2011: RMB183.5 million). The increase was mainly due to increase in deferred tax liabilities of RMB64.7 million and increase in bank loans of RMB534.6 million.

Significant Improvements on Net Cash and Bank Balances

As of 31 December 2012, the Group's total cash and bank balances amounted to RMB3,680.0 million (2011: RMB2,589.8 million), representing an increase of RMB1,090.2 million. This was mainly due to improvements in working capital management which led to significant improvement in operating cash inflow. The total cash and bank balances represented by pledged bank deposits of RMB557.2 million (2011: RMB521.7 million) and cash and cash equivalents of RMB3,122.8 million (2011: RMB2,068.1 million). The Group's total bank borrowings amounted to RMB1,045.5 million (2011: RMB492.0 million) representing an increase of RMB553.5 million. This was mainly related to the payment of dividends. Hence, the total net cash and bank balances as at 31 December 2012 amounted to RMB2,634.5 million (2011: RMB2,097.8 million), representing an increase of 25.6%. As at 31 December 2012, the Group's gearing ratio was 16.1% (2011: 9.0%), which is defined as total bank borrowings divided by the Group's total assets.

Significant Improvements on Cash Flow from Operating Activities

As of 31 December 2012, the Group's cash and cash equivalents increased by RMB1,054.7 million and amounted to RMB3,122.8 million (2011: RMB2,068.1 million), representing an increase of 51.0%. This was mainly due to the followings:

Net cash inflow from operating activities amounted to RMB1,330.3 million: This was mainly due to cash inflow from operation of RMB1,288.4 million, decrease in inventory of RMB88.8 million, decrease in trade and bills receivables of RMB92.3 million, decrease in prepayments, deposits and other receivables of RMB112.0 million but offset by decrease in trade payables of RMB16.4 million.

Net cash outflow from investing activities amounted to RMB344.7 million: This was mainly due to capital expenditure amounted to RMB165.2 million and increase in available for sale investments amounted to RMB133.0 million.

Net cash inflow from financing activities amounted to RMB69.3 million: This was mainly due to the payment of the final dividends in respect of the financial year 2011 and interim dividends in respect of the financial year 2012, offsetting the new drawdown of bank loans and discounted bills.

Inventory Provision

For the year ended 31 December 2012 and 31 December 2011, the Group did not have any inventory provision.

Provision for receivables impairment

For the year ended 31 December 2012, the Group recorded a provision for receivables impairment amounted to RMB77.2 million (2011: nil). In view of increase in ageing trade receivables, the Group adopted a prudent approach for such provision.

Capital Commitments

Details of the Group's capital commitments are stated in note 34 to the financial statements.

Contingent Liabilities

Details of the Group's contingent liabilities are stated in note 32 to the financial statements.

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 could 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.

Significant Investments and Acquisitions

During the year under review, the Group did not have any significant investments, 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.

Human Resources

As of 31 December 2012, the Group had 7,865 employees (31 December 2011: 7,658 employees). The Group provides introductory orientation programs and continuous training session to enhance the service quality and standard and management skills of its staff. These introductory orientation programs and continuous training session covered areas such as industry knowledge, technology and product knowledge, industry quality standards and work safety standards. The Group will strive to strengthen human resources management through recruitment initiatives and will also provide strong support for the development of the Group's business, organizational structure and corporate culture to promote sustainable development in the future.


QUALITY
WELCOME

Investor Relations Report

Investor Relations and Communications with Shareholders

The Company is committed to providing clear and full information about the Company's performance to shareholders and the public through the publication of the Group's interim and annual financial reports in a timely manner. In addition, the dedicated investor relations team proactively and regularly disseminates the Company's latest business development and corporate strategies to the investor community, in particular, the fund managers and analysts, by means of roadshows, company and store visits, small group and one-on-one meetings.

During the year, the Company had held more than 130 investor meetings and teleconferences, arranged over 30 store visits, and attended 16 corporate conferences and non-deal-roadshows, meeting with over 400 fund managers and analysts. Through this wide range of investor relations activities, the Company has vowed to enhance effective communications with the investor community.

Key investor relations events held in 2012 are as follows:

Event	Date
2011 Annual Results Announcement	21 March 2012
• Press Conference	
• Analysts cum Investors Presentation	
2011 Annual General Meeting	3 May 2012
2012 Interim Results Announcement	21 August 2012
• Press Conference	
• Analysts cum Investors Presentation	

Key investor relations activities attended by the Company in 2012 are as follows:

Events	Date	Organizer	Location
UBS Greater China Conference 2012	21 March 2012	UBS	Shanghai
Macquarie Greater China Conference 2012	8-11 May 2012	Macquarie	Hong Kong
8th Annual J.P. Morgan China Conference	13-15 June 2012	J.P. Morgan	Beijing
HSBC 2nd Annual China Consumption Conference	15-16 October 2012	HSBC	Hong Kong
Jefferies 2nd Annual Asia Corporate Access Summit	18 October 2012	Jefferies	Hong Kong
Citi Greater China Investor Conference 2012	1 November 2012	Citi	Macau

In addition, the Company attended various non-deal-roadshows in 2012, at which the Group's senior management was able to meet with institutional investors face to face in Europe (London, Edinburgh and Paris), the States (New York, Boston, Chicago and San Francisco), Japan, Taiwan, Singapore, and mainland China, to help them better understand the Group's business through direct interactions with the Group's management.

To uphold high standards of the Company's transparency, information relating to the Company's financial details, operational performance and major events together with press releases and monthly newsletters are published on the Company's website at http://www.xtep.com.hk/.

Investor Information

1. Share information

Listing Date: 3 June 2008
Board lot: 500 Shares
Number of issued shares as at
31 December 2012: 2,176,315,000 Shares
Stock code: 1368

2. 2012 dividend

2012 Interim dividend: HK13.2 cents per Share
(2011: HK13.0 cents per Share)
2012 Final dividend: HK10.0 cents per Share
(2011: HK14.5 cents per Share)
2012 Special dividend: HK4.5 cents per Share
(2011: Nil)

3. Investor relations contact

For any queries, please contact:

Xtep International Holdings Limited
Investor Relations Department
Suite 2401-2, 24/F,
Shui On Centre, 6-8 Harbour Road,
Wanchai, Hong Kong

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E-mail: ir@xtep.com.hk
Corporate website: www.xtep.com.hk
Brand website: www.xtep.com

Corporate Social Responsibility

Xtep aims to be a world-class fashion sportswear enterprise. While promoting business growth, the Group is also committed to fulfilling its social responsibilities.

1) Xtep's Staff like no Other

Happy work, Happy learning, Happy life and Happy growth

During the year, the Group continued to share its corporate culture with its employees through a variety of activities, such as the "Sunshine Cultural Tours", Xtep Employee Sports Meeting, Labor Day Gala and Chinese New Year Party. Furthermore, in order to create a harmonious environment with "happy work, happy learning, happy life and happy growth," the Group set up a multi-functional recreational center and a residence hall. These facilities are intended to improve the overall quality of employees' lives. Additionally during the Spring Festival this year, the Group arranged free bus services to allow its employees to return home for the holiday. Xtep was the first enterprise in Quanzhou to offer such service, fully demonstrating the Group's care for and appreciation of its employees. The Group was nominated as one of the "2012 Happiest Workplace Enterprises in Quanzhou".

In order to enhance team spirit, Xtep organized the "Sunshine Cultural Tour" for the members of the Group's project management centre

In recognition of the distributors', franchisees' and sales staffs' hardwork and outstanding sales performance, Xtep organized a "Sunshine Cultural Tour to Australia" in November 2012

Nurture talent, Emphasize Team-building, Join Hands and Advance Together

The Group attaches great importance to nurturing talent, and highly values individual growth. Therefore, the Group has developed a comprehensive training program for its staff, as well as a reward and recognition system.

During the year, the Group organized a series of training sessions on the topics of corporate and departmental management as well as personal skill building. These courses are intended to improve the standards and overall quality of the staff.

In addition, the Group presented awards to outstanding management teams and individuals at its Annual Awards Conference. Over 100 employees were recognized this year. Xtep has also formulated a detailed and attractive promotion system to develop in-house talent and to enable employees to fulfill their goals as well as to enhance their personal value.

A representative of the 18th National Congress and Xtep's logistics center staff, Li Guofeng (李國鋒), was honored with the "CNGA Person of the Year 2012". He was also awarded "Top 10 Best Young Migrants in Quanzhou Development Zone". During his 17 years with Xtep, he has made extraordinary contributions exceeding the requirements and expectations of his job description.

2) Make Community Distinctive

"Charity Football" – Fulfilling Football Dreams of Children

"The 3rd ZSFL Xtep Zhejiang Provincial Primary & Secondary School Football League" ("ZSFL League") was successfully held in July 2012. After the event, Xtep organized a 6-day summer camp: "The 3rd ZSFL Xtep Football Summer Camp." 101 young football fans from Zhejiang Province participated in the summer camp. Apart from having fun dashing around the football pitch, the young group also received formal training from professional mentors from the Hangzhou Greentown Football School. Besides ZSFL League players, 20% of the participants at the summer camp were from less prosperous areas.

The ZSFL Xtep League organizing committee commented that many children in Zhejiang Province are fond of football games. However, some are unable to pursue their interest in football due to their family's limited financial resources. Given that Xtep has an abundance of football resources, the Company is eager to contribute to fastening the development of the sport in China, especially for children who otherwise would not have the opportunity to participate. This is part of the corporate social responsibility vision that Xtep adheres to.

Xtep launched its "Charity Football Campaign" in many regions around the country to provide children with more opportunities for football participation.

Xtep launched its "Charity Football Campaign for Poverty Alleviation" in order to facilitate the football dream of children in remote mountainous regions of China.

It is not easy for children in remote mountainous regions to participate in football games, despite their interest in the sport. "The 2011-2012 Xtep China College Futsal League" was held from March through June 2012. During this period, Xtep launched its "Charity Football Campaign for Poverty Alleviation". Under the theme of "Upload pictures to get children a football", Xtep organized various online and offline activities to encourage people to pay greater attention to children in poverty areas. In just a few months, Xtep delivered footballs to 105 schools across 15 provinces, including Gansu, Guangxi, Xinjiang, Hunan, Anhui, Hubei, Zhejiang and Qinghai. Over 3,000 children were able to realize their dream of obtaining a football.

In addition, as Xtep has always been devoted to improving its community, the Group continuously supports nationwide charity activities. In this year, the Group donated to "Project Hope" to develop the "Xtep Project Hope Charity Campaign." Additionally, the Group made donations to the "Quanzhou Charity Association Xtep Charity Fund" to promote projects such as the "Charitable Clinic", "Sight Recovery Project", "Walking Assist Project" and "Education Project".

In June 2012, Xtep, together with the Zhejiang Provincial Education Bureau, held a series of charity activities entitled "The Power of Sports". Xtep presented students with footballs and uniforms valued at over RMB20,000. Furthermore, the coach from the Hangzhou Greentown Football School was invited to give lessons to the students, present at the event.

Xtep was the only enterprise from the sportswear industry in Fujian honored with "the 3rd Fujian Provincial Government Quality Award".

Enhance Social Harmony, Work for Better Environment

While Xtep is committed to pursuing business growth, the Group is also dedicated to conducting itself in a socially responsible manner. This includes striving to protects the environment and preserve natural resources, especially by reducing energy consumption. Through multifaceted internal inspections and management, the Group aims to fulfill its mission of protecting the environment and promoting workplace safety, thereby creating a sustainable workplace and system. Additionally, Xtep strives to recycle excess and scrap production materials, such as soles or other plastic materials. To prevent damage to the environment caused by waste incineration, the Group utilize specific material recycling centers, which limit production waste and emissions.

During the year, Xtep was widely acclaimed for its system management and product quality. The Group was awarded the "Quanzhou City Government Quality Award" and the "Fujian Provincial Government Quality Award", and was also honored as one of the "Fujian Province Advanced Quality Control Enterprises".

Assessors from the China National Accreditation Service for Conformity Assessment Committee visited and accessed Xtep's laboratory. They inspected management systems, equipment, technicians, detection capabilities, and spoke highly of Xtep's achievement in these areas.

Directors and Senior Management

Directors

Executive Directors

Mr. Ding Shui Po (丁水波), aged 42, is the founder, chairman and chief executive officer of the Group. He has over 24 years of experience in the sportswear industry and is primarily responsible for the overall corporate strategies, planning and business development of the Group. Mr. Ding founded the Group in 1999 and is currently also the chairman of the Board of Directors and president of various subsidiaries of the Group.

Mr. Ding personally obtained the following awards:

Year	*Award*
2002	Outstanding Young Entrepreneur in Quanzhou
2003	Top 100 Individuals in PRC's Economic Development
2004	Top 10 Most Influential Entrepreneurs in China
2005	Fujian Young Entrepreneurs Achievement Award
2007	Fujian May 4th Youth Medal
2008	CAPITAL Leaders of Excellence in China 2008
2008	Outstanding Young Entrepreneur in Fujian
2009	Ernst & Young Entrepreneur of the Year China 2009
2009	May 1st Labor Medal
2009	Top Ten Eminent Young Entrepreneurs of Fujian
2010	Chinese Brands Awards – People of the Year
2010	Chinese Textile and Apparel Industry – Top 10 People of the Year
2011	Most Innovative Entrepreneur of Quanzhou City

Mr. Ding held the following public offices:

Year	*Public Office*
2003	Committee Member of the 9th Fujian Provincial Committee of the Political Consultative Conference
2006	Chairman of the 3rd Executive Committee Quanzhou Footwear Chamber
2008	Committee Member of the 10th Fujian Provincial Committee of the Political Consultative Conference
2009	Honorary Chairman of the Fujian Footwear Industry Association
2010	Chairman of the 5th Board of China Young Entrepreneurs Association – Young Chamber of Commerce in Quanzhou
2010	Committee Member of the National Youth Committee
2011	Founding Chairman of the Hong Kong China Chamber of Commerce

Mr. Ding participated in entrepreneurship programs offered by Peking University (北京大學) and Tsinghua University (清華大學) in 2004 and 2006, respectively. Mr. Ding also studied in the China CEO/Finance CEO Program offered by Cheung Kong Graduate School of Business (長江商學院) from 2010 to August 2011. He is currently participating in the EMBA program offered by Xiamen University (廈門大學). He is the son of Mr. Ding Jin Chao (one of our controlling shareholders), a brother of Ms. Ding Mei Qing and Mr. Ding Ming Zhong and a brother-in-law of Mr. Lin Zhang Li.

Ms. Ding Mei Qing (丁美清), aged 40, is our executive Director and a vice president of the Company. Ms. Ding has over 14 years of experience in the sportswear industry and is primarily responsible for the management of the footwear operation of the Group. She is also responsible for the design and technology development of the Group and has led our design team in creating a number of special collections of footwear under our Xtep brand that successfully appeal to the trendy and youthful mass market segment. Ms. Ding joined the Group in 1999 and is currently also a deputy general manager, a director and a vice president of various subsidiaries of the Group. Ms. Ding participated in an entrepreneurship program offered by Tsinghua University (清華大學) in 2006. She is the daughter of Mr. Ding Jin Chao, the sister of Mr. Ding Shui Po and Mr. Ding Ming Zhong and the wife of Mr. Lin Zhang Li.

Mr. Lin Zhang Li (林章利), aged 41, is our executive Director and a vice president of the Company. Mr. Lin has over 14 years of experience in the sportswear industry and is primarily responsible for the management of the apparel business of the Group. Mr. Lin joined the Group in 1999 and is currently also a vice president of Xtep (China). He participated in an entrepreneurship program offered by Tsinghua University (清華大學) in 2006. He is the husband of Ms. Ding Mei Qing, the son-in-law of Mr. Ding Jin Chao, a brother-in-law of Mr. Ding Shui Po and Mr. Ding Ming Zhong.

Mr. Ding Ming Zhong (丁明忠), aged 36, is our executive Director and a vice president of the Company. He has over 14 years of experience in the sportswear industry and is primarily responsible for the management of the accessories business of the Group. Mr. Ding joined the Group in 1999 and is currently also a deputy general manager and a vice president of various subsidiaries of the Group. He participated in entrepreneurship programs offered by Peking University (北京大學) and Tsinghua University (清華大學) in 2004 and 2006, respectively. He is the son of Mr. Ding Jin Chao, a brother of Mr. Ding Shui Po and Ms. Ding Mei Qing and a brother-in-law of Mr. Lin Zhang Li.

Mr. Ye Qi (葉齊), aged 55, is our executive Director and a vice president of Xtep (China). Joining the Group in 2004, Mr. Ye has over 20 years of experience in sales and marketing and is primarily responsible for the overall sales and marketing business of the Group. He also assists our chairman with the overall corporate strategies planning and business development of the Group. He graduated from South West University (西南大學) with a bachelor's degree in chemical science in 1982. He obtained a master's degree in philosophical science from East China Normal University (華東師範大學) in 1988 and a master's degree in business administration from China Europe International Business School (中歐國際工商學院) in 2003. He has been studying in the Doctor of Business Administration program jointly offered by the City University of Hong Kong (香港城市大學) and Fudan University (復旦大學) of China since October 2011.

Mr. Ho Yui Pok, Eleutherius (何睿博), aged 47, was appointed as an executive Director of the Company on 29 March 2010. Mr. Ho is also the chief financial officer, investor relations spokesperson and authorized representative of the Company. He is also the company secretary of the Company. He has over 23 years of experience in auditing, accounting and financial management and is primarily responsible for the Group's overall financial and accounting affairs and investor relations. Mr. Ho graduated from the University of Kent (肯特大學) at Canterbury, England with a bachelor's degree in accounting in 1987 and a master's degree in management science in 1989. Prior to joining the Group in 2007, he was a chief financial officer, company secretary and authorized representative of GST Holdings Limited from 2005 to 2007, and a financial controller of EC-Founder (Holdings) Co., Ltd. from 2000 to 2005, a company listed on the Main Board of the Hong Kong Stock Exchange ("Main Board"). In addition, he worked for an international accounting firm as a manager from 1994 to 1996. He was a fellow member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Hong Kong Institute of Certified Public Accountants, and an associate member of the Hong Kong Institute of Directors.

Non-Executive Director

Mr. Tan Wee Seng (陳偉成), aged 57, was appointed as a non-executive Director of the Company on 29 March 2010. Mr. Tan is a professional in value and business management consultancy. He is an independent non-executive director of Sa Sa International Holdings Limited, and an independent non-executive director and chairman of the remuneration committee of Biostime International Holdings Limited, and an independent non-executive director and chairman of the audit committee of CIFI Holdings (Group) Company Limited, all of these companies are listed on the Main Board of Hong Kong Stock Exchange. He is also an independent director of ReneSola Ltd and, an independent director and chairman of the audit committee of 7 Days Group Holdings Limited, whose shares are listed on the New York Stock Exchange, and a board member and chairman of the finance committee of Beijing City International School, an academic institution in Beijing.

Mr. Tan has over 33 years of financial management, corporate finance, merger and acquisition, business management and strategy development experience. He has also held various management and senior management positions in a number of multi-national corporations. From 2003 to 2008, he was an executive director, chief financial officer and company secretary of Li Ning Company Limited, the shares of which are listed on the Main Board of Hong Kong Stock Exchange. From 1999 to 2002, he was the senior vice president of Reuters for China, Mongolia and North Korea regions, and the chief representative of Reuters in China. Prior to that, he had served as the managing director of AFE Computer Services Limited, a Reuters subsidiary in Hong Kong mainly engaged in domestic equity and financial information services, and as the director of Infocast Pty Limited, a Reuters subsidiary in Australia and as the regional finance manager of Reuters East Asia. Mr. Tan is a professional accountant and a fellow member of both the Chartered Institute of Management Accountants in the United Kingdom and the Hong Kong Institute of Directors.

Independent Non-Executive Directors

Mr. Sin Ka Man (冼家敏), aged 45, was appointed as our independent non-executive Director on 24 January 2008. Mr. Sin has over 20 years of professional experience in auditing, accounting and financial management for both private and listed corporations. He is an associate member of the HKICPA, a fellow member of the Association of Chartered Certified Accountants and a CPA of the CPA Australia. He is currently a vice president of the Huayu Expressway Group Limited, a company listed on the Main Board of Hong Kong Stock Exchange and mainly engaged in toll road business in the PRC, with responsibilities for the accounting and financial management of that company. He holds a bachelor's degree in Social Sciences from the University of Hong Kong, a master's degree in Finance from the University of Strathclyde, the United Kingdom and a master's degree in accounting from Curtin University of Technology, Australia.

Mr. Sin is currently an independent non-executive director of Fronton Group Limited, PNG Resources Holdings Limited (formerly Leroi Holdings Limited), Chinese People Holdings Company Limited, China Motion Telecom International Limited and Sino Haijing Holdings Limited (all of these companies are listed on the Main Board). Previously he was an independent non-executive director of China Leason CBM & Shale Gas Group Company Limited (formerly Shine Software (Holdings) Limited), a company listed on the Growth Enterprise Market Board of the Hong Kong Stock Exchange.

Mr. Xu Peng Xiang (許鵬翔), aged 65, was appointed as our independent non-executive Director on 24 January 2008. Mr. Xu has over 14 years of industry experience in footwear and apparel industries. He has been the Standing vice chairman of Quanzhou General Chambers of Commerce (泉州市總商會) since 1997 and is responsible for, among others, footwear and apparel industries. He was the Head of the Enterprise Department at the Quanzhou Economy Committee (泉州市經濟委員會) from 1991 to 1996, responsible for enterprise re-structuring, capital re-structuring and state-owned enterprises pre-listing matters. He was also responsible for financial and statistical planning in the Quanzhou Economy Committee. He graduated from Fuzhou University.

Dr. Gao Xian Feng (高賢峰), aged 50, was appointed as our independent non-executive Director on 24 January 2008. Dr. Gao is currently the executive officer of the Human Resources Management Research Centre at Peking University (北京大學人本管理研究中心), and a guest professor of entrepreneurship programs at Peking University (北京大學), Tsinghua University (清華大學), Party School of the Central Committee of Communist Party of China (中央黨校) and Fudan University (復旦大學). Dr. Gao previously served as an associate professor at Shandong Economic University (山東經濟學院). He holds a bachelor's degree in enterprise management from Shandong Economic University (山東經濟學院) and a doctor of law degree from the Peking University (北京大學).

Dr. Bao Ming Xiao (鮑明曉), aged 50, was appointed as our independent non-executive Director on 21 December 2012. Dr. Bao has over 20 years of experience in physical education. Dr. Bao was a professor of physical education theory at the Capital Institute of Physical Education from 1998 to 2000. He has been a researcher and the chairman of the Research Center of Physical Education Sociology and Science at the Research Institute of Physical Education and Science (體育科學研究所體育社會科學研究中心) of the General Administration of Sport of China (國家體育總局) since 2001. In 2011, Dr. Bao was appointed as deputy chairman of the Second Sport Committee of China Sport Science Society (中國體育科學學會). Dr. Bao graduated from Anhui Normal University (安徽師範大學) with a bachelor's degree in physical education in 1983. Dr. Bao then obtained a master's degree in education and a doctorial degree in education from Shanghai University of Sport (上海體育學院) in 1988 and 2005, respectively.

Senior Management

The senior management of the Company is composed of all the executive Directors of the Company, namely, Mr. Ding Shui Po, Ms. Ding Mei Qing, Mr. Lin Zhang Li, Mr. Ding Ming Zhong, Mr. Ye Qi and Mr. Ho Yui Pok, Eleutherius. Please refer to the above section headed "Executive Directors" for their biographical details.

Company Secretary

Mr. Ho Yui Pok, Eleutherius (何睿博), aged 47, is the company secretary as well as the chief financial officer, investor relations spokesperson and authorized representative of the Company. His biographical details are set out above under the paragraph headed "Directors".

Corporate Governance Report

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization that is open and accountable to the Shareholders. The Board strives to adhere to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor for creating more value for its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board, in order to optimize the returns for Shareholders.

Compliance with Code on Corporate Governance Practices and CG Code

Throughout the year ended 31 December 2012, the Company complied with all code provisions and, where appropriate, adopted the recommended best practices as set out in the Code on Corporate Governance Practices (formerly set out in Appendix 14 to the Main Board Listing Rules) and the CG Code (the new edition of the Code on Corporate Governance Practices, which is applicable to financial reports covering a period after 1 April 2012), with the exception of code provision A.2.1 (chairman and chief executive).

Under code provision A.2.1 of the Code on Corporate Governance Practices and CG Code, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. The Group does not at present separate the roles of the chairman and the chief executive officer. Mr. Ding Shui Po is the chairman and chief executive officer of the Group. He has extensive experience in sportswear industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board believes that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the Board and the senior management, which is comprised of experienced and high caliber individuals. The Board currently consists of six executive Directors, one non-executive Director and four independent non-executive Directors and has a strong independence element in its composition.

Compliance with Model Code

The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they have complied with the required standard set out in the Model Code regarding directors' securities transactions for the year ended 31 December 2012.

Board of Directors

Board Composition

As at 31 December 2012 and the date of this annual report, the Board is comprised of six executive Directors, one non-executive Director and four independent non-executive Directors.

The followings are the members of the Board:

Executive Directors
Mr. Ding Shui Po *(Chairman and Chief Executive Officer)*
Ms. Ding Mei Qing
Mr. Lin Zhang Li
Mr. Ding Ming Zhong
Mr. Ye Qi
Mr. Ho Yui Pok, Eleutherius

Non-Executive Director
Mr. Tan Wee Seng

Independent Non-Executive Directors
Mr. Sin Ka Man
Mr. Xu Peng Xiang
Dr. Gao Xian Feng
Dr. Bao Ming Xiao (appointed on 21 December 2012)

Among members of the Board, Mr. Ding Shui Po is the elder brother of Ms. Ding Mei Qing and Mr. Ding Ming Zhong, and Mr. Lin Zhang Li is the husband of Ms. Ding Mei Qing. Save as disclosed herein, to the best knowledge of the Company, there is no other financial, business or family relationship among the members of the Board.

All Directors have given sufficient time and attention to the affairs of the Group. Each executive Director is suitably qualified for his position, and has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. Biographical information of the Directors are set out in the section headed "Directors and Senior Management" of this annual report.

Meetings of the Board

Board meetings were held from time to time to discuss the business strategies of the Group, to monitor financial and operational performance, to approve the annual and interim results of the Group, and to discuss the corporate governance functions of the Board.

Directors may participate either in person or through electronic means of communications. The individual attendance record of each Director at the meetings of the Board and the general meetings during the year ended 31 December 2012 is set out below:

Name of Director	Attendance/Number of Board Meeting(s)	Attendance/Number of General Meeting
Executive Directors		
Mr. Ding Shui Po	4/4	1/1
Ms. Ding Mei Qing	4/4	1/1
Mr. Lin Zhang Li	4/4	1/1
Mr. Ding Ming Zhong	4/4	1/1
Mr. Ye Qi	4/4	1/1
Mr. Ho Yui Pok, Eleutherius	4/4	1/1
Non-Executive Director		
Mr. Tan Wee Seng	4/4	1/1
Independent Non-Executive Directors		
Mr. Sin Ka Man	4/4	1/1
Mr. Xu Peng Xiang	4/4	1/1
Dr. Gao Xian Feng	4/4	1/1
Dr. Bao Ming Xiao (appointed on 21 December 2012)	0/4	0/1

All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the company secretary of the Company at all times and may seek independent professional advice at the Company's expense. When queries are raised by Directors, steps would be taken to respond as promptly and as fully as possible. All Directors have the opportunity to include matters in the agenda of Board meetings. Notices of at least 14 days of Board meetings are given to the Directors and Board procedures comply with the articles of association of the Company, as well as relevant rules and regulations.

Functions and Duties of the Board

The overall management of the Company's operation is vested in the Board. The Board carries out its functions according to the powers conferred upon it by the Memorandum and Articles of Association of the Company (which is uploaded onto the websites of the Hong Kong Stock Exchange and the Company, and since the date of uploading, has no significant changes have been made).

The main functions and duties conferred on the Board include:

– management of the overall business and strategic development;

– deciding business plans and investment plans;

– convening general meetings and reporting to the Shareholders; and

– exercising other powers, functions and duties conferred by Shareholders in general meetings.

The day-to-day management, administration and operation of the Company are delegated to the chief executive officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approvals must be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

The Directors may have access to the advice and services of the company secretary of the Company to ensure that the board procedures, and all applicable rules and regulations, are followed. In addition, the Directors may, upon reasonable request, seek independent professional advice under appropriate circumstance at the Company's expenses. The Board shall resolve to provide separate, appropriate, independent and professional advice to the Directors to assist the relevant Directors in discharging their duties.

Independent Non-Executive Directors

Independent non-executive Directors have played a significant role in the Board by bringing their independent judgment to the Board meeting and scrutinizing the Group's performance. Their views carry significant weight in the Board's decision; in particular, they bring an impartial view to issues relating to the Group's strategy, performance and control. All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have provided their professional advice to the Board. The independent non-executive Directors provide independent advice on the Group's business strategy, results and management to ensure that all interests of Shareholders are taken into account, and the interests of the Company and its Shareholders are protected.

The Board has four independent non-executive Directors, in compliance with Rule 3.10(1) of the Listing Rules, which requires that every board of directors of a listed issuer must include at least three independent non-executive Directors. In addition, at least one independent non-executive Director, namely, Mr. Sin Ka Man, possesses appropriate professional accounting qualifications or financial management expertise in accordance with Rule 3.10(2) of the Listing Rules. The Company has appointed four independent non-executive Directors, representing more than one-third of the Board, in compliance with Rule 3.10A of the Listing Rules.

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. Based on the contents of such confirmations, the Company considers that all the independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

Training and Support for Directors

All Directors must keep abreast of their collective responsibilities. Any newly appointed Director would receive an induction package covering the Group's operations, businesses, governance policies and the statutory regulatory obligations and responsibilities of a director of a listed company.

The Directors have been informed of the requirement under code provision A.6.5 of both the Code on Corporate Governance Practices and the CG Code regarding continuous professional development. According to the records maintained by the Company, the current Directors received the following training with an emphasis on the roles, functions and duties of a director of a listed company in compliance with the new requirement of the CG Code on continuous professional development during the period from 1 April 2012 to 31 December 2012:

Name of Director	Corporate Governance/Updates on Laws, Rules and Regulations		Accounting/Financial/Management or Other Professional Skills	
	Read materials	Attended Seminars/ Briefings	Read materials	Attended Seminars/ Briefings
Executive Directors				
Mr. Ding Shui Po	✓	✓	✓	✓
Ms. Ding Mei Qing	✓	✓	✓	✓
Mr. Lin Zhang Li	✓	✓	✓	✓
Mr. Ding Ming Zhong	✓	✓	✓	✓
Mr. Ye Qi	✓	✓	✓	✓
Mr. Ho Yui Pok, Eleutherius	✓	✓	✓	✓
Non-Executive Director				
Mr. Tan Wee Seng	✓	✓	✓	✓
Independent Non-Executive Directors				
Mr. Sin Ka Man	✓	✓	✓	✓
Mr. Xu Peng Xiang	✓	✓	✓	✓
Dr. Gao Xian Feng	✓	✓	✓	✓
Dr. Bao Ming Xiao (appointed on 21 December 2012)	n/a	n/a	n/a	n/a

Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Appointments and Re-Election of Directors

Each of the executive Directors, non-executive Directors and independent non-executive Directors has entered into a service contract with the Company for a specific term, and is subject to retirement by rotation and re-election at an annual general meeting at least once every three years in accordance with the articles of association of the Company.

The articles of association of the Company provide that any Director appointed by the Board to fill a casual vacancy in the Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Chairman and Chief Executive

Mr. Ding Shui Po is the chairman and chief executive officer of the Group. He has extensive experience in the sportswear industry and is responsible for the overall corporate strategies, planning and business management of the Group. The Board believes that vesting the roles of chairman and chief executive officer in the same individual is beneficial to the business prospects and management of the Group. The balance of power and authorities is ensured by the operation of the Board and the senior management, which is comprised of experienced and high caliber individuals. The Board currently consists of six executive Directors, one non-executive Director and four independent non-executive Directors and has a strong independence element in its composition.

Term of Appointment of Non-Executive Directors

The non-executive Director, Mr. Tan Wee Seng, had entered into a service contract with the Company for an initial term of three years commencing on 29 March 2010.

Each of the independent non-executive Directors, except Dr. Bao Ming Xiao, had entered into a service contract with the Company for an initial term of two years commencing on 3 June 2008. Dr. Bao Ming Xiao had been appointed as a Director effective from 21 December 2012 and had entered into a service contract with the Company for an initial term of two years commencing on the same date.

All the service contracts of non-executive Directors and independent non-executive Directors are automatically renewed upon expiration and may be terminated by either party with a three-month's prior written notice.

Board Committees

The Board has established (i) Audit Committee, (ii) Remuneration Committee, and (iii) Nomination Committee with defined terms of reference. The terms of reference of the board committees, which explain their respective role and the authority delegated to them by the Board, are available on the websites of the Company and the Hong Kong Stock Exchange. The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance under appropriate circumstances, at the Company's expenses.

Audit Committee

The Audit Committee was established on 7 May 2008, in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the Code on Corporate Governance Practices. For the purpose of complying with the CG Code adopted by the Company on 21 March 2012, the Board adopted revised terms of reference for the Audit Committee on 21 March 2012. The Audit Committee consists of three members, namely, Mr. Sin Ka Man, Mr. Xu Peng Xiang and Dr. Gao Xian Feng, all of whom are independent non-executive Directors. The chairman of the Audit Committee is Mr. Sin Ka Man, who has appropriate professional qualifications and experience in accounting matters. None of the members of the Audit Committee is a former partner of the existing external auditors of the Company, Ernst & Young.

The primary duties of the Audit Committee are to make recommendation to the Board on the appointment, re-appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company.

During the year ended 31 December 2012, the Audit Committee mainly performed the following duties:

– reviewed the Group's unaudited interim results for the six months ended 30 June 2012 and the audited annual results for the year ended 31 December 2012, met with the external auditors to discuss such interim results and annual results without the presence of the Company's management, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made;

– reviewed the accounting principles and practices adopted by the Group, and recommended the appointment of the external auditors; and

– assisted the Board in meeting its responsibilities for maintaining an effective system of internal control and risk management.

During the year ended 31 December 2012, 4 meetings were held by the Audit Committee. The attendance record of each member of the Audit Committee at the meetings of the Audit Committee is set out below:

Name of Director	Attendance/ Number of Audit Committee Meeting(s)
Mr. Sin Ka Man	4/4
Mr. Xu Peng Xiang	4/4
Dr. Gao Xian Feng	4/4

There had been no disagreement between the Board and the Audit Committee during the financial year ended 31 December 2012.

Remuneration Committee

The Remuneration Committee was established on 7 May 2008, with written terms of reference in compliance with the Code on Corporate Governance Practices. For the purpose of complying with the CG Code adopted by the Company on 21 March 2012, the Board adopted revised terms of reference for the Remuneration Committee on 21 March 2012. The Remuneration Committee consists of three members, namely Mr. Xu Peng Xiang, Dr. Gao Xian Feng and Ms. Ding Mei Qing, the majority of whom are independent non-executive Directors. Mr. Xu Peng Xiang is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee are to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board on the remuneration of non-executive Directors.

During the year ended 31 December 2012, the Remuneration Committee mainly performed the following duties:

– recommended the remuneration of Dr. Bao Ming Xiao to the Board; and

– reviewed the Group's remuneration policy and reviewed the remuneration package of the executive Directors and senior management for the year of 2012.

During the year ended 31 December 2012, 1 meeting was held by the Remuneration Committee. The attendance record of each member of the Remuneration Committee at the meetings of the Remuneration Committee is set out below:

Name of Director	Attendance/Number of Remuneration Committee Meeting
Mr. Xu Peng Xiang	1/1
Dr. Gao Xian Feng	1/1
Ms. Ding Mei Qing	1/1

Nomination Committee

The Nomination Committee was established on 7 May 2008, with written terms of reference in compliance with the Code on Corporate Governance Practices. For the purpose of complying with the CG Code adopted by the Company on 21 March 2012, the Board adopted revised terms of reference for the Nomination Committee on 21 March 2012. The Nomination Committee consists of three members, namely, Mr. Ding Shui Po, an executive Director and the chairman of the Board, and two independent non-executive Directors, namely, Mr. Xu Peng Xiang and Dr. Gao Xian Feng. Mr. Ding Shui Po is the chairman of the Nomination Committee.

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board at least once a year and to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships. In identifying suitable director candidates and making such recommendations to the Board, the Nomination Committee would also take into account various aspects of a candidate, including but not limited to his/her education background, professional experience, experience with the relevant industry and past directorships.

During the year ended 31 December 2012, the Nomination Committee mainly performed the following duties:

- assessed the independence of Dr. Bao Ming Xiao, reviewed and recommended the appointment of Dr. Bao Ming Xiao as an independent non-executive Director to the Board;
- reviewed the annual confirmation of independence submitted by the independent non-executive Directors and assessed their independence; and
- reviewed the structure, size and composition of the Board during the year of 2012.

During the year ended 31 December 2012, 1 meeting was held by the Nomination Committee. The attendance record of each member of the Nomination Committee at the meetings of the Nomination Committee is set out below:

Name of Director	Attendance/Number of Nomination Committee Meeting
Mr. Ding Shui Po	1/1
Mr. Xu Peng Xiang	1/1
Dr. Gao Xian Feng	1/1

Auditors' Remuneration

The Company has re-appointed Ernst & Young as its external auditors during the year ended 31 December 2012. The external auditors are refrained from engaging in non-audit services except for specific approved items, such as review of interim results of the Group. The Audit Committee reviews the external auditor's statutory audit scope and non-audit services and approves its fees. Details of the fees paid/payable to Ernst & Young during the year are as follows:

	HK$
Audit services	3,585,000
Review of interim results	600,000
	4,185,000

Financial Reporting

The Board, supported by the chief financial officer and the finance department, is responsible for the preparation of the financial statements of the Company and the Group for each financial year which shall give a true and fair view of the financial position, performance and cash flow of the Company and its subsidiaries for that period. The directors acknowledge their responsibilities for preparing the accounts of the Company. As at 31 December 2012, the Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The responsibilities of Ernst & Young, the Company's external auditors, the financial statements are set out in the section headed "Independent Auditors' Report" in this annual report.

Internal Controls

The Board is responsible for ensuring the reliability and effectiveness of the Group's internal control systems on, among other things, financial, operational and compliance controls.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks, and to safeguard assets of the Group. The senior management reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures taken to address such variances and identified risks. The Company has established policies and procedures applicable to all operating units to ensure the effectiveness of internal controls. The Company also has a process for identifying, evaluating, and managing the significant risks associate with the achievement of its operational objective. This process is subject to continuous improvement and was in place throughout 2012. The day-to-day operation is entrusted to the individual department, which is accountable for its own conduct and performance, and is required to strictly adhere to the policies set by the Board. The Company carries out reviews of the effectiveness of the internal control systems from time to time in order to ensure that they are able to meet and deal with the dynamic and ever changing business environment.

During the year under review, the Board and the Audit Committee have reviewed the effectiveness of the Group's internal control systems on all major operations of the Group, with assistance from the Group's internal control department. The Group's internal control department has reported major internal control review findings to the Board and Audit Committee. No major issues but areas for improvement have been identified. All of the recommendations from the Group's internal control department will be properly followed up to ensure that they are implemented within a reasonable period of time. The Board and the Audit Committee considered that the key areas of the Group's internal control systems, including the adequacy of resources, qualifications and experience of our accounting and financial reporting staff, and their training programs and budget, are reasonably implemented and the Group has fully complied with provisions of the Code on Corporate Governance Practices and the CG Code regarding internal control systems in general for the year ended 31 December 2012.

Company Secretary

The secretary of the Company is Mr. Ho Yui Pok, Eleutherius, whose biography details are set out in the section headed "Directors and Senior Management" in this annual report.

Mr. Ho has been informed of the requirement of the Rule 3.29 of the Listing Rules, and he confirmed that he had attained no less than 15 hours of relevant professional training during the year ended 31 December 2012.

Shareholders' Rights

Procedures for Shareholders to Convene an Extraordinary General Meeting and to put forward Proposals at Shareholders' Meeting

Pursuant to the Article 58 of the articles of association of the Company, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company by mail at Suite 2401-2, 24/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which Enquiries may be Put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the secretary of the Company by mail at Suite 2401-2, 24/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong. The company secretary of the Company is responsible for forwarding communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions and inquiries, to the chief executive officer of the Company.

Investor Relations

Constitutional Documents

There has been no significant change in the Company's constitutional documents during the year ended 31 December 2012.

Communication with Shareholders

The Board recognizes the importance of maintaining clear, timely and effective communication with Shareholders of the Company and its investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the investors and the Shareholders receive accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, announcements and circular. The Company also publishes all corporate correspondence on the Company's website www.xtep.com.hk. The Board maintains regular dialogues with institutional investors and analysts to keep them informed of the Group's strategy, operations, management and plans. Members of the Board and of the various board committees will attend the annual general meeting of the Company and answer questions raised during the meeting. At the general meeting, separate resolutions are proposed to resolve each substantially separate issue.

The chairman of the general meetings of the Company would explain the procedures for conducting poll before putting a resolution to vote. The results of the voting by poll will be declared at the meeting and published on the websites of the Hong Kong Stock Exchange and the Company.

Report of the Directors

The Directors are pleased to present their report together with the audited financial statements for the year ended 31 December 2012.

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 mainly under the self-owned Xtep brand and other licensed brands.

Subsidiaries

Details of the principal subsidiaries of the Group as at 31 December 2012 are set out in note 18 to the financial statements.

Financial Statements

The profit of the Group for the year ended 31 December 2012 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 86 to 138 of this annual report.

Dividends

An interim dividend of HK13.2 cents (equivalent to approximately RMB10.8 cents) per Share was paid to our Shareholders during the year. The Board recommended a final dividend of HK10.0 cents (equivalent to approximately RMB8.1 cents) per Share and a special dividend of HK4.5 cents per share (equivalent to approximately RMB3.7 cents per Share) for the year ended 31 December 2012, subject to approval by the Shareholders at the annual general meeting to be held on 27 May 2013. The total dividends for the year ended 31 December 2012, which include the interim dividend, final dividend and special dividend amounted to a total dividend of HK27.7 cents (equivalent to approximately RMB22.6 cents) per Share, represented a payout ratio of approximately 61%. Details of the dividend for the year ended 31 December 2012 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 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves of the Company

As at 31 December 2012, 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 RMB668.6 million (2011: RMB588.1 million). Details of the reserves of the Company as at 31 December 2012 are set out in note 29 to the financial statements.

Charitable Donations

Charitable donations made by the Group during the year ended 31 December 2012 amounted to approximately RMB2.9 million (2011: RMB3.2 million).

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Group for the year ended 31 December 2012 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 2012 are set out in note 28 to the financial statements.

Directors

The Directors during the year ended 31 December 2012 were:

Executive Directors

Ding Shui Po *(Chairman)*
Ding Mei Qing
Lin Zhang Li
Ding Ming Zhong
Ye Qi
Ho Yui Pok, Eleutherius

Non-Executive Directors

Tan Wee Seng

Independent Non-Executive Directors

Sin Ka Man
Xu Peng Xiang
Gao Xian Feng
Bao Ming Xiao (appointed on 21 December 2012)

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

Each of the executive Directors on the Board during the year ended 31 December 2012, except Mr. Ho Yui Pok, Eleutherius, had entered into a service contract with the Company for an initial term of three years commencing on 3 June 2008. Mr. Ho Yui Pok, Eleutherius had entered into a service contract with the Company for an initial term of three years commencing on 29 March 2010.

The non-executive Director, Mr. Tan Wee Seng, had entered into a service contract with the Company for an initial term of three years commencing on 29 March 2010.

Each of the independent non-executive Directors, except Dr. Bao Ming Xiao, had entered into a service contract with the Company for an initial term of two years commencing from 3 June 2008. Dr. Bao Ming Xiao had been appointed as a Director effective from 21 December 2012 and had entered into a service contract with the Company for an initial term of two years commencing on the same date. All the service contracts of Directors are automatically renewed upon expiration and may be terminated by either party with a three-month's prior written notice.

In accordance with article 87 of the Company's articles of association, Mr. Ho Yui Pok, Eleutherius, Mr. Tan Wee Seng, Mr. Xu Peng Xiang and Dr. Bao Ming Xiao will retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

None of the Directors 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 62 to 65 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 2012.

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2012, the Directors and the chief executive of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and the chief executive of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code:

Long Positions in the Company

Name of Director	Nature of interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company[1]
Mr. Ding Shui Po[2]	Interests of controlled corporation/Beneficial interests	1,321,375,000	60.72%
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	5,500,000	0.25%
Mr. Ho Yui Pok, Eleutherius[6]	Beneficial interests	10,000,000	0.46%
Mr. Tan Wee Seng[7]	Beneficial interests	1,380,000	0.06%

Notes:

(1) It was based on 2,176,315,000 issued Shares of the Company as at 31 December 2012.

(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 11,315,500 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. Another 1,000,000 of these shares are subject to the exercise of options granted on 28 May 2010 under the Share Option Scheme. The remaining 3,000,000 of these shares are subject to the exercise of options granted on 7 December 2011 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. Another 1,000,000 of these shares are subject to the exercise of options granted on 28 May 2010 under the Share Option Scheme. The remaining 6,500,000 of these shares are subject to the exercise of options granted on 7 December 2011 under the Share Option Scheme.

(7) 600,000 of these shares are subject to the exercise of options granted on 30 March 2010 under the Share Option Scheme. Another 600,000 of these shares are subject to the exercise of options granted on 7 December 2011 under the Share Option Scheme. Mr. Tan Wee Seng is also beneficially interested in 180,000 Shares of the Company.

Save as disclosed above, as at 31 December 2012, 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 Hong Kong Stock Exchange pursuant to the Model Code.

At no time was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the Directors and 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 2012 are as follows:

Name	Outstanding as at 1 January 2012	Exercised during the year ended 31 December 2012[1]	Outstanding as at 31 December 2012
Directors			
Mr. Ye Qi	1,500,000	–	1,500,000
Mr. Ho Yui Pok, Eleutherius	1,000,000	–	1,000,000
Employees			
In aggregate	14,265,000	–	14,265,000
Total	16,765,000	–	16,765,000

No options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2012.

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 that 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 2012 are as follows:

Name	Date of Grant	Exercise price per Share[1]	Exercise period[2][3][4]	Outstanding as at 1 January 2012	Granted during the year ended 31 December 2012	Cancelled during the year ended 31 December 2012	Exercised during the year ended 31 December 2012[5]	Outstanding as at 31 December 2012
Director								
Mr. Ye Qi	28 May 2010	HK$6.00	28 May 2012 – 27 May 2020	1,000,000	–	–	–	1,000,000
Mr. Ye Qi	7 December 2011	HK$2.35	14 January 2012 – 13 January 2021	3,000,000	–	–	–	3,000,000
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. Ho Yui Pok, Eleutherius	7 December 2011	HK$2.35	14 January 2012 – 13 January 2021	6,500,000	–	–	–	6,500,000
Mr. Tan Wee Seng	30 March 2010	HK$6.13	30 March 2011 – 29 March 2020	600,000	–	–	–	600,000
Mr. Tan Wee Seng	7 December 2011	HK$2.35	14 January 2012 – 13 January 2021	600,000	–	–	–	600,000
Employees								
In aggregate	29 July 2009	HK$4.11	29 July 2010 – 28 July 2019	8,140,000	–	–	–	8,140,000
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	8,000,000	–	–	–	8,000,000
In aggregate	7 December 2011	HK$2.35	14 January 2012 – 13 January 2021	49,900,000	–	–	(75,000)	49,825,000
Total				**80,740,000**	**–**	**–**	**(75,000)**	**80,665,000**

Saved as disclosed above, no share options granted under the Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2012.

Notes:

(1) The closing prices per Share immediately before 28 January 2010, 30 March 2010, 28 May 2010 and 7 December 2011 (the dates on which the share options were granted) were HK$4.86, HK$5.95, HK$5.67 and HK$2.31 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) Share options granted under the Share Option Scheme on 7 December 2011 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
14 January 2012	40% of the total number of options granted
14 January 2013	30% of the total number of options granted
14 January 2014	30% of the total number of options granted

(5) 75,000 of the share options granted on 7 December 2011 under the Share Option Scheme were exercised on 17 October 2012. The closing price immediately before the date on which the share options were exercised was HK$3.10.

Further details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in note 30 to the financial statements.

Arrangement for Directors to Purchase Shares or Debentures

Save as disclosed in "Share Option Schemes" above, at no time during the year were rights to acquire benefits by means of the acquisition of 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 2012, the persons or corporations (other than Director or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Nature of Interest	Number of Shares interested	Approximate percentage of interest in the issued share capital of the Company[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.[2]	Interests of controlled corporation	209,700,500	9.64%
CAGP Ltd[2]	Interests of controlled corporation	209,700,500	9.64%

Notes:

(1) It was based on 2,176,315,000 issued Shares of the Company as at 31 December 2012.

(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 2012, 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 2012.

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 2012.

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 of the Company.

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 2012 and up to and including the date of this annual report.

Management Contracts

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

Pre-Emptive Rights

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

Emolument Policy

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

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

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

None of the directors waived any emoluments during the year.

Pension Scheme

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

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

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

Major Customers and Suppliers

Aggregate sales attributable to the Group's largest and five largest customers were 3.2% (2011: 5.1%) and 14.8% (2011: 19.0%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 3.6% (2011: 5.7%) and 15.1% (2011: 15.7%) of the Group's total purchases respectively.

At no time during the year ended 31 December 2012, 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 reappointment. 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 2012.

Bank Loans

Details of bank loans of the Company and the Group as at 31 December 2012 are set out in note 25 to the financial statements.

Five-Year Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 8 to 9 of this annual report.

On behalf of the Board
Ding Shui Po
Chairman

Hong Kong, 15 March 2013

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of Xtep International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Xtep International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 86 to 138, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

15 March 2013

Consolidated Income Statement

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	5	5,550,265	5,539,638
Cost of sales		(3,292,585)	(3,281,996)
Gross profit		2,257,680	2,257,642
Other income and gains	5	67,633	16,269
Selling and distribution expenses		(738,936)	(733,736)
General and administrative expenses		(455,109)	(320,878)
Operating profit	6	1,131,268	1,219,297
Net finance cost	7	(25,433)	(7,938)
PROFIT BEFORE TAX		1,105,835	1,211,359
Income tax expense	10	(298,715)	(246,006)
PROFIT FOR THE YEAR		807,120	965,353
Attributable to:			
Ordinary equity holders of the Company	11	810,015	966,409
Non-controlling interests		(2,895)	(1,056)
		807,120	965,353
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
– Basic (RMB cents)		37.22	44.41
– Diluted (RMB cents)		37.15	44.33

Details of the dividends are disclosed in note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
PROFIT FOR THE YEAR		807,120	965,353
OTHER COMPREHENSIVE INCOME/(LOSS)			
Exchange differences on translation of financial statements of overseas subsidiaries		5,170	(325)
Other comprehensive income/(loss) for the year, net of tax		5,170	(325)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		812,290	965,028
Attributable to:			
Ordinary equity holders of the Company	11	815,185	966,084
Non-controlling interests		(2,895)	(1,056)
		812,290	965,028

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	386,932	257,463
Prepaid land lease payments	15	225,478	230,376
Deposits for acquisition of land use rights		6,261	6,261
Intangible assets	16	626	944
Available-for-sale investment	17	33,000	–
Deposits	21	10,991	–
Total non-current assets		663,288	495,044
CURRENT ASSETS			
Inventories	19	582,707	671,523
Trade and bills receivables	20	1,035,877	1,205,389
Prepayments, deposits and other receivables	21	421,413	533,380
Tax recoverable		16,190	–
Available-for-sale investment	17	100,000	–
Pledged bank deposits	22	557,211	521,669
Cash and cash equivalents	22	3,122,801	2,068,163
Total current assets		5,836,199	5,000,124
CURRENT LIABILITIES			
Trade and bills payables	23	482,517	498,874
Deposits received, other payables and accruals	24	287,357	227,472
Interest-bearing bank borrowings	25	510,882	492,027
Tax payable		156,066	181,831
Total current liabilities		1,436,822	1,400,204
NET CURRENT ASSETS		4,399,377	3,599,920
TOTAL ASSETS LESS CURRENT LIABILITIES		5,062,665	4,094,964
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	25	534,598	–
Deferred tax liabilities	26	133,453	68,751
Deferred subsidy	27	114,833	114,833
Total non-current liabilities		782,884	183,584
NET ASSETS		4,279,781	3,911,380
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	28	19,200	19,199
Reserves	29(a)	4,255,162	3,888,237
		4,274,362	3,907,436
Non-controlling interests		5,419	3,944
Total equity		4,279,781	3,911,380

Ding Shui Po
Director

Ding Mei Qing
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

		Attributable to ordinary equity holders of the Company										
			Reserves									
	Notes	Issued capital RMB'000 (note 28)	Share premium account RMB'000 (note 29(b))	Capital reserve RMB'000 (note 29(a))	Statutory surplus fund RMB'000 (note 29(a))	Share option reserve RMB'000 (note 29(b))	Exchange fluctuation reserve RMB'000 (note 29(a))	Retained profits RMB'000	Total reserves RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011		19,197	1,066,696	118,600	279,708	20,623	1,043	1,846,466	3,333,136	3,352,333	–	3,352,333
Total comprehensive income for the year		–	–	–	–	–	(325)	966,409	966,084	966,084	(1,056)	965,028
Equity-settled share option arrangements		–	–	–	–	38,168	–	–	38,168	38,168	–	38,168
2010 final dividend declared and paid	12	–	(218,753)	–	–	–	–	–	(218,753)	(218,753)	–	(218,753)
2011 interim dividend declared and paid	12	–	(231,055)	–	–	–	–	–	(231,055)	(231,055)	–	(231,055)
Exercise of share options	28(i), 30	2	795	–	–	(138)	–	–	657	659	–	659
Capital contribution from a non-controlling interest of a subsidiary		–	–	–	–	–	–	–	–	–	5,000	5,000
Transfer to statutory surplus fund		–	–	–	63,812	–	–	(63,812)	–	–	–	–
At 31 December 2011 and 1 January 2012		19,199	617,683	118,600	343,520	58,653	718	2,749,063	3,888,237	3,907,436	3,944	3,911,380
Total comprehensive income for the year		–	–	–	–	–	5,170	810,015	815,185	815,185	(2,895)	812,290
Equity-settled share option arrangements		–	–	–	–	41,369	–	–	41,369	41,369	–	41,369
2011 final dividend declared and paid	12	–	(254,909)	–	–	–	–	–	(254,909)	(254,909)	–	(254,909)
2012 interim dividend declared and paid	12	–	(234,863)	–	–	–	–	–	(234,863)	(234,863)	–	(234,863)
Exercise of share options	28(i), 30	1	183	–	–	(40)	–	–	143	144	–	144
Capital contribution from a non-controlling interest of a subsidiary		–	–	–	–	–	–	–	–	–	4,370	4,370
Transfer to statutory surplus fund		–	–	–	45,951	–	–	(45,951)	–	–	–	–
At 31 December 2012		19,200	128,094	118,600	389,471	99,982	5,888	3,513,127	4,255,162	4,274,362	5,419	4,279,781

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,105,835	1,211,359
Adjustments for:			
Depreciation	14	33,654	24,844
Amortisation of prepaid land lease payments	15	4,847	3,364
Amortisation of intangible assets	16	318	316
Loss on disposal of items of property, plant and equipment		2,063	73
Interest income	7	(39,558)	(25,045)
Interest expense on bank loans wholly repayable within five years	7	21,280	4,633
Interest expense on discounted bills receivables	7	29,680	25,444
Amortisation of bank charges on a syndicated loan	7	4,240	–
Fair value losses, net:			
Derivative financial instruments – transactions not qualified as hedges	7	7,511	4,591
Equity-settled share option expense	30	41,369	38,168
Provision for impaired receivables	6	77,178	–
		1,288,417	1,287,747
Decrease/(increase) in inventories		88,816	(208,961)
Decrease/(increase) in trade and bills receivables		92,334	(478,333)
Decrease/(increase) in prepayments, deposits and other receivables		112,018	(185,733)
Decrease in trade and bills payables		(16,357)	(140,267)
Increase in deposits received, other payables and accruals		52,442	58,351
Cash generated from operations		1,617,670	332,804
Interest received		39,558	25,045
Interest paid		(50,960)	(30,077)
Overseas taxes paid		(275,968)	(123,546)
Net cash flows from operating activities		1,330,300	204,226
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(165,200)	(85,358)
Increase in deposits paid for acquisition of land use rights, net		–	(6,261)
Additions to intangible assets	16	–	(266)
Purchase of land use rights		–	(128,585)
Receipt of government subsidy	27	–	114,833
Deposit for purchase of items of property, plant and equipment	21	(10,991)	–
Increase in pledged deposits		(35,542)	(521,669)
Increase in available-for-sale investments		(133,000)	–
Net cash flows used in investing activities		(344,733)	(627,306)

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution by a non-controlling interest of a subsidiary		4,370	5,000
New bank loans and bank advances for discounted bills, net of bank charges on a syndicated loan		694,098	492,027
Repayment of bank loans and settlement of bank advances for discounted bills		(138,534)	–
Net proceeds from issue of ordinary shares	28	144	659
Dividends paid	12	(489,772)	(449,808)
Exchange realignment		(1,003)	–
Net cash flows from financing activities		69,303	47,878
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,054,870	(375,202)
Cash and cash equivalents at beginning of year		2,068,163	2,443,702
Effect of foreign exchange rate changes, net		(232)	(337)
CASH AND CASH EQUIVALENTS AT END OF YEAR		3,122,801	2,068,163
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		3,122,801	2,068,163

Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	1,061,892	971,550
CURRENT ASSETS			
Due from a subsidiary	18	691,305	96,296
Prepayments and other receivables	21	477	695
Cash and cash equivalents	22	16,677	2,967
Total current assets		708,459	99,958
CURRENT LIABILITIES			
Due to subsidiaries	18	612	–
Other payables and accruals	24	36,452	17,941
Interest-bearing bank borrowings	25	510,882	446,277
Total current liabilities		547,946	464,218
NET CURRENT ASSETS/(LIABILITIES)		160,513	(364,260)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,222,405	607,290
NON-CURRENT LIABILITY			
Interest-bearing bank borrowings	25	534,598	–
NET ASSETS		687,807	607,290
EQUITY			
Issued capital	28	19,200	19,199
Reserves	29(b)	668,607	588,091
Total equity		687,807	607,290

Ding Shui Po
Director

Ding Mei Qing
Director

1. Corporate Information

Xtep International Holdings Limited is limited liability company incorporated in the Cayman Islands. The Company's principal place of business in Hong Kong is located at Suite 2401-02, 24th floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong. During the year, the Company and its subsidiaries (collectively referred to as the "Group") were engaged in the design, development, manufacture and marketing of sportswear, including footwear, apparel and accessory products, sold mainly under the self-owned Xtep brand and other licensed brands. There were no significant changes in the nature of the Group's principal activities during the year.

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

2.1 Basis of Preparation

These financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all amounts are rounded to the nearest thousand except where otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in income statement. The Group's share of components previously recognised in other comprehensive income is reclassified to income statement or retained profits, as appropriate.

2.2 Changes in Accounting Policy and Disclosures

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adoptors*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

Other than as further explained below regarding the impact of amendments to HKFRS 7, the adoption of the revised HKFRSs has had no significant financial effect on these financial statements.

The HKFRS 7 Amendments require additional disclosures about financial assets that have been transferred but not derecognised to enable users of the Group's financial statements to understand the relationship of those assets that have not been derecognised with their associated liabilities. In addition, the amendments require disclosures about the entity's continuing involvement in derecognised assets to enable users to evaluate the nature of, and risks associated with, such involvement. Upon the adoption of HKFRS 7 Amendments, additional disclosures on the Group's discounted bills receivable were made in note 37 to these financial statements.

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*[2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
HKFRS 9	*Financial Instruments*[4]
HKFRS 10	*Consolidated Financial Statements*[2]
HKFRS 11	*Joint Arrangements*[2]
HKFRS 12	*Disclosure of Interests in Other Entities*[2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance*[2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[3]
HKFRS 13	*Fair Value Measurement*[2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
HKAS 19 (2011)	*Employee Benefits*[2]
HKAS 27 (2011)	*Separate Financial Statements*[2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012[2]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies;

  (i) the entity and the Group are members of the same group;

  (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

  (iii) the entity and the Group are joint ventures of the same third party;

  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

  (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

  (vi) the entity is controlled or jointly controlled by a person identified in (a); and

  (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditure incurred after the items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Buildings	Over the shorter of lease terms and 20 years
Leasehold improvements	Over the shorter of lease terms and 5 years
Moulds, plant and machinery	3 to 10 years
Motor vehicles	5 years
Furniture, fixtures and office equipment	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents and trademarks

Patents and trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the product so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as loans and receivables and available-for-sale financial investments. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, pledged deposits, trade and bills receivables, available-for-sale financial investments and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loan and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the futures cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs. The Group's financial liabilities include trade and bills payables, other payables, financial liabilities included in accruals, derivative financial instruments and interest-bearing bank borrowings.

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective position of cash flow hedges, which is recognised in other comprehensive income.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for obsolete or slow moving items. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside income statement is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset;

(c) rental income, on a time proportion basis over the lease terms; and

(d) dividend income, when the shareholders' rights to receive payment has been established.

Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Share-based payments

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

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

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

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

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

Other benefits

The Group contributes on a monthly basis to defined contribution housing, medical and other benefit plans organised by the government of the People's Republic of China (the "PRC"). The PRC government undertakes to assume the benefit obligations of all existing and retired employees under these plans. Contributions to these plans by the Group are expensed as incurred. The Group has no further obligations for benefits for their qualified employees under these plans.

Foreign currencies

These financial statements are presented in RMB, which is the Company's presentation currency. The functional currency of the Company is the Hong Kong dollar which is the currency of the primary environment in which the Company operates. Since the Company does not conduct any substantive operations of its own and conducts its primary business operations through its subsidiaries in the PRC, the Company adopts RMB as the presentation currency of the Group. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or income statement is also recognised in other comprehensive income or income statement, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates prevailing at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. Significant Accounting Judgement and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has an effect on the amounts recognised in the financial statements.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will revise the depreciation charge where useful lives are different to the ones previously estimated and the Group will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change significantly as a result of changes in customer taste or competitor actions. The Group reassesses these estimates at the end of each reporting period.

Impairment provision for trade and other receivables

The Group estimates the impairment provision for trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Provision are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the impairment provision at the end of each reporting period.

Valuation of share options

As described in note 30 to the financial statements, the Company has engaged an independent professionally qualified valuer to assist in the valuation of the share options granted during the year ended 31 December 2011. The fair value of options granted under the share option scheme is determined using the Trinomial Option Pricing Model. The significant inputs into the model were the weighted average share price at the grant date, risk-free interest rate, exercise price, expected volatility of the underlying shares, expected dividend yield and expected life of options. When the actual results of the inputs differ from management's estimate, it will have an impact on share option expenses and the related share option reserve of the Company. Further details are set out in note 30 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

4. Operating Segment Information

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

In addition, the Group's revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to a single geographical region, which is the PRC. Therefore, no analysis by geographical regions is presented.

5. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold during the year, after allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

	2012 RMB'000	2011 RMB'000
Revenue		
Manufacture and sale of sportswear:		
Footwear	2,700,080	2,489,629
Apparel	2,746,181	2,950,063
Accessories	104,004	99,946
	5,550,265	5,539,638
Other income and gains		
Subsidy income from the PRC government*	27,951	8,206
Rental income	1,840	1,703
Net income derived from available-for-sale financial assets	37,421	–
Others	421	6,360
	67,633	16,269
	5,617,898	5,555,907

* There are no unfulfilled conditions or contingencies relating to these subsidies.

6. Operating Profit

The Group's operating profit is arrived at after charging:

	Notes	2012 RMB'000	2011 RMB'000
Cost of inventories sold[1]		3,292,585	3,281,996
Depreciation	14	33,654	24,844
Amortisation of prepaid land lease payments	15	4,847	3,364
Amortisation of intangible assets[2]	16	318	316
Advertising and promotional costs		633,869	625,405
Employee benefit expenses			
(including directors' remuneration – note 8):			
Wages and salaries		308,448	205,543
Other allowances and benefits		41,242	20,949
Equity-settled share option expense		41,369	38,168
Pension scheme contributions[3]		14,220	12,821
		405,279	277,481
Auditors' remuneration		2,917	2,811
Minimum lease payments under operating leases of land and buildings		8,503	9,265
Provision for impaired receivables[4]	20	77,178	–
Research and development costs[4]		95,534	97,673
Fair value losses, net:			
Derivative instruments – transactions not qualified as hedges	7	7,511	4,591

[1] The cost of inventories sold for the year includes RMB233,314,000 (2011: RMB171,598,000), relating to staff costs, depreciation of manufacturing facilities, and minimum lease payments for land and buildings, which are also included in the respective total amounts disclosed above for each of these types of expenses.

[2] The amortisation of intangible assets for the year is included in "General and administrative expenses" in the consolidated income statement.

[3] As at 31 December 2012, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2011: Nil).

[4] The research and development costs and provision for impaired receivables for the year are included in "General and administrative expenses" in the consolidated income statement.

7. Net Finance Cost

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

	Group 2012 RMB'000	2011 RMB'000
Interest expense on bank loans wholly repayable within five years	(21,280)	(4,633)
Interest expense on discounted bills receivables	(29,680)	(25,444)
Amortisation of bank charges on a syndicated loan	(4,240)	–
Foreign exchange differences, net	(2,280)	1,685
Bank interest income	39,558	25,045
Unrealised loss on interest rate swaps*	(7,511)	(4,591)
	(25,433)	(7,938)

* The Group enters into interest rate swap contracts for its floating-interest loans to manage its exposure to interest rate fluctuation.

8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2012 RMB'000	2011 RMB'000
Fees:		
Executive directors	–	–
Non-executive director	540	549
Independent non-executive directors	561	560
	1,101	1,109
Other emoluments of executive directors:		
Salaries, other allowances and benefits in kind	5,248	5,643
Equity-settled share option expense	6,758	6,173
Pension scheme contributions	178	180
	12,184	11,996
Other emoluments of a non-executive director:		
Equity-settled share option expense	543	606
	13,828	13,711

Share options were granted to directors, in respect of their services to the Group, under the pre-initial public offering ("pre-IPO") share option and share option schemes of the Company respectively. Further details of which are set out in notes 30(a) and 30(b) to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting periods, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosure.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

		Salaries, other allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2012						
a)	*Executive directors*					
	Ding Shui Po^	926	–	–	13	939
	Ding Mei Qing	463	–	–	13	476
	Lin Zhang Li	463	–	–	13	476
	Ding Ming Zhong	463	–	–	13	476
	Ye Qi	480	–	2,290	3	2,773
	Ho Yui Pok, Eleutherius	2,453	–	4,468	123	7,044
		5,248	–	6,758	178	12,184
b)	*Non-executive director*					
	Tan Wee Seng	540	–	543	–	1,083
c)	*Independent non-executive directors*					
	Sin Ka Man	196	–	–	–	196
	Xu Peng Xiang	180	–	–	–	180
	Gao Xian Feng	180	–	–	–	180
	Bao Ming Xiao*	5	–	–	–	5
		561	–	–	–	561
		6,349	–	7,301	178	13,828

		Salaries, other allowances and benefits in kind RMB'000	Performance-related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2011						
a)	*Executive directors*					
	Ding Shui Po^	934	–	–	13	947
	Ding Mei Qing	467	–	–	13	480
	Lin Zhang Li	467	–	–	13	480
	Ding Ming Zhong	467	–	–	13	480
	Ye Qi	480	–	2,094	3	2,577
	Ho Yui Pok, Eleutherius	2,495	333	4,079	125	7,032
		5,310	333	6,173	180	11,996
b)	*Non-executive directors*					
	Xiao Feng#	–	–	–	–	–
	Tan Wee Seng	549	–	606	–	1,155
		549	–	606	–	1,155
c)	*Independent non-executive directors*					
	Sin Ka Man	200	–	–	–	200
	Xu Peng Xiang	180	–	–	–	180
	Gao Xian Feng	180	–	–	–	180
		560	–	–	–	560
		6,419	333	6,779	180	13,711

^ Ding Shui Po is also the chief executive officer of the Group.
# On 17 June 2011, Xiao Feng resigned as a non-executive director of the Company.
* On 21 December 2012, Bao Ming Xiao was appointed as an independent non-executive director of the Company.

9. Five Highest Paid Employees

The five highest paid employees during the year included three (2011: five) directors, details of whose remuneration are set out in note 8 above.

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

	Number of employees	
	2012	**2011**
RMB500,000 – RMB1,000,000	2	–

Details of the remuneration for the year of the remaining two (2011: Nil) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Group	
	2012	**2011**
	RMB'000	**RMB'000**
Salaries, allowances and benefits in kind	1,487	–
Performance-related bonuses	22	–
Pension scheme contributions	206	–
	1,715	–

10. Income Tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2011: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Group	
	2012	**2011**
	RMB'000	**RMB'000**
Current tax – Overseas		
Charge for the year	234,325	215,449
Underprovision/(overprovision) in prior years	(312)	1,674
	234,013	217,123
Deferred (note 26)	64,702	28,883
	298,715	246,006

Xtep (China) Co., Ltd. ("Xtep China"), a wholly-owned subsidiary of the Company, was taxed at a preferential 15% tax rate for the years ended 31 December 2010, 2011 and 2012 as Xtep China was qualified as a High-New Technology Enterprise (the "HNTE") in the PRC and obtained the HNTE certificate in 2010.

Koling (Fujian) Garment Co., Ltd. ("Koling (Fujian)") and Xtep Sports Goods Co., Ltd. Jinjiang ("Xtep Jinjiang"), wholly-owned subsidiaries of the Company, were entitled to a 50% reduction in the PRC corporate income tax of the tax rate of 25% for the years ended 31 December 2010, 2011 and 2012.

廈門特步投資有限公司 ("Xtep Xiamen"), a wholly-owned subsidiary of the Company, was granted certain tax relief whereby the profit of Xtep Xiamen was taxed at the prevailing tax rate set by the local tax authority at 24% for the year ended 31 December 2011.

A reconciliation of the tax expense applicable to profit before tax at the applicable statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries operate to the tax expense at the effective tax rates is as follows:

	Group 2012 RMB'000	2011 RMB'000
Profit before tax	1,105,835	1,211,359
Tax at the applicable tax rates	293,009	325,353
Lower tax rates for specific provinces or tax holidays	(106,139)	(136,435)
Adjustments in respect of current tax of previous years	(312)	1,674
Income not subject to tax	(55)	(135)
Expenses not deductible for tax	43,650	21,526
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	64,702	28,883
Tax losses utilised from previous periods	(805)	(100)
Tax losses not recognised	4,665	5,240
Tax charge at the Group's effective rate	298,715	246,006

11. Profit Attributable to Ordinary Equity Holders of the Company

The consolidated profit attributable to ordinary equity holders of the Company for the year ended 31 December 2012 includes a loss of RMB61,389,000 (2011: RMB34,606,000) which has been dealt with in the financial statements of the Company (note 29(b)).

12. Dividends

	2012 RMB'000	2011 RMB'000
Dividends paid during the year:		
Final – HK14.5 cents (2011: HK12.0 cents) per ordinary share	254,909 (ii)	218,753 (i)
Interim – HK13.2 cents (2011: HK13.0 cents) per ordinary share	234,863 (iii)	231,055 (ii)
	489,772	449,808
Proposed final dividend:		
HK10.0 cents (2011: HK14.5 cents) per ordinary share	176,608 (iii)	256,546 (ii)
Proposed special dividend:		
HK4.5 cents (2011: nil) per ordinary share	79,474 (iii)	–
	256,082	256,546

(i) In respect of financial year ended 31 December 2010
(ii) In respect of financial year ended 31 December 2011
(iii) In respect of financial year ended 31 December 2012

The proposed final dividend and special dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. These financial statements do not reflect the final dividend and special dividend payable.

13. Earnings per Share Attributable to Ordinary Equity Holders of the Company

(a) Basic earnings per share

The calculation of basic earnings per share amount for the year was based on the profit for the year attributable to ordinary equity holders of the Company of RMB810,015,000 (2011: RMB966,409,000) and the weighted average number of ordinary shares in issue during the year of 2,176,255,000 (2011: 2,176,118,000).

(b) Diluted earnings per share

The calculation of diluted earnings per share amounts for the year ended 31 December 2012 is based on the profit for that year attributable to ordinary equity holders of the Company of RMB810,015,000 (2011: RMB966,409,000). The weighted average number of ordinary shares of 2,180,389,000 (2011: 2,180,081,000) used in the calculation is the weighted average number of 2,176,255,000 ordinary shares (2011: 2,176,118,000) in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options into 4,134,000 (2011: 3,963,000) ordinary shares during the year.

14. Property, Plant and Equipment

Group

	Buildings RMB'000	Leasehold improvements RMB'000	Moulds, plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2012							
Cost:							
At beginning of year	152,228	14,412	84,020	21,036	72,028	15,776	359,500
Additions	1,985	15,485	7,137	8,520	7,613	124,460	165,200
Disposals/write-off	–	(1,710)	–	(648)	–	(468)	(2,826)
Exchange realignment	–	(22)	–	–	(14)	–	(36)
At 31 December 2012	154,213	28,165	91,157	28,908	79,627	139,768	521,838
Accumulated depreciation:							
At beginning of year	29,931	6,064	35,820	7,164	23,058	–	102,037
Provided during the year	6,969	6,845	5,947	3,468	10,425	–	33,654
Disposals/write-off	–	(647)	–	(116)	–	–	(763)
Exchange realignment	–	(12)	–	–	(10)	–	(22)
At 31 December 2012	36,900	12,250	41,767	10,516	33,473	–	134,906
Net carrying amount:							
At 31 December 2012	117,313	15,915	49,390	18,392	46,154	139,768	386,932
31 December 2011							
Cost:							
At beginning of year	152,228	8,192	57,903	13,144	41,642	1,272	274,381
Additions	–	6,280	26,117	7,892	30,565	14,504	85,358
Disposals	–	–	–	–	(122)	–	(122)
Exchange realignment	–	(60)	–	–	(57)	–	(117)
At 31 December 2011	152,228	14,412	84,020	21,036	72,028	15,776	359,500
Accumulated depreciation:							
At beginning of year	23,044	3,973	30,682	4,533	15,076	–	77,308
Provided during the year	6,887	2,127	5,138	2,631	8,061	–	24,844
Disposals	–	–	–	–	(49)	–	(49)
Exchange realignment	–	(36)	–	–	(30)	–	(66)
At 31 December 2011	29,931	6,064	35,820	7,164	23,058	–	102,037
Net carrying amount:							
At 31 December 2011	122,297	8,348	48,200	13,872	48,970	15,776	257,463

The Group's buildings were situated in Mainland China and were held under medium term leases.

Included in "Buildings" are certain self-used properties with net carrying amounts of approximately RMB9,856,000 at 31 December 2012 (2011: RMB79,976,000), for which the Group has not obtained the building ownership certificates. Up to the date of approval of these financial statements, the Group is still in the process of applying for the building ownership certificates in respect of the aforementioned properties with net carrying amounts at 31 December 2012 of RMB7,565,000 out of the total of RMB9,856,000 (2011: RMB77,548,000 out of the total of RMB79,976,000).

15. Prepaid Land Lease Payments

	Group	
	2012 RMB'000	**2011 RMB'000**
Carrying amount at 1 January	235,264	21,344
Additions	–	217,284
Recognised during the year	(4,847)	(3,364)
Carrying amount at 31 December	230,417	235,264
Current portion included in prepayments, deposits and other receivables	(4,939)	(4,888)
Non-current portion	225,478	230,376

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

16. Intangible Assets

Patents and trademarks

	Group	
	2012 RMB'000	**2011 RMB'000**
Cost:		
At beginning of year	1,899	1,633
Additions	–	266
At 31 December	1,899	1,899
Accumulated amortisation:		
At beginning of year	955	639
Amortisation provided during the year	318	316
At 31 December	1,273	955
Net carrying amount:		
At 31 December	626	944

17. Available-For-Sale Investments

	Note	Group 2012 RMB'000	2011 RMB'000
Non-Current			
Unlisted equity investment, at cost	(i)	33,000	–
Current			
Unlisted investment fund, at cost		100,000	–
		133,000	–

Note:

(i) As at 31 December 2012, the unlisted equity investment with a carrying value of RMB33,000,000 (2011: Nil) represented an 11% equity interests in a corporate entity, which was established in the PRC on 22 October 2012 with a registered and fully paid-up capital of RMB300,000,000.

The above investments were stated at cost because the range of reasonable fair value estimates is so significant that the directors are of the opinion that the fair value cannot be measured reliably.

18. Investments in Subsidiaries

	Company 2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	633	–
Due from subsidiaries	1,061,259	971,550
	1,061,892	971,550

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

The amount due from a subsidiary included in the Company's current assets of RMB691,305,000 (2011: RMB96,296,000) is unsecured, interest-free and repayable on demand.

The amount due to subsidiaries included in the Company's current liabilities of RMB612,000 (2011: nil) is unsecured, interest-free and payable on demand.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation or establishment/ operations	Issued and fully paid-up capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Xtep International Development Limited ("Xtep Development")*	BVI	US$10,000	100	–	Investment holding
Xtep (China)* (notes (i) and (iii))	PRC/ Mainland China	HK$830 million	–	100	Manufacture and trading of sportswear
Koling (Fujian)* (notes (i) and (iii))	PRC/ Mainland China	HK$158 million	–	100	Manufacture and trading of sportswear
Xtep Jinjiang* (notes (i) and (iii))	PRC/ Mainland China	US$6 million	–	100	Manufacture and trading of sportswear
Xtep Xiamen* (notes (ii) and (iii))	PRC/ Mainland China	RMB50 million	–	100	Trading of sportswear
特步(安徽)有限公司* ("Xtep Anhui") (notes (ii) and (iii))	PRC/ Mainland China	RMB200 million	–	100	Manufacture of sportswear
特步湖南體育用品有限公司* (notes (ii) and (iii))	PRC/ Mainland China	RMB50 million	–	90	Manufacture of sportswear
晉江特步貿易有限公司* ("Jinjiang Trading") (notes (ii) and (iii))	PRC/ Mainland China	RMB10 million	–	100	Trading of sportswear
廈門市特步兒童用品有限公司* ("Xtep Children") (notes (i) and (ii))	PRC/ Mainland China	HK$30 million	–	82	Trading of sportswear

Notes:

(i) The entity is wholly-foreign-owned enterprise and limited liability company established in the PRC.

(ii) The entity is registered as a limited liability company in the PRC.

(iii) The registered capitals of these entities were fully paid up as at 31 December 2012.

* Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network had not been appointed as the statutory auditors of these entities.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. Inventories

	Group 2012 RMB'000	2011 RMB'000
Raw materials	284,146	418,521
Work in progress	68,959	68,317
Finished goods	229,602	184,685
	582,707	671,523

20. Trade and Bills Receivables

	Group 2012 RMB'000	2011 RMB'000
Trade receivables	1,113,055	1,091,094
Less: provision for impaired receivables	(77,178)	–
	1,035,877	1,091,094
Bills receivables	–	114,295
Trade and bills receivables	1,035,877	1,205,389

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group's trade receivables relate to a number of diversified customers and there is certain concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

The movements in provision for impairment of trade receivables are as follows:

	Group 2012 RMB'000	2011 RMB'000
At 1 January	–	–
Provision for impaired receivables (note 6)	77,178	–
At 31 December	77,178	–

Included in the above provision for impairment of trade receivables is provisions for individually impaired trade receivables of RMB77,178,000 (2011: Nil) with carrying amounts before provision of RMB87,441,000 (2011: Nil). The individually impaired trade receivables relate to customers that were in default or delinquency in payments and only a portion of the receivables is expected to be recovered.

An ageing analysis of the trade receivables, based on the payment due date, that are not considered to be impaired is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Neither past due nor impaired	690,437	781,193
Less than 3 months past due	345,440	289,969
Past due over 3 months	–	19,932
	1,035,877	1,091,094

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

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

Included in the Group's bills receivables balance as at 31 December 2011 were bills of RMB67,500,000 which were pledged for the issue of bills payables, and amounts totaling RMB45,750,000, which were discounted to banks in exchange for cash and included as "Bank advances for discounted bills" in note 25 of financial statements.

21. Prepayments, Deposits and Other Receivables

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	156,066	163,549	477	361
Deposits and advance payments to suppliers	231,484	338,958	–	–
Deposits for construction contracts	10,991	–	–	–
Other deposits	1,449	2,866	–	–
Value added tax ("VAT") recoverable	28,298	21,180	–	–
Other receivables	4,116	6,827	–	334
	432,404	533,380	477	695
Less: Non-current portion	(10,991)	–	–	–
	421,413	533,380	477	695

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

22. Cash and Cash Equivalents and Pledged Bank Deposits

	Note	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000
Time deposits		789,713	521,669	–	–
Cash and bank balances		2,890,299	2,068,163	16,677	2,967
		3,680,012	2,589,832	16,677	2,967
Less: Pledged deposits:					
for short term bank loans	25	(527,997)	(489,100)	–	–
for bank guarantees*		(29,214)	(27,558)	–	–
for bills payable	23	–	(5,011)	–	–
Cash and cash equivalents		3,122,801	2,068,163	16,677	2,967

* The time deposits were pledged to secure the bank guarantees granted for the Group in relation to the construction of buildings and adherence to the construction timeline on the land acquired by the Group.

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB2,846,603,000 (2011: RMB2,058,941,000) and RMB789,713,000 (2011: RMB521,669,000), respectively. RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

23. Trade and Bills Payables

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

	Group 2012 RMB'000	Group 2011 RMB'000
Within 3 months	437,359	397,343
3 to 6 months	17,025	14,740
Over 6 months	28,133	14,291
Trade payables	482,517	426,374
Bills payable	–	72,500
Trade and bills payables	482,517	498,874

The trade payables are non-interest-bearing and are normally settled within 60 to 90 days.

As at 31 December 2011, bills payables of RMB72,500,000 are secured by pledge of time deposits of RMB5,011,000 and bills receivables of RMB67,500,000.

24. Deposits Received, Other Payables and Accruals

	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000
Deposits and advances from customers	43,158	70,480	–	–
Accruals	160,987	104,918	23,386	8,846
VAT payables	29,807	29,541	–	–
Derivative financial instruments	11,971	4,528	11,971	4,528
Other payables	41,434	18,005	1,095	4,567
	287,357	227,472	36,452	17,941

All these balances are non-interest-bearing and other payables have an average term of three months.

The Group has entered into interest rate swap contracts to manage its interest rate exposures which did not meet the criteria for hedge accounting. Changes in fair value of non-hedging interest derivative instruments amounted to RMB7,511,000 (2011: RMB4,591,000) were debited to the income statement.

25. Interest-Bearing Bank Borrowings

Group and Company	Notes	2012 Effective interest rate per annum (%)	2012 Maturity	2012 RMB'000
Current				
Bank loans – secured	(a)	HIBOR+1.5% to 2.375%	2013	365,175
Bank loans – unsecured	(b)	HIBOR+2.2% to 3% and LIBOR+3%	2013	145,707
				510,882
Non-current				
Bank loans – unsecured	(b)	HIBOR/LIBOR +3%	2014 to 2015	534,598
				1,045,480

Group	Note	2011 Effective interest rate per annum (%)	2011 Maturity	2011 RMB'000
Current				
Bank loans – secured	(a)	HIBOR+1.5% to 2.375%	2012	446,277
Bank advances for discounted bills (note 20)		N/A	2012	45,750
				492,027

Company	Note	2011 Effective interest rate per annum (%)	Maturity	RMB'000
Current				
Bank loans – secured	(a)	HIBOR+1.5% to +2.375%	2012	446,277
				446,277

	Group 2012 RMB'000	Group 2011 RMB'000	Company 2012 RMB'000	Company 2011 RMB'000
Analysed into:				
Bank loans repayable:				
Within one year and on demand	510,882	446,277	510,882	446,277
In the second year	355,111	–	355,111	–
In the third to fifth years, inclusive	179,487	–	179,487	–
	1,045,480	446,277	1,045,480	446,277
Bank advances for discounted bills:				
Within one year and on demand	–	45,750	–	–
	1,045,480	492,027	1,045,480	446,277

Notes:

(a) The bank loans are secured by the pledge of certain of the Group's time deposits amounting to RMB527,997,000 (2011: RMB489,100,000) and a corporate guarantee provided by a wholly-owned subsidiary of the Company, Xtep China, to the extent of HK$600,000,000 (equivalent to approximately RMB486,900,000) (2011: HK$600,000,000, equivalent to approximately RMB492,180,000) as at the end of the reporting period.

(b) The bank loans are supported by a corporate guarantee provided by certain of the Company's wholly-owned subsidiaries, to the extent of HK$240,400,000 (equivalent to approximately RMB195,085,000) (2011: Nil) and US$82,000,000 (equivalent to approximately RMB516,374,000) (2011: Nil) as at the end of the reporting period.

As at 31 December 2012, except for the bank loan of RMB504,116,000 (2011: Nil) which was denominated in US dollars, all bank borrowings are denominated in Hong Kong dollars.

26. Deferred Tax Liabilities

Group

	Withholding taxes RMB'000
At 1 January 2011	39,868
Deferred tax charged to the income statement during the year (note 10)	28,883
At 31 December 2011 and 1 January 2012	68,751
Deferred tax charged to the income statement during the year (note 10)	64,702
At 31 December 2012	133,453

Pursuant to the income tax law of the PRC, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings accrued after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and jurisdiction of the foreign investors. For the Group, the applicable rate for the withholding tax is 5% or 10%. In estimating the withholding taxes on dividends expected to be distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008, the directors have made an assessment based on the factors which included dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future.

At 31 December 2012, there were no significant unrecognised deferred tax liabilities (2011: Nil) for withholding taxes that would be payable on the unremitted earnings of the Company's subsidiaries expected to be distributed, after considering the abovementioned factors, in the foreseeable future.

The Company has no significant unprovided deferred tax in respect of the reporting period and at the end of the reporting period.

27. Deferred Subsidy

A subsidy of RMB114,833,000 was received by Xtep Anhui from the People's Government of Bengbu, Anhui Province, the PRC, for the cost of infrastructure to be incurred by the Group on a parcel of land in Bengbu, Anhui Province, the PRC (the "Land") to facilitate the construction of manufacturing facilities on the Land.

28. Share Capital

At 31 December 2012

	HK$'000	RMB'000
Authorised:		
100,000,000,000 ordinary shares of HK$0.01 each	1,000,000	935,629
Issued and fully paid:		
2,176,315,000 ordinary shares of HK$0.01 each	21,763	19,200

At 31 December 2011

	HK$'000	RMB'000
Authorised:		
100,000,000,000 ordinary shares of HK$0.01 each	1,000,000	935,629
Issued and fully paid:		
2,176,240,000 ordinary shares of HK$0.01 each	21,762	19,199

The following changes in the Company's issued share capital took place during the current and last years:

	Note	Number of ordinary shares of HK$0.01 each	Nominal value of ordinary shares HK$'000	Nominal value of ordinary shares RMB'000
Issued ordinary shares				
At 1 January 2011		2,176,000,000	21,760	19,197
Exercise of share options	(i)	240,000	2	2
At 31 December 2011 and 1 January 2012		2,176,240,000	21,762	19,199
Exercise of share options	(i)	75,000	1	1
At 31 December 2012		2,176,315,000	21,763	19,200

Note:

(i) During the year ended 31 December 2012, the subscription rights attaching to 75,000 (2011: 30,000) share options granted under the Share Option Scheme (as defined in note 30) were exercised at the subscription price of HK$2.35 per share (2011: HK$4.11 per share), resulting in the issue of 75,000 shares (2011: 30,000 shares) of HK$0.01 each for a total cash consideration before expenses of approximately HK$176,000 (2011: HK$123,000) (equivalent to RMB144,000 (2011: RMB101,000), representing nominal value of ordinary shares of RMB1,000 and share premium of RMB143,000). During the year ended 31 December 2011, the subscription rights attaching to 210,000 share options granted under the Pre-IPO Scheme (as defined in note 30) were exercised at the subscription price of HK$3.24 per share, resulting in the issue of 210,000 shares of HK$0.01 each for a total cash consideration before expenses of approximately HK$681,000 (equivalent to RMB558,000).

An amount of HK$49,000 (2011: HK$169,000) (equivalent to RMB40,000 (2011: RMB138,000)) was transferred from the share option reserve to the share premium account upon the exercise of the share options.

Share option schemes

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

29. Reserves

(a) Group

The amounts of the Group's reserves and movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(i) Capital reserve

The capital reserve represents the excess of the nominal value of the paid-in capital of the subsidiaries acquired pursuant to the group reorganisation prior to the listing of the Company's shares over the consideration paid for acquiring these subsidiaries.

(ii) Statutory surplus fund

In accordance with the relevant regulations applicable in the PRC, subsidiaries established in the PRC are required to transfer a certain percentage of their statutory annual profits after tax (after offsetting any prior year's losses), if any, to the statutory surplus fund until the balance of the fund reaches 50% of their respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory surplus fund may be used to offset against accumulated losses of the respective PRC subsidiaries. The amount of the transfer is subject to the approval of the board of directors of the respective PRC subsidiaries.

(iii) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside the PRC, which is dealt with in accordance with the accounting policy set out in note 2.4 to the financial statements.

(b) Company

	Notes	Share premium account RMB'000	Share option reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2011		1,066,696	20,623	(54,436)	36,690	1,069,573
Loss for the year		–	–	–	(34,606)	(34,606)
Other comprehensive loss						
Exchange realignment		–	–	(35,893)	–	(35,893)
Total comprehensive loss for the year		–	–	(35,893)	(34,606)	(70,499)
Equity-settled share option arrangements	30(a),(b)	–	38,168	–	–	38,168
2010 final dividend declared and paid	12	(218,753)	–	–	–	(218,753)
2011 interim dividend declared and paid	12	(231,055)	–	–	–	(231,055)
Exercise of share options		795	(138)	–	–	657
At 31 December 2011 and 1 January 2012		617,683	58,653	(90,329)	2,084	588,091
Profit for the year		–	–	–	538,894*	538,894
Other comprehensive income						
Exchange realignment		–	–	(10,118)	–	(10,118)
Total comprehensive income/(loss) for the year		–	–	(10,118)	538,894	528,776
Equity-settled share option arrangements	30(b)	–	41,369	–	–	41,369
2011 final dividend declared and paid	12	(254,909)	–	–	–	(254,909)
2012 interim dividend declared and paid	12	(234,863)	–	–	–	(234,863)
Exercise of share options		183	(40)	–	–	143
At 31 December 2012		128,094	99,982	(100,447)	540,978	668,607

* The balance included dividend from a subsidiary of RMB600,283,000.

Under the Companies Law of the Cayman Islands, the share premium account of the Company may be applied for payment of distributions or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

30. Share Option Schemes

(a) Pre-IPO share option scheme

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

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

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

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

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

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

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

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

On 7 May 2008, an aggregate of 19,000,000 share options (the "Pre-IPO Share Options") under the Pre-IPO Scheme were issued to directors of the Company and certain employees of the Group. The exercise prices and exercise periods of the Pre-IPO Share Options outstanding at 31 December 2012 and 2011 were as follows:

Number of options	Exercise price per share	Exercise period
4,170,000	HK$3.24*	3 June 2009 to 6 May 2018
4,995,000	HK$3.24*	3 June 2010 to 6 May 2018
7,600,000	HK$3.24*	3 June 2011 to 6 May 2018
16,765,000		

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

The fair value of the Pre-IPO Share Options granted during the year ended 31 December 2008 was estimated at RMB10,815,000, of which the Company recognised a share option expense of RMB560,000 during the year ended 31 December 2011.

The subscription rights attaching to 210,000 share options granted under the Pre-IPO Scheme were exercised at the subscription price of HK$3.24 per share during the year ended 31 December 2011, resulting in the issue of 210,000 shares.

At the end of the reporting period and up to the date of approval of these financial statements, the Company had outstanding Pre-IPO Share Options for the subscription of 16,765,000 shares under the Pre-IPO Scheme, which represented approximately 0.8% of the issued share capital of the Company as at that date. The exercise in full of the outstanding Pre-IPO Share Options would, under the present capital structure of the Company, result in the issue of 16,765,000 additional ordinary shares of the Company and additional share capital of approximately HK$168,000 (equivalent to approximately RMB136,000) and share premium account of approximately HK$54,151,000 (equivalent to approximately RMB43,943,000), before related issuance expenses.

(b) Share option scheme

The Company has also adopted a share option scheme (the "Share Option Scheme") pursuant to the shareholders' written resolution passed on 7 May 2008. The purposes of the Share Option Scheme are to motivate the eligible persons to optimise their future contributions to the Group and/or to reward them for their past contribution; to attract and retain or otherwise maintain ongoing relationships with such eligible persons who are significant to the Group and/or whose contributions are or will be beneficial to the performance, growth or success of the Group; and to attract and retain individuals with experience and ability.

Eligible persons include the Group's directors, proposed directors, employees, direct or indirect shareholders, suppliers, customers, consultants, business or joint venture partners, franchisees, contractors, any person or entity that provides design, research, development or other supporting services to the Group; and any associate of the aforementioned eligible persons.

The maximum number of shares that may be granted under the Share Option Scheme and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. No option may be granted to any person such that the total number of shares of the Company issued and to be issued upon exercise of all options granted and to be granted to each participant in any 12-month period up to the date of the latest grant exceeds 1% of the number of shares of the Company in issue.

An option under the Share Option Scheme may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the board of directors of the Company, which must not be more than 10 years from the date of the grant.

The offer of a grant of share options may be accepted with 30 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors or up to the expiry date of the Share Option Scheme, if earlier.

The exercise price of the share options is determinable by the directors in their absolute discretion, but in any event shall not be less than the highest of (1) the nominal value of the Company's ordinary share; (2) the closing price of the Company's shares as stated in the Stock Exchange daily quotation sheet issued on the date of grant of the share options; and (3) the average closing price of the Company's shares stated in the Stock Exchange daily quotation sheets for the five business days immediately preceding the date of grant of share options.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Share Option Scheme during the year:

	2012		**2011**	
	Weighted average exercise price HK$ per share	**Number of options '000**	**Weighted average exercise price HK$ per share**	**Number of options '000**
At 1 January	3.06	80,740	5.10	20,770
Granted during the year	–	–	5.50	60,000
Cancelled during the year	–	–	5.50	(60,000)
Granted during the year	–	–	2.35	60,000
Exercised during the year	2.35	(75)	4.11	(30)
At 31 December	3.06	80,665	3.06	80,740

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.2 per share.

On 14 January 2011 (the "Date of Grant"), 60,000,000 share options (the "2011 Share Options") under the Share Option Scheme were granted to certain directors of the Company and certain employees of the Group.

The fair value of the 2011 Share Options granted during the year ended 31 December 2011 was estimated as at the Date of Grant by Roma Appraisals Limited, an independent firm of professionally qualified valuers, using the Trinomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2011
Exercise price (HK$ per share)	5.50
Expected dividend yield (%)	3.68
Expected volatility (%)	36.564 to 54.978
Risk-free interest rate (%)	0.311 to 0.952
Expected life of share options (years)	1 to 3
Weighted average share price at 14 January 2011 (HK$ per share)	5.43

The expected life of the 2011 Share Options is not necessarily indicative of the exercise patterns that may occur. The expected volatility may not necessarily reflect the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

On 7 December 2011, the 2011 Share Options were being replaced with 60,000,000 share options with exercise price of HK$2.35 (the "Replacement Share Options"). Other than the decrease in exercise price, the vesting period and other terms of the 2011 Share Options and the Replacement Share Options are the same.

Details of the Replacement Share Options are as follows:

Date of grant of the Replacement Share Options	7 December 2011
Exercise price (HK$ per share)	2.35
Number of share options granted	60,000,000

The Replacement Share Options were identified, on the date they were granted, as replacement options for the 2011 Share Options. The grant of the Replacement Share Options would not have occurred without the cancellation of the 2011 Share Options and vice versa. Accordingly, the replacement is accounted for as a modification to the terms and conditions on which the 2011 Share Options were granted.

The fair values of the 2011 Share Options of the Company immediately before and after modification on 7 December 2011 were calculated using the Trinomial Option Pricing Model. The following table lists the inputs to the model used:

	The 2011 Share Options	**Replacement Share Options**
Exercise price (HK$ per share)	5.50	2.35
Expected dividend yield (%)	10.820	10.820
Expected volatility (%)	53.923	53.923
Risk-free interest rate (%)	0.778 to 0.962	0.778 to 0.962
Expected life of share options (years)	4.6 to 5.6	4.6 to 5.6
Weighted average share price at 7 December 2011 (HK$ per share)	2.31	2.31

The expected life of the share options is not necessarily indicative of the exercise patterns that may occur. The expected volatility may not necessarily reflect the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The Company recognised a share option expense of RMB41,369,000 (2011: RMB37,608,000) during the year.

The subscription rights attaching to 75,000 (2011: 30,000) share options granted under the Share Option Scheme were exercised at the subscription price of HK$2.35 per share during the year, resulting in the issue of 75,000 shares (2011: 30,000 shares).

The exercise prices and exercise periods of the share options outstanding at 31 December 2012 and 2011 were as follows:

2012

Number of options	Exercise price per share	Exercise period
2,640,000	HK$4.11	29 July 2010 to 28 July 2019
3,000,000	HK$4.11	29 July 2011 to 28 July 2019
4,000,000	HK$4.11	29 July 2012 to 28 July 2019
150,000	HK$5.01	28 January 2011 to 27 January 2020
150,000	HK$5.01	28 January 2012 to 27 January 2020
200,000	HK$5.01	28 January 2013 to 27 January 2020
180,000	HK$6.13	30 March 2011 to 29 March 2020
180,000	HK$6.13	30 March 2012 to 29 March 2020
240,000	HK$6.13	30 March 2013 to 29 March 2020
3,000,000	HK$6.00	28 May 2012 to 27 May 2020
7,000,000	HK$6.00	28 May 2013 to 27 May 2020
23,925,000	HK$2.35	14 January 2012 to 13 January 2021
18,000,000	HK$2.35	14 January 2013 to 13 January 2021
18,000,000	HK$2.35	14 January 2014 to 13 January 2021
80,665,000		

2011

Number of options	Exercise price per share	Exercise period
2,640,000	HK$4.11	29 July 2010 to 28 July 2019
3,000,000	HK$4.11	29 July 2011 to 28 July 2019
4,000,000	HK$4.11	29 July 2012 to 28 July 2019
150,000	HK$5.01	28 January 2011 to 27 January 2020
150,000	HK$5.01	28 January 2012 to 27 January 2020
200,000	HK$5.01	28 January 2013 to 27 January 2020
180,000	HK$6.13	30 March 2011 to 29 March 2020
180,000	HK$6.13	30 March 2012 to 29 March 2020
240,000	HK$6.13	30 March 2013 to 29 March 2020
3,000,000	HK$6.00	28 May 2012 to 27 May 2020
7,000,000	HK$6.00	28 May 2013 to 27 May 2020
24,000,000	HK$2.35	14 January 2012 to 13 January 2021
18,000,000	HK$2.35	14 January 2013 to 13 January 2021
18,000,000	HK$2.35	14 January 2014 to 13 January 2021
80,740,000		

At the end of the reporting period, the Company had total outstanding share options for the subscription of 80,665,000 shares under the Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 80,665,000 additional ordinary shares of the Company and additional share capital of approximately HK$807,000 (equivalent to approximately RMB656,000) and share premium account of approximately HK$245,821,000 (equivalent to approximately RMB200,000,000), before related issuance expenses.

At the date of approval of these financial statements, the Company had outstanding share options for the subscription of 80,665,000 shares under the Share Option Scheme, which represented approximately 3.7% of the issued share capital of the Company as at that date.

31. Note to the Consolidated Statement of Cash Flows

The deposits paid for acquisition of land use rights of RMB88,699,000 as at 31 December 2010 was transferred to prepaid land lease payments upon obtaining the respective land use right certificates in the year ended 31 December 2011.

32. Contingent Liabilities

At the end of the reporting period, the Group had no significant contingent liabilities (2011: Nil).

At 31 December 2012, the banking facilities of RMB4,058,000 (2011: RMB4,102,000) granted to a subsidiary subject to corporate guarantee given to a bank by the Company were not utilised (2011: Nil).

33. Operating Lease Arrangements

The Group and the Company leases certain of its production facilities and office premises under operating lease arrangements. Leases for these properties are negotiated for terms ranging from two to ten years (2011: two to ten years).

At the end of the reporting period, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2012 RMB'000	**2011 RMB'000**	**2012 RMB'000**	**2011 RMB'000**
Within one year	10,330	9,564	1,165	1,178
In the second to fifth years, inclusive	10,065	16,081	1,218	2,409
After five years	4,590	5,178	–	–
	24,985	30,823	2,383	3,587

34. Commitments

(a) In addition to the operating lease commitments detailed in note 33 above, the Group had the following commitments at the end of the reporting period:

	2012 RMB'000	**2011 RMB'000**
Contracted for commitments in respect of:		
– construction of new buildings	73,001	2,985
– construction of new manufacturing facilities	14,403	–
– advertising and promotional expenses	249,475	300,268
– software	–	500
	336,879	303,753
Authorised, but not contracted for		
– construction of new buildings	8,539	85,754
– construction of new manufacturing facilities	376,349	450,000
	384,888	535,754
	721,767	839,507

(b) For the period from 1 January 2010 to 31 December 2012, the Group is obliged to pay a minimum guaranteed royalty to a licensor, however, such amount will be adjusted based on the actual sales amount of the relevant product for these years.

At 31 December 2012, the Company did not have any significant commitment (2011: Nil).

35. Related Party Transactions

The Group had the following material transactions with related parties:

Compensation of key management personnel of the Group, including directors' remuneration as detailed in note 8 to the financial statements:

	2012 RMB'000	**2011 RMB'000**
Short term employee benefits	5,248	5,643
Equity-settled share option expense	6,758	6,173
Post-employment benefits	178	180
Total compensation paid to key management personnel	12,184	11,996

36. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

Financial assets

	2012 RMB'000	**2011 RMB'000**
Available-for-sale investments	133,000	–
Loans and receivables		
Trade and bills receivables	1,035,877	1,205,389
Other receivables	4,116	6,827
Pledged bank deposits	557,211	521,669
Cash and cash equivalents	3,122,801	2,068,163
	4,720,005	3,802,048
Total	4,853,005	3,802,048

Financial liabilities

	2012		
	Financial liabilities at fair value through profit or loss – held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	482,517	482,517
Financial liabilities included in deposits received, other payables and accruals	11,971	116,161	128,132
Interest-bearing bank borrowings	–	1,045,480	1,045,480
	11,971	1,644,158	1,656,129

	2011		
	Financial liabilities at fair value through profit or loss – held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	498,874	498,874
Financial liabilities included in deposits received, other payables and accruals	4,528	55,130	59,658
Interest-bearing bank borrowings	–	492,027	492,027
	4,528	1,046,031	1,050,559

Company

Financial assets

Loans and receivables

	2012 RMB'000	2011 RMB'000
Due from a subsidiary	691,305	96,296
Other receivables	–	334
Cash and cash equivalents	16,677	2,967
	707,982	99,597

Financial liabilities

	2012		
	Financial liabilities at fair value through profit or loss – held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Due to subsidiaries	–	612	612
Financial liabilities included in other payables and accruals	11,971	23,726	35,697
Interest-bearing bank borrowings	–	1,045,480	1,045,480
	11,971	1,069,818	1,081,789

	2011		
	Financial liabilities at fair value through profit or loss – held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Financial liabilities included in other payables and accruals	4,528	11,997	16,525
Interest-bearing bank borrowings	–	446,277	446,277
	4,528	458,274	462,802

37. Financial Assets that are Derecognised in their Entirety

At 31 December 2012, the Group discounted certain bank and commercial bills receivables with a carrying amount in aggregate of approximately RMB839,019,000 to a bank in the PRC (the "Derecognised Bills") for cash. The Derecognised Bills have a remaining maturity from ten days to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC bank and/or the issuers of commercial bills receivables default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills equal to their carrying amounts. In the opinion of the directors, the fair value of the Group's Continuing Involvement in the Derecognised Bills is not significant.

During the year ended 31 December 2012, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the continuing involvement, both during the year or cumulatively. The discount of bills receivables has been made before the period ended 30 June 2012 and the year ended 31 December 2012 amounted to RMB755,930,000 and RMB839,019,000, respectively.

38. Fair Value and Fair Value Hierarchy

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledged bank deposits, available-for-sale investments, trade and bills receivables, trade and bills payables, financial assets included in other receivables, financial liabilities included in other payables and accruals, interest-bearing bank borrowings and balances with subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments.

Derivative financial instruments, which are interest rate swaps, are measured using valuation techniques similar to swap model, using present value calculations. The model incorporates various market observable inputs including the credit quality of counterparty, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of interest rate swaps are the same as their fair values.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2012, the financial instruments measured at fair value held by the Group comprised derivative financial instruments and were classified as Level 2.

During the year ended 31 December 2012, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

39. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise available-for-sale investments, interest-bearing bank borrowings, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as trade and bills receivables, other receivables, trade and bills payables and financial liabilities included in other payables and accruals, which arise directly from its operations. The Group also enters into interest rate swap transactions. The purpose is to manage the interest rate risk arising from the Group's operation and its sources of financing.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, interest rate risk, liquidity risk and commodity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

Foreign currency risk

The Group mainly operates in Mainland China with most of the transactions settled in RMB. Most of the Group's financial instruments such as trade and bills receivables, cash and bank balances are denominated in the same currency or a currency that is pegged to the functional currency of the operations to which transactions relate. The Group has not used any forward contract or currency borrowing to hedge its exposure as foreign currency risk is considered minimal.

Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, available-for-sale investments and other receivables, arise from default of counterparty with a maximum exposure equal to the carrying amounts of these instruments.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short term debt obligations with floating interest rates.

The Group enters into interest rate swap contracts for its floating-interest loans to reduce its exposure to interest rate fluctuation.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates excluding the effect from interest rate swaps, with all other variables held constant, of the Group's and the Company's profit before tax (through the impact on floating rate borrowings).

Group and Company

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2012		
Hong Kong dollar	100	(10,604)
Hong Kong dollar	(100)	10,604
2011		
Hong Kong dollar	100	(4,463)
Hong Kong dollar	(100)	4,463

Liquidity risk

The Group monitors its risk to a shortage of funds by considering the maturity of both its financial assets and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through use of bank borrowings and other borrowings to meet its working capital requirements.

The tables below summarise the maturity profile of the financial liabilities of the Group and the Company as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

	2012		
	On demand and within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade and bills payables	482,517	–	482,517
Financial liabilities included in deposits received, other payables and accruals	128,132	–	128,132
Interest-bearing bank borrowings	546,342	552,980	1,099,322
	1,156,991	552,980	1,709,971

	2011
	On demand and within 1 year RMB'000
Trade and bills payables	498,874
Financial liabilities included in deposits received, other payables and accruals	59,658
Interest-bearing bank borrowings	492,027
	1,050,559

Company

	2012		
	On demand and within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Due to subsidiaries	612	–	612
Financial liabilities included in other payables and accruals	35,697	–	35,697
Interest-bearing bank borrowings	546,342	552,980	1,099,322
Guarantee given to a bank in connection with a facility granted to a wholly-owned subsidiary	4,068	–	4,068
	586,719	552,980	1,139,699

	2011
	On demand and within 1 year RMB'000
Financial liabilities included in other payables and accruals	16,525
Interest-bearing bank borrowings	446,277
Guarantee given to a bank in connection with a facility granted to a wholly-owned subsidiary	4,102
	466,904

Commodity price risk

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

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratio in order to support its business and maximise shareholders' value. The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 31 December 2011.

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

Group

	2012 RMB'000	**2011 RMB'000**
Cash and cash equivalents	3,122,801	2,068,163
Less: Interest-bearing bank borrowings	1,045,480	492,027
Net cash	2,077,321	1,576,136
Total capital	4,279,781	3,911,380
Net cash-to-capital ratio	0.485	0.403

40. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 15 March 2013.

Glossary

In this annual report, unless the context otherwise requires, the following terms shall have the following meanings:

"ASP"	Average Selling Price
"Board"	The Board of Directors of the Company
"Business Day"	Any day on which the Hong Kong Stock Exchange is open for the business of dealing in securities
"Company"	Xtep International Holdings Limited
"Director(s)"	The director(s) of the Company
"DRP System"	Distribution Resource Planning System
"GDP"	Gross domestic product
"Group"	The Company and its subsidiaries
"Group Success"	Group Success Investments Limited, a company incorporated in the British Virgin Islands with limited liability on 23 February 2007, the entire issued share capital of which is directly owned as to 63.2% by Mr. Ding Shui Po and 36.8% by Ms. Ding Mei Qing
"HK$" and "HK cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"IAAF Shanghai Diamond League"	International Association of Athletics Federations Diamond League Shanghai
"Listing Date"	3 June 2008, on which dealing in the Shares first commence on the Hong Kong Stock Exchange
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"Model Code"	Model code for securities transactions by directors of listed issuers
"Other brands"	Brands other than Xtep brand
"PRC"	The People's Republic of China excluding, for the purpose of this annual report, Hong Kong, Macau and Taiwan

"Pre-IPO Share Option Scheme"	The share option scheme for employees of the Group approved and adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed "Pre-IPO Share Option Scheme" in Appendix VI to the prospectus of the Company dated 21 May 2008
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	Ordinary share(s) of HK$0.01 each in the share capital of the Company
"Share Option Scheme"	The share option scheme adopted by the Company on 7 May 2008, the principal terms of which are summarized under the paragraph headed "Share Option Scheme" in Appendix VI to the prospectus of the Company dated 21 May 2008
"Shareholder(s)"	Shareholder(s) of the Company
"U.S."	United States of America
"Xtep (China)"	Xtep (China) Co., Ltd., an indirect wholly-owned subsidiary of the Group

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