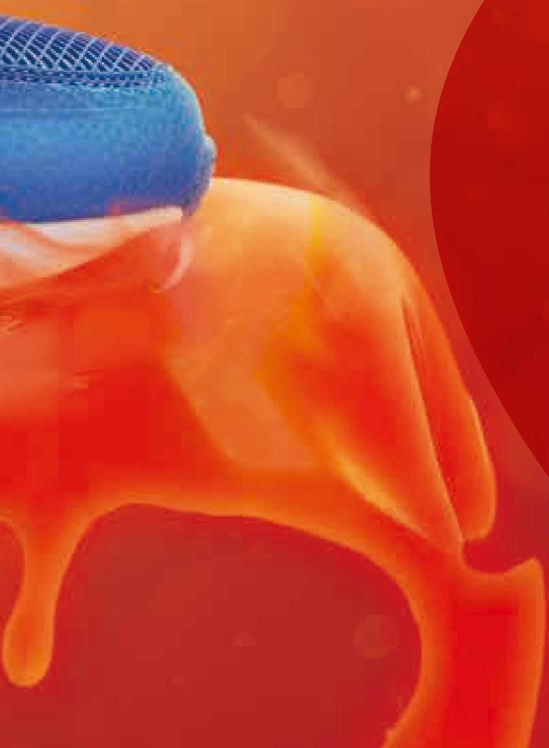
Xtep International Holdings Limited
特步國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1368)

2013 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the "**Board**") of Xtep International Holdings Limited (the "**Company**") is pleased to announce the audited results of the Company and its subsidiaries (together referred to as the "**Group**") for the year ended 31 December 2013. This announcement, containing the full text of the 2013 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of annual results. The printed version of the Company's 2013 Annual Report will be delivered to the shareholders of the Company and will be available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and of the Company at www.xtep.com.hk.



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ABOUT THE GROUP

The Group developed its owned sportswear brand Xtep in 2002 and it is now a leading PRC fashion sportswear brand. The Group managed an extensive distribution network under the exclusive distributors which include over 7,000 stores nationwide covering 31 provinces, autonomous regions and municipalities across the PRC. Over the years, the Group has been engaging in the design, development, manufacturing, sales and marketing and brand management of sports footwear, apparel and accessories. The Group's shares commenced trading on the Main Board of Hong Kong Stock Exchange on 3 June 2008.

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

Authorized 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

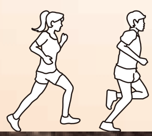
Bank of East Asia
China Construction Bank
China Merchants Bank
China Minsheng Bank
Hang Seng Bank
Industrial Bank
Taipei Fubon Bank

Investor Relations Consultants

Porda Havas International Finance Communications Group
Aries Consulting Limited

Company Website

www.xtep.com.hk



MAJOR SPONSORSHIPS IN 2013

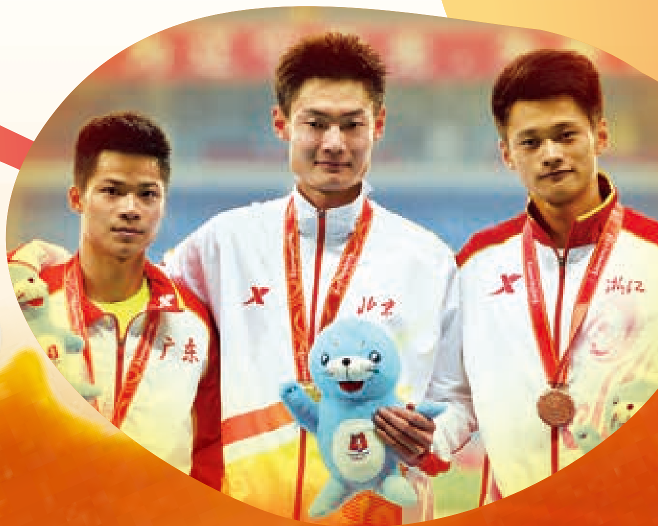
THE 12th NATIONAL GAMES OF THE PRC

CHINA SPORTS FOR ALL
LOVE SPORTS, EVERYONE IS X-MAN

Liaoning2013
中国 辽宁

特步

Sole Official Sportswear Partner of The 12th National Games of the PRC
中華人民共和國第十二屆運動會體育用品行業唯一官方合作夥伴




第十二屆全國運動會
香港特別行政區代表團授旗儀式
Flag Presentation Ceremony of the HKSAR Delegation to the 12th National Games

MAJOR SPONSORSHIPS IN 2013

MARATHON

JAN 2013
XIAMEN

FEB 2013
HONG KONG

MAR 2013
ZHENG-KAI

APR 2013
YANGZHOU

MAY 2013
YINGKOU

MAY 2013
TIANJIN

SEP 2013
TAIYUAN

NOV 2013
HANGZHOU

NOV 2013
CHANGSHU

NOV 2013
GUANGZHOU

MAJOR SPONSORSHIPS IN 2013

FOOTBALL

特步 CCFL
中国大学生5人制足球联赛
CHINA COLLEGE FUTSAL LEAGUE

特步 CUFL
特步中国大学生足球联赛
XTEP CHINA UNIVERSITY FOOTBALL LEAGUE

FINANCIAL HIGHLIGHTS FOR 2013

Total Revenue

RMB4,343.1 million

Gross Profit Margin

40.2%

Profit attributable to Equity Shareholders

RMB606.0 million

Total Payout Ratio

51.3%

2013 Net Cash Flow from Operating Activities

RMB657.7 million

Interim dividend per Share	HK10.0 cents
Proposed final dividend per Share	HK8.0 cents
Total dividend per Share	HK18.0 cents

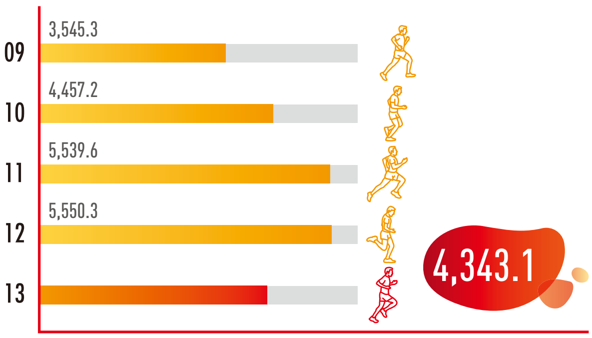
Cautionary Statement Regarding Forward-looking Statements

This annual report contains certain forward-looking statements with respect to the financial condition, results of operations and business of 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, that 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 "Chairman's Statement", and "Management Discussion and Analysis".

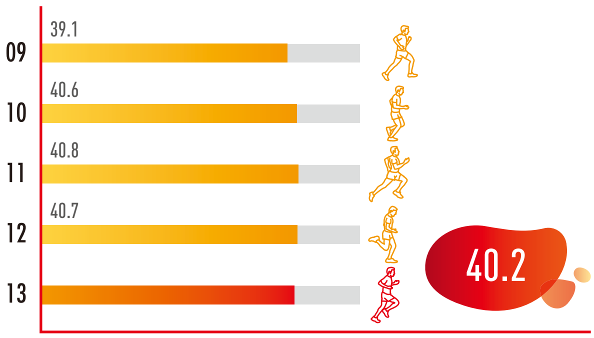
FIVE-YEAR FINANCIAL SUMMARY

	2013	2012	2011	2010	2009
For the year ended 31 December					
Profitability data (RMB million)					
Revenue	**4,343.1**	5,550.3	5,539.6	4,457.2	3,545.3
Gross profit	**1,747.6**	2,257.7	2,257.6	1,811.7	1,387.8
Operating profit	**895.4**	1,131.3	1,219.3	978.0	701.4
Profit attributable to equity shareholders	**606.0**	810.0	966.4	813.7	647.5
Basic earnings per Share (RMB cents) (Note 1)	**27.84**	37.22	44.41	37.42	29.79
Profitability ratios (%)					
Gross profit margin	**40.2**	40.7	40.8	40.6	39.1
Operating profit margin	**20.6**	20.4	22.0	21.9	19.8
Net profit margin	**14.0**	14.6	17.4	18.3	18.3
Effective tax rate	**30.1**	27.0	20.3	16.8	7.8
Return on average total equity holders' equity (Note 2)	**13.8**	19.8	26.6	25.7	23.0
Operating ratios (as a percentage of revenue) (%)					
Advertising and promotional costs	**11.2**	11.4	11.3	11.7	11.8
Staff costs	**9.3**	7.1	4.8	4.7	5.3
Research and development costs	**2.6**	1.7	1.8	1.8	1.6
As of 31 December					
Assets and liabilities data (RMB million)					
Non-current assets	**954.6**	663.3	495.0	307.6	275.0
Current assets	**6,352.2**	5,836.2	5,000.1	3,976.6	3,365.6
Current liabilities	**2,356.0**	1,436.8	1,400.2	892.0	629.3
Non-current liabilities	**443.2**	782.9	183.6	39.9	27.3
Non-controlling interest	**1.9**	5.4	3.9	–	–
Shareholders' equity	**4,505.7**	4,274.4	3,907.4	3,352.3	2,984.1
Asset and Working Capital data					
Current asset ratios	**2.7**	4.1	3.6	4.5	5.3
Gearing ratios (%) (Note 3)	**20.9**	16.1	9.0	0.0	0.0
Net asset value per Share (RMB) (Note 4)	**2.07**	1.97	1.80	1.54	1.37
Average inventory turnover days (days) (Note 5)	**79**	70	63	50	47
Average trade and bills receivables turnover days (days) (Note 6)	**92**	74	64	51	54
Average trade and bills payables turnover days (days) (Note 7)	**76**	54	63	74	69

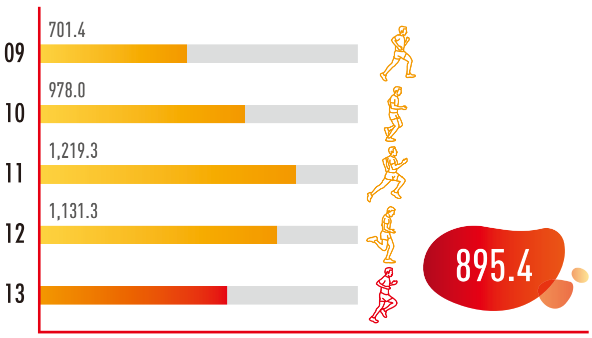
REVENUE (RMB MILLION)



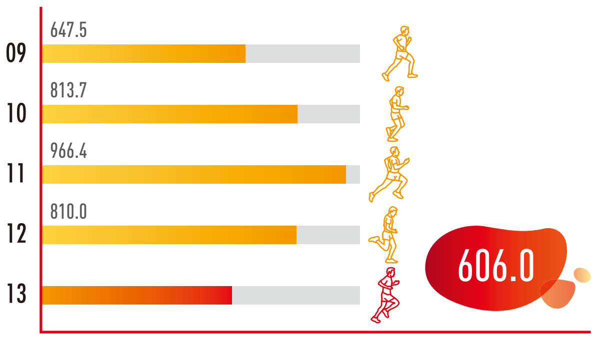
GROSS PROFIT MARGIN (%)



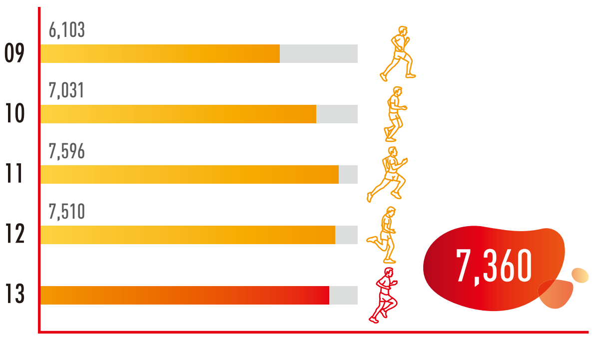
OPERATING PROFIT (RMB MILLION)



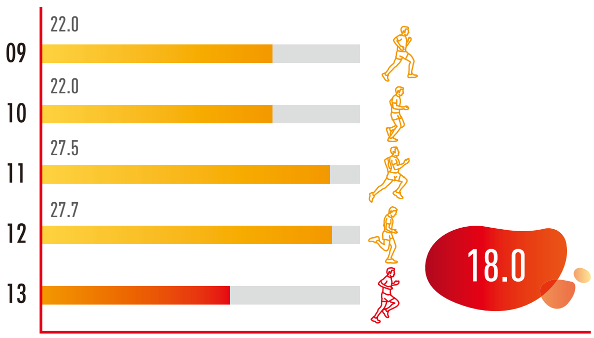
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS (RMB MILLION)



NUMBER OF XTEP OUTLETS



TOTAL DIVIDEND PER SHARE (HK cents)



Notes:

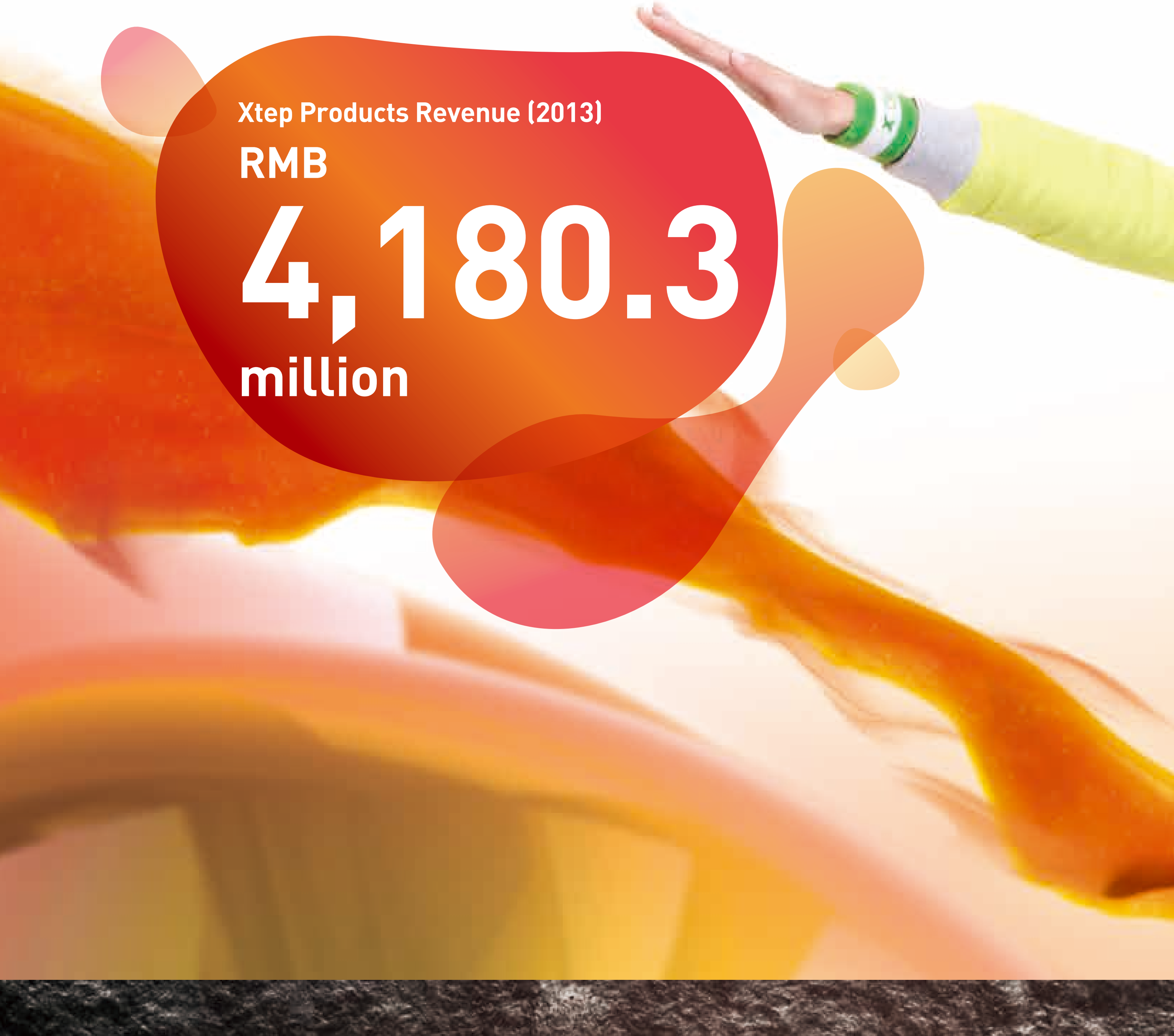
1) The calculation of basic earnings per Share is based on the profit attributable to ordinary equity holders of the Company divided by the weighted average number of ordinary shares in issue during the relevant year.
2) Return on average total equity holders' equity is equal to the profit for the year 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 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 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 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 2012).

FINANCIAL REVIEW OF XTEP PRODUCTS

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

For the year ended 31 December

	Revenue (RMB' Million)			As a percentage of revenue (%)		Gross profit margin (%)	
	2013	2012	**Change (%)**	**2013**	2012	**2013**	2012
Footwear	**2,166.5**	2,671.2	-18.9	**51.8**	48.8	**41.5**	41.5
Apparel	**1,933.1**	2,702.1	-28.5	**46.2**	49.4	**40.2**	40.5
Accessories	**80.7**	101.2	-20.3	**2.0**	1.8	**34.3**	33.3
Total	**4,180.3**	5,474.5	-23.6	**100.0**	100.0	**40.8**	40.9



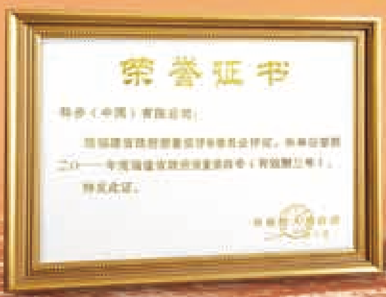

Xtep Products
Gross Profit Margin (2013)
40.8%

FOUR SEASONAL COLLECTION


AUTUMN
WINTER

2013 AWARDS AND ACCREDITATIONS

Fujian Provincial Government Quality Award



2013 China Innovative E-commerce Business Model Award

Tencent QQ Wanggou – Top 10 Sales Breakthrough Online Stores

Tencent ECC – First Runner-up in Sales of Sports & Outdoors Category

2013 27th International ARC Awards Overall Annual Report: Sports Equipment Goods

CORPORATE AWARDS

TOP 50 CHINESE FAMILY-OWNED ENTERPRISES
Forbes Asia

TOP 100 HONG KONG LISTED COMPANIES SELECTION 2013 – TOP 10 COMPREHENSIVE STRENGTH
Tencent and Finet Group

THE BEST CHINA BRANDS 2013 - TOP 50 BEST CHINA BRANDS
Interbrand

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

FIRST RUNNER-UP IN SALES OF SPORTS & OUTDOORS CATEGORY 2013
Tencent ECC

TOP 10 SALES BREAKTHROUGH ONLINE STORES
Tencent QQ Wanggou

TOP 10 MOST COMPETITIVE CHINA CORPORATE CULTURE ENTERPRISE
China Culture Administration Society

ANNUAL REPORT AWARDS

GOLD AWARD
2013 27th International ARC Awards
Overall Annual Report: Sports Equipment Goods

GOLD AWARD
2013 LACP Vision Awards
Overall Report

SILVER WINNER
2013 27th International ARC Awards
Cover Photo/Design: Retail-Fashion

TOP 50 CHINESE
2013 LACP Vision Awards
Annual Report of 2012

HONORS
2013 27th International ARC Awards
Traditional Annual Report: Sports Equipment and Goods

SPORTS LIKE NO OTHERS


特跑族

CHAIRMAN'S STATEMENT

WE AIM TO BECOME A WORLD CLASS LEADING FASHION SPORTSWEAR BRAND

DING SHUI PO
Chairman

Dear Shareholders,

The year 2013 was a challenging one for the Group given the ongoing industry consolidation. On behalf of the Board, I hereby announce the audited annual results of the Group for the year ended 31 December 2013.

In 2013, the PRC sportswear market competition remained intense and the wave of store closures, sales order reductions and aggravated aging inventory clearances within retail channels continued. While some smaller market players were forced to be phased out of the market, players with core brand value and the ability to respond quickly to market changes survived and were expected to benefit from this round of consolidation. Amidst such a challenging market landscape, the Group implemented effective measures and branding strategies to overcome such a challenging period.

Results Overview

During the year, in the face of industry issues such as excessive retail inventory and market over-expansion, the Group proactively controlled sales orders and recorded a decrease in the Group's total revenue for the year ended 31 December 2013 which amounted to RMB4,343.1 million and represented a decrease of 21.7% over the previous year (2012: RMB5,550.3 million). The Group viewed the self-initiated order reductions during the year as necessary, despite the short term pain, with the aim of mitigating inventory risks, accelerating operational efficiency and enhancing profitability of the Group's retail channels.

Despite the overall revenue decline, the Group posted sustainable margins and continued to generate positive cash flow from operations. During the year, as a direct support to its distributors and retailers, the Group adjusted the wholesale discount rate from 60% in 2012 to 62% in 2013. The Group recorded slight decline in gross profit margin which stood at 40.2% (2012: 40.7%) and increased the operating profit margin to 20.6% (2012: 20.4%) by deploying effective cost controls and sound financial management. Profit attributable to ordinary equity shareholders was approximately RMB606.0 million, representing a decrease of 25.2% over the previous year (2012: RMB810.0 million). Basic earnings per Share was RMB27.84 cents (2012: RMB37.22 cents).

In view of the Group's healthy positive operating cash flow backed by effective working capital management, the Board recommended a final dividend of HK8.0 cents (2012: basic HK10.0 cents; special HK4.5 cents) per Share. As a result, together with the interim dividend of HK10.0 cents (2012: HK13.2 cents), the total dividend for the year ended 31 December 2013 amounted to HK18.0 cents (2012: HK27.7 cents) per Share, representing a total dividend payout ratio of approximately 51.3% (2012: basic 50.8%; special 9.8%).

Strategy Review

During the year, the Group set and ensured effective completion of the following strategic initiatives:

- Sustaining Xtep's leading fashion sportswear brand position through effective branding strategies
- Offering distinctive products appealing to the mass market alongside the Group's marketing focus on popular sports
- Imposing stringent management control over the Group's retail channels through extensive DRP System monitoring and supply chain controls

CHAIRMAN'S STATEMENT

EFFECTIVE BRANDING STRATEGIES

With a mission to become the leading fashion sportswear brand, Xtep positions itself as a young and fashion-oriented sportswear brand focusing on the mass market in the PRC. Through its unique dual-marketing strategy incorporating sports and entertainment elements, Xtep stands out from other domestic sportswear brands with its distinctive brand image. It also helped earn confidence from the Central government which reappointed Xtep as the sole official sportswear partner of the National Games in 2013 for the third consecutive time. The 12th National Games was the most important sports event in China in 2013. In addition to that, Xtep was named as the sole apparel sponsor of 14 delegation teams out of 38 participating teams. With over one third of delegation teams wearing Xtep's outfits throughout the event, Xtep enjoyed significant exposure in the National Games which has successfully uplifted the brand image and awareness of Xtep to the highest level in the country.

The Group secured sponsorships of prominent domestic and overseas sporting events to enhance its brand reputation and exposure in accordance with its consumer-focused sports marketing strategy. Aligning Xtep with popular sports such as running and football, the Group sponsored ten international marathons in the PRC and Hong Kong, two title sponsorships for national campus football leagues – namely, the China University Football League (特步中國大學生足球聯賽) (the "Xtep CUFL", an 11-a-side league) and the Chinese College Futsal League (特步中國大學生五人制足球聯賽) (the "Xtep CCFL", a 5-a-side league) – and the endorsement of a number of domestic and foreign football clubs.

Apart from devotion to sports marketing, the Group also reinforced its celebrity endorsement strategy to amplify Xtep's brand image and awareness through entertainment marketing. "Xtep Stars", including Nicholas Tse (謝霆鋒), Han Geng (韓庚), Gwei Lun-mei (桂綸鎂) and Justin Gatlin, have achieved enormous

success in their respective endeavors. The outstanding performance and public acclaim of "Xtep Stars" in sports and entertainment fields successfully brought about the youthful and lively image of Xtep as well as the market appeal of its products. Endorsed by Nicholas Tse, the "Wind Fire Shoes" (風火鞋) have evolved to their 16th generation and have always been one of the Group's best selling footwear products. During the year, Justin Gatlin and Gwei Lun-mei continued to be our Xtep running stars, endorsing the Group's running products, while Han Geng endorsed the Group's XTOP series. The congruity between Xtep's brand image and the celebrities effectively uplifted Xtep's brand position from other domestic sportswear brand.

Following these successful brand building campaigns, Xtep was ranked among the "Top 50 Best China Brands" by Interbrand, the world's leading brand consultancy, and has been ranked no. 6 in the "Top 10 Comprehensive Strength (Mid-cap Enterprise)" among the "Top 100 Hong Kong Listed Companies", an annual contest jointly hosted by Tencent (QQ.com) and Finet Group, for the second year in a row. Meanwhile, the Group has also been named "Top 50 Chinese Family-owned Enterprises" by Forbes. These industry awards served as key indicators for the Group's strong brand value and strength.

CHAIRMAN'S STATEMENT

DISTINCTIVE PRODUCT OFFERINGS

The Group leveraged its strong brand presence to launch a broadened product portfolio by offering sports-inspired products with trendy designs, coupled with sound and solid technical sporting functionality. During the year, the Group continued its strong investments in R&D in particular in the field of its running series for exploring and developing new materials and products. The R&D costs increased by 16.6% to approximately RMB111.4 million (2012: RMB95.5 million) which accounted for 2.6% (2012: 1.7%) of the Group's total revenue.

Thanks to successful promotions and sports marketing campaigns on running/marathon and backed by Xtep's strong brand equity and high quality footwear product offerings at the best value-for-money, the revenue mix of Xtep footwear products increased to 51.8% (2012: 48.8%). As the Group's footwear products enjoyed higher gross profit margins, while the entry barrier in the footwear business was relative higher, the Group viewed that such increase of footwear products revenue mix has had a favorable impact to the Group's overall product portfolio in the long run. Meanwhile, to capture opportunities in various market segments stemming from increasing demand due to growing sports awareness, urbanization and brand consolidation, the Group further enriched its running, outdoor, "Xtep Kids", and "XTOP" product series.

STRINGENT RETAIL CHANNEL MANAGEMENT

During the year, the Group was committed to enforcing stringent controls over its retail channels. The Group adjusted its retail distribution network coverage by closing or relocating stores, aiming to improve the overall operational efficiency of its retail channels. As of 31 December 2013, the total number of Xtep retail outlets was 7,360 (2012: 7,510). The Group believes that such geographical footprint in the PRC is necessary in order to uphold its market presence and nationwide dominance.

In order to ensure real-time monitoring of key operating data, the Group increased investment to extend coverage of its DRP System to approximately 80% (2012: 75%), enabling the Group to consistently manage product supplies and deliveries within retail channels. The Group initiated supply reductions in 2013 in order to reduce the over-stocking issue at retail channels. As a result, the Group's retail channel inventory consecutively improved throughout the year and gradually recovered to a healthy level.

Also, taking a lean manufacturing and outsourcing approach backed by a strong in-house production capacity, the Group has further enhanced the supply chain efficiency during the year. These measures have not only improved the Group's product quality and minimized production cost, but also enable the Group to make timely responses to the fast changing market demand.

Eyeing the enormous market potential of e-commerce, the Group has further developed its online sales channels to capture sales growth through the internet and online social media platforms. Although the Group has a short history of e-commerce business, the Group won the "2013 China Innovative E-commerce Business Model Award" (2013年中國電子商務運營模式創新獎), jointly presented by the China Electronic Commerce Association and the China Social Economic Survey & Research Center, as a recognition to the Group's outstanding achievements in e-commerce.

Future Outlook

Looking ahead, the operating environment for China's sportswear industry is mixed with both challenges and opportunities. Against the backdrop of organic industry growth and opportunities driven by continuing urbanization, increasing awareness of healthy lifestyles and the rising popularity of and participation in sports, industry growth is expected to prosper in the near term. After this round of industry consolidation, overall industry operating conditions shall gradually improve.

The recent operating data of the Group including improving retail channel inventory, narrowing retail discounts, better product sell-through rates and the consecutive improvement of sales orders for first three quarters of 2014 reveals that a recovery is underway. To deliver a more sustainable performance, the Group will put in place appropriate measures and resources for effective and timely execution of the following strategic initiatives:

- To continue its effective dual-marketing strategy to stand out from market peers with a distinct, young and energetic fashion sportswear brand image
- To maintain a stringent retail channel management to ensure operational efficiency and profitability
- To uphold its dominant market presence in the PRC by retaining the current level of retail channels and closely monitoring the retail operational performance of its retail channels via the extensive DRP System coverage
- To further enhance its supply chain so as to back up the future expansion of the Group as well as the e-commerce business by offering prompt and efficient response to increasingly sophisticated consumer markets
- To further enrich the Group's product portfolio by offering distinctive products alongside popular sports categories and to expand the "Xtep Kids" series, tapping into rising opportunities arising from the recent reform of one-child policy in the PRC

Acknowledgements

I would like to take this opportunity to express my heartfelt gratitude to our Shareholders, customers, business partners and last but not least, our employees, who have always offered support to the Group. I would also like to acknowledge the guidance and support of our Board members and the Group's senior management who have made tireless contribution to the Group over the years. The Group will further devote resources to promote its core brand value and maximize value for our Shareholders.

Ding Shui Po
Chairman
Hong Kong, 12 March 2014

WE ACHIEVE THE GOAL WITH PERSEVERANCE

- DUAL SPORTS & ENTERTAINMENT MARKETING
- DISTINCTIVE PRODUCT OFFERINGS
- DISTRIBUTION CHANNEL MANAGEMENT
- EFFECTIVE SUPPLY CHAIN

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

In 2013, the global economy returned to moderate growth amid uncertainty, while China's macroeconomic environment was mixed with challenges and opportunities. According to the NBS, China's GDP growth in 2013 stood at 7.7% with total retail sales of consumer goods reaching RMB23.4 trillion, representing a growth of 13.1% year-on-year, of which, household expenditure on garments, footwear, hats and knitwear amounted to RMB1.1 trillion, representing a growth of 11.6% year-on-year, reflecting moderate growth trends.

Market consolidation during the year resulted in store closures, sales order reductions and retail inventory clearances which meant the market for domestic sportswear brands remained challenging. While certain smaller market players were forced to exit this competitive market, players with core brand value and the ability to respond quickly to market changes with effective measures survived and were expected to benefit from this round of consolidation.

As the leading fashion sportswear brand with its core brand strength and market presence in second to fourth-tier cities in the PRC, Xtep continued to offer high quality products at the best value-for-money and implement stringent retail channel controls. Along with its effective branding strategies and competitive advantages of its solid in-house production capacity – with lean and efficient supply chain – the Group is poised for long-term sustainability despite industry turbulence.

Effective Branding Strategies

The Group believes that greater brand awareness, both at a local and global level, will ultimately increase its long term value. In an attempt to boost its brand recognition and sustain its leading fashion sportswear brand position in the PRC, the Group continued its pragmatic investment policy with its unique dual-marketing strategy incorporating sports and entertainment elements.

STRATEGIC SPORTS MARKETING – FOCUSING ON POPULAR SPORTS

In light of increasing awareness in maintaining a healthy lifestyle and the rising popularity of sports in the PRC, the Group aligned itself with popular sports such as marathon/running events and football, thus effectively strengthening brand value and attracting the attention of a broader range of customers from the mass market.

Sports for All – 12th National Games

For the third consecutive time, Xtep was named the sole official sportswear partner of the National Games which is held every four years. The 12th National Games was the most spectacular sports event in China in 2013. Upholding the slogan of "Fitness for All to Enjoy", the National Games spaned 13 days and was held in Shenyang, Liaoning Province, attracting 38 delegation teams with about 9,000 athletes participating in over 30 sporting events. In addition to sponsoring the National Games Organizing Committee and providing custom-designed outfits for the National Games' officials, torch relay members, escort runners, judges and volunteers etc., Xtep also tailor-made outfits for 14 delegation teams, which accounted for over one third of all delegation teams including the team from Liaoning (the host city of 2013), Tianjin (upcoming 13th National Games host city), Beijing, Fujian, Guangdong, Guizhou, Hebei, Henan, Hubei, Hunan, Jiangsu, Zhejiang, Hong Kong, and the China's military delegation team.

At the National Games' badminton and track and field events which were title-sponsored by Xtep, billboards displaying the Xtep name and "X" logo were erected at prominent positions in the event venue. With a full scale multimedia coverage of the premier sporting event, the Group was successfully elevated its brand exposure allowing the public to associate Xtep with participatory sports.

MANAGEMENT DISCUSSION AND ANALYSIS

SPORTS MARKETING

Running

Running has always been Xtep's core sports category over the years. Backed by the slogan "Love Running, Love Xtep", the Group gained overwhelming brand exposure by sponsoring prominent running events as well as international marathons that took place across Greater China. Xtep is poised to be the most preferred "Runner's Choice".

In 2013, the Group sponsored the 2013 IAAF Shanghai Diamond League, one of the world's most prestigious track and field competitions, and ten major international marathons in the PRC and Hong Kong. The Group was the sole apparel sponsor of the IAAF Shanghai Diamond League for the fourth year in a row (2010–2013). The Group was also the sole official sponsor for the Xiamen International Marathon (Gold Label Road Race recognized by IAAF) for the fifth year (2009–2013) and for the Standard Chartered Hong Kong Marathon (Silver Label Road Race recognized by IAAF) for the third year (2011–2013).

The above examples not only reflect Xtep's leading market position in the running sector but also acknowledges the superior quality and exceptional performance of Xtep's running products. These ongoing sponsorships have greatly enhanced the Group's brand exposure and credibility which in turn enabled the Group to promote its running products and increase sales through timely marketing promotions and campaigns.

MANAGEMENT DISCUSSION AND ANALYSIS

Major running events sponsorships in 2013

Marathons

- Xiamen International Marathon
- Standard Chartered Hong Kong Marathon
- China Zheng-kai International Marathon
- Yangzhou International Half Marathon
- Yingkou Bayuquan Marathon (also served as the 12th National Games marathon final)
- Tianjin International Marathon
- Taiyuan International Marathon
- Hangzhou International Marathon
- Changshu Shang Lake Half Marathon
- Guangzhou Marathon

Other running events

- IAAF Shanghai Diamond League (Shanghai)
- Olympic Day Run 2013 (Hong Kong)
- Emperor Charity Night Run (Hong Kong)
- "Fun Route" Xtep Run (Chongqing, Shanghai; Changsha, Hunan Province; Jinan, Shandong Province; Lanzhou, Gansu Province; Nanjing, Jiangsu Province; Shenyang, Liaoning Province)

Xtep Runners Club

To further enhance the brand association of Xtep with running, the Group formed the Xtep Runners Club in June 2012. The Xtep Runners Club has doubled in size with over 8,000 registered members nationwide as of today. Members receive regular updates regarding training and equipment tips, as well as the latest information about marathons/running events taking place in Greater China. Xtep Runners Club serves not only as an information hub for running lovers, but also as a social platform for the Group to maximize its marketing efficiency, elevate customer experience and boost brand loyalty.

MANAGEMENT DISCUSSION AND ANALYSIS

Football

Being the most watched sport in China, football is another key sports category of Xtep's sports marketing focus. The Group continued its commitment to the development of Chinese youth football through sponsorships of national campus football leagues in the PRC and endorsement of a number of domestic and foreign football clubs during the year.

In 2013, the Group continued to be the title sponsor of the only two official, most anticipated campus leagues in China, namely, the Xtep CUFL (特步中國大學生足球聯賽), an 11-a-side league, and the Xtep CCFL (特步中國大學生五人制足球聯賽), a 5-a-side league. The two leagues spanned three seasons and attracted over 13,000 university and college players from some 630 football teams nationwide, to be geared with outfits and football boots sponsored by Xtep, while competing for championships. To make the best of such publicity, the Group introduced a cheerleading competition for the leagues, successfully attracting public attention and significant multimedia exposure.

To reach out to targeted customers locally and overseas, the Group continued endorsing football clubs like the Spanish La Liga's, Villarreal C.F. and China League One's, Shijiazhuang Yongchang Junhao FC. These ongoing sponsorships and endorsements served as effective marketing tools to raise and strengthen the Group's brand awareness, and ultimately, to increase Xtep's product sales in domestic and international markets.

Meanwhile, riding on the endorsement of Villarreal C.F. and market presence in Elche, Spain, the Group was one of the sponsors of the *2013 Fair Play Cup* which took placed in December 2013. Fair Play Cup is an European junior league designed for children between the ages of 9–13 from Spain, Italy and Portugal. In 2013, the game has attracted 32 youth football teams including renowned clubs such as Real Madrid C. F. and FC Barcelona. These sponsorships have largely increased the brand exposure and creditability of Xtep in Spain, paving the way for the Group's future business growth.

Major football leagues sponsorships in 2013

- Xtep China University Football League (PRC)
- Xtep China College Futsal League (PRC)
- ZSFL Xtep League (浙江省中小學校園足球聯賽) (PRC)

Major football clubs sponsorships in 2013

- La Liga, Villarreal C.F. (西甲維拉利爾足球俱樂部) (Spain)
- China League One, Shijiazhuang Yongchang Junhao FC (中甲石家莊永昌駿豪足球俱樂部) (PRC)
- China All Star Football Team (中國明星足球隊) (PRC)
- Chinese Football Reporter United (中國足球記者聯隊) (PRC)
- Beijing Institute of Technology FC (北京理工大學足球俱樂部) (PRC)
- Changchun Yatai FC (長春亞泰足球俱樂部) (PRC)
- Hong Kong First Division League, Hong Kong Rangers FC (港甲標準流浪足球會) (Hong Kong)
- Hong Kong All Star Sports Association (香港明星足球隊) (Hong Kong)

Other Sports

In line with its sports marketing strategy, the Group also selectively sponsored and partnered with other various sporting events to increase its brand awareness and encourage sports participation.

For the third year in a row, Xtep was named the core strategic partner and the sole equipment sponsor for the *Tour of Taihu Lake International Cycling Race in 2013*. The 2013 Tour of Taihu Lake took place in November 2013 and attracted around 130 cyclists from 20 international teams. Throughout the nine-day event, Xtep provided apparel for all the athletes, organizing committee, referees, volunteers and media, promoting a healthy and green lifestyle while allowing the brand to infiltrate into the professional cycling community.

Alongside the sales network expansion plan in Spain, the Group sponsored the *2013 Mutua Madrid Open*, an international professional tennis tournament which took placed in May 2013 in Madrid, Spain. By sponsoring Xtep footwear products to the ball boys and girls, linesmen and models, the Group's brand name was further exposed to the international market by television broadcast in approximately 160 countries.

ENTERTAINMENT MARKETING

ENTERTAINMENT MARKETING

To stand out from other domestic sportswear brands with its distinct, young and energetic fashion sportswear brand image, Xtep continued to incorporate sports and entertainment elements in its unique dual-marketing strategy to generate high brand exposure.

Media Exposure

In line with its sports sponsorships throughout the year, Xtep carried out a series of advertising and promotional activities, comprehensively covering television broadcasting, print media and online social media. During the 13-day 12th National Games, the China's top sports channel CCTV-5 dedicated a dozen of tailor-made programs giving an extensive coverage of the National Games throughout the day. As the sole apparel sponsor of the National Games, Xtep's products received full exposure and greatly enhanced its brand equity.

The Group also continued its title sponsorship of the highly popular television entertainment program "Day Day Up" (「天天向上」) on Hunan Satellite TV. Hunan Satellite TV has been one of the most watched television channel in China. The sponsorship of "Day Day Up" over the years has enabled the Group to engage with its targeted young customers in China. Meanwhile, the Group continued to raise its public profile through cooperation with CCTV-5 as its official broadcast partner for football games.

Riding the wave of China's online surge, the Group also strategically partnered with pre-eminent online social media platforms such as Facebook, Sina, Sohu, Weibo, Weixin and Renren to tap into the digital generation and further promote Xtep to a broader audience. As an important branding and marketing tool, the official Weibo account of the Xtep CUFL and the Xtep CCFL has reached over 800,000 subscriptions at of the end of 2013.

Celebrity Endorsement Strategy – Xtep Stars

To further strengthen Xtep's image as a leading fashion sportswear brand and to raise brand awareness among the youth, the Group continues its celebrity endorsement strategy by having Nicholas Tse (a widely-known Hong Kong famous artist and young accomplished entrepreneur), Han Geng (a famous Chinese Mandarin-Pop singer and actor), Gwei Lun-mei (a critically acclaimed Taiwanese artiste), and Justin Gatlin (renowned US sprinter and 2012 London Olympics men's 100-meter bronze medalist) as spokespersons. These spokespersons have achieved enormous success in their respective endeavors and their outstanding performance and public acclaim in sports and entertainment successfully engendered the youthful and lively image of Xtep as well as the market appeal of its products endorsed to a wide spectrum of consumers.

INNOVATIVE PRODUCTS

Distinctive Product Offerings

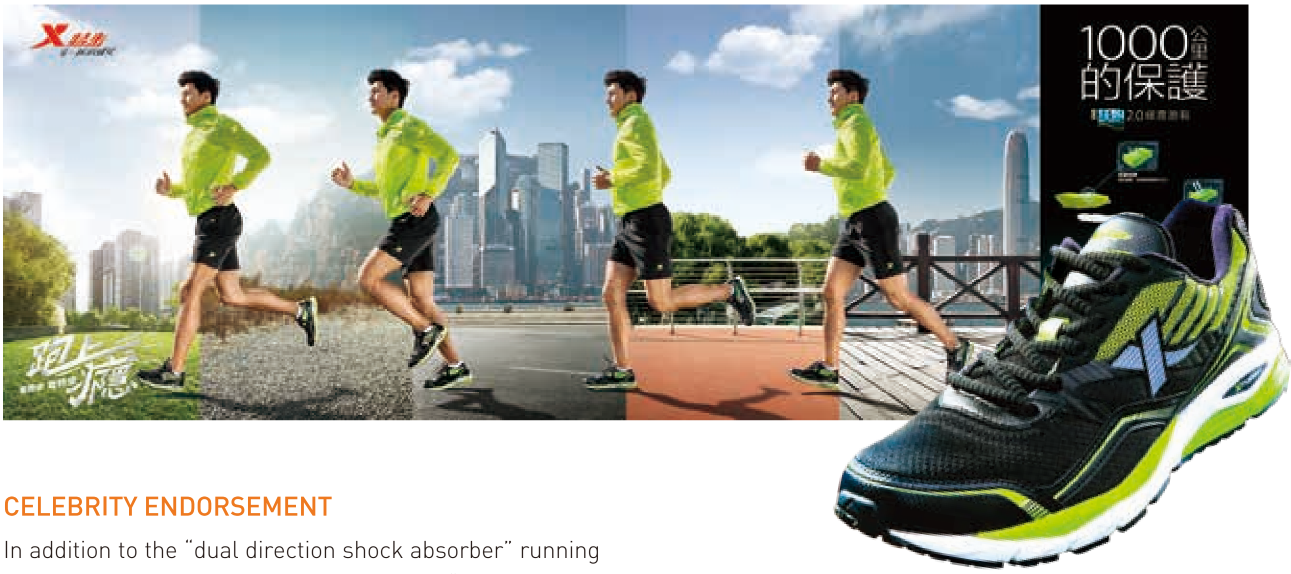
According to 2013 data from Euromonitor, sports-inspired apparel and footwear products will contribute 42% of total sportswear absolute growth globally over the next five years, reinforcing the unique branding position of Xtep as fashion sportswear to be the winner in the long run. In view of this, the Group continued its focus on combining lifestyle designs with outstanding quality during the R&D process during the year.

PRODUCT INNOVATION

Innovation capability is the key to the Group's success in the sportswear market. During the year, the Group increased its R&D expense with a special focus on its running series for exploring and developing new materials and products. Meanwhile, the Group continuously invested in its in-house research and design team, which helped ensure the Group's high quality products at best value-for-money. As of 31 December 2013, the research and design team of the Group consisted of 680 people and created about 3,000 types of newly designed apparel and footwear products. For the year under review, the R&D expense increased by 16.6% to approximately RMB111.4 million (2012: RMB95.5 million) and accounted for 2.6% (2012: 1.7%) of the total revenue of the Group.

The Group launched its "dual direction shock absorber" running shoes series in the year. This series of running shoes received wide recognition and appreciation among runners. The "dual direction shock absorber" running shoes utilizes advanced shock absorbent PU materials (PU覆膜緩震材料), which significantly reduces stress on the feet during running and provides maximum protection to the body. Such PU material also featured energy saving attributes, high material flexibility, heel protection with cushioning, as well as slip and abrasion resistance, offering maximum comfort with exceptional performance to customers.

MANAGEMENT DISCUSSION AND ANALYSIS



CELEBRITY ENDORSEMENT

In addition to the "dual direction shock absorber" running shoes series, the Group also launched the "light running" series with Gwei Lun-mei (桂綸鎂) as the product spokesperson. This product series successfully stood out from the market with its fresh color selection and ultra-light, breathable sports fabric, weighing a mere 150 grams. On the other hand, the "Wind Fire Shoes" (風火鞋) which was endorsed by Nicholas Tse have evolved to their 16th generation and have always been one of the Group's best selling footwear products. While Justin Gatlin endorsing Xtep running performance products, and Han Geng endorsed the Group's XTOP series. As a result of successful promotion, the Group increased its sales mix of Xtep footwear products to 51.8% (2012: 48.8%). The Group believes such increase in footwear products sales mix has made a positive impact to the Group's overall product portfolio and business sustainability in the long run.

PRODUCT PORTFOLIO DIVERSIFICATION

In order to seize opportunities in various market segments stemming from the continuing economic development, rising disposable income levels and greater awareness of healthy lifestyles amongst consumers in the PRC, the Group is committed to delicately managing a diversified product portfolio by dividing its product lines into two big categories: *Sports Performance Collection* and *Sports Lifestyle Collection*.

SPORTS PERFORMANCE COLLECTION

For the year under review, the *Sports Performance Collection* included running, football, cross-training and outdoor series which all together accounted for about 45% of the Group's total product portfolio. The market launch of these series was seasonal and in line with the Group's sports marketing campaign. The Group introduced its running and cross-training series alongside with the Group's sponsored marathon events, stressing on its high quality and adaptability to varies sports activities due to exceptional comfortability.

SPORTS LIFESTYLE COLLECTION

In the face of a more sophisticated market segmentation of the domestic sportswear industry, the Group launched its fashion-oriented sportswear series under *Sports Lifestyle Collection* into four main series, namely, Campus, Classic, Denim and Urban XTOP series, extensively cater to the demand for casual and comfortable sportswear influenced by the growing affluence in the PRC. Riding on its successful celebrity endorsement, coupled with the title-sponsorship of campus football leagues, Xtep has been one of the most appealing brands among the PRC youth. For the year, the *Sports Lifestyle Collection* accounted for about 55% of the Group's total product portfolio.

MANAGEMENT DISCUSSION AND ANALYSIS

XTEP KIDS

According to The World Bank, the population between the ages of 0-14 in the PRC accounted for about 18% of the total population in 2012, translating into an enormous market potential. Also, in light of growing opportunities arising from the recent one-child policy reform in the PRC, the Group further strengthened its "Xtep Kids" series in terms of market presence and product offerings. During the year, the Group entered into a strategic partnership with CCTV Kids channel, the most influential children's television channel in the PRC, in order to boost brand awareness and exposure of "Xtep Kids". As of 31 December 2013, the Group had around 300 retail POS selling "Xtep Kids" products, either in existing Xtep stores or standalone stores that are normally located in tier 2-tier 4 cities. With the aim of tapping into the kidswear market, the Group continued its collaboration with Disney and Marvel to introduce the "Spider-Man Crossover" series and "Avengers Crossover" series which enjoyed wide acclaim for its creative innovation.

DISTRIBUTION CHANNEL MANAGEMENT

MANAGEMENT DISCUSSION AND ANALYSIS

Aiming to improve the overall operational efficiency of its retail channels amidst competitive market, the Group has put in place the following strategic initiatives:

1. Maintaining a Lean Wholesale Model through Distribution Channel Optimization

Over the years, the Group has built a nationwide distribution network with a dominant market presence in PRC second- to fourth-tier cities through a lean wholesale model with regional exclusive distributors, who in turn directly operated the Xtep retail outlets or managed through third-party franchisees after gaining approval from the Group. As these exclusive distributors have been with the Group for over a decade, their regional retail connection and sales experience are valuable assets to the Group. As a brand management company, the Group exercises full control over store expansion and closure plans. In the face of market consolidation, the Group took cautious approach and constantly reviewed the individual operation performance of retail stores. During the year, the Group continued its channel consolidation in less efficient area and relocated stores by moving upstream to prime locations in certain cities when other market players were closing their outlets.

Eyeing ongoing urbanization and the growing number of affluent and middle class in PRC second– to fourth-tier cities, the Group has increased the presence in the Northern and North-east region. As of 31 December 2013, the total number of Xtep's retail outlets was 7,360 (2012: 7,510), representing a slight net reduction of 150 outlets. The Group viewed that such geographical footprint in the PRC is necessary in order to uphold its market presence and nationwide brand exposure.

To reinforce the competitiveness and optimize overall sales performance within retail channels, the Group continued to invest in upgrading the appearance and display of its existing retail outlets and provide product handbook to its retailers for precise guidelines and detail information on product knowledge and displays. We introduced the 6^{th} generation store with modern and trendy interior design in order to offer customers with comfortable shopping experience. Such brand building efforts are essential to ensure consistency with Xtep's young and fashionable brand image. All the location of retail stores was authorized by the Group and the retailers were required to comply with the Group's upgrade design campaign.

2. Quick Response to Market Demand

We understood the industry faced with intensified competition and over-stocking issues. The Group continued to invest in the fully computerized system allowing the Group to act and respond to the market demand and rectify possible problem promptly. The Group closely monitored the operational performance of its retail channels via its extensive DRP System coverage which has been further extended to approximately 80% (2012: 75%) during the year. Such extensive DRP System coverage enabled the Group to centralize and share timely and reliable market updates, such as product sell-through rates, latest consumption trends as well as retail inventory levels on Xtep products.

By sharing this valuable information with the distributors and franchisees, the Group equipped its retailers with up-to-date market information such as latest market trends and consumption behavior which were all essential data for the retailers to gauge the appropriate product mix between footwear and apparel and between sports performance and sports lifestyle products. The Group also shared the market data with its in-house design team to enhance the product design which fits to the customers' taste. Quick response to the market demand was made by passing through the stock-in and stock-out information to the supply chain to improve the manufacture and delivery time.

3. Comprehensive Guidance on Sales Orders and Assistance to Channel Operations

During the year under review, the Group implemented higher control on distributors and franchisees when they placed the sales orders. Prior to the quarterly sales fairs, the Group reviewed the past records of retail sales operating data with the distributors, and also reviewed the inventory level in the respective channels and discuss thoroughly the appropriate future sales order that fits well to various regional/geographical consumers behavior. Such controls over the sales ordering process will lower the risk of unmatched customers' behavior and improve the operating efficiency so as to lower the risk of excessive retail inventory. As a result of such stringent controls on sales order, it has lowered the Group's revenue for the year. However, the Group viewed this short term decline in the Group's revenue was necessary to restore the channel inventory level to a healthier level.

On the other hand, in view of assisting the distributors and franchisees in facing with the market competition, the Group increased the wholesale discount rate from 60% in 2012 to 62% in 2013. In order to protect the brand image, the retail discount rate was strictly controlled by the Group and all the retail discounts required prior approval by the Group. However, in order to allow more flexibility for the distributors to carry out the destocking in 2013, the Group has allowed the distributors to increase the retail discounts for a short period of time. Following the recent operating data showing lower retail inventory turnover period, the retail discount rate was reduced. The Group managed and reviewed carefully each distributor's creditability and review their credit limits and account receivables regularly. In order to enhance the distributors' working capital, the Group extended the account receivable days of the distributors last year. Nevertheless, the Group fully utilized the suppliers' credit limits to counterbalance the effect and the Group's overall working capital was not affected. With these effective measures offered to its distribution channels, the Group provided sufficient assistance for them to deal with the difficult and competitive industry environment in last year and help its retailers to quickly regain the operation efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Channel Diversification – E-commerce and Overseas Expansion

In order to capture the rapid growth of on-line sales market, the Group started developing the e-commerce and operated the on-line flagship store www.xtep.com.cn. During the year, the Group further solidified its online sales channels through the internet, mobile as well as online social media platforms. As an extension and diversification of the Group's distribution network, the e-commerce functioned not only as a means of offline off-seasonal product clearance but also an effective sales platform for introducing products which were specially designed for exclusive online sales according to the latest market trends and consumer preference collected from the Group's offline operating sales data.

Apart from operating its own official website www.xtep.com.cn, the Group continued its strategic cooperation with a number of leading and well-established online shopping websites such as tmall.com, taoxie.com, taobao.com, JD.com, dangdang.com and paipai.com etc., in order to cater to various online habit and consumption behavior of netizens nowadays. As of 31 December 2013, the Group had over 800 authorized dealers operating businesses in these online platforms. Despite its short history of development, the fledging e-commerce won a number of awards for its outstanding sales performance and quality sales services. During the year, the Group was ranked no. 1 in sportswear sales for the year among the "Top 10 Sales Breakthrough Online Stores" by Tencent QQ Wanggou.com. The Group was also awarded by Tencent ECC first runner-up in terms of sales contribution under "Sports & Outdoors Category" and the "2013 China Innovative E-commerce Business Model Award", jointly presented by the China Electronic Commerce Association and the China Social Economic Survey & Research Center.

Meanwhile, the Group continued to explore lucrative opportunities as well as to establish brand exposure in overseas markets. At present, the Group has about 200 POS overseas, which are mainly located in the Middle East, Central Europe and Spain. The Group's exclusive distributor in Spain opened its first flagship store in May 2013 in Elche, Spain.

5. Effective Supply Chain Management

For the year under review, the Group streamlined its supply chain and increased its in-house production facilities. The Group carried out regular quality inspection on its out-source production suppliers to ensure the production quality and the production process complied with industry and government regulations and standards. The Group reviewed production logistics in accordance with product categories and streamlined the out-source production in order to optimize the efficiency. On the other hand, the Group expanded our in-house production facilities in Anhui in the year of review. Together with the main production facilities in Quanzhou, Fujian, the total production capacity of footwear and apparel products of the Group was approximately 17.0 million pairs and 8.5 million pieces, respectively. The total sales volume of the Group of footwear and apparel was approximately 26.5 million pairs and 30.2 million pieces, respectively. Hence the percentage of in-house production of footwear and apparel were 64% (2012: 51%) and 28% (2012: 15%), respectively. Such increases in the in-house production contributed to lower the production costs and enhanced the gross profit margin.

Future Prospects

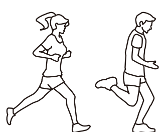
MARKET OUTLOOK

According to 2013 data from Euromonitor, sports-inspired apparel and footwear products will contribute 42% of total sportswear growth globally over the next five years, reinforcing the unique branding position of Xtep as fashion sportswear to be the winner in the long run. In addition to the organic industry growth, the industry is expected to prosper in the near term, backed by the factors such as continuing urbanization, increasing awareness of healthy lifestyles and the rising popularity of sports which will fuel the sector long-term growth. With its distinctive brand image, diversified product portfolio and effective distribution channel management, the Group is well positioned to capture market opportunities and to achieve the goal of becoming a world-class leading fashion sportswear brand and the runners' choice.

Unique Brand Marketing

With a mission to become the leading fashion sportswear brand, Xtep positions itself as a young and fashion-oriented sportswear brand focusing on the PRC mass market. Through its unique dual marketing strategy incorporating sports and entertainment elements, Xtep stands out clearly from its peers with its distinctive brand image.

The Group will continue its effective branding strategies through sponsoring prominent sporting events and endorsing celebrity spokesperson to further uplift its brand image and boost the brand desirability in target markets. In the beginning of 2014, the Group successfully renewed the five-year sponsorship (2014–2018) with the Xiamen International Marathon for the second time and entered into a three-year sponsorship agreement for the Standard Chartered Hong Kong Marathon from 2014 to 2016. Riding on its nationwide dominance and core strength in marathon/running events, the Group inked the sponsorship agreement with Chongqing Sports Bureau for Chongqing International Marathon from 2014 to 2018.



MANAGEMENT DISCUSSION AND ANALYSIS

Meanwhile, catching the wave of the FIFA World Cup 2014 in Brazil, the Group has put its marketing campaign and sports lifestyle series in place to capitalize this round of global football craze. The Group believes that the sports marketing efforts spent on the national campus football leagues in the PRC will begin to bear fruits. The Group will fully seize business opportunities arising from enhanced brand awareness and increasing popularity of sports activities.

Product Innovation and Diversification

To meet the fast changing market and more sophisticated consumer preferences, the Group will continue its strong investment in product R&D and allocate adequate resources for sourcing innovative raw materials to enhance its product portfolio in terms of performance and design outlook. Riding on the overwhelming market response of its "Dual Direction Shock Absorber" running shoes and "Light Running" series since their introduction in 2013, the Group officially launched the second generation of these two series in 2014 which received wide recognition among runners especially the marathon participants.

In addition, in view of growing opportunities arising from the recent reform of one-child policy and rising affluent group in the PRC, the Group will further strengthen its "Xtep Kids" series in terms of market presence and product offerings to grow its customer base and further expand its product portfolio.

Distribution Channel Management

Retail channel management continues to be a key focus in 2014 in order to maintain competitiveness at the phase of industry consolidation. The Group will continue to closely monitor the retail channel operations through the high DRP System coverage of its retail stores. Through the constant review of the current operating data within its retail channels, the Group viewed that there are signs of gradual improvements within its retail sales channels including narrowing retail discount rates, lower retail inventory days and steady same store sales performance. In order to further improve the retail inventory level, the Group will continue to implement prudent sales order control. The first three quarters of sales fairs held in 2014 posted a consecutive improvement with the level of decline which was comparatively less than that of 2013. The Group believed under such proactive measures, inventory in the Group's distribution channels will continue to improve and back to a healthy position. The Group expects the number of Xtep outlets shall remain at approximately 7,300-7,400 by the end of 2014. The Group will continue to expand the Xtep Kids sales network to approximately 350 POS in PRC second to fourth-tier cities by the end of 2014, to further explore and capitalize from China's kids wear market which possesses huge growth potential.

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 (%)		
	2013	2012	**Change (%)**	**2013**	2012	**2013**	2012	**Change (pts)**
Xtep products	**4,180.3**	5,474.5	-23.6	**96.3**	98.6	**40.8**	40.9	-0.1
Other products*	**162.8**	75.8	+114.9	**3.7**	1.4	**26.9**	25.5	+1.4
Total	**4,343.1**	5,550.3	–21.7	**100.0**	100.0	**40.2**	40.7	-0.5

* Other products mainly represent sales of products of Xtep Kids series, XTOP products series, sales through e-commerce and sales to overseas customers.

The Group's total revenue for the year ended 31 December 2013 amounted to approximately RMB4.34 billion (2012: RMB5.55 billion), representing a decrease of approximately 21.7% compared to last year. Xtep products remained as the Group's major revenue contributor, which accounted for approximately 96.3% of the Group's total revenue. The Xtep products' revenue amounted to approximately RMB4.18 billion (2012: RMB5.47 billion), representing a decrease of approximately 23.6% as a result of fierce competition in the sportswear industry and our self-initiated actions taken to reduce our supplies with an aim to lower excess inventory level at retail channels. On the other hand, the Group's revenue from other products increased by approximately 114.9% to approximately RMB162.8 million (2012: RMB75.8 million), which was mainly due to an increase in sales of Xtep Kids products and sales through e-commerce.

The Group's overall gross profit margin decreased slightly by 0.5 percentage point to 40.2% (2012: 40.7%). The result was mainly due to the action taken to assist the retail channel operation by increasing our wholesale discount rate on Xtep products from 60% to 62% during the year. However, the impact on gross profit margin due to an increase in wholesale discount rate was offset by a reduction of cost of sales due to increase of in-house production and cost control on production process and material costs.

GROUP REVENUE BREAKDOWN BY PRODUCT CATEGORY

For the year ended 31 December

	Revenue (RMB'million)			As a percentage of revenue (%)	
	2013	2012	**Change (%)**	**2013**	2012
Footwear	**2,246.9**	2,700.1	-16.8	**51.7**	48.6
Apparel	**2,011.9**	2,746.2	-26.7	**46.3**	49.5
Accessories	**84.3**	104.0	-18.9	**2.0**	1.9
Total	**4,343.1**	5,550.3	-21.7	**100.0**	100.0
Gross profit margin	**40.2%**	40.7%	-0.5 pt		

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's revenue in each product category was reduced due to our strategy to lower the inventory level at retail channels. However, we received positive feedback from customers through our promotions in various major running events in the PRC and the improvements on running performance products. As a result, the effect of reduction from footwear products are less than the other categories. Total revenue of the Group from footwear products decreased by 16.8% to approximately RMB2.25 billion (2012: RMB2.70 billion). Revenue from apparel products decreased by 26.7% to approximately RMB2.01 billion (2012: RMB2.75 billion), and also the revenue from accessories decreased by 18.9% to approximately RMB84.3 million (2012: RMB104.0 million).

XTEP PRODUCTS

REVENUE AND GROSS PROFIT MARGIN BREAKDOWN OF XTEP PRODUCTS BY PRODUCT CATEGORY

For the year ended 31 December

	Revenue (RMB'million)			As a percentage of revenue (%)		Gross profit margin (%)	
	2013	2012	**Change (%)**	**2013**	2012	**2013**	2012
Footwear	**2,166.5**	2,671.2	-18.9	**51.8**	48.8	**41.5**	41.5
Apparel	**1,933.1**	2,702.1	-28.5	**46.2**	49.4	**40.2**	40.5
Accessories	**80.7**	101.2	-20.3	**2.0**	1.8	**34.3**	33.3
Total	**4,180.3**	5,474.5	-23.6	**100.0**	100.0	**40.8**	40.9

For the year ended 31 December 2013, revenue from the Xtep products decreased by approximately 23.6% to RMB4.18 billion (2012: RMB5.47 billion) compared to last year.

The decrease in revenue was mainly due to fierce competition in the sportswear industry and our proactive actions taken to reduce supplies to control the inventory level at retail channels. The decrease in footwear products was less than the decrease in apparel products mainly due to the enduring success of the Group's promotion and advertising campaign among the major marathons in the PRC and successful brand building efforts through the Xtep's slogan of "Loving Running, Love Xtep".

For the year ended 31 December 2013, revenue from the Xtep footwear products decreased by approximately 18.9% to RMB2.17 billion (2012: RMB2.67 billion) compared to last year. During the year, the Group continued with its effective marketing strategy through various related promotions on running and football such as being the sole apparel sponsor for major international marathons and sponsoring high profile national campus football leagues in the PRC. Meanwhile, better design and material enhancement on running footwear products also helped build the Xtep image among runners in the PRC. The gross profit margin was steady mainly due to the effect of increase in wholesale discount rate from 60% to 62% was offset by increase of in-house production.

Due to fierce industry competition, for the year ended 31 December 2013, revenue from the Xtep apparel products decreased by approximately 28.5% to RMB1.93 billion (2012: RMB2.70 billion) compared to last year. The decrease was mainly due to lower the retail channel inventory level. The decrease in gross profit margin was mainly due to an increase in wholesale discount rate from 60% to 62% but partially offest by increase of in-house production.

Other Products

It is part of the Group's strategy to diversify products portfolio and further expanding into multi-brand portfolio. Therefore, the Group expanded into the product series of Xtep Kids, XTOP and expanded the sales channel on the e-commerce platform. For the year ended 31 December 2013, revenue from other products was approximately RMB162.8 million (2012: RMB75.8 million), representing an increase of 114.9% over last year. The gross profit margin improved to 26.9% (2012: 25.5%) due to the increase in scale of operation.

Other Income and Gains

For the year ended 31 December 2013, the total amount of other income and gains was approximately RMB158.2 million (2012: RMB67.6 million). The other income and gains of the Group mainly represented net income derived from available-for-sale financial assets was approximately RMB99.7 million (2012: RMB37.4 million), which were derived from interest income from treasury deposits products, and subsidy income from the PRC government was approximately RMB55.8 million (2012: RMB28.0 million).

Selling and Distribution Expenses

For the year ended 31 December 2013 the Group's selling and distribution expenses amounted to approximately RMB594.8 million (2012: RMB738.9 million), representing approximately 13.7% (2012: 13.3%) of the Group's total revenue. The decrease in selling and distribution expenses was mainly due to the decrease in advertising and promotional costs corresponding to the decrease in the Group's revenue, which was maintained at approximately 11.2% (2012: 11.4%) of the Group's total revenue to approximately RMB485.8 million (2012: RMB633.9 million).

General and Administrative Expenses

For the year ended 31 December 2013, the Group's general and administrative expenses amounted to approximately RMB415.6 million (2012: RMB455.1 million), which represented approximately 9.6% (2012: 8.2%) of the Group's total revenue. The decrease in general and administrative expenses was mainly due to the decrease in net provision of doubtful debt which amounted to approximately RMB51.2 million (2012: RMB77.2 million). On the other hand, it was partly offset by an increase in research and development costs of 16.6% which amounted to approximately RMB111.4 million (2012: RMB95.5 million), representing approximately 2.6% (2012: 1.7%) of the Group's total revenue. The research and development costs were mainly related to the improvement of product design and functionality as well as material enhancement.

Net Finance Cost

The total net finance cost of the Group for the year ended 31 December 2013 amounted to approximately RMB32.4 million (2012: RMB25.4 million). The increase was mainly due to the interest expenses on bank loans increased to approximately RMB34.7 million (2012: RMB21.3 million) primarily as a result of an increase in bank loans. On the other hand, the bank interest income increased to RMB46.3 million (2012: RMB39.6 million) as the bank balance increased because of effective working capital management.

Operating Profit Margin

The operating profit margin for the year ended 31 December 2013 slightly increase by 0.2% to 20.6% (2012: 20.4%). It was mainly due to cost control and effective financial management.

MANAGEMENT DISCUSSION AND ANALYSIS

Income Tax Expenses

Income tax of the Group for the year ended 31 December 2013 was approximately RMB259.7 million (2012: RMB298.7 million). It was comprised of profit tax related to the operating companies which amounted to approximately RMB234.1 million (2012: RMB234.3 million) and accounted for an effective tax rate was 27.1% (2012: 21.2%). The increase of effective tax rate of profit tax during the year was mainly due to the expiry of preferential tax exemption of the Group's certain subsidiary companies in the PRC. Also, there was an underprovision of income tax of approximately RMB5.6 million (2012: overprovision of RMB0.3 million) in prior years. On the other hand, according to the corresponding tax regulations in the PRC, the Group provided for the withholding tax of the Group amounted to approximately RMB20.0 million (2012: RMB64.7 million) and such provisions accounted as an effective tax rate of 2.3% (2012: 5.8%).

Profit Attributable to Ordinary Equity Holders and Net Profit Margin

For the year ended 31 December 2013, the profit attributable to ordinary equity holders was approximately RMB606.0 million (2012: RMB810.0 million), representing a decrease of approximately 25.2% over the year. The decrease was mainly due to a decrease in revenue and gross profit margin. The Group's net profit margin decreased slightly to 14.0% (2012: 14.6%).

Dividend

The Group has a strong net asset value and operating cash flow and therefore the Board recommended a final dividend which amounted to HK8.0 cents (2012: HK10.0 cents; special dividend HK4.5 cents) per Share. Together with an interim dividend of HK10.0 cents (2012: HK13.2 cents) per Share, the total dividend for the year ended 31 December 2013 amounted to HK18.0 cents (2012: HK27.7 cents) per Share, representing payout ratio for the year under review was approximately 51.3% (2012: basic 50.8%; special 9.8%).

Working Capital Cycle

INVENTORIES	2013 RMB'million	2012 RMB'million	Changes RMB'million
Balance at 1 January	**582.7**	671.5	
Balance at 31 December	**536.8**	582.7	-45.9
Average balance (note 1)	**559.8**	627.1	-67.3
Cost of sales for the year ended 31 December	**2,595.5**	3,292.6	
Average turnover days (note 2)	**79 days**	70 days	

As at 31 December 2013, the Group's balance of inventory was RMB536.8 million, representing a decrease of approximately RMB45.9 million as compared to last year (2012: RMB582.7 million) which was due to a reduction of product supplies and proper inventory controls. The average inventory turnover days was steady at 79 days (2012: 70 days) as compared to last year.

TRADE AND BILLS RECEIVABLES	2013 RMB'million	2012 RMB'million	Changes RMB'million
Balance at 1 January	**1,035.9**	1,205.4	
Balance at 31 December	**1,150.9**	1,035.9	+115.0
Average balance (note 1)	**1,093.4**	1,120.7	-27.3
Revenue for the year ended 31 December	**4,343.1**	5,550.3	
Average turnover days (note 2)	**92 days**	74 days	

As at 31 December 2013, the Group's balance of trade and bills receivables was RMB1,150.9 million, representing an increase of approximately RMB115.0 million as compared to last year (2012: RMB1,035.9 million). The average trade and bills receivables turnover days was 92 days (2012: 74 days). The increases in the balance of trade and bills receivables and the average trade and bills receivables turnover days were due to temporary support to assist the Group's retail channels in face of adverse industry environment. On the other hand, the Group also utilised the credit period of trade payables by its suppliers and extended the trade payables days at the same time. Hence, the net working capital days were maintained at a stable level.

TRADE AND BILLS PAYABLES	2013 RMB'million	2012 RMB'million	Changes RMB'million
Balance at 1 January	**482.5**	498.9	
Balance at 31 December	**601.0**	482.5	+118.5
Average balance (note 1)	**541.8**	490.7	+51.1
Cost of sales for the year ended 31 December	**2,595.5**	3,292.6	
Average turnover days (note 2)	**76 days**	54 days	

As at 31 December 2013, the Group's balance of trade and bills payables was RMB601.0 million, representing an increase of approximately RMB118.5 million as compared to last year (2012: RMB482.5 million). The average trade payables turnover days was 76 days (2012: 54 days). As mentioned above, such increase was due to the Group having utilised the credit period of suppliers and extended the payment days in order to support long account receivables terms.

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 or revenue and multiplied by 365 days (366 days in 2012).

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Capital Resources

IMPROVEMENTS ON NET ASSETS

As at 31 December 2013, the total assets of the Group amounted to RMB7,306.8 million (2012: RMB6,499.5 million), represented by non-current assets of RMB954.6 million (2012: RMB663.3 million) and current assets of RMB6,352.2 million (2012: RMB5,836.2 million). The total liabilities of the Group amounted to RMB2,799.2 million (2012: RMB2,219.7 million), represented by non-current liabilities of RMB443.2 million (2012: RMB782.9 million) and the current liabilities of RMB2,356.0 million (2012: RMB1,436.8 million). The total non-controlling interests of the Group amounted to RMB1.9 million (2012: RMB5.4 million). Hence, the total net assets of the Group amounted to RMB4,507.6 million (2012: RMB4,279.8 million), representing an increase of 5.3%. Net assets per Share as at 31 December 2013 were approximately RMB2.07 (2012: RMB1.97), representing an increase of 5.3%.

As at 31 December 2013, the Group's non-current assets were approximately RMB954.6 million (2012: RMB663.3 million) and the increase was mainly due to an increase in net book value of property, plant and machinery in the amount of approximately RMB157.8 million and the increase of time deposit of approximately RMB110.0 million. The Group's current assets were approximately RMB6,352.2 million (2012: RMB5,836.2 million), representing an increase of 8.8%. The increase was mainly due to an increase of cash and bank balances of approximately RMB440.6 million as a result of effective working capital management. The Group's current liabilities were approximately RMB2,356.0 million (2012: RMB1,436.8 million), representing an increase of 64%. The increase was mainly due to an increase of bank borrowings of approximately RMB839.8 million due to payment of dividends and reclassification of bank borrowing from non-current liabilities to current liabilities. The Group's current assets ratio as at 31 December 2013 was 2.7 (2012: 4.1). The Group's non-current liabilities were approximately RMB443.2 million (2012: RMB782.9 million). The decrease was mainly due to a decrease of bank borrowings of approximately RMB359.7 million due to repayment of bank loans and reclassification to current liabilities.

IMPROVEMENTS ON NET CASH AND BANK BALANCES

As of 31 December 2013, the Group's total cash and bank balances amounted to approximately RMB4,388.6 million (2012: RMB3,680.0 million), representing an increase of approximately RMB708.6 million. This was mainly due to improvements in working capital management. The total cash and balance balances represented by pledged bank deposits of RMB715.2 million (2012: RMB557.2 million), time deposits of RMB110.0 million (2012: nil) and cash and bank balances of RMB3,563.4 million (2012: RMB3,122.8 million).

The Group's total bank borrowings amounted to RMB1,525.5 million (2012: RMB1,045.5 million), representing an increase of approximately RMB480.0 million. This was mainly due to the payment of dividends. Hence, the total net cash and bank balances as at 31 December 2013 amounted to approximately RMB2,863.1 million (2012: RMB2,634.5 million), representing an increase of 8.7%.

As at 31 December 2013, the Group's gearing ratio was 20.9% (2012: 16.1%), which is defined as the total bank borrowings divided by the Group's total assets.

IMPROVEMENTS ON CASH FLOW FROM OPERATING ACTIVITIES

As at 31 December 2013, the Group's cash and cash equivalents increased by RMB440.6 million and amounted to approximately RMB3,563.4 million (2012: RMB3,122.8 million), representing an increase of 14.1%. This was mainly due to the followings:

Net cash flows from operating activities amounted to approximately RMB657.7 million. This was mainly due to an effective working capital management.

Net cash flows used in investing activities amounted to approximately RMB294.2 million. This was mainly due to addition of property, plant and machinery of approximately RMB201.2 million, increase in pledged deposits of RMB158.0 million and increase in time deposits by RMB110.0 million, but offset by decrease in available-for-sale investment by RMB100.0 million.

Net cash flows from financing activities amounted to approximately RMB78.2 million. This was mainly due to addition of bank loans of approximately RMB655.9 million and offset by the payment of dividends of approximately RMB428.4 million and repayment of bank loans RMB152.7 million.

Inventory Provision

For the year ended 31 December 2013, the Group did not have any inventory provision.

Provision for Receivables Impairment

For the year ended 31 December 2013, the Group recorded a provision for receivables impairment amounted to approximately RMB51.2 million (2012: RMB77.2 million).

Commitments

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

Contingent Liabilities

As of 31 December 2013, the Group did not have any material contingent liabilities.

Charge of Assets

Save as disclosed in note 22 to the financial statements related to certain amount of bank deposits pledged to secure the banking facilities, none of the Group's assets was pledged as of 31 December 2013.

Foreign Currency Risks

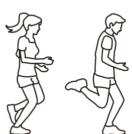
The Group mainly operates in the PRC with most of its transactions settled in RMB. The Group's assets and liabilities, and transactions arising from operation are mainly denominated in RMB. Accordingly, it is believed that the Group does not have any material foreign currency risks which will affect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

Significant Investments and Material Acquisitions and Disposals of Subsidiaries

During the year under review, the Group did not have any significant investments or acquisitions or sales of subsidiaries. The Group will continue to seek opportunities to acquire and work with international brands in order to generate more returns to its Shareholders. There was no plan authorized by the Board for any material investments or additions of capital assets as at the date of this annual report.

Human Resources

As at 31 December 2013, the Group had 8,180 employees (2012: 7,865 employees). The Group provides introductory orientation programs and continuous training to its employees. Topics covered include industry knowledge, technology and product knowledge, industry quality standards and work safety standards to enhance the service quality and standard of its staff. The Group will strive to strengthen human resources management to provide strong support for the development of the Group's business through staff recruitment initiatives and the optimization of the organizational structure and corporate culture to ensure that the Group will be able to maintain sustainable development in the future.




XTEP IS A
FASHION
SPORTSWEAR
BRAND

INVESTOR RELATIONS REPORT

The Group is committed to building long-term relationship with shareholders, investors and the public through open dialogues, active engagement and timely release of operating data to ensure a full understanding of our corporate strategies, business development plans and future outlook of the Group.

Shareholders' Value As Our Priority

Increasing Shareholders value has always been our priority. Against a competitive industry backdrop, the Group has striven to enhance Shareholder's value through a combination of investor relations efforts and a consistent dividend policy to provide sustainable returns to Shareholders. Dividend payout ratio in the past three years were maintained at 2013: basic 51.3%, 2012: basic 50.8%; special 9.8% and 2011: basic 50.5%, providing Shareholders stable investment returns.

Timely Release of Operating Data

All of our investor communications activities aim to ensure that all Shareholders and potential investors are provided with ready, fair and timely access to balanced and understandable information about the Group. During the year, the Group held investor presentation and press conference for interim and annual results to lead a better understanding of its business development and corporate strategy. These events could be viewed online, with webcast accompanied by detailed slide. Latest information on the Group's developments, financial data and stock information can be found at the corporate website www.xtep.com.hk.

In addition to disclosing price-sensitive and inside information pursuant to the Listing Rules and other regulatory requirements, the Group also enhances visibility by publishing the quarterly announcements regarding its business developments and sales fair results.

Proactive Investor Communications

For the year under review, the Group has held over 100 face-to-face investor meetings and teleconferences, plus about 30 factory and/or store visits, and attended 14 local/overseas corporate conferences and roadshows, meeting with about 360 analysts and investors. These meetings served as an effective platform to deepen the relationship with investors, enhance the capital market understanding and further broaden our investor base.

Accredited by Hang Seng Family of Indices

The Company's shares were accredited as a constituent stock of the following indices on the Main Board of Hong Kong Stock Exchange, namely:

- The Hang Seng Composite Index (HSCI)
- Hang Seng Global Composite Index (HSGCI)
- Hang Seng Broad Consumption Index ("HSBCI")
- Hang Seng Mainland Consumer Goods Index ("HSMCGI")

Investor Information

1. SHARE INFORMATION

Listing Date: 3 June 2008
Board lot: 500 Shares
Number of issued shares as at
31 December 2013: 2,176,765,000 Shares
Stock code: 1368

2. 2013 DIVIDEND

2013 Interim dividend: HK10.0 cents per Share
(2012: HK13.2 cents per Share)
2013 Final dividend: HK8.0 cents per Share
(2012: HK10.0 cents per Share; special HK4.5 cents per Share)

3. INVESTOR RELATIONS CONTACT

For any queries, please contact:
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Investor Relations Department
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Fax: (852) 2153 0330
E-mail: ir@xtep.com.hk
Corporate website: www.xtep.com.hk

KEY INVESTOR RELATIONS EVENTS HELD IN 2013 ARE AS FOLLOWS:

Event	Date
2012 Annual Results Announcement • Press Conference and • Analysts and Investors Presentation	15 March 2013
5th HKSE Listing Anniversary Celebration Dinner	3 June 2013
2012 Annual General Meeting	27 May 2013
2013 Interim Results Announcement • Press Conference • Analysts and Investors Presentation	23 August 2013

KEY INVESTOR RELATIONS ACTIVITIES ATTENDED BY THE GROUP IN 2013 ARE AS FOLLOWS:

Events	Date	Organizer	Location
UBS Greater China Conference	14–15 January 2013	UBS	Shanghai
HSBC China Discovery Forum	28 May 2013	HSBC	Hong Kong
J.P. Morgan China Summit	3–5 June 2013	J.P. Morgan	Beijing
UBS Asian Consumer Conference	18–19 June 2013	UBS	Hong Kong
HSBC 3rd Annual China Consumption Conference	21–22 October 2013	HSBC	Hong Kong
HSBC Asia Corporate Day	15 November 2013	HSBC	London
HSBC 5th Annual Asia Investor Forum	18–20 November 2013	HSBC	New York and Boston

CORPORATE SOCIAL RESPONSIBILITY

Putting people's health and well-being back on top of its priorities, the Group is strongly committed to corporate social responsibilities. As a leading sportswear enterprise in China, the Group shows its employees and the community that it cares by setting three objectives to get things right, namely, contributing to charity and society, promoting sports participation and caring for employees. The Group pledges to serve the community and strives to make charitable contribution for a better environment.

Contributing to Charity and Society

When victims of the devastating 7.0-magnitude earthquake in Ya'an, Sichuan were in urgent need of help, the Group swiftly set up a special rescue team within one day and provided relief materials and cash donation to people in sorrow. The Yangzhou International Half Marathon 2013 was held right after the day of Ya'an earthquake. Over a hundred of Xtep Runners Club members participated in the race and ran for love by tying yellow ribbon on their arms with a slogan "Xtep Runners Club Runs for Ya'an in Yangzhou Marathon" (特跑族在揚馬，為雅安而跑), praying and sending heart felt blessings to victims of the disaster.

In addition, the Group actively participated in charitable and community activities in Hong Kong as a responsible corporate citizen. That included the sponsorship of a charity cross-country race named "Emperor Charity Night Run" which was title-sponsored by Emperor Group and organized by Will in Action, with an aim to promote life education and organ donation through the lightweight fun run. Warming up for the winter chill, the Group closely worked with the Lions Clubs of Hong Kong to provide winter hampers to the elderly from the Tin Ping Neighbourhood Elderly Centre in Sheung Shui, a service unit of the Chinese YMCA of Hong Kong, by sending them winter coats and celebrating Christmas together.

Backed by the accelerating urbanization in China, rural migrant workers constantly travelled between urban cities and rural hometowns have become the social community that should be taking care of. To improve the social welfare of rural migrants, the Group contributed to the establishment of the "Volunteer Services Centre for Rural Migrant Workers Children" in Quanzhou Economic and Technological Development Zone, as an attempt to provide better learning and living environment for rural migrant workers children.

During the year, the Group's active response to various charitable events and community services in the PRC helped gain wide recognition and accreditations from different communities, to name a few, the Outstanding Contribution Award on Community Donation by a Businessman in the Private sector in Fujian Province, The Outstanding Contribution Award on Western Taiwan Straits Economic Zone Construction, and Top Ten Most Competitive China Culture Enterprise as recognitions to the Group's outstanding contribution to the society.

Promoting Sports Participation

As a leading fashion sportswear enterprise, the Group has been keen in promoting public participation in sports and devoting its best endeavor to the development of sports in China by sponsoring prominent national and local sporting events. During the year, the Group was appointed as the sole official sportswear partner of the National Games for the third consecutive time. In addition to sponsoring the National Games Organizing Committee for their professional outfits, the Group was also named as the sole apparel sponsor of 14 delegation teams to provide tailor-made outfits for each team, fully unleash the spirit of "China Sports for All".

Furthermore, in support of sports development in Hong Kong, the Group has been sponsoring the "Bank of China (Hong Kong) Festival of Sport" for five years since 2009. The event is held from March to June every year, with an aim to promote sports by encouraging the public to participate in sports regularly through a series of sports events hosted in different urban districts during the period. To further encourage the public to enjoy sports and have fun, the Group also sponsored the "Olympic Day Run" in Hong Kong Disneyland for the fifth year in a row, as part of its efforts in advocating positive messages enshrined under the Olympic Games and joy of running.

Caring for Employees and Developing People

Employees are one of the most valuable assets to an enterprise and having high quality employees is the Group's the key to success. During the year, in line with the Group's mission of caring for employees and developing people, a series of training programs were in place to promote the personal growth of employees and strengthen their sense of belonging and recognition to the Group. A variety of activities, such as annual sports gala, "Sunshine Cultural Tours", outdoor leadership training and team building workshops were held throughout the year to further enhance the overall quality of life of employees.

Additionally, during the year, the Group was making efforts to combine its manpower management with the government's initiative of promoting social – economic development in local area. Planning to train up 1,500 skilled workers every year, the Group entered into a cooperation with the local government of Weining, Guizhou Province, to set up the "Xtep Guizhou Vocational Training Center". To cater to its employees who needed to travel back to rural hometowns during the Chinese New Year, the Group arranged free transportation to its employees to return home for holiday. Such genuine effort that the Group has made since 2012 fully demonstrated the Group's care for the well-being of its staff. The Group was nominated as one of the "2013 Happiest Workplace Enterprises in Quanzhou" by Quanzhou City Government for the second year in a row. The joint efforts of all staff also brought a number of accolades to the Group during the year, including "Fujian Provincial Government Quality Award", "Quanzhou City Government Quality Award" and "Quanzhou Meritorious Private Enterprise".

DIRECTORS AND SENIOR MANAGEMENT

Directors

EXECUTIVE DIRECTORS

Mr. Ding Shui Po (丁水波), aged 43, is the founder, chairman and chief executive officer of the Group. He has over 25 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
2013	Quanzhou Top Talent
2013	Outstanding Contribution Award on Community Donation by a Businessman in the Private Sector in Fujian Province
2013	Outstanding Contribution Award on Western Taiwan Straits Economic Zone Construction
2013	Top Ten Outstanding Young Persons in Quanzhou

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
2013	Executive Vice President of All-China Federation of Returned Overseas Chinese

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 41, is our executive Director and a vice president of the Company. Ms. Ding has over 15 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 42, is our executive Director and a vice president of the Company. Mr. Lin has over 15 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 37, is our executive Director and a vice president of the Company. He has over 15 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 56, is our executive Director and a vice president of Xtep (China). Joining the Group in 2004, Mr. Ye has over 21 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 48, 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 24 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. 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.

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Mr. Tan Wee Seng (陳偉成), aged 58, 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 and a member of the audit committee of ReneSola Ltd. whose shares are listed on the NYSE, and a board member and chairman of the finance and operation committee of Beijing City International School, an academic institution in Beijing. Mr. Tan has been an independent director and chairman of audit committee for 7 Days Group Holdings Limited listed in the NYSE from November 2009 to July 2013 on which it was privatized. Mr. Tan was also the chairman of special committee for privatization of the 7 Days Group Holdings Limited from October 2012 to July 2013.

Mr. Tan has over 34 years of experience in financial management, corporate finance, merger and acquisition, business management and strategy development. He has also held various management and senior management positions in a number of multi-national and Chinese 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 46, was appointed as our independent non-executive Director on 24 January 2008. Mr. Sin has over 21 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 and Sino Haijing Holdings Limited (all of these companies are listed on the Main Board of Hong Kong Stock Exchange). Previously he was an independent non-executive director of China Motion Telecom International Limited, a company listed on the Main Board of Hong Kong Stock Exchange and 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 66, was appointed as our independent non-executive Director on 24 January 2008. Mr. Xu has over 15 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 prelisting 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 51, 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 51, was appointed as our independent non-executive Director on 21 December 2012. Dr. Bao has over 21 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 48, 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 Corporate Governance Code

Throughout the year ended 31 December 2013, the Company complied with all code provisions and, where appropriate, adopted the recommended best practices as set out in the Corporate Governance Code, with the exception of code provision A.2.1 (chairman and chief executive officer).

Under code provision A.2.1 of the Corporate Governance 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 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.

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 2013.

Board of Directors

BOARD COMPOSITION

As at 31 December 2013 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

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.

CORPORATE GOVERNANCE 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 2013 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	4/4	1/1

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.

CORPORATE GOVERNANCE REPORT

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 the Corporate Governance 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 requirement of the Corporate Governance Code on continuous professional development during the year ended 31 December 2013:

	Corporate Governance/Updates on Laws, Rules and Regulations		Accounting/Financial/Management or Other Professional Skills	
Name of Director	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	✓	✓	✓	✓

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.

Board Diversity Policy

Pursuant to the new code provisions of the Corporate Governance Code relating to board diversity which has come into effect since 1 September 2013, the Board approved a new board diversity policy (the "Board Diversity Policy") in August 2013. The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

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. 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.

CORPORATE GOVERNANCE REPORT

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 2013, the Audit Committee mainly performed the following duties:

– reviewed the Group's unaudited interim results for the six months ended 30 June 2013 and the audited annual results for the year ended 31 December 2013, 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 2013, 3 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	3/3
Mr. Xu Peng Xiang	3/3
Dr. Gao Xian Feng	3/3

There had been no disagreement between the Board and the Audit Committee during the financial year ended 31 December 2013.

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. 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 2013, the Remuneration Committee mainly performed the following duties:

– reviewed the Group's remuneration policy and reviewed the remuneration package of the executive Directors and senior management for the year of 2013.

During the year ended 31 December 2013, one 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. 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 2013, the Nomination Committee mainly performed the following duties:

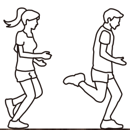
- reviewed the annual confirmation of independence submitted by the independent non-executive Directors and assessed their independence; and

- reviewed the structure, size and composition of the Board during the year of 2013.

The Nomination committee will also give consideration to the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board, and the board will review the Board Diversity Policy on a regular basis to ensure its effectiveness.

During the year ended 31 December 2013, one 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



CORPORATE GOVERNANCE REPORT

Auditors' Remuneration

The Company has re-appointed Ernst & Young as its external auditors during the year ended 31 December 2013. 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	3,480,000
Review of interim results	600,000
	4,080,000

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 2013, 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 2013. 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 Corporate Governance Code regarding internal control systems in general for the year ended 31 December 2013.

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 2013.

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

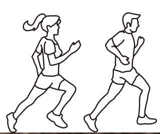
CONSTITUTIONAL DOCUMENTS

There has been no significant change in the Company's constitutional documents during the year ended 31 December 2013.

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 2013.

Principal Activities

The Company and its subsidiaries are principally engaged in the design, development, manufacturing sales and marketing and brand management of sportswear, including footwear, apparel and accessories, 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 2013 are set out in note 18 to the financial statements.

Financial Statements

The profit of the Group for the year ended 31 December 2013 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 91 to 150 of this annual report.

Dividends

An interim dividend of HK10.0 cents (equivalent to approximately RMB8.0 cents) per Share was paid to our Shareholders during the year. The Board recommended a final dividend of HK8.0 cents (equivalent to approximately RMB6.3 cents) per Share for the year ended 31 December 2013, subject to approval by the Shareholders at the annual general meeting to be held on 15 May 2014. The total dividends for the year ended 31 December 2013, which include the interim dividend and final dividend, amounted to a total dividend of HK18.0 cents (equivalent to approximately RMB14.3 cents) per Share, represented a payout ratio of approximately 51.3%. Details of the dividend for the year ended 31 December 2013 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 2013, 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 RMB177.1 million (2012: RMB668.6 million). Details of the reserves of the Company as at 31 December 2013 are set out in note 29 to the financial statements.

Charitable Donations

Charitable donations made by the Group during the year ended 31 December 2013 amounted to approximately RMB9.8 million (2012: RMB2.9 million).

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Group for the year ended 31 December 2013 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 2013 are set out in note 28 to the financial statements.

Directors

The Directors during the year ended 31 December 2013 were:

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Tan Wee Seng

INDEPENDENT NON-EXECUTIVE DIRECTORS

Sin Ka Man
Xu Peng Xiang
Gao Xian Feng
Bao Ming Xiao

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.

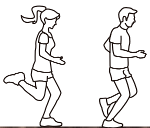
Each of the executive Directors on the Board, except Mr. Ho Yui Pok, Eleutherius, had entered into a service contract with the Company for an initial term of three years commencing on 3 June 2008. Mr. Ho Yui Pok, Eleutherius had entered into a service contract with the Company for an initial term of 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. Ding Shui Po, Ms. Ding Mei Qing, Mr. Ye Qi and Mr. Sin Ka Man 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.



REPORT OF THE DIRECTORS

Directors' and Senior Management's Biographies

Biographical details of the Directors and senior management are set out on pages 64 to 67 of this annual report.

Directors' Interests in Contracts

Save as disclosed below, there was no contract of significance to which the Company, or any of its holding companies, and 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 2013.

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

As at 31 December 2013, 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	60.70%
Ms. Ding Mei Qing[3]	Interests of controlled corporation	1,310,059,500	60.18%
Mr. Lin Zhang Li[4]	Interests of spouse	1,310,059,500	60.18%
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 2,176,765,000 issued Shares of the Company as at 31 December 2013.

(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 Group Success being controlled by Wan Xing International Holdings Limited which is in turn 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 Wan Xing International Holdings Limited which is in turn 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. The remaining 180,000 shares of these shares were acquired by Mr. Tan Wee Seng on the Hong Kong Stock Exchange.

Save as disclosed above, as at 31 December 2013, 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, or any of its holding companies and 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

REPORT OF THE DIRECTORS

Details of the share options granted under the Pre-IPO Share Option Scheme as at 31 December 2013 are as follows:

Name	Outstanding as at 1 January 2013	Exercised during the year ended 31 December 2013[1]	Outstanding as at 31 December 2013
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

The total number of shares available for issue under the Pre-IPO Share Option Scheme is 16,765,000, representing approximately 0.77% of the Company's issued share capital as at the date of this annual report.

No options granted under the Pre-IPO Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2013.

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 2013 are as follows:

Name	Date of Grant	Exercise price per Share[1]	Exercise period[2][3][4]	Outstanding as at 1 January 2013	Granted during the year ended 31 December 2013	Cancelled during the year ended 31 December 2013	Exercised during the year ended 31 December 2013	Outstanding as at 31 December 2013
Directors								
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	49,825,000	–	–	(450,000)[5]	49,375,000
Total				80,665,000	–	–	(450,000)	80,215,000

The total number of shares available for issue under the Share Option Scheme is 80,215,000, representing 3.68% of the Company's issued share capital as at the date of this annual report.

Saved as disclosed above, no share options granted under the Share Option Scheme were exercised, lapsed or cancelled during the year ended 31 December 2013.

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.

REPORT OF THE DIRECTORS

(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) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$3.49.

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, or any of its holding companies and 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 2013, 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	60.18%
Wan Xing International Holdings Limited[2]	Interests of controlled corporation	1,310,059,500	60.18%
Carlyle Asia Growth Partners III, L.P.	Beneficial interests	200,769,294	9.22%
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	9.63%
CAGP Ltd[2]	Interests of controlled corporation	209,700,500	9.63%

Notes:

(1) It was based on 2,176,765,000 issued Shares of the Company as at 31 December 2013.

(2) Wan Xing International Holdings Limited is deemed to be interested in shares held by Group Success by virtue of Group Success being 100% held by Wan Xing International Holdings Limited.

(3) 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 2013, 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 2013.

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 2013.

REPORT OF THE DIRECTORS

Specific Performance Obligations on Certain Controlling Shareholders

On 25 April 2012, the Company as borrower entered into a facility agreement (the "**2012 Facility Agreement**") with a syndicate of eight banks arranged by Hang Seng Bank Limited ("**HASE**") as mandated co-ordinating arranger and facility agent, pursuant to which a 3-year dual currency term loan facility in the principal amount of HK$140,400,000 and US$82,000,000 (equivalent to approximately HK$780,000,000 in aggregate) (the "**2012 Facility**") was made available to the Company on the terms and conditions stated therein.

On 9 January 2014, the Company as borrower entered into another facility agreement (together with the 2012 Facility Agreement, the "**Facility Agreements**") with a consortium of 11 banks arranged by HASE as co-ordinator, a mandated lead arranger and facility agent in the principal amount of US$92,000,000 and HK$452,400,000 (equivalent to approximately HK$1,170,000,000 in aggregate) (together with the 2012 Facility, the "**Facilities**") was made available to the Company on the terms and conditions stated therein.

The Facilities are guaranteed by certain subsidiaries of the Company.

It is provided in the Facility Agreements, among other things, that an event of default will occur if:

(a) Mr. Ding Shui Po is not or ceases to be the chairman of the Board;

(b) Mr. Ding Shui Po does not or ceases to maintain control over the management and business of the Group;

(c) Mr. Ding Shui Po and Ms. Ding Mei Qing (the "**Majority Shareholders**") collectively do not or cease to own, directly or indirectly, at least 40% of the beneficial shareholding, carrying at least 40% of the voting rights in the Company, free from any security; or

(d) the Majority Shareholders collectively are not or cease to be the single largest shareholder of the Company.

In case of occurrence of an event of default which is continuing, HASE may by notice to the Company (a) cancel the whole or any part of the Facilities whereupon the whole or relevant part of the Facility shall immediately be cancelled; (b) declare that all or part of the Facilities, together with accrued interest, and all other amounts accrued or outstanding under the Facility Agreements and related documents be immediately due and payable, whereupon they shall become immediately due and payable; and/or (c) declare that all or part of the Facilities be payable on demand, whereupon they shall immediately become payable on demand by HASE on the instructions of the majority lenders.

As at the date of this report, Mr. Ding Shui Po was an executive director, the chairman and a controlling shareholder of the Company. Ms. Ding Mei Qing was an executive director and a controlling shareholder of the Company. Mr. Ding Shui Po and Ms. Ding Mei Qing owned Wan Xing International Holdings Limited as to 63.2% and 36.8%, respectively, and Wan Xing International Holdings Limited wholly owned Group Success Investments Limited which in turn held representing approximately 60.18% of the issued share capital of the Company. Mr. Ding Shui Po also had personal beneficial interests in approximately 0.52% of the issued share capital of the Company.

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 2013 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.

REPORT OF THE DIRECTORS

Major Customers and Suppliers

Aggregate sales attributable to the Group's largest and five largest customers were 3.2% (2012: 3.2%) and 14.5% (2012: 14.8%) of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 3.2% (2012: 3.6%) and 13.3% (2012: 15.1%) of the Group's total purchases respectively.

At no time during the year ended 31 December 2013, 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 2013.

Bank Loans

Details of bank loans of the Company and the Group as at 31 December 2013 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 12 to 13 of this annual report.

On behalf of the Board
Ding Shui Po
Chairman

Hong Kong, 12 March 2014

INDEPENDENT AUDITORS' REPORT

EY 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 91 to 150, which comprise the consolidated and company statements of financial position as at 31 December 2013, 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.

INDEPENDENT AUDITORS' REPORT

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 2013, 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

12 March 2014

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
REVENUE	5	**4,343,105**	5,550,265
Cost of sales		**(2,595,502)**	(3,292,585)
Gross profit		**1,747,603**	2,257,680
Other income and gains	5	**158,218**	67,633
Selling and distribution expenses		**(594,819)**	(738,936)
General and administrative expenses		**(415,607)**	(455,109)
Operating profit	6	**895,395**	1,131,268
Net finance cost	7	**(32,440)**	(25,433)
PROFIT BEFORE TAX		**862,955**	1,105,835
Income tax expense	10	**(259,692)**	(298,715)
PROFIT FOR THE YEAR		**603,263**	807,120
Attributable to:			
Ordinary equity holders of the Company	11	**605,966**	810,015
Non-controlling interests		**(2,703)**	(2,895)
		603,263	807,120
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
– Basic (RMB cents)		**27.84**	37.22
– Diluted (RMB cents)		**27.60**	37.15

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	Note	2013 RMB'000	2012 RMB'000
PROFIT FOR THE YEAR		**603,263**	807,120
OTHER COMPREHENSIVE INCOME			
Other comprehensive income may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of financial statements of operations outside Mainland China		**33,726**	5,170
Other comprehensive income for the year, net of tax		**33,726**	5,170
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**636,989**	812,290
Attributable to:			
Ordinary equity holders of the Company	11	**639,692**	815,185
Non-controlling interests		**(2,703)**	(2,895)
		636,989	812,290

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**544,711**	386,932
Prepaid land lease payments	15	**220,672**	225,478
Deposits for acquisition of land use rights		**6,261**	6,261
Intangible assets	16	**1,066**	626
Available-for-sale investment	17	**33,000**	33,000
Deposits	21	**38,871**	10,991
Non-current time deposits	22	**110,000**	–
Total non-current assets		**954,581**	663,288
CURRENT ASSETS			
Inventories	19	**536,799**	582,707
Trade and bills receivables	20	**1,150,943**	1,035,877
Prepayments, deposits and other receivables	21	**385,508**	421,413
Tax recoverable		**355**	16,190
Available-for-sale investment	17	**–**	100,000
Pledged bank deposits	22	**715,203**	557,211
Cash and cash equivalents	22	**3,563,387**	3,122,801
Total current assets		**6,352,195**	5,836,199
CURRENT LIABILITIES			
Trade and bills payables	23	**601,018**	482,517
Deposits received, other payables and accruals	24	**332,687**	287,357
Interest-bearing bank borrowings	25	**1,350,637**	510,882
Tax payable		**71,625**	156,066
Total current liabilities		**2,355,967**	1,436,822
NET CURRENT ASSETS		**3,996,228**	4,399,377
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,950,809**	5,062,665
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	25	**174,884**	534,598
Deferred tax liabilities	26	**153,453**	133,453
Deferred subsidy	27	**114,833**	114,833
Total non-current liabilities		**443,170**	782,884
NET ASSETS		**4,507,639**	4,279,781
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued capital	28	**19,204**	19,200
Reserves	29(a)	**4,486,531**	4,255,162
		4,505,735	4,274,362
Non-controlling interests		**1,904**	5,419
Total equity		**4,507,639**	4,279,781

Ding Shui Po
Director

Ding Mei Qing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

		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 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 and 1 January 2013		**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**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**33,726**	**605,966**	**639,692**	**639,692**	**(2,703)**	**636,989**
Disposal of interests in subsidiaries		**–**	**–**	**–**	**–**	**–**	**–**	**4,811**	**4,811**	**4,811**	**(812)**	**3,999**
Equity-settled share option arrangements		**–**	**–**	**–**	**–**	**14,376**	**–**	**–**	**14,376**	**14,376**	**–**	**14,376**
2012 final dividend declared and paid	12	**–**	**–**	**–**	**–**	**–**	**–**	**(175,253)**	**(175,253)**	**(175,253)**	**–**	**(175,253)**
2012 special dividend declared and paid	12	**–**	**–**	**–**	**–**	**–**	**–**	**(78,658)**	**(78,658)**	**(78,658)**	**–**	**(78,658)**
2013 interim dividend declared and paid	12	**–**	**–**	**–**	**–**	**–**	**–**	**(174,441)**	**(174,441)**	**(174,441)**	**–**	**(174,441)**
Exercise of share options	28(i), 30	**4**	**1,078**	**–**	**–**	**(236)**	**–**	**–**	**842**	**846**	**–**	**846**
Transfer to statutory surplus fund		**–**	**–**	**–**	**28,747**	**–**	**–**	**(28,747)**	**–**	**–**	**–**	**–**
At 31 December 2013		**19,204**	**129,172**	**1 18,600**	**418,218**	**114,122**	**39,614**	**3,666,805**	**4,486,531**	**4,505,735**	**1,904**	**4,507,639**

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		862,955	1,105,835
Adjustments for:			
Depreciation	14	43,460	33,654
Amortisation of prepaid land lease payments	15	4,847	4,847
Amortisation of intangible assets	16	344	318
Loss on disposal of items of property, plant and equipment		–	2,063
Interest income	7	(46,322)	(39,558)
Interest expense on bank loans wholly repayable within five years	7	34,664	21,280
Interest expense on discounted bills receivables	7	30,067	29,680
Amortisation of bank charges on a syndicated loan	7	8,792	4,240
Fair value losses, net:			
Derivative financial instruments – transactions not qualified as hedges	7	4,574	7,511
Equity-settled share option expense	30	14,376	41,369
Provision for impaired trade receivables, net	6	51,241	77,178
Income derived from available-for-sale investments	5	(99,676)	(37,421)
		909,322	1,250,996
Decrease in inventories		45,908	88,816
Decrease/(increase) in trade and bills receivables		(166,307)	92,334
Decrease in prepayments, deposits and other receivables		35,864	112,018
Increase/(decrease) in trade and bills payables		118,501	(16,357)
Increase in deposits received, other payables and accruals		41,107	52,442
Cash generated from operations		984,395	1,580,249
Interest received		46,322	39,558
Interest paid		(64,731)	(50,960)
Overseas taxes paid		(308,298)	(275,968)
Net cash flows from operating activities		657,688	1,292,879
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(201,242)	(165,200)
Additions of intangible assets	16	(784)	–
Increase in deposits for purchase of items of property, plant and equipment		(27,880)	(10,991)
Increase in pledged deposits		(157,992)	(35,542)
Decrease/(increase) in available-for-sale investments		100,000	(133,000)
Increase in time deposits with original maturity more than three months when acquired		(110,000)	–
Income derived from available-for-sale investments	5	99,676	37,421
Disposal of interests in subsidiaries		3,999	–
Net cash flows used in investing activities		(294,223)	(307,312)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution by a non-controlling interest of a subsidiary		–	4,370
New bank loans, net of bank charges on a syndicated loan		655,857	694,098
Repayment of bank loans		(152,695)	(138,534)
Net proceeds from issue of ordinary shares	28	846	144
Dividends paid	12	(428,352)	(489,772)
Exchange realignment		2,561	(1,003)
Net cash flows from financing activities		78,217	69,303
NET INCREASE IN CASH AND CASH EQUIVALENTS		441,682	1,054,870
Cash and cash equivalents at beginning of year		3,122,801	2,068,163
Effect of foreign exchange rate changes, net		(1,096)	(232)
CASH AND CASH EQUIVALENTS AT END OF YEAR		3,563,387	3,122,801
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		3,563,387	3,122,801

STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSET			
Investments in subsidiaries	18	**1,066,889**	1,061,892
CURRENT ASSETS			
Due from a subsidiary	18	**670,703**	691,305
Prepayments	21	**429**	477
Cash and cash equivalents	22	**25,561**	16,677
Total current assets		**696,693**	708,459
CURRENT LIABILITIES			
Due to subsidiaries	18	**581**	612
Other payables and accruals	24	**41,200**	36,452
Interest-bearing bank borrowings	25	**1,350,637**	510,882
Total current liabilities		**1,392,418**	547,946
NET CURRENT ASSETS/(LIABILITIES)		**(695,725)**	160,513
TOTAL ASSETS LESS CURRENT LIABILITIES		**371,164**	1,222,405
NON-CURRENT LIABILITY			
Interest-bearing bank borrowings	25	**174,884**	534,598
NET ASSETS		**196,280**	687,807
EQUITY			
Issued capital	28	**19,204**	19,200
Reserves	29(b)	**177,076**	668,607
Total equity		**196,280**	687,807

Ding Shui Po
Director

Ding Mei Qing
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2013

1. Corporate Information

Xtep International Holdings Limited is a 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. 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 changed from Group Success Investments Limited to Wan Xing International Holdings Limited with effect from 8 July 2013. Wan Xing International Holdings Limited is a limited liability company 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 ("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 instrument, 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 2013. 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 the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. 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, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 Changes in Accounting Policies and Disclosures

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

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 *– Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets* (early adopted)
HK(IFRIC)–Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009–2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

Other than as further explained below regarding the impact of HKFRS 10, HKFRS 13 and amendments to HKAS 1, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements and addresses the issues in HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. It establishes a single control model used for determining which entities are consolidated. To meet the definition of control in HKFRS 10, an investor must have (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled.

As a result of the application of HKFRS 10, the Group has changed the accounting policy with respect to determining which investees are controlled by the Group.

The application of HKFRS 10 does not change any of the consolidation conclusions of the Group in respect of its involvement with investees as at 1 January 2013.

NOTES TO FINANCIAL STATEMENTS

31 December 2013

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by HKFRS 13 for the fair value measurements of financial instruments are included in note 38 to the financial statements.

The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group.

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 9	*Financial Instruments*[4]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting* and amendments to HKFRS 9, HKFRS 7 and HKAS 39[4]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*[1]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
HKFRS 14	*Regulatory Deferral Accounts*[3]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)–Int 21	*Levies*[1]
Annual Improvements 2010-2012 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]
Annual Improvements 2011-2013 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning on or after 1 January 2016
4 No mandatory effective date yet determined but is available for adoption

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 (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investment 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).

NOTES TO FINANCIAL STATEMENTS

31 December 2013

FAIR VALUE MEASUREMENT

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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.

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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 of disposal, 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.

INVESTMENTS AND OTHER FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, 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:

Loans 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, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for the foreseeable future or until maturity.

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.

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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. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 whether impairment exists individually 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.

The amount of any impairment loss identified 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).

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 future 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. "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 preliminarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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.

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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 and later reclassified to profit or loss when the hedged item affects the income statement.

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.

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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 directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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.

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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.

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 in employee benefit expense. 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 measured. 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 subsidiaries operate outside Mainland China 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 an operation outside Mainland China, the component of other comprehensive income relating to that particular operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and its subsidiaries operate outside Mainland China are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and its subsidiaries operate outside Mainland China which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

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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

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.

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:

	2013 RMB'000	2012 RMB'000
Revenue		
Manufacture and sale of sportswear:		
Footwear	**2,246,851**	2,700,080
Apparel	**2,011,947**	2,746,181
Accessories	**84,307**	104,004
	4,343,105	5,550,265
Other income and gains		
Subsidy income from the PRC government *	**55,789**	27,951
Rental income	**2,203**	1,840
Income derived from available-for-sale investments	**99,676**	37,421
Others	**550**	421
	158,218	67,633
	4,501,323	5,617,898

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

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6. Operating Profit

The Group's operating profit is arrived at after charging/(crediting):

	Notes	2013 RMB'000	2012 RMB'000
Cost of inventories sold[1]		**2,595,502**	3,292,585
Depreciation	14	**43,460**	33,654
Amortisation of prepaid land lease payments	15	**4,847**	4,847
Amortisation of intangible assets[2]	16	**344**	318
Advertising and promotion costs		**485,752**	633,869
Employee benefit expenses (including directors' remuneration – note 8):			
Wages and salaries		**331,888**	308,448
Other allowances and benefits		**51,235**	41,242
Equity-settled share option expense		**14,376**	41,369
Pension scheme contributions[3]		**15,150**	14,220
		412,649	405,279
Auditors' remuneration		**2,784**	2,917
Minimum lease payments under operating leases of land and buildings		**9,018**	8,503
Provision for impaired trade receivables, net[2]	20	**51,241**	77,178
Research and development costs[4]		**111,380**	95,534
Fair value losses, net:			
Derivative instruments – transactions not qualified as hedges	7	**4,574**	7,511

1 The cost of inventories sold for the year includes RMB228,785,000 (2012: RMB233,314,000), 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 and provision for impaired trade receivables, net for the year are included in "General and administrative expenses" in the consolidated income statement.

3 As at 31 December 2013, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2012: Nil).

4 The research and development costs for the year includes RMB67,434,000 (2012: RMB50,956,000) relating to depreciation of research and development centres and staff costs for research and development activities, which are also included in the total amounts disclosed above for each of these types of expenses.

7. Net Finance Cost

An analysis of net finance cost is as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
Interest expense on bank loans wholly repayable within five years	(34,664)	(21,280)
Interest expense on discounted bills receivable	(30,067)	(29,680)
Amortisation of bank charges on a syndicated loan	(8,792)	(4,240)
Foreign exchange differences, net	(665)	(2,280)
Bank interest income	46,322	39,558
Unrealised loss on interest rate swaps *	(4,574)	(7,511)
	(32,440)	(25,433)

* 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 Hong Kong Stock Exchange and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
Fees:		
Executive directors	–	–
Non-executive director	528	540
Independent non-executive directors	732	561
	1,260	1,101
Other emoluments of executive directors:		
Salaries, other allowances and benefits in kind	6,370	5,248
Equity-settled share option expense	2,276	6,758
Pension scheme contributions	162	178
	8,808	12,184
Other emoluments of a non-executive director:		
Equity-settled share option expense	144	543
	10,212	13,828

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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, respectively. 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
2013					
a) *Executive directors*					
Ding Shui Po^	916	–	–	15	931
Ding Mei Qing	458	–	–	12	470
Lin Zhang Li	458	–	–	12	470
Ding Ming Zhong	458	–	–	12	470
Ye Qi	1,680	–	719	15	2,414
Ho Yui Pok, Eleutherius	2,400	–	1,557	96	4,053
	6,370	–	2,276	162	8,808
b) *Non-executive director*					
Tan Wee Seng	528	–	144	–	672
c) *Independent non-executive directors*					
Sin Ka Man	192	–	–	–	192
Xu Peng Xiang	180	–	–	–	180
Gao Xian Feng	180	–	–	–	180
Bao Ming Xiao*	180	–	–	–	180
	732	–	–	–	732
	7,630	–	2,420	162	10,212

	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

^ Mr. Ding Shui Po is also the chief executive officer of the Group.

* On 21 December 2012, Mr. Bao Ming Xiao was appointed as an independent non-executive director of the Company.

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9. Five Highest Paid Employees

The five highest paid employees during the year included three (2012: three) 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	
	2013	2012
RMB500,000 – RMB1,000,000	2	2

Details of the remuneration for the year of the remaining two (2012: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	Group	
	2013 RMB'000	2012 RMB'000
Salaries, other allowances and benefits in kind	1,417	1,487
Performance-related bonuses	–	206
Pension scheme contributions	15	22
	1,432	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 (2012: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	Group	
	2013 RMB'000	2012 RMB'000
Current tax – Overseas		
Charge for the year	234,077	234,325
Underprovision/(overprovision) in prior years	5,615	(312)
	239,692	234,013
Deferred (note 26)	20,000	64,702
	259,692	298,715

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 2012 and 2013 as Xtep China was qualified as a High-New Technology Enterprise (the "HNTE") in the PRC and obtained the HNTE certificates in 2010 and 2013.

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.

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	
	2013	2012
	RMB'000	RMB'000
Profit before tax	**862,955**	1,105,835
Tax at the applicable tax rates	**221,284**	293,009
Lower tax rates for specific provinces or tax holidays	**(22,163)**	(106,139)
Adjustments in respect of current tax of previous years	**5,615**	(312)
Income not subject to tax	**(2,409)**	(55)
Expenses not deductible for tax	**32,574**	43,650
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**20,000**	64,702
Tax losses utilised from previous periods	**(184)**	(805)
Tax losses not recognised	**4,975**	4,665
Tax charge at the Group's effective tax rate	**259,692**	298,715

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 2013 includes a loss of RMB65,260,000 (2012: RMB61,389,000) which has been dealt with in the financial statements of the Company (note 29(b)).

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12. Dividends

	2013 RMB'000	2012 RMB'000
Dividends paid during the year:		
Final – HK10.0 cents (2012: HK14.5 cents) per ordinary share	**175,253**[ii]	254,909[i]
Special – HK4.5 cents (2012: Nil) per ordinary share	**78,658**[ii]	–
Interim – HK10.0 cents (2012: HK13.2 cents) per ordinary share	**174,441**[iii]	234,863[ii]
	428,352	489,772
Proposed final dividends:		
HK8.0 cents (2012: HK10 cents) per ordinary share	**137,572**[iii]	176,608[ii]
Proposed special dividends:		
Nil (2012: HK4.5 cents) per ordinary share	**–**	79,474[ii]
	137,572	256,082

(i) In respect of the financial year ended 31 December 2011
(ii) In respect of the financial year ended 31 December 2012
(iii) In respect of the financial year ended 31 December 2013

The proposed final 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 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 RMB605,966,000 (2012: RMB810,015,000) and the weighted average number of ordinary shares in issue during the year of 2,176,547,000 (2012: 2,176,255,000).

(b) DILUTED EARNINGS PER SHARE

The calculation of diluted earnings per share amount for the year ended 31 December 2013 is based on the profit for that year attributable to ordinary equity holders of the Company of RMB605,966,000 (2012: RMB810,015,000). The weighted average number of ordinary shares of 2,195,797,000 (2012: 2,180,389,000) used in the calculation is the weighted average number of 2,176,547,000 ordinary shares (2012: 2,176,255,000) 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 19,250,000 ordinary shares (2012: 4,134,000) 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 2013							
Cost:							
At beginning of year	154,213	28,165	91,157	28,908	79,627	139,768	521,838
Additions	–	5,988	9,469	4,031	15,350	166,404	201,242
Exchange realignment	–	(12)	–	–	(32)	–	(44)
At 31 December 2013	154,213	34,141	100,626	32,939	94,945	306,172	723,036
Accumulated depreciation:							
At beginning of year	36,900	12,250	41,767	10,516	33,473	–	134,906
Provided during the year	6,985	14,590	6,367	4,855	10,663	–	43,460
Exchange realignment	–	(13)	–	–	(28)	–	(41)
At 31 December 2013	43,885	26,827	48,134	15,371	44,108	–	178,325
Net carrying amount:							
At 31 December 2013	110,328	7,314	52,492	17,568	50,837	306,172	544,711
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

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

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Included in "Buildings" are certain self-used properties with net carrying amounts of approximately RMB9,277,000 at 31 December 2013 (2012: RMB9,856,000), 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 2013 of RMB7,121,000 out of the total of RMB9,277,000 (2012: RMB7,565,000 out of the total of RMB9,856,000).

15. Prepaid Land Lease Payments

	Group	
	2013	2012
	RMB'000	RMB'000
Carrying amount at 1 January	**230,417**	235,264
Recognised during the year	**(4,847)**	(4,847)
Carrying amount at 31 December	**225,570**	230,417
Current portion included in prepayments, deposits and other receivables	**(4,898)**	(4,939)
Non-current portion	**220,672**	225,478

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

16. Intangible Assets

PATENTS AND TRADEMARKS

	Group	
	2013	2012
	RMB'000	RMB'000
Cost:		
At beginning of year	**1,899**	1,899
Additions	**784**	–
At 31 December	**2,683**	1,899
Accumulated amortisation:		
At beginning of year	**1,273**	955
Amortisation provided during the year	**344**	318
At 31 December	**1,617**	1,273
Net carrying amount:		
At 31 December	**1,066**	626

17. Available-For-Sale Investments

	Note	Group 2013 RMB'000	2012 RMB'000
Non-current:			
Unlisted equity investment, at cost	(i)	**33,000**	33,000
Current:			
Unlisted investment fund, at cost		**–**	100,000
		33,000	133,000

Note:

(i) As at 31 December 2013, the unlisted equity investment with a carrying value of RMB33,000,000 (2012: RMB33,000,000) represented an 11% equity interest in a corporate entity, which was established in the PRC on 22 October 2013 with registered and fully paid-up capital of RMB300,000,000.

The above investments were stated at cost because the unlisted investments do not have a quoted market price in an active market and whose fair value cannot be measured reliably.

18. Investments in Subsidiaries

	Company 2013 RMB'000	2012 RMB'000
Unlisted shares, at cost	**540**	633
Due from subsidiaries	**1,066,349**	1,061,259
	1,066,889	1,061,892

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 amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB670,703,000 (2012: RMB691,305,000) and RMB581,000 (2012: RMB612,000), respectively, are unsecured, interest-free and repayable on demand.

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Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation or establishment/ business	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 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
Xiamen Xtep Investment Company Limited ("Xtep Xiamen") * (notes (i) 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 and trading 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 (iii))	PRC/Mainland China	HK$30 million	–	82	Trading of sportswear
Xtep International E-Commerce Investment Limited ("E-Commerce") (note (iv))	BVI	US$50,000	–	75	Investment holding
廈門特興貿易有限公司* ("Texing") (notes (ii) and (iii))	PRC/Mainland China	RMB30 million	–	100	Trading of sportswear

Notes:

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

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

(iii) The registered capital of these entities was fully paid up as at 31 December 2013.

(iv) During the year, the Group disposed of its 25% equity interests in E-Commerce, a wholly-owned subsidiary and its subsidiaries, to an executive director of the Company and his spouse, and certain employees of the Group for considerations of HK$700,000 (equivalent to approximately RMB560,000) and HK$4,300,000 (equivalent to approximately RMB3,439,000), respectively. The difference between the considerations and the non-controlling interests' share of net liabilities of the subsidiaries was credited to the Group's retained profits.

* 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 2013 RMB'000	2012 RMB'000
Raw materials	**230,396**	284,146
Work in progress	**55,364**	68,959
Finished goods	**251,039**	229,602
	536,799	582,707

20. Trade and Bills Receivables

	Notes	Group 2013 RMB'000	2012 RMB'000
Trade receivables		**1,266,362**	1,113,055
Less: provision for impaired receivables	(a)	**(128,419)**	(77,178)
	(b), (c)	**1,137,943**	1,035,877
Bills receivables		**13,000**	–
Trade and bills receivables		**1,150,943**	1,035,877

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.

Notes:

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

	Note	Group 2013 RMB'000	2012 RMB'000
At 1 January		**77,178**	–
Provision for impaired receivables, net	6	**51,241**	77,178
At 31 December		**128,419**	77,178

Included in the above provision for impairment of trade receivables is provisions for individually impaired trade receivables of RMB128,419,000 (2012: RMB77,178,000) with a carrying amount before provision of RMB173,971,000 (2012: RMB87,441,000). 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.

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(b) An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	Group 2013 RMB'000	Group 2012 RMB'000
Within 3 months	**727,910**	690,437
4 to 6 months	**297,626**	345,440
Over 6 months	**112,407**	–
At 31 December	**1,137,943**	1,035,877

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

	Group 2013 RMB'000	Group 2012 RMB'000
Neither past due nor impaired	**727,910**	690,437
Less than 3 months past due	**297,626**	345,440
Past due over 3 months	**112,407**	–
	1,137,943	1,035,877

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.

21. Prepayments, Deposits and Other Receivables

	Group		Company	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Prepayments	**153,097**	156,066	**429**	477
Deposits and advance payments to suppliers	**102,084**	231,484	**–**	–
Deposits for construction contracts	**10,111**	10,991	**–**	–
Deposits for acquisition of items of property, plant and equipment	**28,760**	–	**–**	–
Other deposits	**1,568**	1,449	**–**	–
Value added tax ("VAT") recoverable	**125,818**	28,298	**–**	–
Other receivables	**2,941**	4,116	**–**	–
	424,379	432,404	**429**	477
Less: Non-current portion	**(38,871)**	(10,991)	**–**	–
	385,508	421,413	**429**	477

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. Time Deposits, Cash and Bank Balances and Pledged Bank Deposits

	Notes	Group 2013 RMB'000	Group 2012 RMB'000	Company 2013 RMB'000	Company 2012 RMB'000
Time deposits		**1,060,762**	789,713	**–**	–
Cash and bank balances*		**3,327,828**	2,890,299	**25,561**	16,677
		4,388,590	3,680,012	**25,561**	16,677
Less: Pledged deposits:					
for short term bank loans	25	**(686,445)**	(527,997)	**–**	–
for bank guarantees**		**(28,455)**	(29,214)	**–**	–
for bills payable	23	**(303)**	–	**–**	–
		(715,203)	(557,211)	**–**	–
Less: Time deposits with original maturity of more than one year when acquired*		**(110,000)**	–	**–**	–
Cash and cash equivalents		**3,563,387**	3,122,801	**25,561**	16,677

* The non-current time deposits of RMB110,000,000 (2012: Nil) and bank balance of RMB48,220,000 (2012: Nil) were capital guaranteed funds undertaken by a wholly-owned subsidiary of the Company to maintain in PRC bank accounts pursuant to the terms of the Group's short term revolving banking facilities.

** These 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 RMB3,297,077,000 (2012: RMB2,846,603,000) and RMB1,060,762,000 (2012: RMB789,713,000), 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. Time deposits are made for varying periods of between one day to two years (2012: one day to one year) depending on the immediate cash requirements of the Group, and earn interest at the respective deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

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23. Trade and Bills Payables

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

	2013 RMB'000	2012 RMB'000
Within 3 months	**513,113**	437,359
3 to 6 months	**45,539**	17,025
Over 6 months	**38,854**	28,133
Trade payables	**597,506**	482,517
Bills payable	**3,512**	–
Trade and bills payables	**601,018**	482,517

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

As at 31 December 2013, bills payables of RMB3,512,000 (2012: Nil) are secured by pledge of time deposits of RMB303,000 (2012: Nil).

24. Deposits Received, Other Payables and Accruals

	Group		Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Deposits and advances from customers	**71,429**	43,158	**–**	–
Accruals	**180,487**	160,987	**23,661**	23,386
VAT payables	**13,002**	29,807	**–**	–
Derivative financial instruments	**16,194**	11,971	**16,194**	11,971
Other payables	**51,575**	41,434	**1,345**	1,095
	332,687	287,357	**41,200**	36,452

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 amounting to RMB4,574,000 (2012: RMB7,511,000) were debited to the income statement.

25. Interest-Bearing Bank Borrowings

Group and Company	Notes	2013 Effective interest rate per annum (%)	Maturity	RMB'000
Current				
Current portion of syndicated loans	(a)	HIBOR/LIBOR +3%	2014	345,940
Other bank loans	(b)	HIBOR+1.5% to 2.25%	2014	1,004,697
				1,350,637
Non-current				
Syndicated loans	(a)	HIBOR/ LIBOR +3%	2015	174,884
				1,525,521

Group and Company	Notes	2012 Effective interest rate per annum (%)	Maturity	RMB'000
Current				
Current portion of syndicated loans	(a)	HIBOR/LIBOR +3%	2013	80,787
Other bank loans	(b)	HIBOR+1.5% to 2.375%	2013	430,095
				510,882
Non-current				
Syndicated loans	(a)	HIBOR/ LIBOR +3%	2014 to 2015	534,598
				1,045,480

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	Group and Company	
	2013	2012
	RMB'000	RMB'000
Analysed into:		
Bank loans repayable:		
Within one year and on demand	**1,350,637**	510,882
In the second year	**174,884**	355,111
In the third to fifth years, inclusive	**–**	179,487
	1,525,521	1,045,480

Notes:

(a) The bank loans are supported by a corporate guarantee provided by certain of the Company's wholly-owned subsidiaries, to the extent of HK$140,400,000 (equivalent to approximately RMB111,070,000) (2012: HK$140,400,000, equivalent to approximately RMB113,935,000) and US$82,000,000 (equivalent to approximately RMB502,660,000) (2012: US$82,000,000, equivalent to approximately RMB516,374,000) as at the end of the reporting period.

(b) The bank loans are supported by:

(i) the pledge of certain of the Group's time deposits amounting to RMB686,445,000 (2012: RMB527,997,000);

(ii) corporate guarantees provided by two wholly-owned subsidiaries of the Company to the extent of HK$700,000,000 (equivalent to approximately RMB553,770,000) (2012: HK$700,000,000 (equivalent to approximately RMB568,050,000)) as at the end of the reporting period; and

(iii) non-current time deposits of RMB110,000,000 (2012: Nil) and bank balance of RMB48,220,000 (2012: Nil), which were capital guaranteed funds undertaken by a wholly-owned subsidiary of the Company to maintain in PRC bank accounts pursuant to the terms of the Group's short term revolving loan facilities (note 22).

As at 31 December 2013, except for the bank loan of RMB426,583,000 (2012: RMB504,116,000) 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 2012	68,751
Deferred tax charged to the income statement during the year (note 10)	64,702
At 31 December 2012 and 1 January 2013	133,453
Deferred tax charged to the income statement during the year (note 10)	20,000
At 31 December 2013	**153,453**

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 the 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 factors which included the dividend policy and the level of capital and working capital required for the Group's operations in the foreseeable future.

At 31 December 2013, there were no significant unrecognised deferred tax liabilities (2012: 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.

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28. Share Capital

At 31 December 2013

	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:		
2,176,765,000 ordinary shares of HK$0.01 each	**21,768**	**19,204**

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

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 2012		2,176,240,000	21,762	19,199
Exercise of share options	(i)	75,000	1	1
At 31 December 2012 and 1 January 2013		2,176,315,000	21,763	19,200
Exercise of share options	(i)	450,000	5	4
At 31 December 2013		2,176,765,000	21,768	19,204

Note:

(i) During the year ended 31 December 2013, the subscription rights attaching to 450,000 (2012: 75,000) 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, resulting in the issue of 450,000 shares (2012: 75,000 shares) of HK$0.01 each for a total cash consideration before expenses of approximately HK$1,058,000 (equivalent to RMB846,000) representing normal value of ordinary shares of RMB4,000 (2012: RMB1,000) and share premium of RMB842,000 (2012: RMB143,000).

An amount of HK$295,000 (equivalent to approximately RMB236,000) (2012: HK$49,000 (equivalent to approximately RMB40,000)), 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.

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(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 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 and 1 January 2013		128,094	99,982	(100,447)	540,978	668,607
Loss for the year		–	–	–	(65,260)	(65,260)
Other comprehensive income						
Exchange realignment		–	–	(13,137)	–	(13,137)
Total comprehensive loss for the year		–	–	(13,137)	(65,260)	(78,397)
Equity-settled share option arrangements	30(b)	–	14,376	–	–	14,376
2012 final dividend declared and paid	12	–	–	–	(175,253)	(175,253)
2012 special dividend declared and paid	12	–	–	–	(78,658)	(78,658)
2013 interim dividend declared and paid	12	–	–	–	(174,441)	(174,441)
Exercise of share options		1,078	(236)	–	–	842
At 31 December 2013		129,172	114,122	(113,584)	47,366	177,076

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

Any excess of the appropriation over the retained profits of the Company will be replenished by dividends declared by its subsidiaries to the Company when they are approved subsequent to the end of the reporting period. The director of the Company anticipates that the approval of such dividends from subsidiaries will be obtained in the near future.

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 3 June 2008 ("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; and

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

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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 2013 and 2012 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.

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 RMB133,000) and share premium account of approximately HK$54,151,000 (equivalent to approximately RMB42,838,000), 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 issued pursuant to the share options 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 within 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 an ordinary share of the Company; (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 of the closing prices 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:

	2013		2012	
	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**	**80,665**	3.06	80,740
Granted during the year	**–**	**–**	–	–
Cancelled during the year	**–**	**–**	–	–
Exercised during the year	**2.35**	**(450)**	2.35	(75)
At 31 December	**3.07**	**80,215**	3.06	80,665

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.3 per share.

The Company recognised a share option expense of RMB14,376,000 (2012: RMB41,369,000) during the year.

The subscription rights attaching to 450,000 (2012: 75,000) 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 450,000 shares (2012: 75,000 shares).

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The exercise prices and exercise periods of the share options outstanding at 31 December 2013 and 2012 were as follows:

2013

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
23,475,000	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
80,215,000		

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		

At the end of the reporting period, the Company had total outstanding share options for the subscription of 80,215,000 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 80,215,000 additional ordinary shares of the Company and additional share capital of approximately HK$802,000 (equivalent to approximately RMB635,000) and share premium account of approximately HK$244,768,000 (equivalent to approximately RMB193,636,000), before related issuance expenses.

At the date of approval of these financial statements, the Company had outstanding share options for the subscription of 80,215,000 shares under the Share Option Scheme, which represented approximately 3.7% of the issued share capital of the Company as at that date.

31. Event After the Reporting Period

On 9 January 2014, the Company obtained a 3-year dual currency term loan facility in the principal of US$92,000,000 and HK$452,400,000 (equivalent to approximately RMB925,587,000 in aggregate) from a consortium of eleven banks. Details of this dual currency term loan facility was set out in an announcement of the Company made dated 9 January 2014.

32. Contingent Liabilities

At the end of the reporting period, the Group had no significant contingent liabilities (2012: Nil).

At 31 December 2013, the banking facilities of RMB3,956,000 (2012: RMB4,058,000) granted to a subsidiary subject to a corporate guarantee given to a bank by the Company were not utilised (2012: Nil).

33. Operating Lease Arrangements

The Group and the Company leases certain of its production facilities, office premises and staff quarters under operating lease arrangements. Leases for these properties are negotiated for terms ranging from two to ten years (2012: 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	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**7,566**	10,330	**1,187**	1,165
In the second to fifth years, inclusive	**10,951**	10,065	**–**	1,218
After five years	**3,060**	4,590	**–**	–
	21,577	24,985	**1,187**	2,383

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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:

	2013 RMB'000	2012 RMB'000
Contracted for commitments in respect of:		
– construction of new buildings	**40,040**	73,001
– construction of new manufacturing facilities	**42,729**	14,403
– advertising and promotional expenses	**203,246**	249,475
– acquisition of property, plant and equipment	**11,997**	–
– software	**100**	–
	298,112	336,879
Authorised, but not contracted for:		
–construction of new buildings	**–**	8,539
–construction of new manufacturing facilities	**244,389**	376,349
	244,389	384,888
	542,501	721,767

(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 2013, the Company did not have any significant commitments (2012: Nil).

35. Related Party Transactions

In addition to the transactions detailed elsewhere in these financial statements, 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:

	2013 RMB'000	2012 RMB'000
Short term employee benefits	**6,370**	5,248
Equity-settled share option expense	**2,276**	6,758
Post-employment benefits	**162**	178
Total compensation paid to key management personnel	**8,808**	12,184

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

	2013 RMB'000	2012 RMB'000
Available-for-sale investments	**33,000**	133,000
Loans and receivables		
Trade and bills receivables	**1,150,943**	1,035,877
Other receivables	**2,941**	4,116
Non-current time deposits	**110,000**	–
Pledged bank deposits	**715,203**	557,211
Cash and cash equivalents	**3,563,387**	3,122,801
	5,542,474	4,720,005
Total	**5,575,474**	4,853,005

Financial liabilities

	2013		
	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	–	601,018	601,018
Financial liabilities included in deposits received, other payables and accruals	16,194	129,331	145,525
Interest-bearing bank borrowings	–	1,525,521	1,525,521
	16,194	2,255,870	2,272,064

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	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

COMPANY

Financial assets

Loans and receivables

	2013 RMB'000	2012 RMB'000
Due from a subsidiary	670,703	691,305
Cash and cash equivalents	25,561	16,677
	696,264	707,982

Financial liabilities

	2013		
	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	–	581	581
Financial liabilities included in deposits received, other payables and accruals	16,194	23,940	40,134
Interest-bearing bank borrowings	–	1,525,521	1,525,521
	16,194	1,550,042	1,566,236

	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 deposits received, 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

37. Financial Assets that are Derecognised in their Entirety

At 31 December 2013, the Group discounted certain commercial bills receivable with a carrying amount in aggregate of approximately RMB610,330,000 (2012: bank and commercial bills receivable of RMB839,019,000) to a bank in the PRC (the "Derecognised Bills") for cash. The Derecognised Bills had a remaining maturity from twenty-four 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 bills receivable 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, the Group 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 are 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 2013, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills (2012: Nil). No gains or losses were recognised from the continuing involvement, both during the year or cumulatively. The discount of bills receivable of RMB479,000,000 (30 June 2012: RMB755,930,000) and RMB610,330,000 (31 December 2012: RMB839,019,000) has been made near the period ended 30 June 2013 and the year ended 31 December 2013, respectively.

38. Fair Value and Fair Value Hierarchy of Financial Instruments

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged bank deposits, trade and bills receivables, trade and bills payables, financial assets included in other receivables, financial liabilities included in deposits received, 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. For the Group's unlisted available-for-sale equity investments, they were stated at cost less impairment because the unlisted investments do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

The Group's financial team is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

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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 method and assumptions were used to estimate the fair values:

The fair values of the non-current time deposits and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2013 was assessed to be insignificant.

FAIR VALUE HIERARCHY

As at 31 December 2013 and 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 2013, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2012: Nil).

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 bank balances. 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 at the end of each reporting period, the Group reviews the recoverable amount of each individual trade debt to ensure that adequate impairment losses are made.

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
2013		
Hong Kong dollar	**100**	**(15,310)**
Hong Kong dollar	**(100)**	**15,310**
2012		
Hong Kong dollar	100	(10,604)
Hong Kong dollar	(100)	10,604

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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:

Group

	2013		
	On demand and within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Trade and bills payables	601,018	–	601,018
Financial liabilities included in deposits received, other payables and accruals	145,525	–	145,525
Interest-bearing bank borrowings	1,375,871	176,620	1,552,491
	2,122,414	176,620	2,299,034

	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

Company

	2013		
	On demand and within 1 year RMB'000	Over 1 year RMB'000	Total RMB'000
Due to subsidiaries	581	–	581
Financial liabilities included in deposits received, other payables and accruals	40,134	–	40,134
Interest-bearing bank borrowings	1,375,871	176,620	1,552,491
Guarantee given to a bank in connection with a facility granted to a wholly-owned subsidiary	3,956	–	3,956
	1,420,542	176,620	1,597,162

	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 deposits received, 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

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.

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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 2013 and 31 December 2012.

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

	2013 **RMB'000**	2012 RMB'000
Cash and cash equivalents	**3,563,387**	3,122,801
Less: Interest-bearing bank borrowings	**1,525,521**	1,045,480
Net cash	**2,037,866**	2,077,321
Total equity	**4,507,639**	4,279,781
Net cash-to-capital ratio	**0.452**	0.485

40. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 12 March 2014.

GLOSSARY

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

"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
"Corporate Governance Code"	The Corporate Governance Code as set out in Appendix 14 of the Listing Rules
"Director(s)"	The director(s) of the Company
"DRP System"	Distribution Resource Planning System
"Disney"	The Walt Disney Company
"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, and is wholly owned by Wan Xing International Holdings Limited, which is in turn 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" and "HKSE"	The Stock Exchange of Hong Kong Limited
"IAAF"	International Association of Athletics Federations
"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
"Marvel"	Marvel Entertainment, LLC
"Model Code"	The Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"National Games"	The National Games of the People's Republic of China

GLOSSARY

"NBS"	National Bureau of Statistics of China
"NYSE"	New York Stock Exchange
"POS"	Points of sales
"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
"R&D"	Research and development
"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
"Tencent"	Tencent Holdings Limited
"Tencent ECC"	Tencent E-Commerce Holding Company
"U.S."	United States of America
"Xtep (China)"	Xtep (China) Co., Ltd., an indirect wholly-owned subsidiary of the Group
"Xtep"	Xtep brand

REVIEW OF ANNUAL RESULTS

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the consolidated financial statements for the year ended 31 December 2013.

DIVIDENDS

An interim dividend of HK10.0 cents (equivalent to RMB8.0 cents) per Share was paid to our Shareholders during the year. The Board recommended a final dividend of HK8.0 cents (equivalent to RMB6.3 cents) per Share for the year ended 31 December 2013, subject to approval by the Shareholders at the annual general meeting ("**AGM**") to be held on 15 May 2014. The total dividends for the year ended 31 December 2013, which include the interim dividend and final dividend, amounted to a total of HK18.0 cents (equivalent to RMB14.3 cents) per Share, and represented a payout ratio of 51.3%.

BOOK CLOSURE

In order to determine the entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Tuesday, 13 May 2014 to Thursday, 15 May 2014, both days inclusive, during which period no transfer of Shares in the Company will be effected. The record date for entitlement to attend and vote at the AGM is Thursday, 15 May 2014. In order to be eligible to attend and vote at the forthcoming AGM of the Company to be held on 15 May 2014, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 12 May 2014.

The proposed final dividend is subject to the passing of an ordinary resolution by the shareholders at the AGM. The record date for entitlement to the proposed final dividend is on Tuesday, 27 May 2014. The transfer books and register of members of the Company will be closed from Friday, 23 May 2014 to Tuesday, 27 May 2014, both days inclusive, during which period no transfer of Shares in the Company will be effected. In order to determine the entitlement to the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 22 May 2014. The payment date of the dividends is expected to be on Friday, 13 June 2014.

AGM

The AGM of the Company will be held in Hong Kong on Thursday, 15 May 2014. Notice of the annual general meeting will be issued and disseminated to Shareholders in due course.

PUBLICATION OF RESULTS ANNOUNCEMENT

This annual results announcement is available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the Company's website at www.xtep.com.hk.

By Order of the Board of
Xtep International Holdings Limited
Ding Shui Po
Chairman

Hong Kong, 12 March 2014

As at the date of this announcement, the executive Directors of the Company are 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; the non-executive Director is Mr. Tan Wee Seng and the independent non-executive Directors are Mr. Sin Ka Man, Mr. Xu Peng Xiang, Dr. Gao Xian Feng and Dr. Bao Ming Xiao.